

## 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., TUESDAY, OCTOBER 8, 2019

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

I. CALL TO ORDER

II. PLEDGE OF ALLEGIANCE

III. APPROVAL OF MINUTES

A. Approval of the Minutes of the Regular Meeting of September 11, 2019

IV. REPORT ON CLOSED SESSION ITEMS

V. PUBLIC COMMENT

VI. CHIEF COUNSEL'S REPORT  
(Memo dated September 25, 2019)

VII. CHIEF INVESTMENT OFFICER'S REPORT

VIII. CONSENT ITEMS

A. Recommendation as submitted by Ronald Okum, Chair, Real Assets Committee: That the Board approve 1.) Approve the proposed Minimum Qualifications for an Appraisal Management Service Provider; and 2.) Approve changing the frequency of external appraisals from once every three years to annually. (Memo dated September 30, 2019)

### VIII. CONSENT ITEMS (Continued)

- B. Recommendation that the Board approve attendance of Board members at the Responsible Investor (RI) Annual Conference on December 3–5, 2019 in New York, New York and approve reimbursement of all travel costs incurred in accordance with LACERA’s Education and Travel Policy. (Memo dated October 1, 2019)
- C. Recommendation that the Board approve exemption of Education and Travel Policy Section 705.00 A.2. for attendance of Board Members at the Kayne Anderson Capital Advisors, L.P. Investors Conference on October 29-30, 2019 in Los Angeles, California. (Memo dated October 1, 2019)

### IX. NON-CONSENT ITEMS

- A. Recommendation as submitted by Barry W. Lew, Legislative Affairs Officer: That the Board of Investments postpone consideration of its proposal related to board self-evaluations in closed session at the SACRS 2019 Fall Conference. (Memo dated September 23, 2019)
- B. Recommendation as submitted by Board Member, Gina Sanchez: That the Board of Investments (BOI) require that the CEO final interviews and selection be scheduled on a date when all BOI members can participate. Scheduling availability should be coordinated by the Board Secretary in order to come to a date or set of dates that everyone can attend and commit to. (Memo dated October 1, 2019)

### X. REPORTS

- A. Actuarial Assumption Review  
Beulah S. Auten, Chief Financial Officer  
Mark Olleman, Consulting Actuary  
Nick Collier, Principal, Consulting Actuary  
Alan Perry, Principal, Consulting Actuary  
(Memo dated September 20, 2019)
- B. Procurement Policy for Investment-Related Services  
John McClelland, Principal Investment Officer  
(Memo dated September 20, 2019)

X. REPORTS (Continued)

- C. Council of Institutional Investors General Members Business Meeting Ballot  
Scott Zdrazil, Senior Investment Officer  
(Memo dated September 10, 2019)
- D. Monthly Status Report on Legislation  
Barry W. Lew, Legislative Affairs Officer  
(For Information Only) (Memo dated September 23, 2019)
- E. Monthly Board and Staff Education and Travel Report – August 2019  
Beulah S. Auten, Chief Financial Officer  
(Public Memo dated September 25, 2019)  
(Confidential Memo dated September 25, 2019– Includes Anticipated Travel)
- F. Monthly Status Report on Board of Investments Legal Projects  
Steven P. Rice, Chief Counsel  
(For Information Only) (Memo dated October 1, 2019)
- G. September 2019 Fiduciary Counsel Contact and Billing Report  
Steven P. Rice, Chief Counsel  
(Privileged and Confidential)  
(Attorney-Client Communication/Attorney Work Product)  
(For Information Only) (Memo dated September 25, 2019)

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. Real Estate Manager
  - 2. Green Equity Investors VIII, L.P. and Jade Equity Investors, L.P.
  - 3. Secondary Purchase (For Information Only)

September 11, 2019

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#### 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 the Board Offices at (626) 564-6000, Ext. 4401/4402, from 8:30 a.m. to 5:00 p.m. Monday through Friday, but no later than 48 hours prior to the time the meeting is to commence. Assistive Listening Devices are available upon request. American Sign Language (ASL) Interpreters are available with at least three (3) business days notice before the meeting date*

MINUTES OF THE REGULAR MEETING OF THE BOARD OF INVESTMENTS

LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION

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

9:00 A.M., WEDNESDAY, SEPTEMBER 11, 2019

PRESENT: Ronald Okum, Vice Chair

Wayne Moore, Secretary

Alan Bernstein

David Green

Keith Knox

Gina V. Sanchez

Herman B. Santos

ABSENT: Shawn Kehoe, Chair

David Muir

STAFF ADVISORS AND PARTICIPANTS

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

Esmeralda V. del Bosque, Senior Investment Officer

STAFF ADVISORS AND PARTICIPANTS (Continued)

David Chu, Senior Investment Officer

Chad Timko, Senior Investment Officer

Barry W. Lew, Legislative Affairs Officer

Didier Acevedo, Investment Officer

Cheryl Lu, Staff Counsel

Meketa Investment Group

Leandro Festino, Managing Principal

Timothy Filla, Managing Principal

Alina Yuan, Investment Analyst

Albourne

James Walsh, Partner and Head of Portfolio Advisory

Stephen Kennedy, Partner and Hedge Funds Portfolio Analyst

I. CALL TO ORDER

The meeting was called to order by Mr. Okum at 9:34 a.m., in the Board Room of Gateway Plaza.

II. PLEDGE OF ALLEGIANCE

Mr. Santos led the Board Members and staff in reciting the Pledge of Allegiance.

III. APPROVAL OF MINUTES

A. Approval of the Minutes of the Regular Meeting of August 14, 2019

Mr. Green made a motion, Mr. Bernstein seconded, to approve the minutes of the regular meeting of August 14, 2019. The motion passed unanimously by all members present.

#### IV. REPORT ON CLOSED SESSION ITEMS

Steven Rice, Chief Counsel, reported that:

At its August 14, 2019 meeting, the Board met in closed session under Government Code Section 54956.81 to consider the purchase and sale of particular, specific pension fund investments. On a motion by Mr. Okum, seconded by Mr. Santos, all members were present and voted unanimously to approve State Street Global Advisors to manage a passive MSCI ACWI IMI Index mandate in a separate account structure and terminate the following passive index mandates:

- BTC Russell 3000 Index
- BTC Canada IMI Index
- BTC EAFE IMI Index
- BTC EAFE Small Cap Index
- BTC Europe Index
- BTC Emerging Markets Index
- BTC Emerging Markets Small Cap Index

#### V. PUBLIC COMMENT

Hamere Dinku, Wade Luneberg, Silvia Resendiz, Jordan Fein and Anthony Smith from UNITE HERE addressed the Board regarding PAI's Europe Fund's VII.

#### VI. CHIEF COUNSEL'S REPORT (Memo dated August 26, 2019)

Mr. Rice provided a brief overview of the Chief Counsel's Report and answered questions from the Board.

#### VII. CHIEF INVESTMENT OFFICER'S REPORT

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

## VIII. CONSENT ITEMS

Mr. Green made a motion, Mrs. Sanchez, seconded, to approve the following agenda item. The motion passed unanimously by all members present.

- A. Recommendation as submitted by Wayne Moore, Chair, Credit and Risk Mitigation Committee: That the Board approve the Hedge Funds 2019 Structure Review and the 2019 Hedge Funds Objectives, Policies, and Procedures as advanced to the Board of Investments by the Credit and Risk Mitigation Committee. (Memo dated August 29, 2019)

## IX. REPORTS

- A. Meketa Total Fund Performance Report as of June 30, 2019  
Leandro Festino, Managing Principal  
Timothy Filla, Managing Principal

LACERA Total Fund Performance Review as of June 30, 2019  
Jude Perez, Principal Investment Officer  
(For Information Only) (Memo dated September 4, 2019)

Mr. Perez and Messrs. Filla and Festino from Meketa Group provided a presentation and answered questions from the Board.

- B. Yield Curve Education  
Esmeralda V. del Bosque  
Timothy Filla, Managing Principal  
(Memo dated August 27, 2019)

Ms. del Bosque, Mr. Filla and Ms. Yuan from Meketa Group provided a presentation and answered questions from the Board.

- C. Private Equity In-House Co-Investment Program Update  
Christopher Wagner, Principal Investment Officer  
David Chu, Senior Investment Officer  
(Memo dated August 30, 2019)



IX. REPORTS (Continued)

Messrs. Wagner and Chu were present and answered questions from the Board.

The following reports were received and filed:

- D. LACERA OPEB Master Trust as of June 30, 2019  
Meketa OPEB Master Trust as of June 30, 2019  
Jude Perez, Principal Investment Officer  
(For Information Only) (Memo dated September 4, 2019)
- E. Performance Review of Real Estate Consultant the Townsend Group  
John McClelland, Principal Investment Officer  
(For Information Only) (Memo dated August 20, 2019)
- F. 2019 Second Quarter Hedge Fund Performance Report  
James Rice, Principal Investment Officer  
Quoc Nguyen, Senior Investment Analyst  
(For Information Only) (Memo dated August 26, 2019)
- G. The Toigo Foundation - 30th Anniversary Celebration  
November 19, 2019 in Los Angeles, California  
Jonathan Grabel, Chief Investment Officer  
(For Information Only) (Memo dated August 30, 2019)
- H. Selection and Hiring of Real Estate Legal Counsel  
Christine Roseland, Senior Staff Counsel  
(For Information Only) (Memo dated August 28, 2019)
- I. Monthly Status Report on Legislation  
Barry W. Lew, Legislative Affairs Officer  
(For Information Only) (Memo dated August 26, 2019)
- J. Monthly Board and Staff Education and Travel Report – July 2019  
Beulah S. Auten, Chief Financial Officer  
(Public Memo dated August 28, 2019)  
(Confidential Memo dated August 28, 2019 – Includes Anticipated Travel)
- K. Monthly Status Report on Board of Investments Legal Projects  
Steven P. Rice, Chief Counsel  
(For Information Only) (Memo dated September 3, 2019)

IX. REPORTS (Continued)

- L. August 2019 Fiduciary Counsel Contact and Billing Report  
Steven P. Rice, Chief Counsel  
(Privileged and Confidential)  
(Attorney-Client Communication/Attorney Work Product)  
(For Information Only) (Memo dated August 29, 2019)

X. ITEMS FOR STAFF REVIEW

The Board requested staff to continue pursuing systems staffing and salaries and systems assessment. In addition, the Board requested staff to Review Committee Frequency (CALPERS Study). Lastly, the Board requested modifications to the Quarterly Performance Report.

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

Mrs. Sanchez announced that there will be an Audit Committee meeting at the end of October 2019.

XII. EXECUTIVE SESSION

It was stated in open session before Executive Session began that Item XII.B.1 related to the dismissal of former Chief Executive Officer Lou Lazatin.

- 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. Hedge Funds 2019 Structure Review

The Board considered a recommendation on the hedge funds 2019 structure review approved at the August 14, 2019 Credit and Risk Mitigation Committee. On a

## XII. EXECUTIVE SESSION (Continued)

motion by Mr. Bernstein, seconded by Mr. Knox, the Board voted to adopt the hedge funds 2019 structure review, including the initiatives as follows:

- Build the direct portfolio in line with strategic asset allocation targets
- Build an emerging manager program
- Identify a dedicated managed account provider.
- Approve the 2019 Objectives, Policies, and Procedures document.

The Board also took action with respect to certain purchase and sale transactions, which will be reported out at a later date in accordance with the Brown Act.

The motion passed unanimously (roll call) with Messrs. Bernstein, Green, Knox, Moore, Okum, Santos and Mrs. Sanchez voting yes.

### 2. Private Equity Co-Investment Update

The Board received a private equity co-investment update. There is nothing to report.

- B. Conference with Legal Counsel – Anticipated Litigation Significant Exposure to Litigation (Pursuant to Paragraph (2) of Subdivision (d) of California Government Code Section 54956.9)

#### 1. One Other Matter

The Board met in closed session with counsel under Government Code Section 54956.9 to discuss an item of anticipated litigation, the nature of which was disclosed before the closed session. There is nothing to report.

## XIII. ADJOURNMENT

There being no further business to come before the Board, the meeting was adjourned in honor of the victims and heroes of 9/11 at 12:22 p.m.

September 11, 2019

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WAYNE MOORE, SECRETARY

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SHAWN KEHOE, CHAIR



September 25, 2019

TO: Each Member,  
Board of Retirement  
Board of Investments

FROM: Steven P. Rice *SPR*  
Chief Counsel

SUBJECT: **CHIEF COUNSEL'S REPORT**

I am pleased to present the Chief Counsel'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.

**2019 LACERA Forum**

LACERA will be restarting our annual employee Forum event on October 30, 2019. The Employee Forum was an annual event up until 2017, which allowed us to bring all LACERA employees together in two sessions and focus on connecting as one organization, sharing an inspirational or motivational message, and to celebrate what makes LACERA successful. With all of the changes over the last few years, the Forum event was suspended.

Staff members have been asking when we will bring it back and we were pleased to announce to staff members last month that we will be having a Forum this year. This year's Forum theme is "One Team – One Mission" and will be a little bit different from past forums. The PEP Team has worked hard to create a Forum that is a little bit more organic than past events. Instead of bringing in an outside motivational speaker, we will be featuring TED talks by LACERA staff members that focus on diversity, inclusion, teamwork, and innovation. We have asked divisions to put together fun and engaging informational booths to help everyone learn what their division does to contribute to our mission and/or how they represent one of the underlying themes discussed above. Finally, we will be holding a special team building exercise at the end of each session.

This LACERA "fair like" Forum is a chance to really celebrate who we are and what we do in our never-ending dedication to Producing, Protecting, and Providing the Promised Benefit.

### **Annual Enrollment Starts October 1, 2019**

Every October, the County and LACERA employees go through our annual benefit enrollment process for the following year's employee benefits. This year the County and the unions have agreed to some important changes to the benefits process for those staff members in Options or Choices. Each year, staff members are provided a monthly allowance to "spend" on benefits. In the past, employees who did not spend all of their allowance were allowed to take home the remaining monthly benefit amount as taxable cash. Recent changes in Department of Labor guidelines led the County and the unions to negotiate a cap of \$325 dollars on any unspent benefit allowance that employees can take home.

### **New Ethics Hotline Coming in October 2019**

We are pleased to announce Internal Audit has completed their assessment of the ethics hotline as part of the fiscal year 2018/2019 audit plan. The team has decided to use an independent, third-party service provider to promote a positive work environment and provide anonymity to the greatest extent possible. In February 2019, Internal Audit contacted three vendors for a written proposal and product demonstration of their hotline and case management system. In August 2019, LACERA selected EthicsPoint, a leader in the ethics and compliance space and service provider to other U.S. public pension funds. Currently, staff is working with EthicsPoint to implement the hotline, web intake site, and incident management system for analytical reporting. In addition, division staff are collaborating on a CEO launch letter, poster campaign, and other awareness materials for the hotline. LACERA anticipates the hotline and web intake site to launch in late October 2019.

### **Update on Upcoming Key Retirements**

**Chief Financial Officer:** Beulah Auten, Chief Financial Officer, has provided a formal notification of her intent to retire in October 2019. Recruitment of her replacement will be initiated and updates will be provided to the Boards regularly.

**Director of Human Resources:** The search for a replacement for John Nogales, our retiring Director of Human Resources, continues to progress on schedule. The selection committee met with a small group of finalists in early September. Three of those candidates were invited back to meet with the management team and the staff in Human Resources Division, and complete a writing assessment. The selection team has collected feedback from everyone who participated in these meetings and have been meeting to discuss the next steps. The selection team hopes to make a decision in early October.

### **Case Management**

The Case Management project is an outgrowth of several Strategic Plan goals that were combined into one project plan along with specific requests by several member-facing divisions. The Case Management project has been the focus of ongoing discussions with the Board and internally with staff members for over a year. At the September Board meeting, we shared that the cross-functional team working on this project had made considerable progress towards putting a plan together to present to the Operations Oversight Committee. We are pleased to announce that, as promised, the team has agreed on a unified approach to bringing this much-needed suite of tools to life. James Brekk, Chief Information Officer will be providing the Operations Oversight Committee with an overview of where we are and what the next steps will be to develop these tools. The success of this project rests with the collaboration among the cross-functional team and is an example of how LACERA staff members can come together to define business needs and take innovative steps to help improve the services we provide our members. We will continue to keep the Board updated as the plan is implemented and we make progress on this important project.

### **Employee Engagement**

We are also pleased to announce progress on our Employee Engagement Strategic Plan goal. A cross-functional team consisting of the Executive Office, Human Resources, and Ricki Contreras have been busy working on developing a plan to bring an employee engagement program to LACERA, as included in the 2019-2020 budget. Employee engagement programs are a long term commitment to develop a culture of inclusion and collaboration with employees at all levels of the organization as we work together to deliver on LACERA's mission. Engagement means we actively seek out input from staff members on everything we do from the culture of the organization to the work processes that we implement, and create a two-way dialogue designed to include the staff members in the decision making and development processes. The benefits of a well-executed engagement program often leads to staff members giving 110% of their discretionary effort, because they are a part of the process and take ownership of the goals.

Over the last two months, the team has been evaluating vendors who will assist us in developing our program. We have selected CPS HR Consulting (CPS), a consultancy firm that specializes in developing employee engagement programs in public sector agencies. CPS will be conducting educational sessions for our management and supervisory teams, followed by the development and implementation of a comprehensive employee survey. CPS will analyze the survey and conduct follow-up focus groups with staff members to further develop an understanding of what the staff members throughout the organization think about how LACERA operates, our culture, and their concerns and needs. This will be followed by a collaborative effort with the leadership team in LACERA to develop plans to respond to the information we learn. This work will be completed within budget.

The result should be a solid partnership between LACERA's leadership team and staff members. Periodically, the process will be repeated to ensure we remain focused on fostering and growing the engagement process.

In preparation for this new program, we have been holding management and supervisory meetings to discuss the topics of leadership and engagement. These meetings have been very helpful in establishing a common understanding among the leadership team and to help prepare them for this new open type of engagement.

SR:jp

CEO report October 2019.doc

Attachments



# Striving for Excellence in Service



**Outreach Attendance**  
**3,089**

6,219 Year-to-Date



**Outreach Events**  
**46**

91 Year-to-Date



**Outreach Satisfaction**  
**95.8%**

1.7% Change Since Last Mo



**Member Service Center**  
**100.0%**

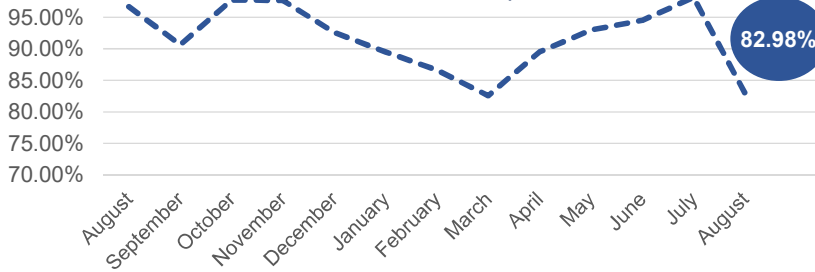
-2% Change Since Last Mo



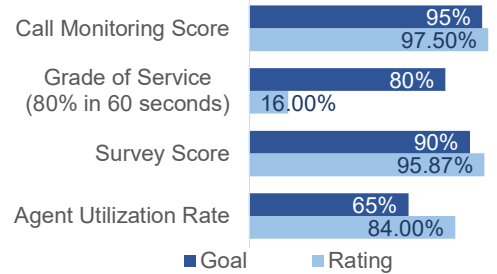
**Member Services Calls**  
**14,061**

11,558 3 Mo. Avg.

## Key Performance Indicator (Overall Performance)



## Key Performance Indicator (Components)



Member Services



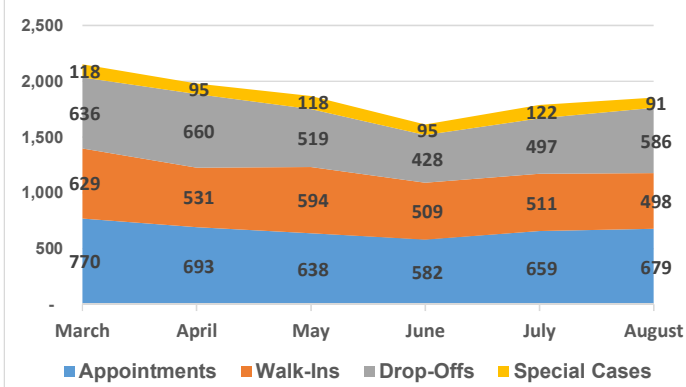
## Top Calls

- Benefit Payments: Non-Receipt of Warrant
- Benefit Payments: Gen. Inquiry/Payday Info
- Workshop Information/Appointments: Inquiry

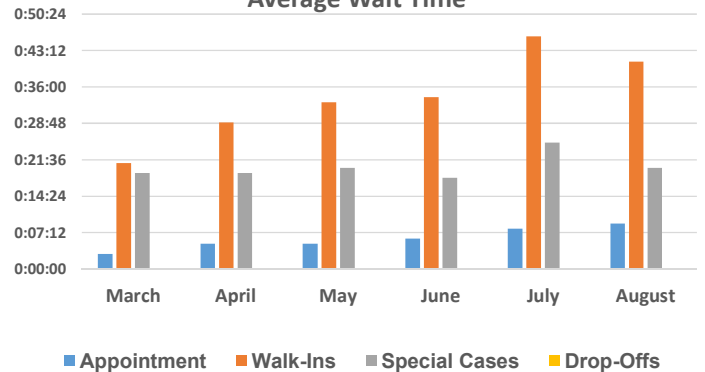


**Emails** **562**  
4:48 hours  
Avg. Response Time (ART)  
**Secure Messages** **238**

## Member Service Center Visits



## Member Service Center Average Wait Time

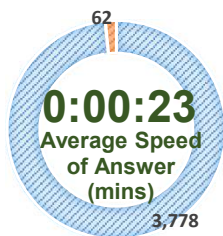


\*Drop Off Wait Time: No Waiting



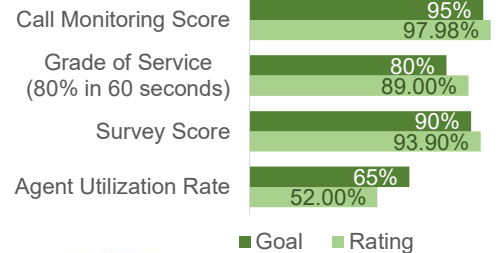
**Total RHC Calls: 3,840**

Retiree Healthcare



## Top Calls

- Med. Benefits - General Inquiries (RHC)
- Medical-New Enrollment/Change/Cancel
- General Inquiries (RHC)



**Emails** **250**  
1 Day  
Avg. Response Time  
**Secure Messages** **n/a**

## Striving for Excellence in Service (Continued)

### Applications

**638**

Pending

48 Received  
0 Year-to-Date

57 To Board - Initial  
0 Year-to-Date

0 Closed  
0 Year-to-Date

629 In Process  
629 Year-to-Date

### Appeals

**98**

Pending

1 Received  
0 Year-to-Date

3 Admin Closed/Rule 32  
0 Year-to-Date

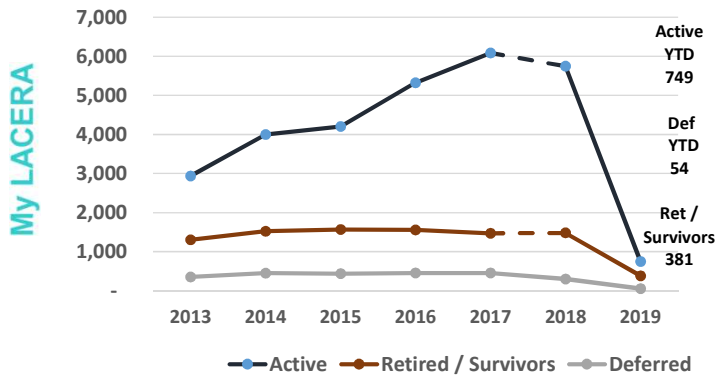
0 Referee Recommended  
0 Year-to-Date

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

96 In Process  
96 Year-to-Date

Disability

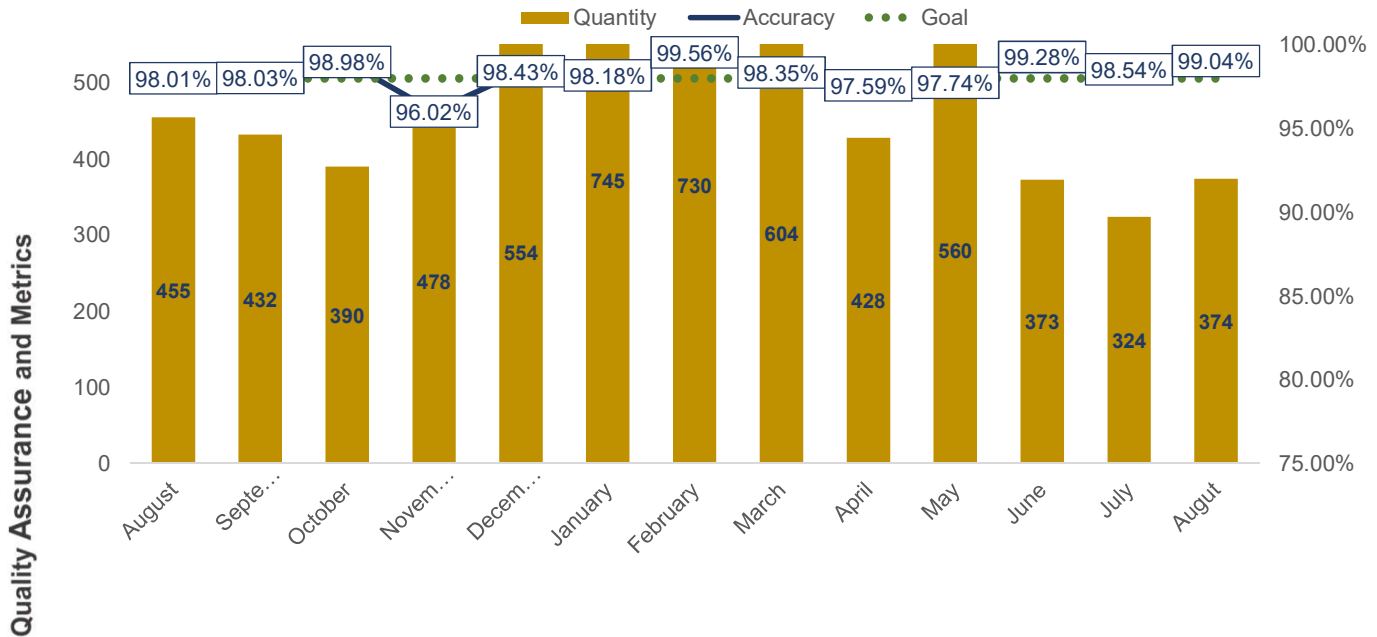
### My LACERA Registrations



MORE COMING SOON!

## Striving for Excellence in Quality

### Audits of Retirement Elections, Payment Contracts, and Data Entry



**August 2019**  
**99.04%**



#### Retirement Elections

**193** Samples  
**97.98%** Accuracy

#### Payment Contracts

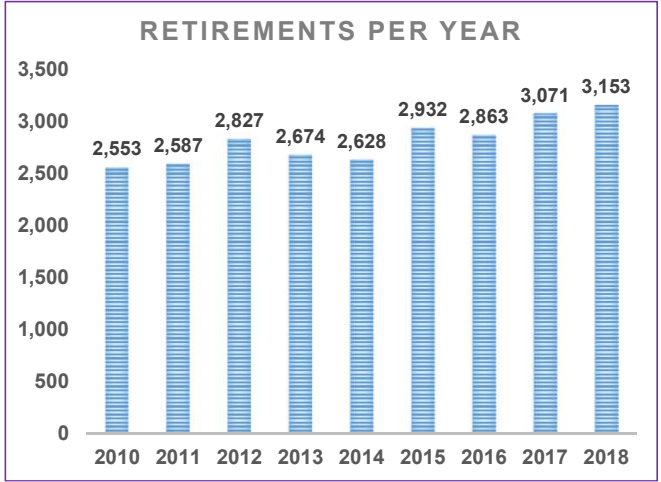
**91** Samples  
**99.91%** Accuracy

#### Data Entry

**90** Samples  
**99.22%** Accuracy

## Member Snapshot

		Members as of 09/16/19				
		Plan	Active	Retired	Survivors	Total
General	Plan A		101	16,650	4,463	21,214
	Plan B		33	677	69	779
	Plan C		40	427	68	535
	Plan D		41,517	15,709	1,468	58,694
	Plan E		17,210	13,108	1,190	31,508
	Plan G		27,700	36	2	27,738
	<b>Total General</b>			<b>86,601</b>	<b>46,607</b>	<b>7,260</b>
Safety	Plan A		4	5,235	1,587	6,826
	Plan B		9,662	5,935	292	15,889
	Plan C		3,239	8	0	3,247
	<b>Total Safety</b>			<b>12,905</b>	<b>11,178</b>	<b>1,879</b>
<b>TOTAL MEMBERS</b>			<b>99,506</b>	<b>57,785</b>	<b>9,139</b>	<b>166,430</b>
<b>% by Category</b>			<b>60%</b>	<b>35%</b>	<b>5%</b>	<b>100%</b>

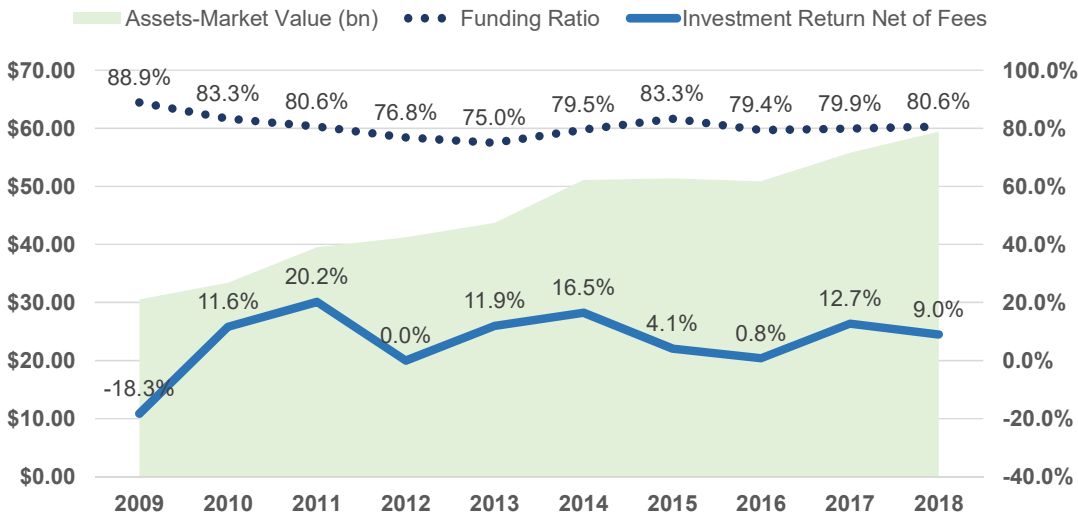


### Average Monthly Benefit Allowance

	General	Safety	Total	%
\$0 to \$3,999	29,864	2,041	31,905	55.39%
\$4,000 to \$7,999	12,331	3,572	15,903	27.61%
\$8,000 to \$11,999	3,098	3,956	7,054	12.25%
\$12,000 to \$15,999	839	1,229	2,068	3.59%
\$16,000 to \$19,999	243	233	476	0.83%
\$20,000 to \$23,999	72	75	147	0.26%
\$24,000 to \$27,999	25	12	37	0.06%
> \$28,000	7	2	9	0.02%
<b>Totals</b>	<b>46,479</b>	<b>11,120</b>	<b>57,599</b>	<b>100%</b>

Healthcare Program (YTD)		Healthcare Enrollments (Monthly)	
	Employer	Member	
Medical	\$89.7m	\$7.4m	Medical 51,274
Dental	\$7.5m	\$746,264	Dental 52,571
Part B	\$11.3m	xxxx	Part B 34,609
<b>Total</b>	<b>\$108.5m</b>	<b>\$8.2m</b>	<b>Total 139,085</b>

## Key Financial Metrics



### Funding Metrics (as of 6/30/18)

Employer NC	9.92%
UAAL	10.99%
Assumed Rate	7.25%
Star Reserve	\$614m
Total Assets	\$56.3b

### Contributions (as of 6/30/18)

	Employer	Member
Annual Add	\$1,524.8m	\$591.3m
% of Payroll	20.91%	6.88%

### TOTAL FUND RETURN (Net of Fees)

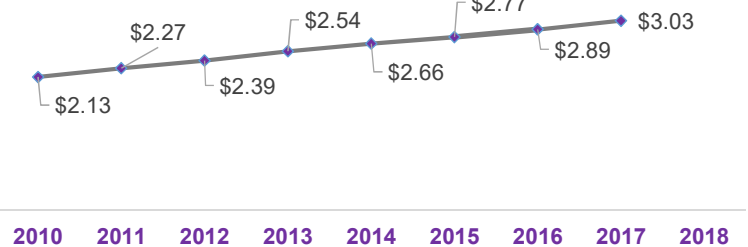
5 YR: 8.5%    10 YR: 6.3%

### Retired Members Payroll

Monthly Payroll	\$300.9m
Payroll YTD	.6b
New Retired Payees Added	309
Seamless %	95.79%
New Seamless Payees Added	586
Seamless YTD	97.44%
By Check %	3.00%
By Direct Deposit %	97.00%

Billions

### Retiree Payroll by Year



Date	Conference
<b>November, 2019</b>	
3-5	2019 PPI Executive Seminar Shanghai, China
6-7	Institutional Limited Partners Association (ILPA) General Partner Summit New York, NY
6-8	PPI's Asia Roundtable Shanghai, China
12-14	AVCJ Private Equity & Venture Forum Hong Kong
12-15	SACRS Fall Conference Monterey, CA
<b>January, 2020</b>	
26-28	NCPERS (National Conference on Public Employee Retirement Systems) Legislative Conference Washington D.C.
<b>February, 2020</b>	
12-13	IMN (Information Management Network) Annual Beneficial Owners' Intl. Securities Finance & Collateral Mgmt. Conference Fort Lauderdale, FL
12-14	Pacific Pension Institute (PPI) North American Winter Roundtable Rancho Palos Verdes, CA
<b>March, 2020</b>	
4-5	PREA (Pension Real Estate Association) Spring Conference Beverly Hills, CA
7-10	CALAPRS (California Association of Public Retirement Systems) General Assembly Meeting Rancho Mirage, CA
9-11	Council of Institutional Investors (CII) Spring Conference Washington D.C.
18-19	AHIP (America's Health Insurance Plans) National Health Policy Conference Washington D.C.
29-April 1	World Healthcare Congress Washington D.C.
<b>April, 2020</b>	
6-8	IFEBC (International Foundation of Employment Benefit Plans) Health Care Mgmt. Conference Phoenix, AZ

# Chief Investment Officer Monthly Report

Board of Investments

October 8, 2019



Jonathan Grabel   
Chief Investment Officer

LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION

# Table of Contents

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1. Market Environment
2. Portfolio Performance Update
3. Portfolio Structural Updates
4. Key Initiatives and Operational Updates
5. Commentary



# Market Environment

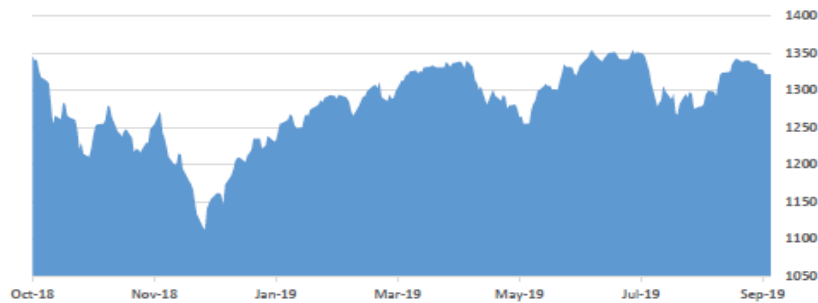


# Global Market Performance as of September 30, 2019

## MSCI ACWI Index (Global Equity Market)

Trailing Returns (%)			Annualized Returns (%)			
1-month	3-month	YTD	1Y	3Y	5Y	10Y
2.1	-0.8	16.2	0.9	9.9	7.2	9.0

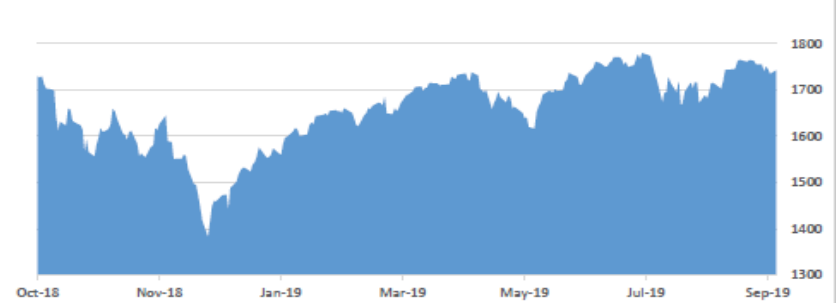
MSCI ACWI 1-Year Performance



## Russell 3000 Index (U.S. Equity Market)

Trailing Returns (%)			Annualized Returns (%)			
1-month	3-month	YTD	1Y	3Y	5Y	10Y
1.6	0.7	20.1	2.9	12.8	10.4	13.0

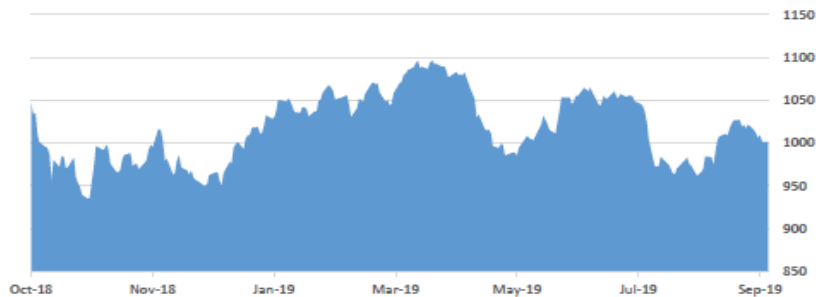
Russell 3000 1-Year Performance



## MSCI Emerging Market Index

Trailing Returns (%)			Annualized Returns (%)			
1-month	3-month	YTD	1Y	3Y	5Y	10Y
3.2	-5.1	6.2	-1.6	6.4	2.7	3.7

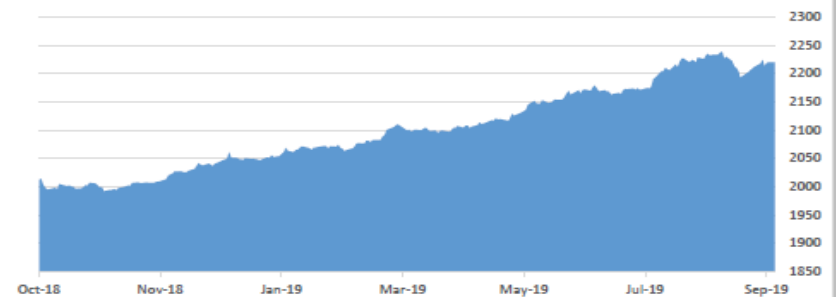
MSCI Emerging Markets 1-Year Performance



## Barclays U.S. Aggregate Bond Index

Trailing Returns (%)			Annualized Returns (%)			
1-month	3-month	YTD	1Y	3Y	5Y	10Y
-0.5	2.2	8.5	10.2	2.9	3.4	3.7

Barclays U.S. Agg 1-Year Performance



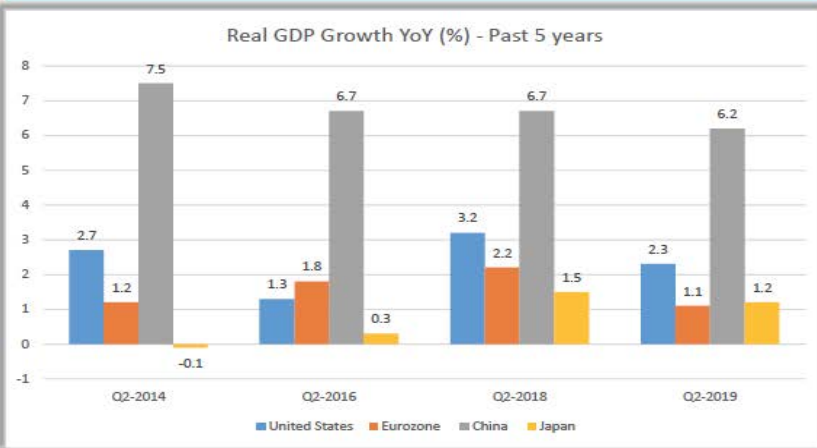
Source: Bloomberg



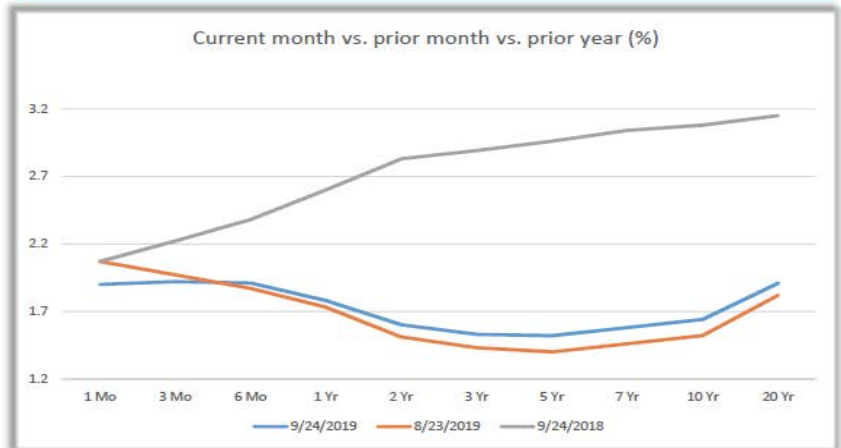


# Key Macro Indicators

## GDP Growth of Major Economies<sup>1</sup>



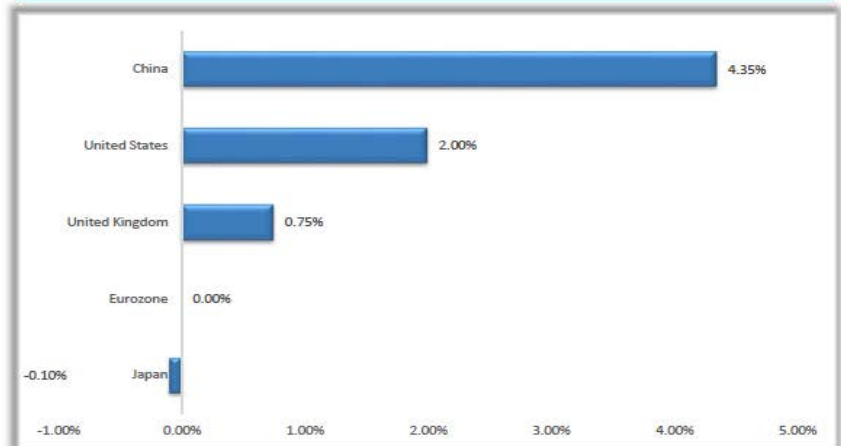
## U.S. Treasury Yield Curve<sup>2</sup>



## World Equity Valuation<sup>3</sup>



## Central Bank Rates<sup>4</sup>

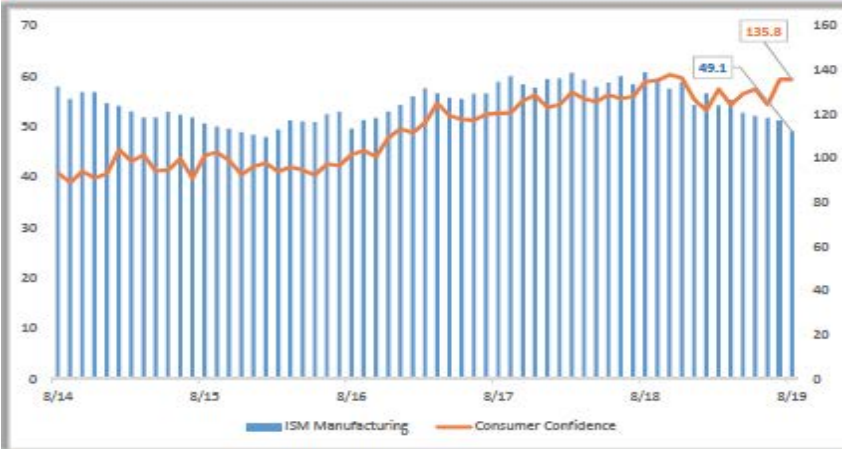


Sources: 1. Bloomberg 3. Factset  
2. U.S. Treasury Department 4. Factset



# Key Macro Indicators

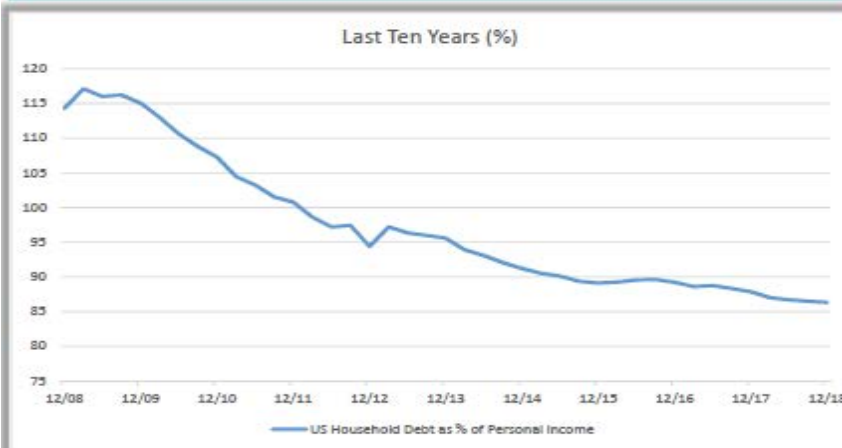
## Consumer Confidence & ISM Manufacturing<sup>1</sup>



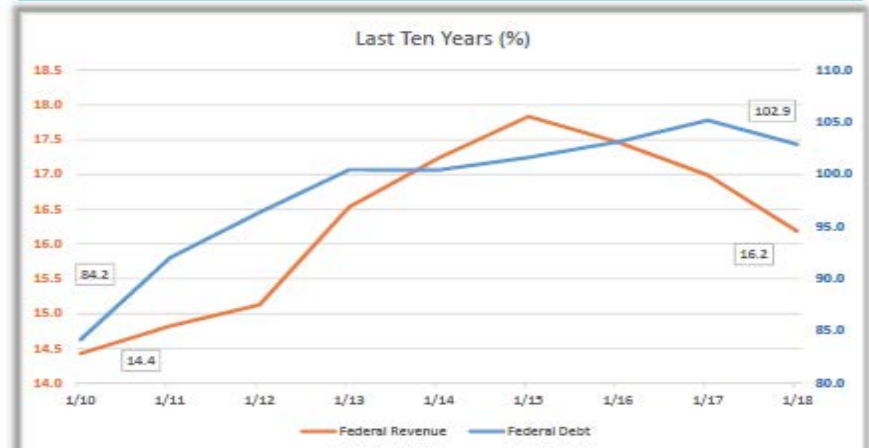
## U.S. Inflation & Unemployment<sup>2</sup>



## US Household Debt as % of Personal Income<sup>3</sup>



## Federal Revenue and Federal Debt as % of GDP<sup>4</sup>



Sources: 1. Bloomberg 3. Bloomberg  
2. Bloomberg 4. Bloomberg & Federal Reserve



# Market Themes and Notable Items to Watch

---

## Recent Themes

- Increased volatility in markets
- Slowing global growth
- Yield curve inversion
- Geopolitical Risks
  - China trade tensions; currency devaluation
  - Brexit negotiations
  - Hong Kong protests
  - Iran
- Fed benchmark rate was reduced 25bps
- Repo market – Rate spiked over 5%
  - Cash demand of tax payments and issuance of Treasury securities caused reserves to decline
  - Impacted Fed funds rates causing the Fed to inject liquidity into the market
  - Positive implications is that Fed is watching and is able to react
  - Fed has to be mindful of bank reserves while reducing its balance sheet

## What to Watch

- Brexit negotiations deadline Oct 31
- Global Central Bank stance
- Credit spreads
- Read on inflation
- Impeachment inquiry



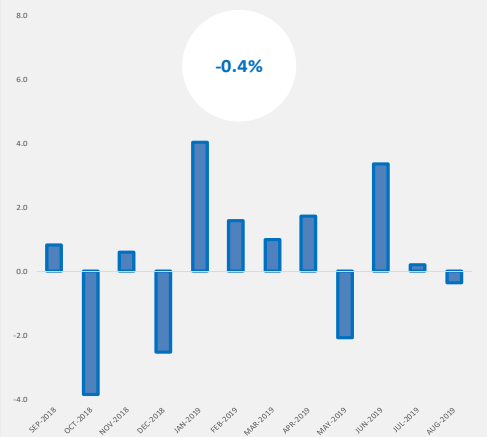
# Portfolio Performance Update



# Total Fund Summary as of August 2019

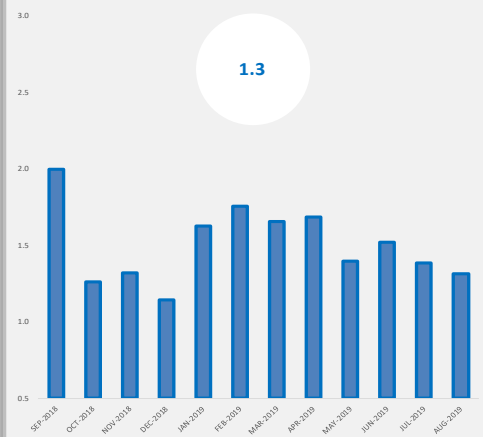
## Monthly Return

(net)



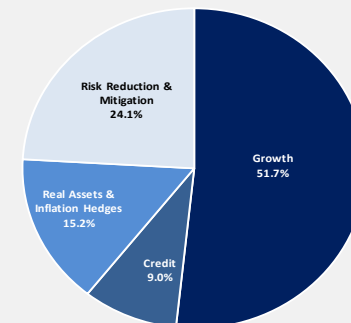
## Sharpe Ratio

(3-Year Annualized)



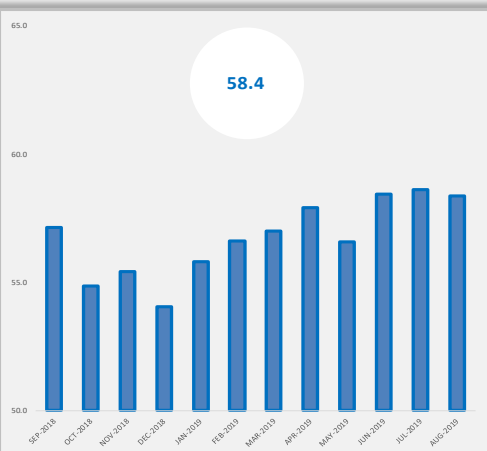
## Asset Allocation

	Market Value <sup>1</sup> (\$ millions)	% of Total	Interim Target <sup>2</sup>
<b>TOTAL FUND</b>	<b>58,367</b>		
<b>Growth</b>	<b>30,180</b>	<b>51.7%</b>	<b>52.0%</b>
Global Equity	23,395	40.1%	41.0%
Private Equity <sup>3</sup>	5,775	9.9%	10.0%
Opportunistic Real Estate <sup>4</sup>	922	1.6%	1.0%
Growth Overlay <sup>5</sup>	88	0.2%	—
<b>Credit</b>	<b>5,231</b>	<b>9.0%</b>	<b>10.0%</b>
High Yield	2,335	4.0%	4.0%
Bank Loans	899	1.5%	3.0%
Emerging Market Debt	845	1.4%	1.0%
Illiquid Credit <sup>3,4,6</sup>	1,051	1.8%	2.0%
Credit Overlay <sup>5</sup>	100	0.2%	—
<b>Real Assets &amp; Inflation Hedges</b>	<b>8,894</b>	<b>15.2%</b>	<b>15.0%</b>
Core & Value Added Real Estate <sup>4</sup>	5,355	9.2%	8.0%
Natural Resources & Commodities	1,806	3.1%	3.0%
Infrastructure	1,191	2.0%	2.0%
Treasury Inflation-Protected Securities	526	0.9%	2.0%
RA & IH Overlay <sup>5</sup>	16	0.0%	—
<b>Risk Reduction &amp; Mitigation</b>	<b>14,062</b>	<b>24.1%</b>	<b>23.0%</b>
Investment Grade Bonds	11,599	19.9%	19.0%
Diversified Hedge Fund Portfolio <sup>6</sup>	1,598	2.7%	3.0%
Cash	844	1.4%	1.0%



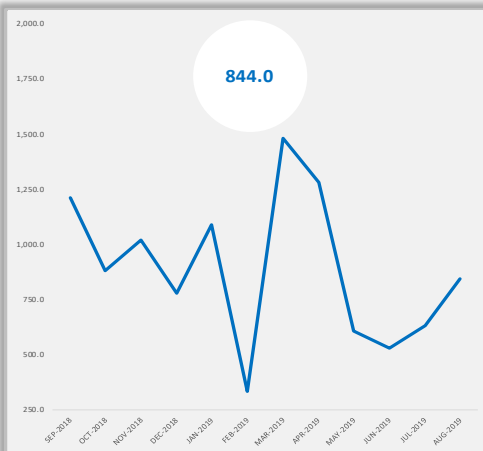
## Total Market Value

(\$ billions)



## Cash

(\$ millions)



1. Transition balances are included in subcategory totals, if applicable  
 2. Interim target weights effective as of 4/1/19  
 3. Private Equity market values reflect latest available and are adjusted for cash flows

4. Real Estate market values reflect a 3-month lag  
 5. Reflects net cash position available for overlay investing  
 6. Hedge Fund market values reflect a 1-month lag



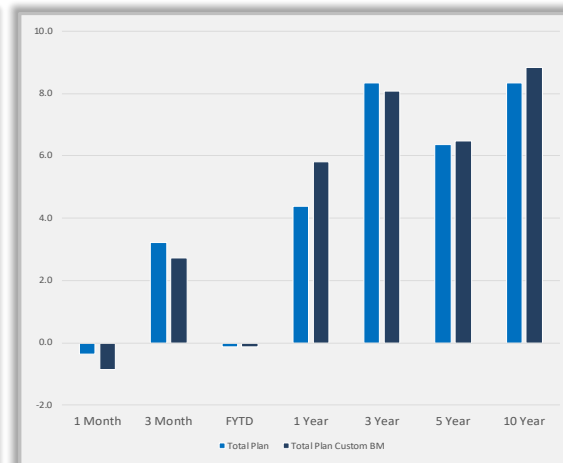
# Historical Net Performance as of August 2019

## LACERA Pension Fund

	Market Value (\$ millions)	% of Total Fund	Interim Target <sup>2</sup>	1 Month	3 Month	FYTD	1 Year	3 Year	5 Year	10 Year
<b>TOTAL FUND</b>	58,367	100.0%	100.0%	-0.4	3.2	-0.1	4.4	8.3	6.4	8.3
<i>Total Fund Custom BM</i>				-0.9	2.7	-0.1	5.8	8.1	6.5	8.8
<i>7.25% Annual Hurdle Rate</i>				0.6	1.8	1.2	7.3	7.3	7.3	7.3
<b>Functional Composites<sup>1</sup></b>				<b>1 Month</b>	<b>3 Month</b>	<b>FYTD</b>				
<b>GROWTH</b>	30,180	51.7%	52.0%	-1.6	3.6	-1.4				
<i>Growth Custom BM</i>				-2.6	2.5	-1.5				
<b>CREDIT</b>	5,231	9.0%	10.0%	0.1	1.8	0.5				
<i>Credit Custom BM</i>				0.1	2.7	1.0				
<b>REAL ASSETS &amp; INFLATION HEDGES</b>	8,894	15.2%	15.0%	-0.3	1.8	-0.4				
<i>Real Assets &amp; Inflation Hedges Custom BM</i>				-0.1	1.9	-0.2				
<b>RISK REDUCTION &amp; MITIGATION</b>	14,062	24.1%	23.0%	2.2	3.7	2.5				
<i>Risk Reduction &amp; Mitigation Custom BM</i>				2.2	3.6	2.5				

## Historical Returns

(net)



## OPEB Master Trust Fund

Sub-Trusts	Market Value (\$ millions) <sup>3</sup>	Trust Ownership %	Target Weight	1 Month	3 Month	FYTD	1 Year	3 Year	5 Year
<b>TOTAL OPEB MASTER TRUST</b>	1,234								
Los Angeles County	1,185	96.0%	—	-0.8	3.5	-0.4	2.9	9.0	5.7
LACERA	5	0.4%	—	-0.8	3.5	-0.4	2.9	9.0	5.7
Superior Court	44	3.6%	—	-0.8	3.6	-0.4	2.8	8.6	—
<b>Functional Composites</b>				<b>1 Month</b>	<b>3 Month</b>	<b>FYTD</b>	<b>1 Year</b>	<b>3 Year</b>	
<b>OPEB Growth</b>	611	49.5%	50.0%	-2.5	4.1	-2.2	-1.1	9.2	
<i>Custom OPEB MT Growth Pool</i>				-2.5	4.1	-2.2	-1.4	8.9	
<b>OPEB Credit</b>	247	20.0%	20.0%	-0.4	2.4	0.3	5.8	—	
<i>Custom OPEB MT Credit Pool</i>				-0.5	2.1	0.2	6.0	—	
<b>OPEB Risk Reduction &amp; Mitigation</b>	126	10.2%	10.0%	2.2	3.5	2.4	8.8	3.9	
<i>Custom OPEB MT Risk Reduction Pool</i>				2.1	3.4	2.3	8.6	3.6	
<b>OPEB Inflation Hedges</b>	249	20.2%	20.0%	1.4	3.7	2.2	6.1	—	
<i>Custom OPEB MT Inflation Hedges Pool</i>				1.4	3.7	2.2	6.3	—	
<b>Operating Cash</b>	0.1	0.0%	—	—	—	—	—	—	

## Historical Returns

(net)

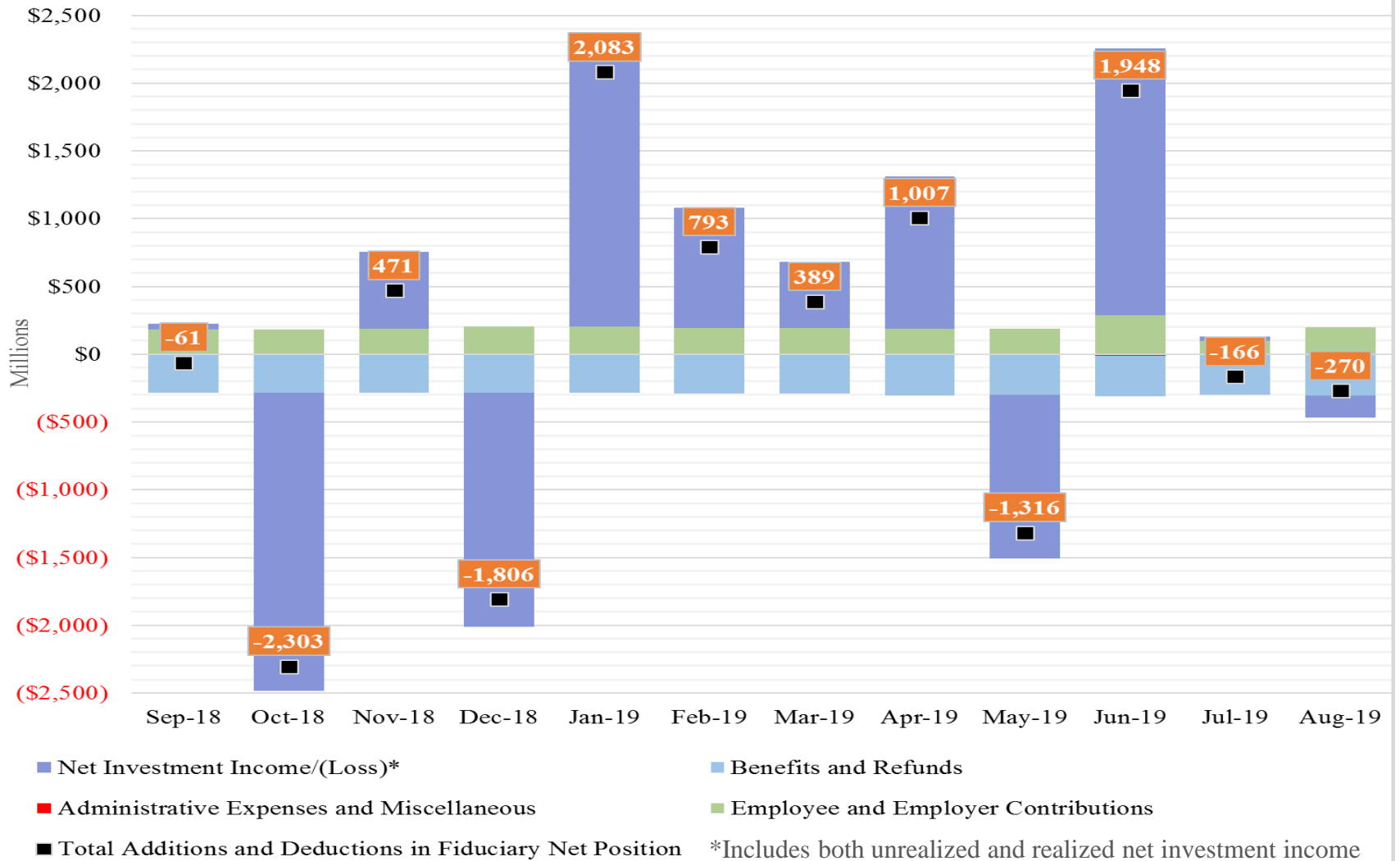


1. Functional composites were adopted on 4/1/19
2. Reflects interim target weights
3. Market value differences between the sub-trusts and functional composites are due to operational cash



# Liquidity Position

**Additions and Deductions in Fiduciary Net Position (Unaudited)**



# Portfolio Structural Updates





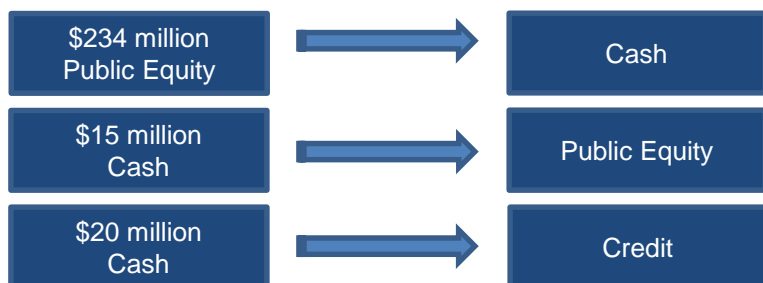
# Portfolio Structural Updates

## Portfolio Movements

### Completed Actions

- Secondary purchase in private equity

### Rebalancing Activity



### Hedges and Overlays

Program	August Return	Gain/Loss August	Gain/Loss Inception*
Currency Hedge	0.2%	\$7.1 Million	\$938 Million
Overlay	1.8%	\$25.3 Million	\$25 Million

## Current Search Activity

### Status of Active Searches

Name	RFP Issued	Due Diligence	BOI Review
Total Fund Risk Platform	●	●	Anticipated Fall 2019
Illiquid Credit	●	●	Anticipated Fall 2019
Syndicated Bank Loans	●	●	Anticipated Fall 2019
Factor-Based Global Equity	●	●	Anticipated Early 2020
Total Fund Performance Provider			Anticipated Spring 2020
Alternatives Administrative Services			Anticipated Spring 2020
Securities Lending Services	●	●	Anticipated Spring 2020

### Quiet Period for Search Respondents

Please see the Appendix for this month's list of respondents to active searches



\*\*Currency and overlay program since inception dates are 8/2010 & 7/2019 respectively

# Key Initiatives and Operational Updates



# Notable Initiatives and Operational Updates

---

## Key Initiative Updates

- Business continuity planning is under development
- Responses for the Securities Lending RFP were received
- Sent letters to 25 California companies jointly with CalPERS and CalSTRS requesting discussion on board quality and diversity, per July CG Committee discussion

## Operational Updates

- Financial Analyst III searches
  - Public Equity
  - Private Equity
  - Credit
- Initiating Investment Division internship program for FY-2020
- Assisting in the 2019 CAFR preparations
- Forthcoming CIO Report additions
  - Risk update (Pending RFP)
  - Compliance Monitor (on quarterly basis)
  - Staff chart of the month

## Manager/Consultant Updates

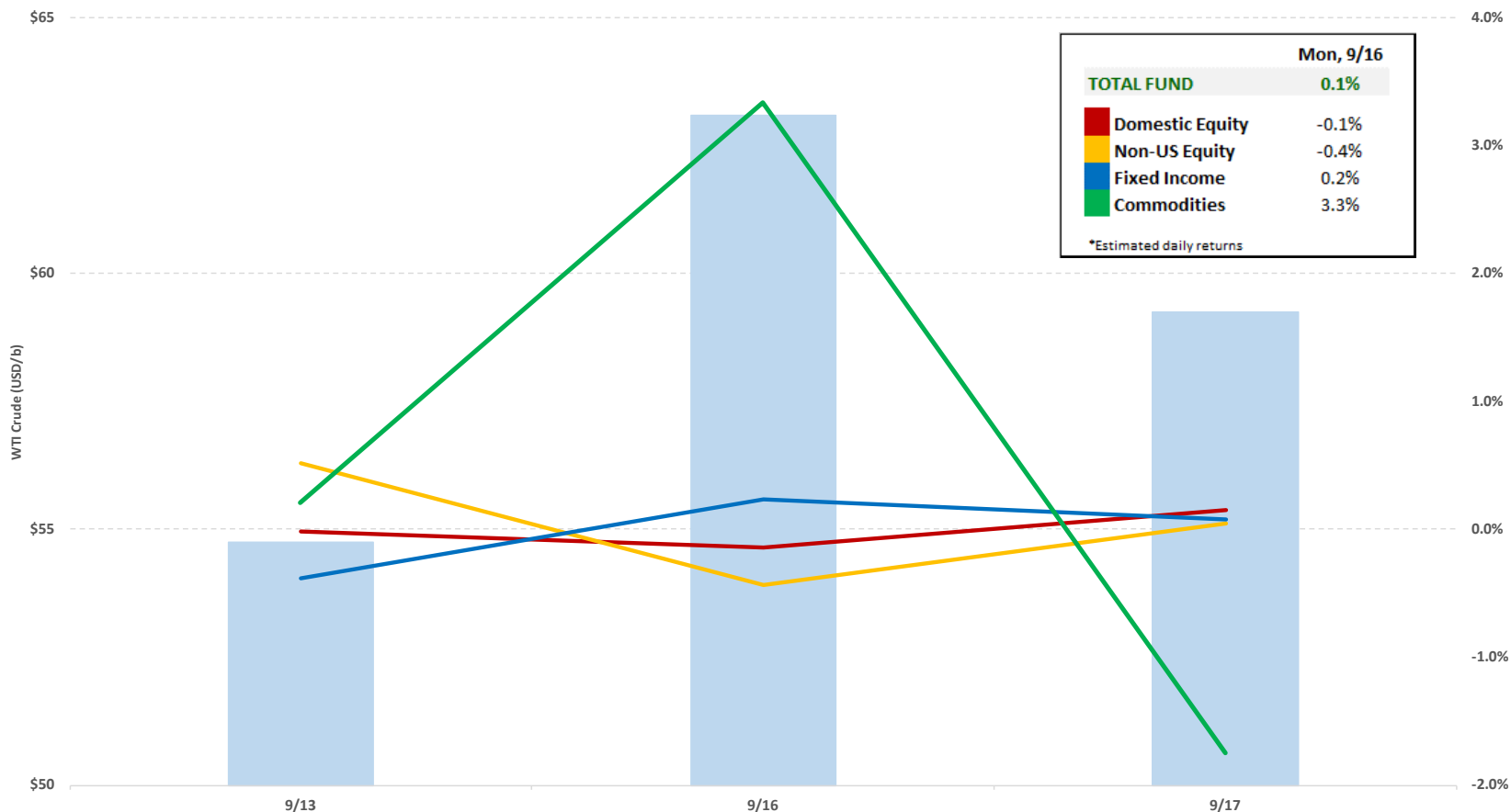
- No updates at this time



# Commentary



# Saudi Oil Shock – September 14, 2019



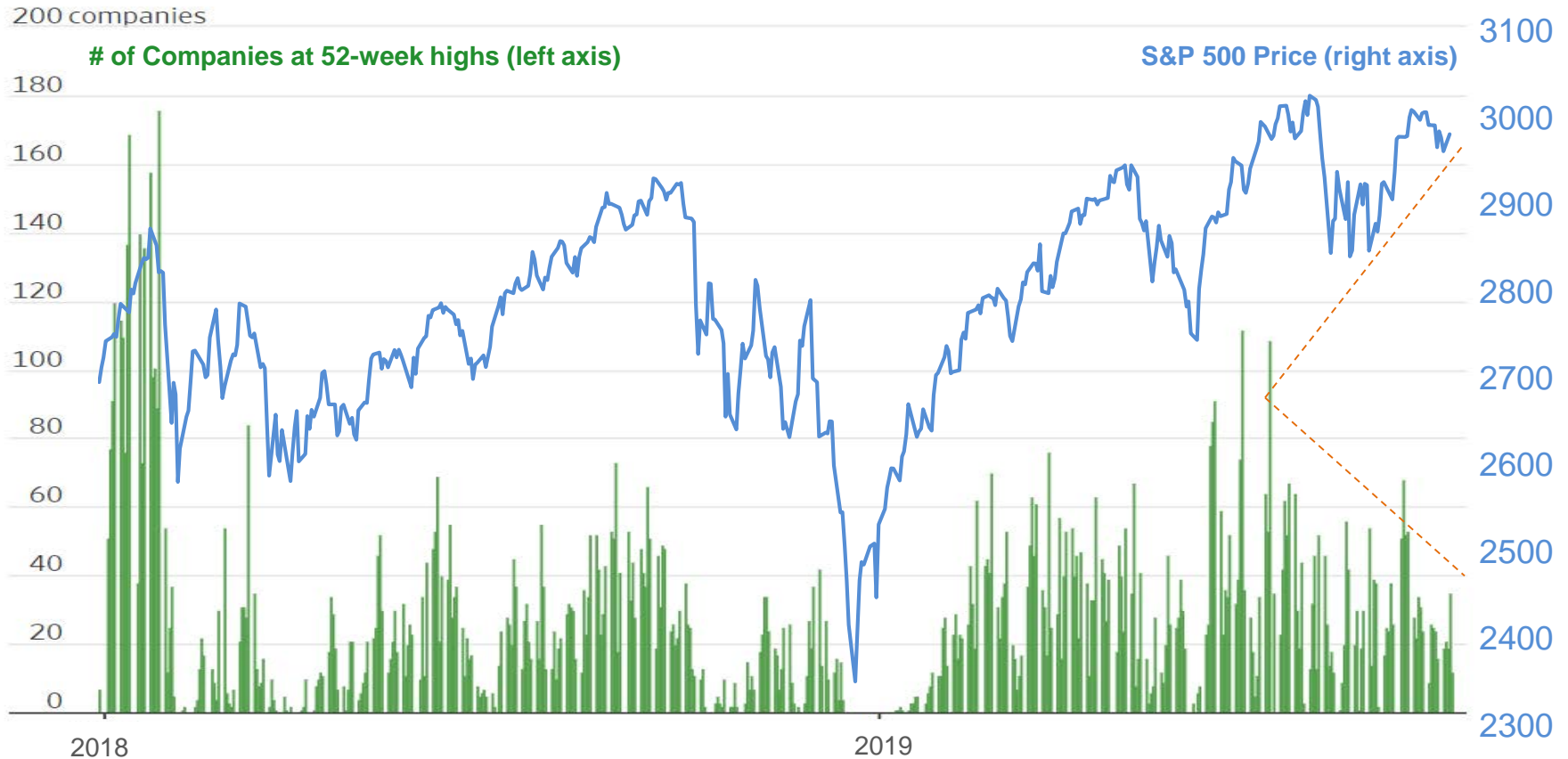
- Saudi Arabia accounts for roughly 10% of the World's oil production
- Drone attacks at two large Saudi crude facilities reduced output by more than half of current production (~ 5.7 mb/d)
- WTI Crude Oil spot price spiked +15.2% in a single day
- LACERA's total fund rose 0.1%, while global equities declined -0.3% as of the close on 9/16



# Staff Chart of the Month

## Breadth of U.S. Stock Market Participation

Number of S&P 500 companies closing at 52-week highs



Source: FactSet

- Only 12 companies closed at 52-week highs as the S&P 500 was 2% from all-time highs on September 27, 2019
- Divergence observed: recent market highs with a lack of broad market participation (small group of market leaders)



# Appendix



# Quiet Period for Search Respondents

## Total Fund Risk System

- ✓ BlackRock Solutions
- ✓ BNY Mellon
- ✓ FactSet
- ✓ MSCI
- ✓ State Street
- ✓ Sustainalytics
- ✓ Wilshire Associates

## MSCI ACWI IMI Index Services

- ✓ BlackRock, Inc.
- ✓ (LIGMA) Legal & General Investment Management America, Inc.
- ✓ State Street Global Advisors Trust Company
- ✓ Northern Trust Investments, Inc.

## Securities Lending Services

- ✓ Securities Finance Trust Company
- ✓ JPMorgan Chase Bank, N.A.
- ✓ State Street Bank and Trust Company
- ✓ Citibank, N.A.
- ✓ The Bank of New York Mellon
- ✓ Goldman Sachs Agency Lending
- ✓ Deutsche Bank AG, New York Branch

## Syndicated Bank Loan Investment Management Services

- ✓ Neuberger Berman
- ✓ Pacific Asset Management
- ✓ PineBridge Investments LLC
- ✓ Par-Four Investment Management LLC
- ✓ Symphony Asset Management LLC
- ✓ BlackRock, Inc.
- ✓ Crestline Denali Capital, LP
- ✓ T. Rowe Price Associates, Inc.
- ✓ Shenkman Capital Management, Inc.
- ✓ Barings
- ✓ Additional submission
- ✓ Crescent Capital Group LP
- ✓ THL Credit Advisors LLC
- ✓ CVC Credit Partners, LLC
- ✓ KKR Credit Advisors (US) LLC
- ✓ Lord, Abbott & Co. LLC
- ✓ Aegon Asset Management US
- ✓ Guggenheim Partners Investment Management, LLC
- ✓ Wellington Management Company LLP
- ✓ CIFC Asset Management LLC
- ✓ Seix Investment Advisors LLC
- ✓ GSO Capital Partners LP
- ✓ Credit Suisse Asset Management LLC
- ✓ Western Asset Management Company, LLC
- ✓ GoldenTree Asset Management
- ✓ Ares Management LLC
- ✓ Loomis, Sayles & Co., LP
- ✓ Goldman Sachs Asset Management LP
- ✓ Oaktree Capital Management, LP
- ✓ Brigade Capital Management, LP
- ✓ Voya Investment Management
- ✓ FIAM LLC
- ✓ M&G Investments
- ✓ Eaton Vance Management
- ✓ Invesco
- ✓ Bain Capital Credit, LP
- ✓ Franklin Resources, Inc. (Parent)
- ✓ Franklin Advisors, Inc. (Investment Adviser)

## Factor-based Equity Investment Management Services

- ✓ Allianz Global Investors
- ✓ AQR Capital Management, LLC
- ✓ AXA Investment Managers, Inc.
- ✓ BlackRock, Inc.
- ✓ Brandywine Global Investment Management
- ✓ Capital International, Inc.
- ✓ Connor, Clark, and Lunn Investment Management, Ltd.
- ✓ Dimensional Fund Advisors LP
- ✓ FFCM LLC
- ✓ Goldman Sachs Asset Management, LP
- ✓ HSBC Global Asset Management Inc.
- ✓ Invesco
- ✓ J.P. Morgan Asset Management
- ✓ Lazard Asset Management LLC
- ✓ Legal & general Investment Management
- ✓ Los Angeles Capital Management and Equity Research Inc.
- ✓ Mellon Investments Corporation
- ✓ Northern Trust Investments, Inc.
- ✓ PanAgora Asset Management, Inc.
- ✓ QMA LLC
- ✓ Robeco Institutional Asset Management US, Inc.
- ✓ State Street Global Advisors, LLC
- ✓ TOBAM
- ✓ Wells Fargo Asset Management





# Quiet Period for Search Respondents (continued)


## Illiquid Credit Investment Management Services

- ✓ Alcentra NY, LLC
- ✓ Anchorage Capital group, LLC
- ✓ Angelo, Gordon & Co LP
- ✓ Apollo Capital Management, LP
- ✓ Ares Management
- ✓ ArrowMark Partners
- ✓ Audax Group
- ✓ Barings LLC
- ✓ BeachPoint capital Management LP
- ✓ Benefit Street Partners LLC
- ✓ BlackRock, Inc.
- ✓ Brigade Capital Management, LP
- ✓ Canyon Capital Advisors LLC
- ✓ Carlyle Global Credit Investment management LLC
- ✓ CarVal Investors, LLC
- ✓ Cerberus Capital Management, LP
- ✓ Chenavari Credit partners LLP
- ✓ Cheyne Capital Management (UK) LLP
- ✓ Clarion Capital Partners
- ✓ CQS (US), LLC
- ✓ Crescent Capital Group, LP
- ✓ Crestline Management, LP
- ✓ EIG Credit Management Company, LLC
- ✓ Fortress Lending Advisors LLC
- ✓ GoldenTree Asset Management LP
- ✓ Hayfin Capital Management LLP
- ✓ HPS Investment Partners, LLC
- ✓ KKR Credit Advisors (US) LLC
- ✓ M&G Investment Management LTD
- ✓ Magnetar Financial LLC
- ✓ Marathon Asset Management, LP
- ✓ Monroe Capital, LLC
- ✓ Napier Park Global Capital (US) LP
- ✓ Neuberger Berman Investment Advisors
- ✓ Oak Hill Advisors
- ✓ Oaktree Capital Management Company LLC
- ✓ Orchard Global Asset Management
- ✓ PGIM, Inc.
- ✓ Pacific Investment Management Company LLC
- ✓ Schroder Investment Management North America Inc
- ✓ TPG Sixth Street Partners
- ✓ Varde Management LP
- ✓ Waterfall Asset Management LLC
- ✓ White Oak Global Advisors LLC
- ✓ Zais Group



September 30, 2019

TO: Each Member  
Board of Investments

FROM: Board of Investments Real Assets Committee  
Mike Romero, Senior Investment Analyst 

FOR: October 8, 2019 Board of Investments Meeting

SUBJECT: **REAL ESTATE APPRAISAL MANAGEMENT SERVICE PROVIDER  
AND APPRAISAL FREQUENCY**

### **RECOMMENDATION**

1. Approve the proposed Minimum Qualifications (“MQs”) for an Appraisal Management Service Provider (“AMSP”); and
2. Approve changing the frequency of external appraisals from once every three years to annually.

### **BACKGROUND AND SUMMARY**

On September 11, 2019, the Real Assets Committee (the “Committee”) voted unanimously to recommend the Board approve staff’s recommendation to issue a Request for Proposal (“RFP”) for an AMSP and the change of frequency of external real estate appraisals. The RFP recommendation included Minimum Qualifications (“MQs”) for respondents. The attached **APPENDIX** is staff’s recommendation to the Committee.

An AMSP, if retained, would administer the valuation process of each separate account asset in the portfolio. AMSPs have advanced platforms for managing the appraisal process, and, more importantly, sophisticated processes for compiling data and analyzing appraisal metrics across properties and markets.

Obtaining third-party appraisals annually has become industry standard, ensuring the underlying values are independently reviewed more frequently. Changing timing of appraisals to annually will improve efficiency and enhance transparency.

If approved, an announcement of the RFP would be posted on LACERA’s website.

LACERA’s real estate consultant (The Townsend Group) concurred with staff’s recommendation.

## **OPTIONS AVAILABLE TO THE BOARD**

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

## **DELIBERATIONS AND OPINIONS EXPRESSED BY THE COMMITTEE**

The Committee voted unanimously to approve staff's recommendation.

Questions and opinions expressed by Committee members during its deliberations and staff's response include the following:

- How many responses to the RFP do we anticipate? Staff anticipates a limited amount of respondents. There will likely be at least two respondents. None of the existing managers or appraisers used by LACERA are expected to respond.

## **RISKS OF ACTION AND INACTION**

If the Board approves recommendation #1, staff will release an RFP to conduct a search for an AMSP for consideration by the Board at a later date. If the Board does not approve recommendation #1, the external appraisal process will continue to be managed by staff.

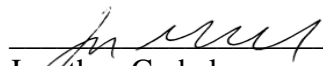
If the Board approves recommendation #2, the external appraisal frequency will change to annually effective June 30, 2020. If the Board does not approve recommendation #2, this will result in no changes to the current appraisal frequency.

## **CONCLUSION**

The Committee has advanced two staff recommendations to the Board for approval. If the first recommendation is approved, an RFP for an AMSP will be initiated and the results presented to the Board for consideration. The second recommendation calls for increasing the frequency of externally appraising the separate account real estate assets to annually from the current practice of appraising every three years. Both recommendations have been reviewed by the Board's real estate consultant, The Townsend Group. A memo from the consultant with their observations and concurrence is also included in the **APPENDIX**.

Attachment

NOTED AND REVIEWED:


  
\_\_\_\_\_  
Jonathan Grabel  
Chief Investment Officer

JM/dr

August 30, 2019

**APPENDIX**

TO: Each Member  
Real Asset Committee

FROM: Mike Romero   
Senior Investment Analyst

FOR: September 11, 2019 Real Assets Committee Meeting

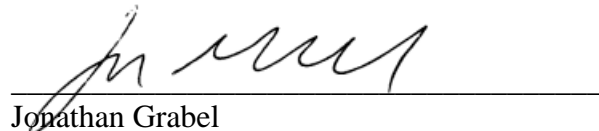
SUBJECT: **REAL ESTATE APPRAISAL MANAGEMENT SERVICE PROVIDER  
AND APPRAISAL FREQUENCY**

The attached presentation (**Attachment 1**) describes staff's recommendation to retain an appraisal management service provider to manage the appraisal process and increase the frequency of third-party appraisals.

The Townsend Group has reviewed this recommendation and concurs with staff (**Attachment 2**).

Attachments

Noted and Reviewed:



Jonathan Grabel  
Chief Investment Officer

JP:cq

# Real Estate Appraisal Management Service Provider and Appraisal Frequency

Real Assets Committee Meeting  
September 11, 2019

Mike Romero – Senior Investment Analyst



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# Background-Rationale

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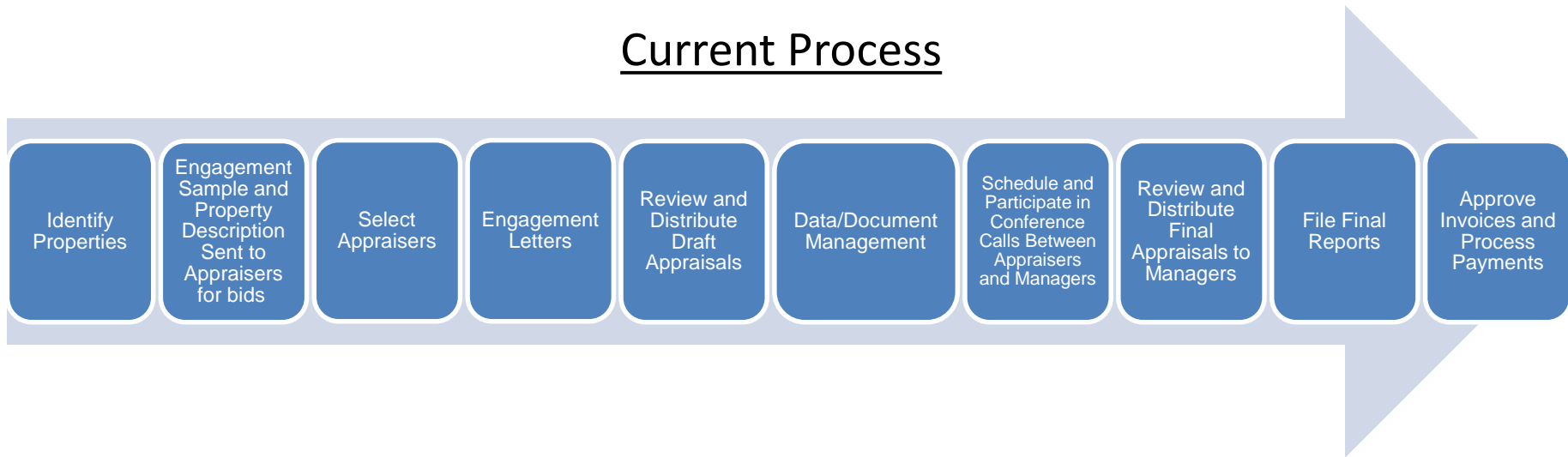
Why does LACERA obtain appraisals?

- To provide third-party opinion of market values of properties owned

# Background-Current Process

LACERA staff has historically managed the external appraisal process

## Current Process





# Appraisal Management Service Provider

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- Appraisal Management Service Providers (AMSPs) oversee and manage the third-party appraisal process.
- AMSPs are regularly utilized by institutional investors and commingled fund managers.
- AMSPs have advanced platforms for managing the appraisal process, and, more importantly, a sophisticated process for compiling data to help analyze appraisal metrics across properties and markets.



# Appraisal Management Service Provider

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## Scope of Work

- Scheduling appraisals
- Conducting the appraiser selection process
- Engaging third-party appraisers
- Reviewing third-party appraisals (e.g. accuracy of leasing conditions and market data, operating assumptions, capital markets environment, sales and leasing comparables)
- Value resolution and reconciliation between managers and external appraisers
- Administer the invoicing of third-party appraisal assignments
- Maintain and Provide Access to Documentation (current and historical file management)
- Provide an online management system with data control capabilities and customized portfolio reports

# Appraisal Frequency & Proposed Changes

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- Increase frequency of third-party appraisals
  - A plan to review appraisal frequency was included in the Real Estate Structure Review update approved by the Board in June 2019.
- Retain an AMSP to oversee and manage the appraisal process.
  - Appraisal management was identified during the scope of work evaluation related to the Real Estate Administrative Services search earlier this year. It was determined that appraisal management should be evaluated on a stand alone basis.

# Appraisal Frequency & Proposed Changes

## Pros

- Industry standard is to obtain third-party appraisals annually
  - Helps guard against overvaluation
  - ODCE funds require external valuations quarterly
- Improves efficiency and increases transparency
- Provides greater frequency, thereby ensuring the underlying values are independently reviewed
- Smoother returns with more frequent external valuations
- Online management tracking system and customized reporting
- Enhance strategic focus of internal real estate team
- Enhances independence of valuations

## Cons

- Increased cost
  - More appraisals will be conducted
  - Fee for AMSP



# Proposed Changes

## Current

- Each asset externally valued **every three years**
- Assets are valued by separate account managers each quarter when not externally valued
- Intentionally stagger appraisals so that **a third of the properties** are externally valued each year, on a rolling basis
- A mixture of property types, risk category and separate account managers are appraised
- External appraisers **selected by LACERA**

## Recommended

- Each asset externally valued **every year**
- Assets are valued by separate account manager each quarter when not externally valued
- Intentionally staggered appraisals so that **approximately 25% of the properties are externally valued each quarter**, on a rolling basis
- A mixture of property types, risk category and separate account managers are appraised
- External appraisers **selected by the Appraisal Management Service Provider**



# Minimum Qualifications

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- As of June 30, 2019, the provider must have at least five (5) years of experience providing institutional commercial real estate valuation management services
- As of June 30, 2019, the provider must consult for institutional and/or large commercial clients on the subject of real property valuations, and have the capacity to manage a database of information relating to valuations
- As of June 30, 2019, the provider must have appraisal management assignments covering at least \$1 billion of properties in U.S.
- As of June 30, 2019, the provider must have real estate valuation management service assignments for a portfolio of assets for at least two defined benefit plans greater than \$5 billion
- As of June 30, 2019, the provider's dedicated senior management team must have a minimum of five (5) years of commercial real estate valuation and/or valuation consulting experience for institutional clients



# Recommendation

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- Approve the Minimum Qualifications for a real estate appraisal manager service provider
- Change the frequency of external appraisals from once every three years to annually\*
- Townsend concurs with staff's recommendation

\* Upon successful hiring of an AMSP



# Proposed Timeline

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Real Assets Committee	September 11, 2019
Board of Investments	October 9, 2019
Issue RFP	October 10, 2019
RFP Responses Due	October 31, 2019
Due Diligence	November 2019-December 2019
Recommendation to Board of Investments	February 12, 2020







88 Kearny Street, Suite 800  
San Francisco, CA 94105

## Memorandum

**To:** LACERA Real Assets Committee ("RAC")  
**From:** Townsend *Jennifer D. Stevens*  
**Date:** September 11, 2019  
**Re:** Real Estate Appraisal Management and External Appraisal Frequency

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### Introduction

LACERA is proposing two changes to the appraisal process within the plan's Separate Account Portfolio. First, LACERA proposes to authorize staff to initiate a Request for Proposal ("RFP") for an Appraisal Management Service Provider ("ASMP") as well as institute minimum qualifications for the selection of an ASMP. The ASMP would oversee the timely and accurate appraisal of the Separate Account Portfolio's individual assets. Second, LACERA proposes to change the frequency of appraisal for each asset from three years to one year. In 2019, Townsend provided LACERA with a report on Appraisal Policy best practices, which is attached as **Exhibit A. Townsend believes these changes are prudent and will help with the ongoing evaluation of the Separate Account Portfolio.** Specific considerations motivating this concurrence, as well as a summary of the Separate Account Portfolio, are provided below.

### Separate Account Portfolio Overview

As of 3/31/2019, LACERA's Separate Account Portfolio was comprised of 93 real estate assets with a total net asset value of \$5.304 billion. In total, these assets represent 81% of LACERA's real estate portfolio. Currently, appraisals of these assets are completed every three years (approximately 33% of assets are appraised each year). LACERA Staff manages the appraiser selection and bidding process.

### Proposal 1: Appraisal Management RFP & Minimum Qualifications

Townsend concurs with LACERA Staff's proposal to initiate an RFP for a real estate appraisal management servicer. Townsend believes this is appropriate for several reasons. First, an appraisal management firm could help facilitate Staff investment decisions through accessible online data. Second, the size and number of assets within the Separate Account Portfolio are significant. Consequently, significant time and resources are required to properly identify, select and oversee outside appraisers. An appraisal management firm would reduce the time spent by LACERA Staff in coordinating appraisals.

LACERA proposes the following five minimum qualifications an ASMP must meet as of June 30, 2019:

1. The provider must have at least five (5) years of experience providing institutional commercial real estate valuation management services.

2. The provider must consult for institutional and/or large commercial clients on the subject of real property valuations, and have the capacity to manage a database of information relating to valuations.
3. The provider must have appraisal management assignments covering at least \$1 billion of properties in U.S.
4. The provider must have real estate valuation management service assignments for a portfolio of assets for at least two defined benefit plans greater than \$5 billion.
5. The provider's dedicated senior management team must have a minimum of five (5) years of commercial real estate valuation and/or valuation consulting experience for institutional clients.

The above qualifications are in-line with industry standards and Townsend believes they will provide adequate minimum qualifications for the selection of an ASMP. Although Townsend expects a number of firms to respond and meet the above criteria, there are only a few prominent service providers in this space today.

Townsend notes that the addition of the ASMP will lead to an additional cost for LACERA. This cost will be determined through the RFP process and a decision to retain an ASMP can then be made.

### **Proposal 2: Changing Appraisal Frequency**

LACERA Staff proposes to decrease the interval in which properties held in separate accounts are appraised to one year from the current three-year schedule. This will result in approximately 25% of the Separate Account Portfolio being appraised each quarter. Townsend supports this change, as it will increase the transparency of valuations and provide frequent independent assessments by a third party. Finally, appraising 1/4 of the portfolio on a quarterly basis (as opposed to 1/3 of the portfolio in June of each year) should smooth returns. Townsend believes this change reflects "best practices" and more closely aligns LACERA's appraisal methodology with that of the benchmark.

It is expected that the increased frequency of appraisal will increase the overall cost of the Separate Account strategy. Typically, asset appraisals range from \$3000 - \$7000 per asset. LACERA's current appraisal methodology results in estimated costs of \$93,000 - \$217,000. Last cycle, LACERA appraised 1/3 of the assets and total costs averaged \$4500 per asset (approximately \$117,000). The recommended change in methodology will result in a cost range of \$269,000 - \$651,000 per year for LACERA's Separate Account Portfolio (assuming the portfolio size remains consistent). However, given that LACERA's Separate Account Portfolio is expected to decrease over time, the overall dollar costs will likely decline. Further, cost will be negotiated at the time of contract and there may be efficiencies that can be achieved due to the increased frequency. Despite a possible increased cost, Townsend believes the change is justified by an improved ability to oversee managers and monitor the portfolio.

Note that this change applies predominately to stabilized assets. Un-stabilized assets will be held at cost until the asset reaches stabilization, at which time the asset will either be sold or transferred to the Core Portfolio at a third party valuation.

**Recommendation**

The LACERA Staff proposal summarizes the key considerations associated with changing the appraisal methodology.

***Townsend concurs with the LACERA Staff Report recommending that the LACERA Real Assets Committee approve the appraisal process changes.***

**Exhibit A**  
*Appraisal Best Practices Memorandum*

**MEMORANDUM**

**TO:** Jonathan Grabel  
John McClelland

**DATE:** March 22, 2019

**SUBJECT:** Real Estate Appraisal - Best Practices (Internal Memo)

**FROM:** The Townsend Group

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**Overview**

In an effort to improve the appraisal policies for LACERA's individually managed accounts ("IMAs"), Townsend solicited feedback from third-party appraisal managers, evaluated appraisal practices for NFI-ODCE fund members, and reviewed client IMA policies of LACERA's peers.

**LACERA Appraisal Policy**

LACERA's appraisal policy, as of July 10<sup>th</sup>, 2018, is as follows:

*All directly held property investments made by Individually Managed Account managers shall be valued by a qualified independent appraiser(s) (MAI) at regular intervals, of less than every three (3) years. Appraiser selection with respect to individually managed accounts will be determined by staff, based on organizational qualifications, capabilities, personnel, references, and resources. Managers will estimate the market value of each property investment in those periods where independent appraisals are not performed.*

*Independent appraisals shall be performed, to the extent practicable, at such times as may be required to calculate performance and pay compensation to managers of individually managed accounts pursuant to any incentive compensation arrangement in any existing or future Investment Management Agreement. Valuations, whether determined by the manager or independent appraisers, will be used to calculate the performance of the portfolio.*

*(LACERA Real Estate Objectives, Policies and Procedures, Pages 9-10)*

LACERA's current policy allows LACERA the flexibility to appraise properties as-needed, allowing for greater cost management within the portfolio's IMAs. After reviewing LACERA's appraisal policies, as well as those of similarly situated public pension funds and members of the NFI-ODCE benchmark, Townsend believes that LACERA's appraisal policy could be further aligned with industry best practices through implementation of the following policies.

## **Policy Observations & Best Practices**

Throughout this memo, we discuss the use of the following terms to describe the appraisal process. Below is a general description of these terms.

- **Appraisal**

An appraisal is a valuation of property typically used to determine a market value (as of a date certain) for a property in question. Appraisals can be formed for a specific property or portfolio of assets.

A determination of value can be issued by an independent third party (external) or the party currently overseeing the management of the asset (internal/unofficial).

External appraisals are viewed as an independent source of opinion to validate market value. Appraisals are intended to conform with the Uniform Standards of Professional Appraisal Practice (USPAP), the Code of Professional Ethics and Standards of Professional Appraisal Practice of the Appraisal Institute, and applicable state appraisal regulations. Appraisals are also prepared in accordance with the appraisal regulations issued in connection with the Financial Institutions Reform, Recovery and Enforcement Act (FIRREA).

Reporting of the results of a real property appraisal is governed by USPAP STANDARD 2, which allows two options for written reports:

- Appraisal Report (as directed by Standards Rule 2-2(a), or
- Restricted Appraisal Report (as directed by Standards Rule 2-2(b).

A Restricted Appraisal Report is typically utilized in situations where there are “no intended users in addition to the client” and minimal disclosure is required to support the value (loan servicing or reporting). The cost of a Restricted Appraisal Report is generally lower than a full appraisal.

Standards Rule 2-2(a) of USPAP gives external appraisers the flexibility to vary the level of information in an Appraisal Report depending on the intended use and intended users of the appraisal.

All institutional quality appraisals for property should adhere to best-in-class standards and guidelines established by the Appraisal Foundation, the Appraisal Institute, and the NCREIF PREA Reporting Standards.

- **Types of External Appraisal Services**

- **Appraisal Services**

The party performing a third-party appraisal, often a national firm with local/regional expertise and accreditation.

- **Appraisal Management Services**  
Services include the coordination, order, review and analysis associated with managing the appraisal process.
  - **Appraisal Review Services**  
Services include an independent review of an appraisal report or set of appraisal reports.
  - **Fairness Opinion Services**  
Services used to provide an independent opinion of an established value used in a partnership buy-out, recapitalization, merger or public-to-private conversion and vice versa.
- **Valuation Methodologies**  
According to NCREIF PREA Reporting Standards and INREV's Global Definitions Database, an external valuation report must include information regarding the valuation methodology. Below is a summary of different methodologies stipulated in the guidelines.

The valuation methods can include, among others:

- Market Approach - based on market comparables;
- Income Approach - based on income capitalisation;
- Other valuation models based on earnings multiples or discounted cash flow methodology;
- Replacement cost less depreciation (cost approach) should only be used in specific and rare circumstances when other valuation methods cannot be applied.

The valuation of property under construction can be based upon:

- Fair Value at Completion less costs to complete (residual approach);
- Cost approach should only be used in specific and rare circumstances when other valuation methods cannot be applied.

During the initial phases of the construction of a property, the level of uncertainty surrounding the fair value of the property is high. In this context, the fair value as determined using the residual approach may be equal to the consideration paid for the property plus subsequent construction costs.

The information regarding applicable market assumptions could, for example, include sensitivity analysis of rent movements and yield changes.



Note that for the purpose of the INREV NAV, valuations of property under construction must be stated at fair value. Refer to INREV NAV adjustments in Module 4 - INREV NAV guidelines.

In the event of significant changes in market value resulting from a rotation of the external valuer, the manager must perform an assessment of the main underlying assumptions and provide full disclosure of the rationale for such changes.

Finally, the valuation methodology applied must lead to the market value regardless of the agreed valuation methodology as per management valuation regulations.

**Selection of Third Party Appraisal Firm**

LACERA’s current appraisal policy dictates that “appraiser selection with respect to individually managed accounts will be determined by staff, based on organizational qualifications, capabilities, personnel, references, and resources” (Los Angeles County Employees Retirement Association Real Estate Objectives, Policies and Procedures, Page 9). After reviewing the manager selection policy of LACERA’s peers, Townsend believes that LACERA’s policy could benefit from the addition of language regarding third-party input on the sourcing and evaluation of managers. Should an appraisal management firm be utilized (see below), LACERA or LACERA’s real estate consultant can assist with the search and selection of such firm.

**A. Number of Appraisers**

The use of multiple appraisers, along with a rotational policy (see below) ensures fresh, decision-relevant valuations. The value of multiple appraisers should be weighed against the incremental cost. The appraisal policy should also dictate the maximum number of assets that may be appraised by a single firm.

<b>Reputable Third-Party Appraisers</b>
The Altus Group
Situs RERC
Cushman & Wakefield
CBRE
Capright Property Advisors
NPV Advisors
Integra Realty Resources
Qval Property Advisors

**B. Appraisal Manager**

An appraisal manager sources qualified appraisers and coordinates the bidding and selection process for third-party appraisers. Additionally, appraisal managers can assist in the implementation of rotational policy, as well as the identification of specialist appraisers capable of accurately valuing



complex or unique assets. An appraisal manager also handles communication between managers and appraisers in order to ensure the client is aware of all manager-appraiser communications.

Given the size of LACERA's separate account portfolio, Townsend recommends LACERA **consider a partnership with a reputable appraisal manager that can assist with the execution of appraisal policies and best practices.** The most frequently used appraisal managers are RERC and The Altus Group (these firms cover 90% of the ODCE Index). These groups can be utilized as (1) an appraiser (2) an appraisal manager and (3) hybrid of the two.

### **Frequency and Timing of Appraisals**

Currently, LACERA values assets at a minimum of once every three (3) years, or on an ad hoc basis, according to the following policy:

*Independent appraisals shall be performed, to the extent practicable, at such times as may be required to calculate performance and pay compensation to managers of individually managed accounts pursuant to any incentive compensation arrangement in any existing or future Investment Management Agreement.*

*(LACERA Real Estate Objectives, Policies and Procedures, Pages 9-10)*

In order to determine best practice for the frequency of appraisals, Townsend reviewed the appraisal policies of 25 NFI-ODCE benchmark members, as well as the appraisal policies of public-fund peers who currently employ an individually managed account strategy. The frequency of both internal (asset-owner valuation) and external appraisals (third-party valuations) was evaluated.

Across NFI-ODCE members, internal appraisals are provisioned to be performed quarterly, except during quarters during which an external appraisal is commissioned. Additionally, for NFI-ODCE members, the frequency of external appraisals varies from quarterly to yearly. For Townsend clients who employ IMA strategies, appraisals are commonly staggered, with a proportion of the portfolio externally appraised each year. **Townsend advises that all properties be externally appraised at least annually.** This advice is consistent with NCREIF's Valuation Committee guidelines which state it is "recommended that funds (both comingled and separate accounts) have real estate holdings valued annually by an independent party in an objective and competent manner and in compliance with applicable laws and regulations." Further, within each year, staggering appraisals on a quarterly basis (i.e. appraising  $\frac{1}{4}$  of the portfolio externally per quarter) will help with smoothing.

#### **A. Rotational Policy**

Across both public-fund clients and NFI-ODCE members, best practice involves the implementation of a rotational policy. Rotational policy explicitly limits the number of consecutive asset-level appraisals that may be performed by a given firm. Townsend suggests that though some clients utilize a longer

time frame, **external appraisers should be rotated at least every three years in an effort to ensure fresh, market-informed and unbiased asset valuations.**

#### **B. Appraisal Timing**

Industry best practice dictates that appraisal policy should include guidelines for the timeline of external appraisals following the end of a reporting period. Townsend suggests that **appraisals should occur within 60 days following the end of the relevant reporting period.** The relevant period may vary for different assets due to staggering of appraisals, but should be consistent across properties and years.

#### **C. Takeover Assignments**

For IMA Takeover assignments, Townsend recommends commissioning and using an independent third party value to set the transfer value of an asset or portfolio. We further recommend limiting the exchange of comments between the appraisal firm and the legacy manager to one round of comments via written correspondence in a controlled environment (i.e. all correspondence overseen by the LP or a chosen third party). Finally, though there is no industry guidance on this topic, we recommend allowing the takeover manager to reassess the value of the portfolio only after one full quarter of performance OR only after first third party appraisal of the asset under new management. Takeover assignments are difficult in that typically manager fees and track record will be tied to the starting/ending asset value, hence the importance of using values substantiated by an independent third party.

### **Manager Input**

Valuations received from third party appraisers may differ from the internal marks of IMA managers, for a variety of reasons. Determining the procedures for manager comment when valuation differences occur is important to ensuring fair and unbiased third-party valuations. As a means to protect the independence of third-party appraisers, manager comment should not occur prior to delivery of the final appraisal without the knowledge and consent of LACERA staff. Additionally, all manager-appraiser communications should be documented and shared with LACERA staff. **To ensure appraiser independence, Townsend suggests that LACERA adopt a formal policy outlining the appropriate timing and extent of manager input.**

### **Appraisal Fees**

In order to determine the factors influencing appraisal cost, Townsend queried two industry-leading appraisal managers, as well as internal staff. Several relevant factors are: asset complexity, contract-length, and portfolio size. In general, as asset complexity increases, appraisal cost will also increase. Conversely, as contract-length and portfolio size increase, appraisal costs per asset will decrease. After averaging the cost estimates from several sources, Townsend believes a cost of **\$3,000 - \$7,000** to represent typical appraisal



costs per asset. Estimated discounts for bulk valuations and multi-year contracts vary, but may range from \$1,000 - \$2,000 per asset per year. **In order to minimize appraisal fees, several third-party appraisers should be requested to bid for contract, and aggregation discounts should be pursued.**

A rough estimate for appraisal management services is \$1,500 to \$2,500 per asset. This includes an opinion on the accuracy of the appraisal and working with the manager and appraiser to generate more accurate appraisal values. Benefits may be available for scale.

### **Appraisals and Investment Decisions**

In order to ensure that acquisition or disposition prices are reasonable, third-party appraisals may be required before the purchase or sale of an asset within an IMA portfolio, with threshold values (e.g. an appraisal value of at least 90% of acquisition value) required to be met for the transaction to occur. However, **Townsend does not recommend including an appraisal requirement prior to acquisition or disposition**, as it may interfere with the ability to transact. A requirement such as this is not considered industry standard.

### **Exhibit A – Sample Appraisal Process**

1. Determine Frequency of Appraisal
  - a. Annual
  - b. Rotate Portfolio Quarterly/Bi-Annually, allowing for exception when significant event occurs
2. Document Appraisal Policy in Strategic Plan, OPP, IPS
3. Use IMA Manager/Appraisal Manager/Staff/Consultant to solicit bids from three appraisers per Property
4. Select & Notify Appraiser
5. Draft & Sign Engagement Letter
  - a. 3-4 Weeks for First Draft Issuance
  - b. 4-6 weeks for Final Draft Issuance
  - c. Designate Number of Hard Copies/Electronic Copies and Recipients (LP, GP and Consultant should receive a copy of draft and final appraisal in electronic format. In takeover assignment, only final copies should be received)
6. Receive First Draft from Appraiser (3-4 Weeks)
7. Allow IMA Manager to provide ONE round of comments to Appraiser on First Draft
8. Receive Final Draft from Appraiser (4-6 Weeks)
9. Pay Invoice
10. Rotate appraisal firms every 3 years



October 1, 2019

TO: Each Member  
Board of Investments

FOR: Board of Investments Meeting of October 8, 2019

SUBJECT: Responsible Investor Annual Conference  
December 3–5, 2019 in New York, New York

The Responsible Investor (RI) Annual Conference, formerly Responsible Investor Americas, is the leading sustainable business and finance conference in North America and is back for its 11th Annual Conference on December 3–5, 2019 at the Convene on 117 West 46th Street, New York City. RI New York will provide a forum for investors to debate shareholder rights and proxy access, the role of central banks and securities regulators in climate risk, the importance of transforming energy systems, the impact of technologies like AI and machine learning on investor portfolios, requirements for data privacy, and ways to include human rights and other governance factors into investment portfolios.

The main conference highlights include the following:

- 21<sup>st</sup> Century Pensions: Will State-Backer Auto Enrollment Force Change in Existing Pension and Savings Models?
- Reality Bites – Climate Science and the Investor Response
- Investors and Tech Giants - Creating Accountable and Sustainable Growth Models
- Examining the Role of Investors in Society’s Development

The conference meets LACERA’s policy of an average of five (5) hours of substantive educational content per day. The standard hotel rate ranges between \$350.00 to \$450.00 per night plus applicable taxes and the registration fee to attend is \$860.00.

If the registration fee is insufficient to pay the cost of the meals provided by the conference sponsor, LACERA must reimburse the sponsor for the actual cost of the meals, less any registration fee paid. Otherwise, the attendee will be deemed to have received a gift equal to the value of the meals, less any registration fee paid, under California’s Political Reform Act.

**IT IS THEREFORE RECOMMENDED THAT YOUR BOARD:**

Approve attendance of Board members at the Responsible Investor (RI) Annual Conference on December 3–5, 2019 in New York, New York and approve reimbursement of all travel costs incurred in accordance with LACERA’s Education and Travel Policy.



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# Investing in the Blue Economy

Part of:  
**SFW** Sustainable  
Finance Week  
2019

## Investing in the Blue Economy

AGENDA ~ December 3, 2019

13.30 - 14.00	Registration & refreshments
14.00 - 14.10	Welcome & opening remarks
14.10 - 14.20	Investing in the Blue Economy: a global view on investor engagement, Dennis Fritsch, PhD, <b>Responsible Investor</b>
14.20 - 14.50	<p><b>Panel 1: Investors in the Blue Economy</b></p> <ul style="list-style-type: none"> <li>• <i>How are investors mobilising private capital towards the sustainable blue economy?</i></li> <li>• <i>How are they modelling the phase-out of plastics and other unsustainable activities?</i></li> <li>• <i>How are investors responding to the challenge of ocean pollution?</i></li> </ul>
14.50 - 15.30	<p><b>Panel 2: The Blue infrastructure opportunity</b></p> <p><i>Rapidly growing coastal regions around the world have huge solar, wind, geothermal and marine energy potential. From the northeast United States to East Africa and across Southeast Asia, there are significant opportunities for developing renewable energy. However, there is still insufficient financing available for renewable and clean energy and associated infrastructure for these regions.</i></p> <ul style="list-style-type: none"> <li>• <i>What is required to boost investment in Blue Infrastructure and drive progress towards SDG 14?</i></li> <li>• <i>What challenges and opportunities exist for investors in clean energy and coastal resilience?</i></li> </ul>
15.30 - 16.10	<p><b>Panel 3: How does SDG 14 fit within the global financial system?</b></p> <ul style="list-style-type: none"> <li>• <i>What is necessary to increase investor allocations to SDG 14, Life Below Water, across asset classes?</i></li> <li>• <i>What level of capital allocation is required to achieve SDG 14 and who is leading the way?</i></li> </ul>
16.15 - 16.30	Thank you & closing remarks
16.30 - 18.00	Networking canapes & drinks



responsible  
investor conferences

# New York 2019

4-5th Dec | Sustainable business and finance

SFW Sustainable  
Finance Week

## Agenda

Day 1 - Wednesday, December 4, 2019	
08:00 - 09:00	Registration, refreshments and networking
09:00 - 09:05	<b>Chairwoman's Introduction</b> - Dr Renée Friedman, Head of Events and Strategic Content, <b>Responsible Investor</b>
09:05 - 09:10	<b>Welcome Address</b> - Representative, <b>Bloomberg LP</b>
09:10 - 09:40	<b>Keynote 1: Developing a sustainable investment agenda in the age of Trumponomics</b> <ul style="list-style-type: none"> <li>• <i>How can investors respond to the new protectionist paradigm in global trade, calls for more inclusive capitalism, and the immediate threats of climate change?</i></li> <li>• <i>Maintaining investment performance while managing the risks associated with the global rise of populist politics and policies.</i></li> <li>• <i>What does an increasingly fraying social contract mean for investment risks and opportunities across key markets?</i></li> </ul>
09:40 - 10:40	<b>Plenary 1: How regulators are now driving corporate and financial sustainability requirements</b> <ul style="list-style-type: none"> <li>• <i>Changes in global sustainable finance regulations such as the EU's Sustainable Finance Action Plan are significantly altering the investment landscape for asset owners and global fund managers. What will the impact be in the US?</i></li> <li>• <i>What other global and domestic regulatory trends are changing the sustainable finance landscape?</i></li> <li>• <i>Can the proposed Green New Deal set a new path for climate-aligned investment across the Americas?</i></li> <li>• <i>Regulating the externalities of capitalism: can we expect more of it, how, and what could it mean for corporate activity and investment?</i></li> </ul>
10:40 - 11:10	Morning networking break
11:10 - 11:40	<b>Keynote 2: Examining the role of investors in society's development</b>  <b>Abigail E. Disney, Founder, Level Forward Productions</b>

	<ul style="list-style-type: none"> <li>• <i>Investor responses to social risks</i></li> <li>• <i>How investors think about corporate governance failures</i></li> <li>• <i>Investors role in society</i></li> </ul>		
11:40 - 12:40	<p><b>Plenary 2: Investors and tech giants: creating accountable and sustainable growth models</b></p> <ul style="list-style-type: none"> <li>• <i>What is the risk to tech stocks and investors of increasing action by regulators on antitrust, privacy, political interference and freedom of speech concerns?</i></li> <li>• <i>What engagement strategies are most effective in managing ESG risks in the tech sector?</i></li> <li>• <i>What does technology-driven economic growth mean for the future of diversified global portfolios?</i></li> <li>• <i>Is sector concentration risk good for long-term investor returns?</i></li> </ul>		
12:40 - 13:40	<b>Networking lunch</b>		
	<b>Bonds</b>	<b>The economics of energy</b>	<b>SDGs and impact investing</b>
13:40 - 14:20	<p><b>a) The sovereign bond sustainability challenge: maximising returns while minimising risks.</b></p> <p><i>How do ESG-aligned bond investors manage risk in developed and emerging market sovereign allocations?</i></p> <p><i>Can engagement strategies work with sovereigns?</i></p> <p><i>What specific challenges do government-affiliated entities, (e.g., Saudi Aramco, CNOOC, and Huawei), pose for ESG investors?</i></p>	<p><b>a) What is needed to increase institutional project finance for clean tech?</b></p> <p><i>Trends and comparisons of clean energy and sustainable infrastructure investment strategy in the Americas and beyond.</i></p> <p><i>How are investors accessing clean energy opportunities and on what financing terms?</i></p> <p><i>How are policymakers and investors increasingly allying on green energy infrastructure finance?</i></p>	<p><b>a) SDG-aligned investing: the how, the what and the why?</b></p> <p><i>How are the SDGs creating change and value through the business and institutional investment chain?</i></p> <p><i>What does the investment benchmarking of companies against SDG progress look like, and why do it?</i></p> <p><i>Why do asset owners and society need to reconsider their approach to successful SDG investing?</i></p>
14:30 - 15:10	<p><b>b) 21st century corporate bond trading: how new sources of data are driving ESG integration.</b></p> <p><i>Are ESG corporate bond ratings a reality yet? Is better data changing that?</i></p> <p><i>How are ESG bond investors influencing issuer behaviour?</i></p> <p><i>Are bond investors stepping up on corporate engagement strategies?</i></p>	<p><b>b) The cleaning up of dirty fossil fuels in North America.</b></p> <p><i>From cleaner fossil fuels to new energy: what does the science and engineering say?</i></p> <p><i>Can big oil lead the transition from hydrocarbons to low carbon?</i></p> <p><i>How to invest in the net zero transition.</i></p>	<p><b>b) Private wealth and sustainability linked returns?</b></p> <p><i>How big is the HNW demand for sustainability-themed investment, and why?</i></p> <p><i>How are family offices actually thinking about growing sustainability allocations in their portfolios? What's the proof?</i></p> <p><i>Are HNWIs and family offices getting insights and access to sustainability-related returns that institutions aren't?</i></p>
15:10 - 15:40	Afternoon networking break		



<p>15:40 - 16:20</p>	<p><b>c) Green and blue bonds: a scalable solution?</b></p> <p><i>From niche to normal: can green bonds become a portfolio standard?</i></p> <p><i>The role of green and blue debt in city and state development.</i></p> <p><i>How are investors assessing the sustainability credentials of debt finance?</i></p>	<p><b>c) TCFD reporting and climate risk scenario analysis. Is it valid?</b></p> <p><i>Scenario analysis: how to practically assess the low carbon future for investment relevance?</i></p> <p><i>The evolution of climate-related financial disclosure practices.</i></p> <p><i>Common language: will US companies be affected by a lack of mandatory ESG disclosure?</i></p>	<p><b>c) Endowments and ESG: setting the sustainability standard.</b></p> <p><i>Do endowments have a particular role in widening the ESG agenda, or will they be pushed into this role?</i></p> <p><i>Endowments are at the cutting edge of long-term investment strategies: can this cross over into sustainability themes?</i></p> <p><i>How can endowment leadership translate into positive investment/societal outcomes?</i></p>
<p>16:35 - 17:35</p>	<p><b>Plenary 3: Reality bites - climate science and the investor response</b></p> <p>A discussion between climate scientists, macroeconomists, investors and insurers as to how climate change will affect the global economy</p> <ul style="list-style-type: none"> <li>• <i>How does science view and model climate physical risk over short- to long-term timeframes?</i></li> <li>• <i>How are insurers and investors modelling non-linear climate risks?</i></li> <li>• <i>How should they deal with associated volatility measures?</i></li> <li>• <i>How are investors building resilience across global portfolios?</i></li> </ul>		
<p>17:35 - 19:00</p>	<p>Cocktail reception and networking</p>		
<p><b>Day 2 - Thursday, December 5, 2019</b></p>			
<p>08:15 - 09:00</p>	<p>Registration, refreshments and networking</p>		
	<p><b>Infrastructure, banks/insurers and alternatives</b></p>	<p><b>Sustainable equities</b></p>	<p><b>AI, data analytics and the tech revolution</b></p>
<p>09:00 - 09:40</p>	<p><b>d) Future proofing North America's transport and infrastructure systems</b></p> <p><i>What is the current need in North America for new, green transportation and related infra?</i></p> <p><i>How should investors look at sustainable value creation within deal terms?</i></p> <p><i>Closing the US infra funding gap: are sustainable public/private finance partnerships a way forward?</i></p>	<p><b>d) Rights and responsibilities: investors and the S in ESG.</b></p> <p><i>Reputational risk and human/labour rights: evolving information and the real impact on shareholder value?</i></p> <p><i>Which engagement tactics influence corporate behaviour and performance?</i></p> <p><i>How do credit ratings agencies assess the materiality of human/labour rights?</i></p>	<p><b>d) Risk: the rise of the sustainable data machines!</b></p> <p><i>How tech and machine learning is compiling bigger and better ESG data.</i></p> <p><i>The increasing accessibility of satellite technology and its integration into environmental investing and stewardship</i></p> <p><i>Can algorithm-led business models respect ESG principles?</i></p>
<p>09:50 - 10:30</p>	<p><b>e) Banks, insurers and climate risk stress-testing</b></p>	<p><b>e) The fight over shareholder rights</b></p>	<p><b>e) Returns: the tech revolution as an ESG returns boost</b></p>

	<p><b>Risk stress-testing</b></p> <p><i>How could climate stress tests shift behaviour in the banking and insurance sectors?</i></p> <p><i>How are the Principles for Responsible Banking and Insurance changing the financial sector's approach to ESG?</i></p> <p><i>Does "sustainable" banking and insurance cross national and continental boundaries?</i></p>	<p><b>Rights</b></p> <p><i>What chance a truce between companies and investors on shareholder voting rights and corporate governance? Can the SEC be a respected arbiter?</i></p> <p><i>The increasing pressure on companies to disclose where they stand on lobbying on the big social/sustainability issues; where is it heading?</i></p> <p><i>How political (and transparent) should companies be with investor capital, and how are investors managing the risk?</i></p>	<p><b>ESG as an ESG returns boost.</b></p> <p><i>Where are the business opportunities in sustainable technology and development?</i></p> <p><i>Examples of innovative tech solutions across asset classes.</i></p> <p><i>How new technologies for data monitoring, management and reporting can create sustainable returns.</i></p>
<p>10:30 - 11:10</p>	<p>Networking break</p>		
<p>11:10 - 11:50</p>	<p><b>f) Smart cities and resilient urban development</b></p> <p><i>What are smart cities and how can they contribute to a low carbon future?</i></p> <p><i>Why does ESG data matter for property investors and municipal governments?</i></p> <p><i>How are the themes underlying smart cities captured in investment portfolios?</i></p>	<p><b>f) Central banks: getting serious on climate risk.</b></p> <p><i>Will the Fed take action on climate risk?</i></p> <p><i>Central banks and ESG: what do investors need to know?</i></p> <p><i>What could green monetary policy mean for investors?</i></p>	<p><b>f) Agriculture and ESG</b></p> <p><i>The data on how climate, water and biodiversity risks are impacting the agriculture sector.</i></p> <p><i>How might agricultural commodity prices evolve in a volatile global market?</i></p> <p><i>How are investors pushing agricultural companies to better identify and disclose ESG risks?</i></p> <p><i>How are investors assessing the impacts of soil poverty on future harvests?</i></p>
<p>12:00 - 12:40</p>	<p><b>g) Alternatives</b></p> <p><i>Are derivatives a credible and cost effective way to manage sustainability risks?</i></p> <p><i>Can hedge funds find alpha with an ESG strategy?</i></p> <p><i>Real estate, climate risk &amp; green asset bubbles: quantifying the problem.</i></p>	<p><b>g) Corporate governance, reputational/litigation risk, and why ESG matters</b></p> <p><i>Are investors getting the data and information they need to assess corporate governance risks?</i></p> <p><i>Shareholder litigation and ESG: making investors whole again after governance failures.</i></p> <p><i>ESG litigation insurance: how would this work?</i></p>	<p><b>g) Food: sustainability and security</b></p> <p><i>Climate change and food production: the crucial link</i></p> <p><i>The inputs, impacts and costs of growing: aligning the producer, consumer and investor perspectives.</i></p> <p><i>Beyond the burger: are meat alternatives a healthy choice for North American investors?</i></p> <p><i>Society's shifting eating and drinking habits: the financial implications.</i></p>
<p>12:40 - 13:40</p>	<p>Networking lunch</p>		
<p>13:40 - 14:10</p>	<p><b>Keynote 3</b></p> <p><b>TBD</b></p>		

14:10 - 15:10	<p><b>Plenary 4: 21st century pensions; will state-backed auto-enrolment force change in existing pension and savings models?</b></p> <ul style="list-style-type: none"><li>• <i>Will mandatory pensions in US states drive a new era of stakeholder-led, sustainable investing?</i></li><li>• <i>Can North America's pension giants take the lead on inclusive, equitable and sustainable forms of capitalism, or will disruptors challenge the existing pensions and savings models?</i></li><li>• <i>What is best-in-class pension design for sustainability? Is there a global gold standard, and who is leading the way on ESG leadership across asset classes?</i></li></ul>
15:10 - 16:10	<p><b>Plenary 5: Investing in the circular economy, new frontiers in materials science/packaging &amp; the end of fossil-based plastics.</b></p>
16:10 - 16:20	<p><b>Close of RI New York 2019</b> Dr Renée Friedman, Head of Events and Strategic Content, <b>Responsible Investor</b></p>

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*RI New York 2019 is produced by Response Global Media Limited (Company No: 6123092); an independent UK publishing company.  
Response Global Media Limited: Tower Bridge Business Centre, 46-48 East Smithfield, London E1W 1AW, United Kingdom*



October 1, 2019

TO: Each Member  
Board of Investments

FOR: Board of Investments Meeting of October 8, 2019

SUBJECT: Kayne Anderson Capital Advisors, L.P. Investor Conference – Education & Travel Policy Exemption

The Kayne Anderson Capital Advisors, L.P. (KACALP) Investor Conference will take place on October 29 & 30, 2019 in Los Angeles, California at the Beverly Hilton. The main conference highlights included the following:

- Geopolitical Strategy for Today's Evolving Landscape
- The Future of Energy
- Exploring the Global Perspective

At its August meetings, the Boards approved a revised Education and Travel Policy. Per Section 705.00 A.2., educational conferences must contain substantive content but are not subject to the five-hour per day content requirement or number limits of Section 705.00.A.1., except that the five-hour per day content requirement applies if an overnight stay is required. The KACALP Conference is slightly under the five-hour per day requirement for overnight stay. It is requested that the Board exempt the five-hour per day requirement for overnight stay for Board member's attending the KACALP Conference. The average nightly fee at the Beverly Hilton is \$345 not including taxes/fees. This expense will count against each traveler's \$10,000 California travel maximum but will not count towards the number limits of Section 705.00. A.1. should the exemption be approved.

If the registration fee is insufficient to pay the cost of the meals provided by the conference sponsor, LACERA must reimburse the sponsor for the actual cost of the meals, less any registration fee paid. Otherwise, the attendee will be deemed to have received a gift equal to the value of the meals, less any registration fee paid, under California's Political Reform Act.

**IT IS THEREFORE RECOMMENDED THAT YOUR BOARD:**

Approve exemption of Education and Travel Policy Section 705.00 A.2. for attendance of Board Members at the Kayne Anderson Capital Advisors, L.P. Investors Conference on October 29-30, 2019 in Los Angeles, California.

LE  
Attachment

**Tuesday, October 29, 2019**

- 11:30 a.m. Women's Luncheon w/ April Rinne**  
*Global Authority on the New Economy, Disruptive Innovation and the Future of Work -- Head of the Sharing Economy Working Group, World Economic Forum*
- 12:00 p.m. Conference Registration Opens**
- 1:00 p.m. 1:00 p.m. Welcome & Executive Remarks with Mike Levitt**  
**1:10 p.m. Geopolitical Strategy for Today's Evolving Landscape**  
*Peter Zeihan, Geopolitical Strategist*
- 2:15 p.m. Real Estate Panel**  
*John P. Rijos, Co-Founder/Operating Partner of Chicago Pacific Founders*  
*George L. Chapman, CEO & Director, Renew Reit & President, Brinton Manor, Inc.*
- 2:45 p.m. The Future of Energy**  
*Colin Fenton, Chairman, TPH Commodities "The macro environment in energy"*  
*Mark Hickson, EVP of Strategy, Nextera Energy Partners "Energy and the increasing role of renewables"*  
*Randy Fowler, President of Enterprise Products Partners "The role of midstream energy in the macro environment"*
- 3:15 p.m. Credit Investing Landscape**  
*Austan Goolsbee, Chairman, President's Council of Economic Advisors (2010-2011) and Professor of Economics, University of Chicago Booth School of Business*
- 3:45 p.m. Growth Equity Panel**  
*Eric Edmondson, Vice Chairman, DC Advisory US*  
*Scott Tynes, CEO, Consero Global*
- 4:15 p.m. Keynote Speaker**  
**Innovation as a Route to Growth w/ Malcolm Gladwell**, *Global Thinker and TIME Magazine's "Top 100 Influential People", Staff Writer, The New Yorker (1996-Present), Author of Five New York Times Best Sellers*
- 5:30 p.m. After the 5:15 p.m. conclusion of our general session, shuttle transportation provided**
- 6:00 p.m. Welcome Reception & Dinner at Spago, Beverly Hills**

**Wednesday, October 30, 2019**

- 8:00 a.m. Keynote Speaker & Plated Breakfast**  
**Exploring the Global Perspective w/Nikki Haley**, *U.S. Ambassador to the United Nations (2017-2019)*
- 9:15 a.m. Breakout Sessions**
- 12:30 p.m. Casual Lunch Featuring Cocktails & Games**

September 23, 2019

TO: Each Member  
Board of Investments

FROM: Barry W. Lew  
Legislative Affairs Officer

FOR: October 8, 2019 Board of Investments Meeting

SUBJECT: **LACERA Proposals: SACRS 2020 Legislative Platform**

## **RECOMMENDATION**

That the Board of Investments postpone consideration of its proposal related to board self-evaluations in closed session at the SACRS 2019 Fall Conference.

## **BACKGROUND**

On August 14, 2019, the Board of Investments approved submission of a proposal for board self-evaluations in closed session for the State Association of Retirement Systems (SACRS) 2020 Legislative Platform. The proposal had also been approved by the Board of Retirement for submission at its meeting on August 7, 2019. Staff submitted the proposal to the SACRS Legislative Committee, which discussed it at its meeting on September 20, 2019.

## **DISCUSSION**

The SACRS Legislative Committee expressed support for the concept behind this proposal. However, since this proposal requires an amendment to the Ralph M. Brown Act and affects other local agencies besides retirement systems, the Committee felt it would be prudent for the SACRS legislative advocates to conduct outreach to other local agency associations<sup>1</sup> before making a recommendation on inclusion of this proposal. The Committee recommended that LACERA postpone having the proposal considered at the SACRS 2019 Fall Conference.

Staff has also updated the BOR regarding the Committee's recommendation. If the BOR and BOI agree to postpone consideration of the proposal, it will not be agendized for the Business Meeting of the SACRS 2019 Fall Conference. Staff will continue to work with the Committee on next steps regarding the proposal.

**IT IS THEREFORE RECOMMENDED THAT YOUR BOARD** postpone consideration of its proposal related to board self-evaluations in closed session at the SACRS 2019 Fall Conference.

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<sup>1</sup> California Special Districts Association, League of California Cities, and California State Association of Counties.

**Reviewed and Approved:**

A handwritten signature in blue ink that reads "Steven P. Rice".

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**Steven P. Rice, Chief Counsel**

**Attachment**

Board Self-Evaluations in Closed Session

cc: Steven P. Rice  
JJ Popowich  
Jon Grabel  
Joe Ackler, Acker & Associates

## **SACRS 2020 Legislative Platform Submission Information**

- **Title of Issue**  
Board Self-Evaluations in Closed Session
- **Retirement Association/Name**  
Los Angeles County Employees Retirement Association
- **Contact Name**  
Barry Lew, Legislative Affairs Officer
- **Contact Phone Number**  
626-564-2370
- **Contact Email Address**  
[blew@lacera.com](mailto:blew@lacera.com)
- **Description of Issue**  
Periodic board self-evaluations are generally considered a best practice to ensure continuous improvement in good board governance. Board self-evaluations can foster open communication, reinforce accountability to stakeholders, and enhance board effectiveness through a shared understanding of strategic goals and objectives.  
  
The Ralph M. Brown Act (Government Code Sections 54950 – 54963) provides that the actions and deliberations of local public agencies are conducted in open and public meetings with posted agendas. The Brown Act provides for closed sessions under certain limited circumstances most commonly to avoid revealing confidential information.  
  
There is currently no provision in the Brown Act that allows board self-evaluations to be held in closed session, which would provide an environment conducive to candor and self-reflection by individual board members.
- **Recommended Solution**  
Amend the Brown Act to provide the manner in which board self-evaluations are described on the agenda and to specifically provide that board self-evaluations may be held in closed session.  
  
-- Add a new subdivision (l) to existing Government Code Section 54954.5 that would describe a board self-evaluation as a closed session item on the agenda.



-- Add a new Section 54956.97 to the Government Code that would provide for board self-evaluations to be held in closed session and provides a definition of board self-evaluations.

- **Specific language changed or added to the 1937 Act and suggested code section number(s)**

Add a new Subdivision (I) to Section 54954.5 of the Government Code:

54954.5. (I) With respect to every item of business to be discussed in closed session pursuant to Section 54956.97:

#### BOARD SELF-EVALUATION

(Additional information listing the names of agencies or title of representatives facilitating the closed session as consultants.)

Add a new Section 54956.97 to the Government Code:

54956.97 (a) Nothing contained in this chapter shall be construed to prevent the legislative body of a local agency from holding a closed session to conduct a board self-evaluation. No action shall be taken in the closed session with respect to the board self-evaluation.

(b) For purposes of this section, "board self-evaluation" means an evaluation process established by the legislative body of a local agency to assess board performance through quantitative and qualitative techniques and facilitated by local agency staff or external consultants. The evaluation process may include but is not limited to assessing board processes; reviewing the performance of the board as a whole and its committees; and enhancing the skills and competencies of individual board members.

- **Why should the proposed legislation be sponsored by SACRS rather than by your individual retirement association/system?**  
The proposal would allow all local agencies including the SACRS retirement systems to be able to conduct board self-evaluations in closed session in an environment conducive to candor and self-reflection by board members.
- **Do you anticipate the proposed legislation would create any major problems such as conflicting with Proposition 162 or create a problem with any of the other 19 SACRS retirement associations/systems?**  
No, the proposal would enable the SACRS retirement associations to conduct board self-evaluations in closed session. They are not required to conduct the evaluations in closed session, but they would not be prevented from doing so.

- **Who will support or oppose this proposed change in the law?**  
Local agencies that want to conduct board self-evaluations in closed session would support the proposal. Opposition may come from the California News Publishers Association, which advocates for the public's right to know and access to state and local government records and meetings.
- **Who will be available from your association/system to testify before the Legislature?**  
Barry Lew, Legislative Affairs Officer  
Joe Ackler, Ackler & Associates



October 1, 2019

TO: Each Member  
Board of Investments

FROM: Gina Sanchez, Board Member

FOR: Board of Investments Meeting October 8, 2019

SUBJECT: **CEO Final Interviews Recommendation**

That the Board of Investments (BOI) require that the CEO final interviews and selection be scheduled on a date when all BOI members can participate. Scheduling availability should be coordinated by the Board Secretary in order to come to a date or set of dates that everyone can attend and commit to.



September 20, 2019

TO: Each Member  
Board of Investments

FROM: Beulah S. Auten, CPA, CGFM, CGMA  
Chief Financial Officer

FOR: October 8, 2019 Board of Investment Meeting

*BA* FOR

**SUBJECT: ACTUARIAL ASSUMPTION REVIEW**

LACERA's actuarial valuation policy updated in 2008 requires annual actuarial valuations to review the retirement system's funding progress and to reset contribution rates. Additionally, LACERA requires its actuary to review with the Board every three years, the actuarial valuation's assumptions for reasonableness. This review, commonly referred to as the "Investigation of Experience" or "Experience Study," is accomplished by comparing actual experience during the preceding three years to what was expected to happen according to the actuarial assumptions. From this review, the actuary may recommend the Board change the assumptions used in projecting benefit liabilities and asset growth. The actuary will be performing an Investigation of Experience as of June 30, 2019 in preparation to perform the June 30, 2019 actuarial valuation.

Our plan actuary prefers to discuss the Investigation of Experience results with the Board prior to performing the actuarial valuation. This enables your Board the opportunity to discuss the assumption's reasonableness with the actuary and provide the actuary direction prior to completing the annual valuation used to set employer and employee contribution rates.

The Investigation of Experience discussion will commence at the October 8, 2019 meeting where LACERA's consultant actuaries, Mark Olleman, Nick Collier, and Alan Perry with Milliman, will review the economic assumptions and discuss expected returns based on their capital market assumptions. Milliman will return to the November 20, 2019 Board of Investment to follow-up on the economic assumptions discussion and reach a consensus, if needed. The demographic assumptions and Investigation of Experience report will be presented to the Board for its consideration and adoption at the January 2020 meeting. Attached for your review is the actuary's economic assumption review presentation for the October 8, 2019 meeting.

BA:tg:ew:gr  
Actval19 Investigation Education Oct 2019 Final2.docx

Attachment



9/27/2019

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Steven P. Rice  
Chief Counsel

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Date

c: Jon Grabel  
Richard Bendall  
Bernie Buenaflor  
Ted Granger

# 2019 Experience and Assumption Study

## Economic Assumptions

Mark Olleman

Nick Collier

Alan Perry

OCTOBER 8, 2019



# Schedule

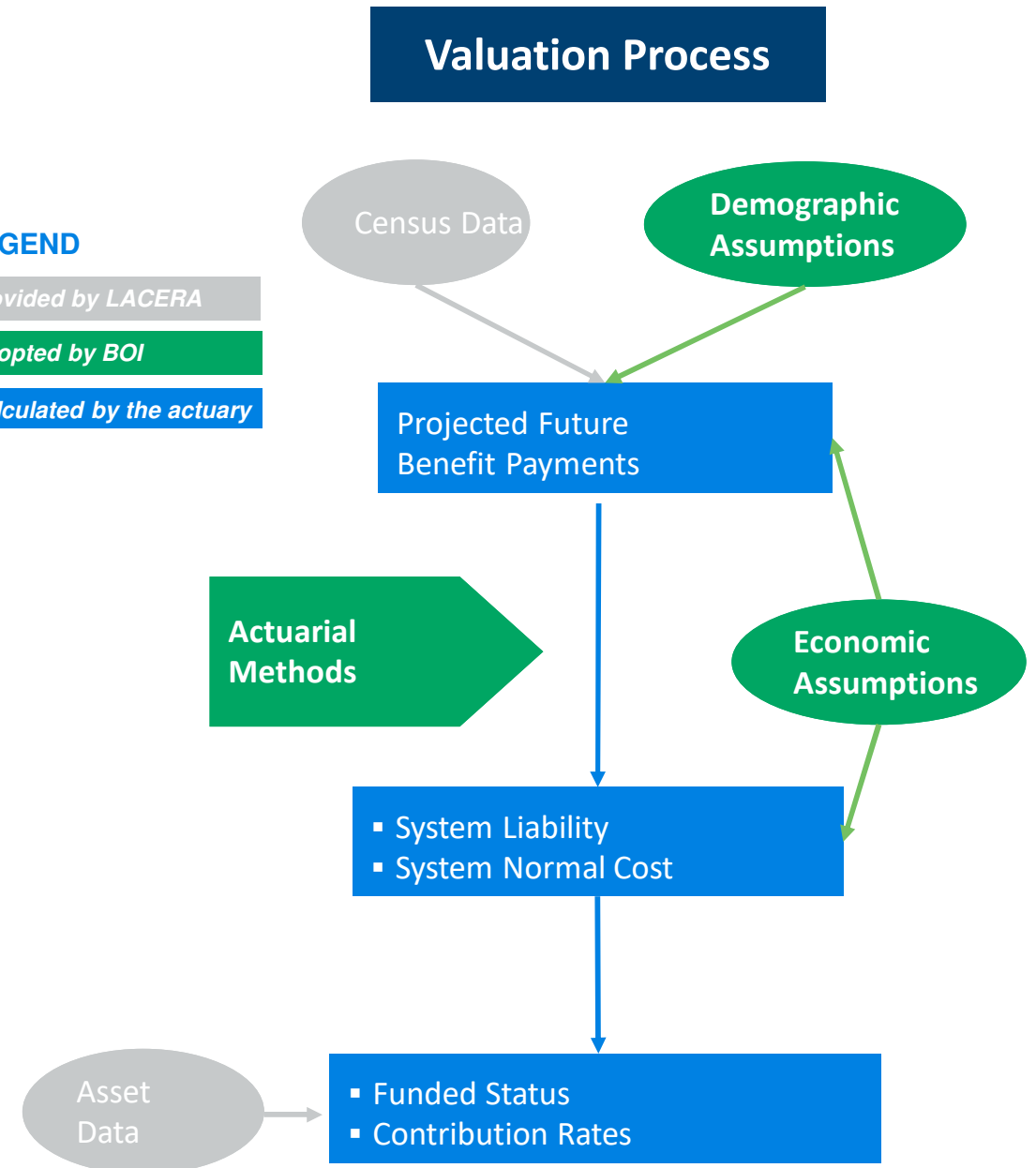
- October 2019 meeting:
  - Background on economic assumptions
- November 2019 meeting:
  - Follow-up discussion on economic assumptions
  - Reach general consensus on economic assumptions
- January 2020 meeting
  - Demographic assumptions
  - Adopt assumptions to be used in 2019 valuation
- March 2020 meeting
  - Valuation results
  - Adopt member and employer contribution rates for fiscal year beginning July 1, 2020

## LEGEND

Provided by LACERA

Adopted by BOI

Calculated by the actuary

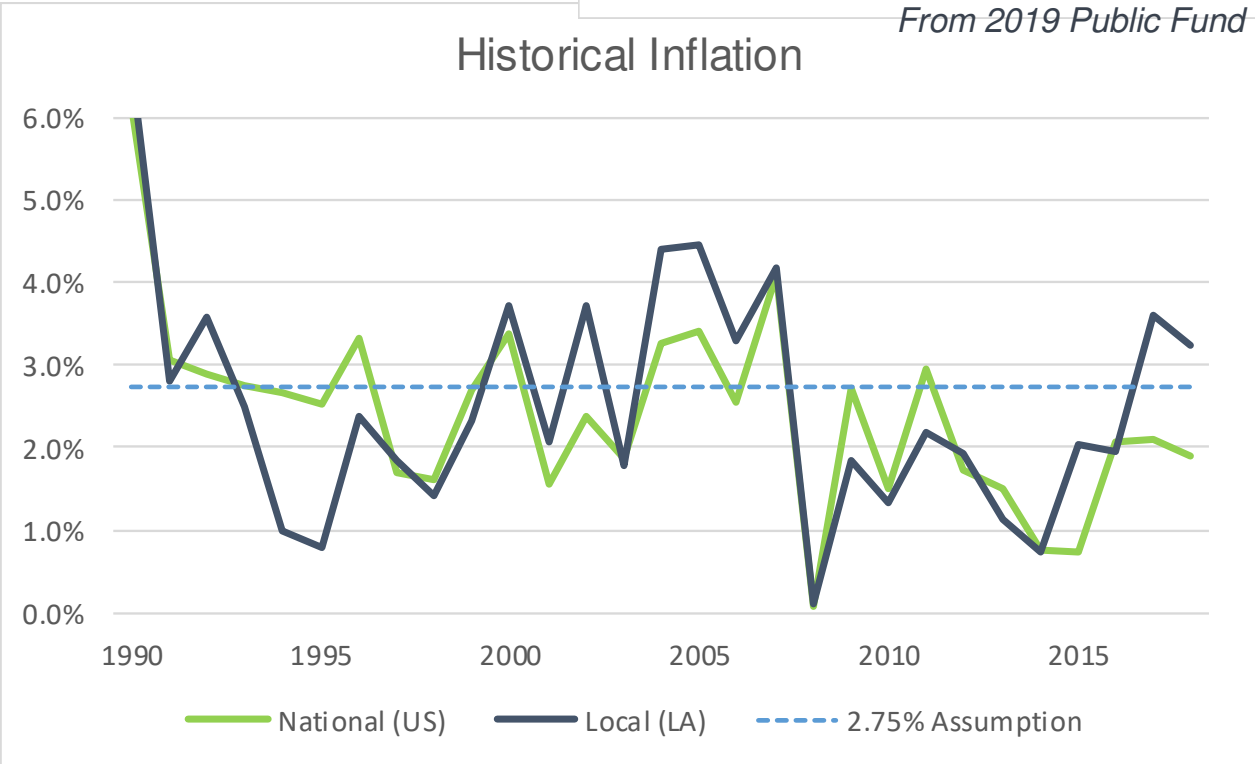
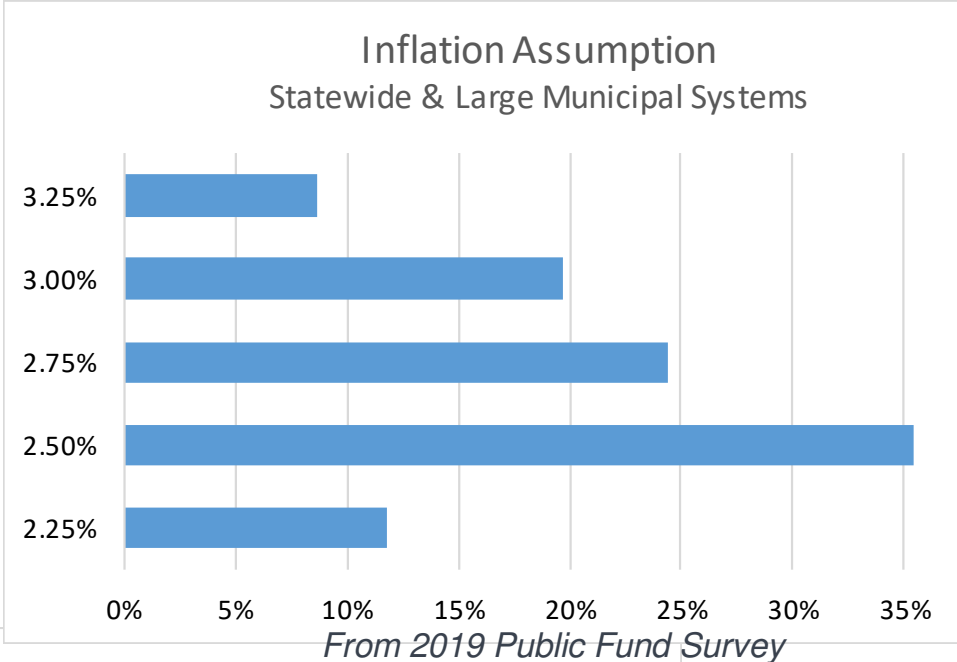


# Economic Assumptions



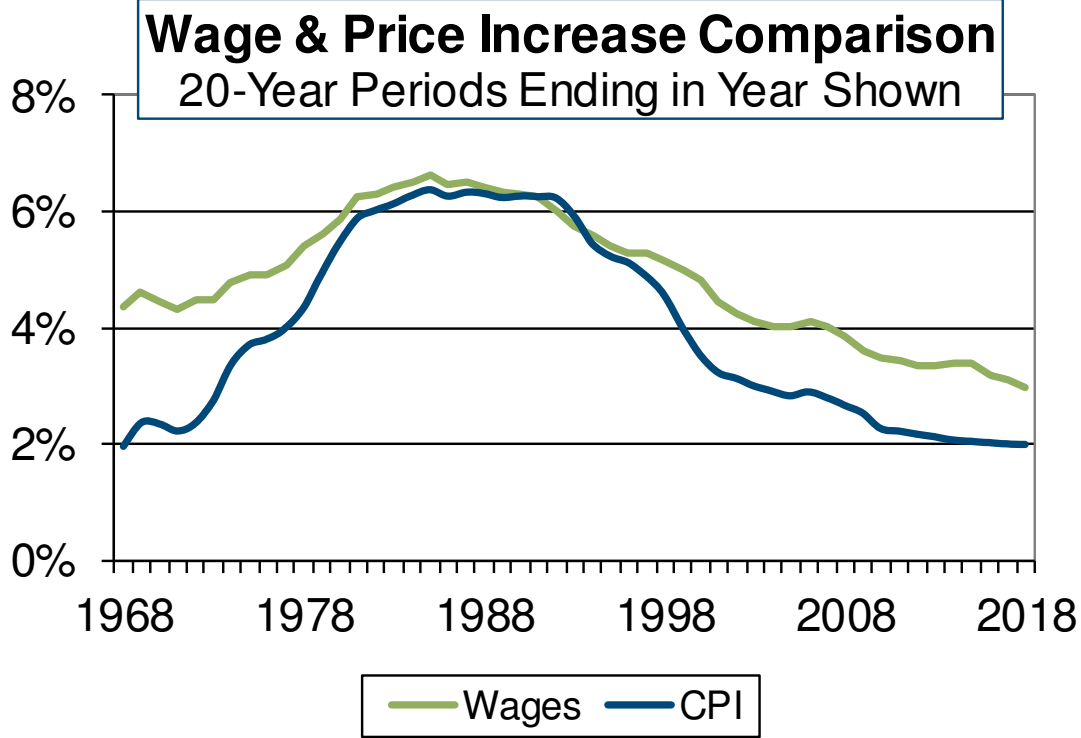
# Price Inflation

- Current inflation assumption is 2.75%
  - CalPERS and CalSTRS also at 2.75%
  - 2.75% is median assumption for large systems
- Long-range Social Security projection is 2.6%
- Other forecasts are lower
  - Implied inflation from TIPS
  - Most investment consultants
- Current assumption is reasonable
  - We would also view 2.50% as reasonable



# General Wage Growth

- An individual member’s assumed annual salary increase is composed of:
  - Inflation
  - Real wage growth
  - Individual merit/longevity component
- Real wage growth represents the increase in wages in excess of inflation due to improvements in productivity and competitive market pressures
- National average real wage growth has been 0.7% over last 50 years
- Social Security projections have 1.2% average real wage growth over long term
- Estimated LACERA-specific real wage growth has been close to the current 0.5% assumption
- Current assumption is reasonable



Current Assumption	
Price Inflation	2.75%
Real Wage Growth	<u>0.50%</u>
General Wage Growth	3.25%

# Payroll Growth

- The system payroll growth assumption is used in the calculation to amortize the unfunded liability
- Fairly standard among public retirement systems to have payroll growth equal to general wage growth
- Historical County payroll has increased at a greater rate than the general wage increase due to increase in number of active members, but this has for the most part levelled off over the last 10 years
- It is reasonable to keep the payroll growth assumption equal to the general wage growth assumption (currently 3.25%)

# Expected Return

- We calculated the median expected return for LACERA’s target portfolio using the January, 2019 capital market outlook assumptions from three sources
  - Meketa
  - Milliman
  - 2019 Horizon survey of capital market assumptions (survey of 34 advisors)
- Estimates do not reflect any possible “alpha” due to selected managers potentially outperforming market benchmarks over the long term
- We believe future expectations of returns have decreased since January, 2019

	Meketa	Milliman	Horizon
<b>Based on 10-Year Assumptions</b>			
Median Annualized Return	<b>6.8%</b>	<b>6.3%</b>	<b>6.6%</b>
Assumed Inflation	2.1%	2.3%	2.2%
<b>Based on 20-Year Assumptions</b>			
Median Annualized Return	<b>7.5%</b>	<b>6.4%</b>	<b>7.3%</b>
Assumed Inflation	2.6%	2.3%	2.3%

Notes:

1. *Returns are net of assumed expenses of 0.18% of assets.*
2. *The Horizon Survey reports a limited number of asset classes. In cases where there was not a corresponding asset class in the survey, Meketa's assumptions for the corresponding time horizon were used.*
3. *Horizon 10-year assumptions include some consultants with less than 10 years. Horizon 20-year assumptions include some consultants with more than 20 years and are based on a subgroup of less than half of the full group.*

# Investment Return Considerations – Expenses

- Investment return is assumed to be net of all expenses
  - → Expected return should be net of expected investment + administrative expenses
- Many capital market assumptions are already net of investment expenses
  - For those that are not net of expenses, we have estimated fees for indexing
  - We estimate this is approximately 0.05% of assets
- Administrative expenses
  - Historical analysis shows administrative fees have been approximately 0.13% of the beginning market value, consistent with current assumption

Year	Beginning Market Assets	Admin. Expense	
		Amount	Ratio
2009	\$30,499	\$49	0.16%
2010	33,434	51	0.15
2011	39,452	50	0.13
2012	38,307	54	0.14
2013	41,774	59	0.14
2014	47,722	63	0.13
2015	48,818	67	0.14
2016	47,847	67	0.14
2017	52,743	67	0.13
2018	56,300	71	0.13

# Investment Return Considerations – Time Horizon

- As LACERA has matured, greater portion of benefits to be paid in the short term
  - Present Value of Future LACERA Benefits (PVB) is \$83 billion for all LACERA members and beneficiaries as of June 30, 2018
  - Over half of the value of projected future payments is expected to be paid in the next 15 years

% of PVB Paid by Year		
Years	% of Total	Cumulative
1 - 5	19.3%	19.3%
6 - 10	17.1%	36.4%
11 - 15	14.9%	51.4%
16 - 20	12.6%	64.0%
20 - 25	10.3%	74.3%
26 - 30	8.1%	82.4%
30+	17.6%	100.0%

- Meketa's 10-year expected return is 6.8% (net of all expenses), compared to 7.5% for 20 years
- Milliman's 10-year expected return is 6.2% (net of all expenses), compared to 6.4% for 20 years

# Capital Market Assumptions

# Developing Capital Market Assumptions

- Milliman's Capital Markets Committee develops capital market assumptions as of January 1 and July 1 of each year
- For a large set of asset classes and investment strategies, they consist of forecasts of expected:
  - average annual returns;
  - volatility of annual returns; and
  - correlation between each pair of asset classes
- The forecasts cover different investment horizons (5 – 75 years)
- They are used by clients to develop investment strategies and to set the expected investment return assumption for funding purposes



# Methodology

- Milliman uses discounted cash flow methods for most asset classes
  - the expected return is the discount rate that equates the current price with the present value of expected cash flows
  - Example: the yield to maturity for a bond or bond index
  - Example: the dividend discount model for a stock or stock index
- We also use the Capital Asset Pricing Model (CAPM) to help guide us – especially for assets with difficult to forecast cash flows
- Under CAPM, the expected return for an asset (in equilibrium) is proportional to its systematic risk (beta) relative to a global portfolio of assets
- Assets that bring higher risk to the global portfolio generally have higher expected returns than assets that bring lower risk
  - By searching for assets with better risk-adjusted returns, investors tend to reinforce the relationships described by the CAPM

# Expected Returns: Core Fixed Income

- The yield to maturity of the Bloomberg Barclays U.S. Aggregate Fixed Income Index at December 31, 2018 was 3.28%
- Based on expert forecasts of future key interest rates, we assume that the yield will increase gradually to 4.55% over the next 5 years and then remain at that level
- The implied annualized total return on the Index is approximately 3.65% over the next 10 years and 4.15% over the next 20 years
- Expected returns for other fixed income asset classes are generally developed using the same approach as used for the U.S. Aggregate.

# Expected Returns: U.S. Large Cap Equity

- Dividend Discount Model\*
  - Return ~ Yield + Growth + Inflation
  - Return ~ 2.15% + 1.40% + 2.30% ~ 6.00%
- Equity Risk Premium Model\*
  - Return ~ current yield on long Treasury bond + historical global equity risk premium
  - Return ~ 2.87% + 3.20% ~ 6.16%
- Smoothed (Normalized) Earnings Yield Model\*
  - Return = current smoothed earnings yield (1/CAPE) + Inflation
  - Return = 3.62% + 2.30% ~ 6.00%
- We selected 6.00% as the most economically plausible future return for U.S. large cap equity
  - The average expected return across 34 advisors in the 2019 Horizon Survey is 6.03%

\* Geometric addition is used in these formulas

# Expected 20-Year Return for LACERA's Portfolio

Asset Class	Target Allocation	20-Year Arithmetic Mean	20-Year Geometric Mean	Standard Deviation
Global Equity	35%	7.90%	6.75%	16.30%
Private Equity	10%	11.65%	8.00%	30.00%
Opportunistic Real Estate	2%	10.40%	8.00%	24.00%
High Yield Bonds	3%	6.20%	5.80%	9.35%
Bank Loans	4%	5.35%	5.15%	6.85%
Emerging Market Debt	2%	5.95%	5.20%	13.10%
Illiquid Credit	3%	7.10%	6.00%	16.00%
Core / Value-Add Real Estate	7%	8.00%	7.00%	15.00%
Natural Resources / Commodities	4%	5.80%	5.30%	11.00%
Private Infrastructure	3%	8.35%	7.50%	13.85%
TIPs	3%	3.45%	3.40%	4.40%
Investment Grade Bonds	19%	4.25%	4.15%	3.90%
Diversified Hedge Funds	4%	5.70%	5.40%	8.05%
Cash	1%	2.60%	2.60%	1.20%
<b>Total Portfolio</b>	<b>100%</b>	<b>7.08%</b>	<b>6.62%</b>	<b>10.15%</b>
<b>Expected Median</b>			<b>6.60%</b>	

## Notes:

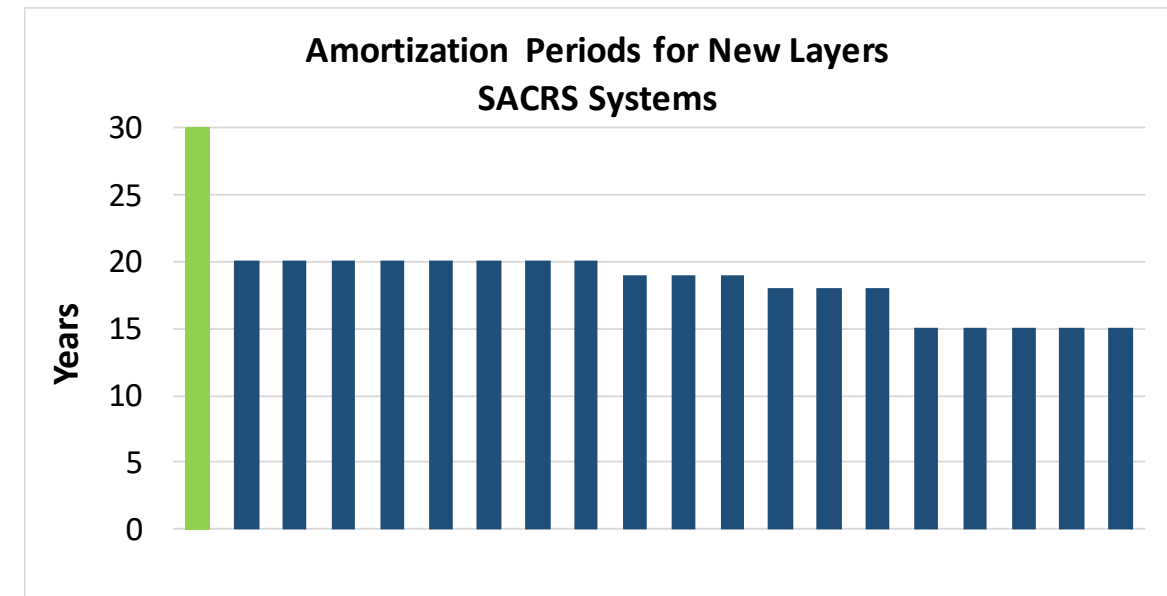
1. Expected 20-year returns shown are based on Milliman's capital market assumptions as of January 1, 2019.

2. 6.60% expected return is gross of most expenses. Expected return net of all expenses is 6.42%.

# Amortization Policy

# Amortization Period

- LACERA uses 30-year layered amortization method for Unfunded Actuarial Accrued Liability (UAAL)
  - Recent actuarial guidance suggest periods of 20 years or less
  - CalPERS and other '37 Act systems all have periods of 20 years or less now
  - 20-year or less period should eliminate negative amortization
- Shorter amortization period creates savings in that contributions come in earlier and have longer period to earn interest
  - Opposite is true when gains are recognized over shorter period
- Compared to 20-year period, a 30-year amortization of a UAAL increase will result in:
  - Generally lower funded ratios
  - Reduced year-to-year contribution rate volatility
  - Lower employer contribution rates in the short term, but higher in the long term



# Amortization Period – Additional Analysis

- Stochastic analysis performed to assess likelihood of certain events
  - Varying future investment returns: 7.25% median with 11.0% annual standard deviation
  - Low funded ratio is much less likely under shorter period

Funded Ratio after 25 Years	Amortization Period		
	30 Years	20 Years	15 Years
Probability less than 60%	14.4%	6.7%	3.6%
Probability less than 80%	34.2%	27.0%	21.0%
Probability less than 100%	49.9%	45.9%	42.6%

- Year-to-Year increases are greater under shorter period

Employer Contribution Rate	Amortization Period		
	30 Years	20 Years	15 Years
Annual probability total is > 30% <sup>(1)</sup>	21.2%	25.5%	27.4%
Annual probability increase is > 3% <sup>(2)</sup>	4.5%	8.9%	13.3%

1. Probability of total employer rate exceeding 30% of payroll in any given year of 25-year projection period.  
 2. Probability of increase exceeding 3% of payroll in any given year of 25-year projection period.

# Actuarial Standards of Practice (ASOPs) Update

- Two new draft revisions to existing ASOPs were released in July
  - ASOP No. 27 on the selection of economic assumptions
  - ASOP No. 35 on the selection of demographic assumptions
- These are important ASOPs, but the revisions are minor
- ASOP 27 - revised to say when all assumptions combined there should be no significant bias
  - ASOP 35 already said combined effect should “be reasonable,” now says “no significant bias.”
  - This is consistent with our historical practice with the Board
- Both ASOPs were revised to say that if assumptions are phased in, the intermediate steps should be independently reasonable. This is consistent with:
  - Our prior conversations with the Board
  - California Actuarial Advisory Panel guidance
  - Conference of Consulting Actuaries guidance



# Preliminary Recommendations

- Economic assumptions
  - Lower investment return assumption to 7.00% or lower
  - Keep all other economic assumptions at current levels
- Amortization period
  - Move to 20 years (or lower) for future gains or losses

# Questions



# Caveats and Disclaimers

This presentation is based on the data, methods, assumptions and plan provisions described in our actuarial valuation report dated November 29, 2018. The statements of reliance and limitations on the use of this material is reflected in the actuarial report and still apply to this presentation.

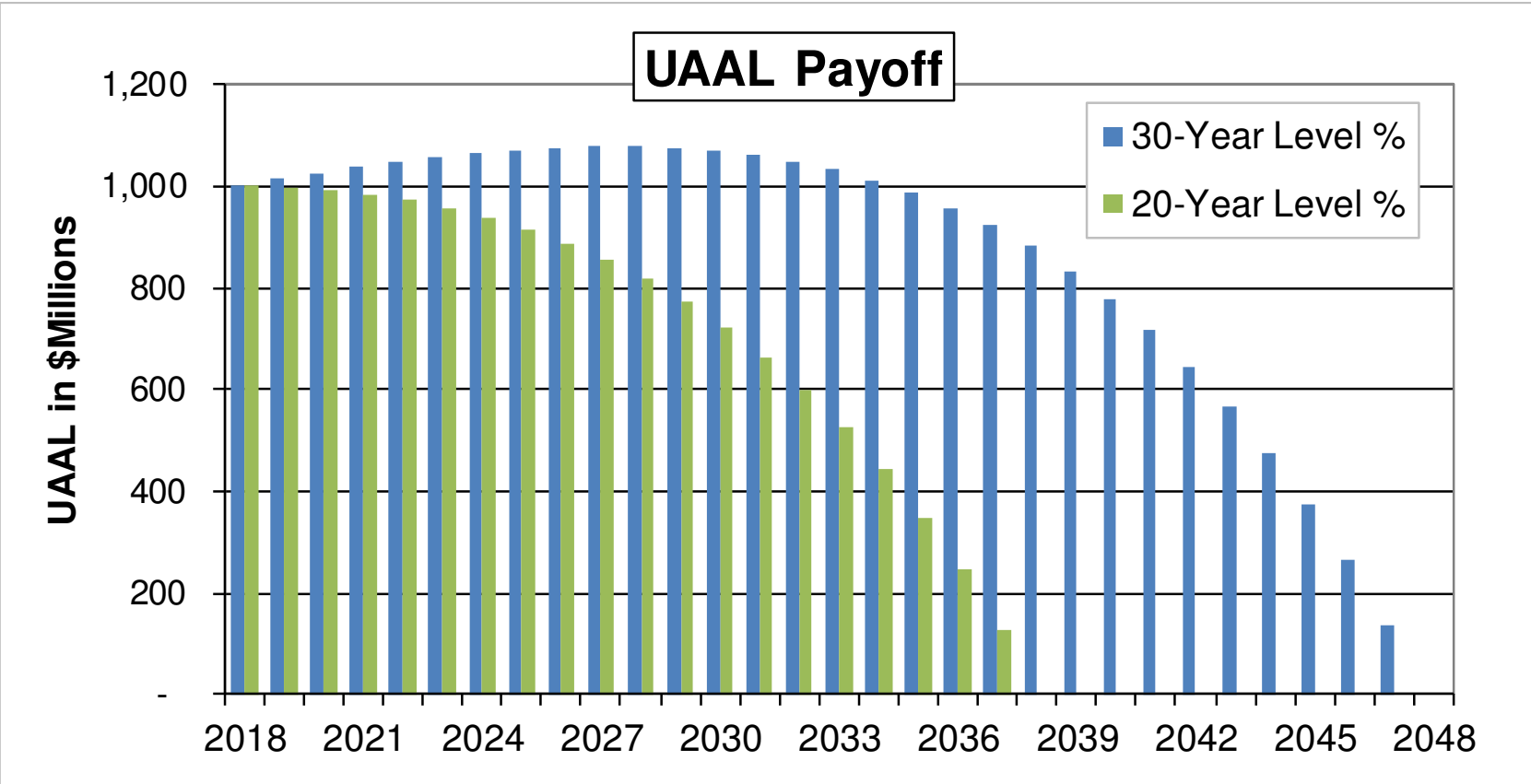
These statements include reliance on data provided, on actuarial certification, and the purpose of the report.

Milliman's work product was prepared exclusively for LACERA for a specific and limited purpose. It is a complex, technical analysis that assumes a high level of knowledge concerning LACERA's operations, and uses LACERA's data, which Milliman has not audited. It is not for the use or benefit of any third party for any purpose. Any third party recipient of Milliman's work product who desires professional guidance should not rely upon Milliman's work product, but should engage qualified professionals for advice appropriate to its own specific needs.

# Supplemental Exhibits

# Comparison of UAAL Amortization Periods

- LACERA’s current funding policy has negative amortization (increasing UAAL) for a number of years for new payment layers
  - Example of one layer with a \$1 billion actuarial loss in 2018



# Transitioning Away from Negative Amortization

- Three options:

Option	Year UAAL Payment is Projected to be Positive	Impact on Employer Contribution Rate	Future Outlook
No Change (30-year period)	Between 2020 and 2021	No Change	Negative amortization may recur
Existing UAAL: No change Future UAAL: 20 years	Between 2020 and 2021	No Change <sup>(1)</sup>	Negative amortization is unlikely to recur
Existing UAAL: 20 years Future UAAL: 20 years	Immediately	Increase of 0.7% of pay <sup>(2)</sup>	Negative amortization is unlikely to recur

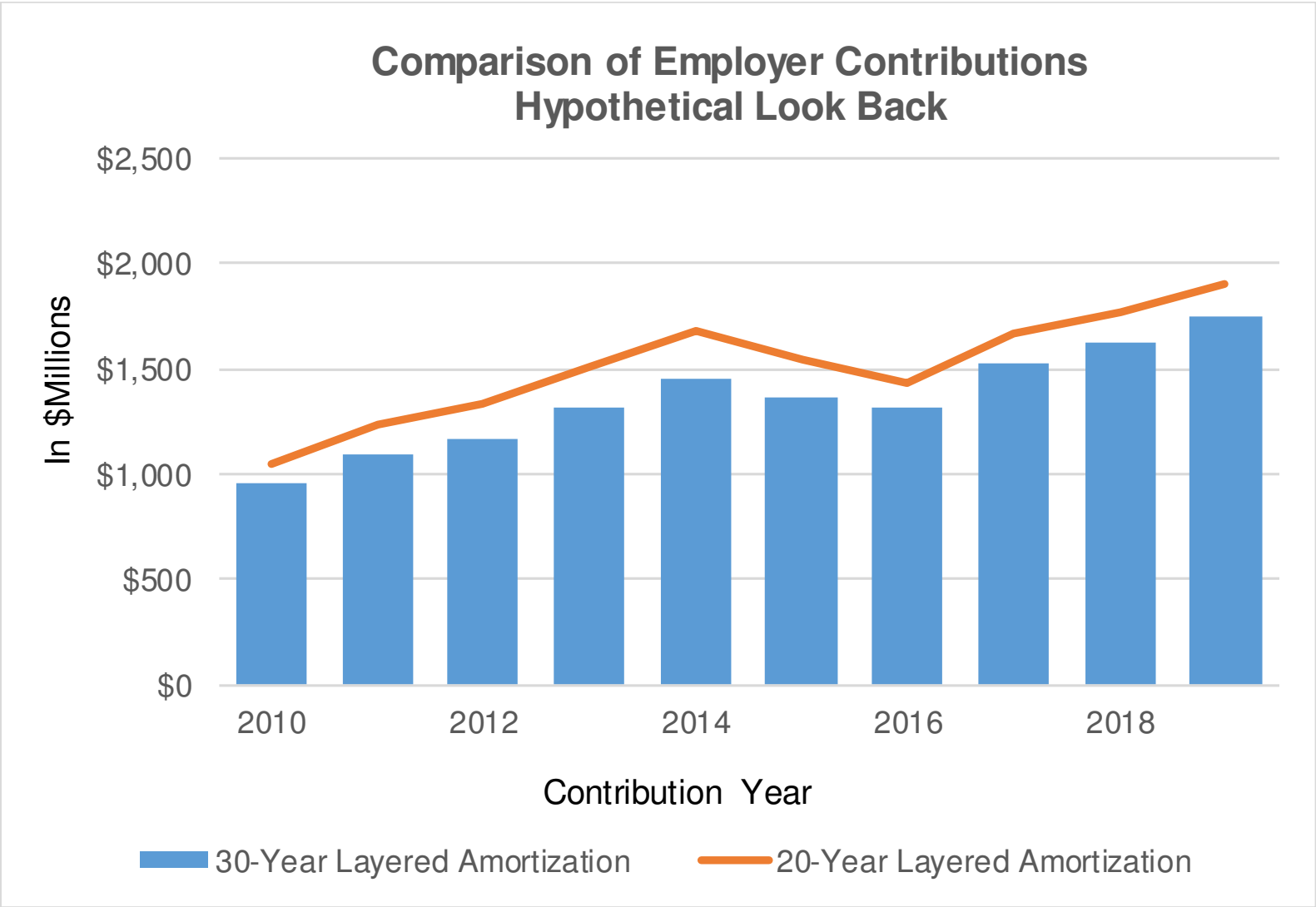
- No immediate change, but future annual changes (either increases or decreases) will be greater than current method.*
- Based on 6/30/2018 valuation, actual impact would depend on results of 6/30/2019 valuation. Future annual changes (either increases or decreases) will also be greater than current method.*

# What if 20-Year Amortization Period had been Adopted?

- If 20-year amortization had been adopted for 2009 valuation:
  - 2018 valuation would have had higher funded ratio
  - Employer contribution rates between 2010 and 2019 would have been greater
  - Year-to-year contribution rate changes between 2010 and 2019 would have been larger
- Created alternative hypothetical scenario as if 20-year amortization had been in place for the period 2009-2019

# Comparison of Amortization Periods – Employer Rate

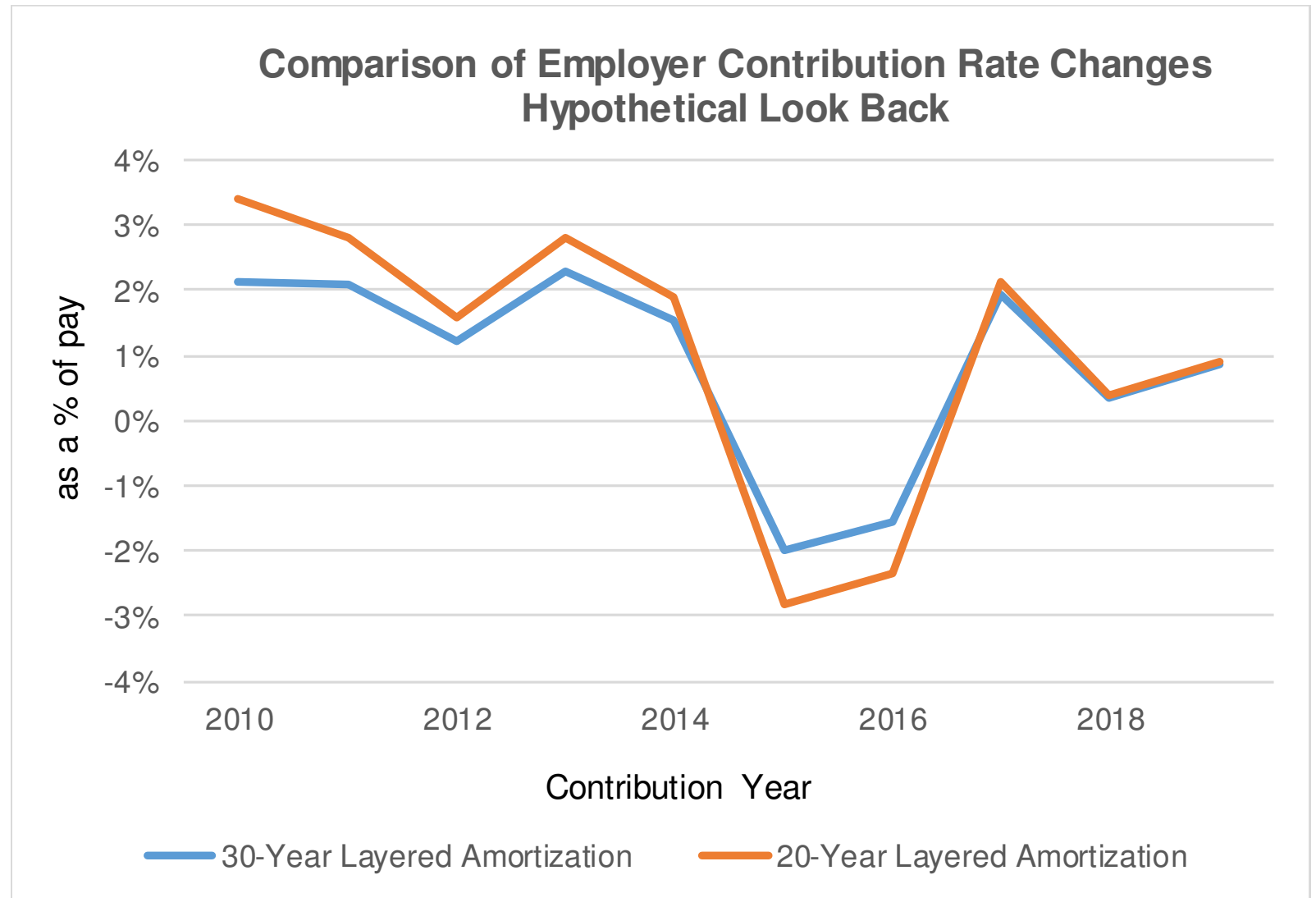
- Employers would have had to contribute \$100 to \$200 million more each year if 20-year amortization period had applied.
  - Total estimated employer contributions for 2010-2019:
    - 30-Year = \$12.6 billion
    - 20-Year = \$14.1 billion
- ➔ Increase of \$1.5 billion in employer contributions if 20-year amortization had been used





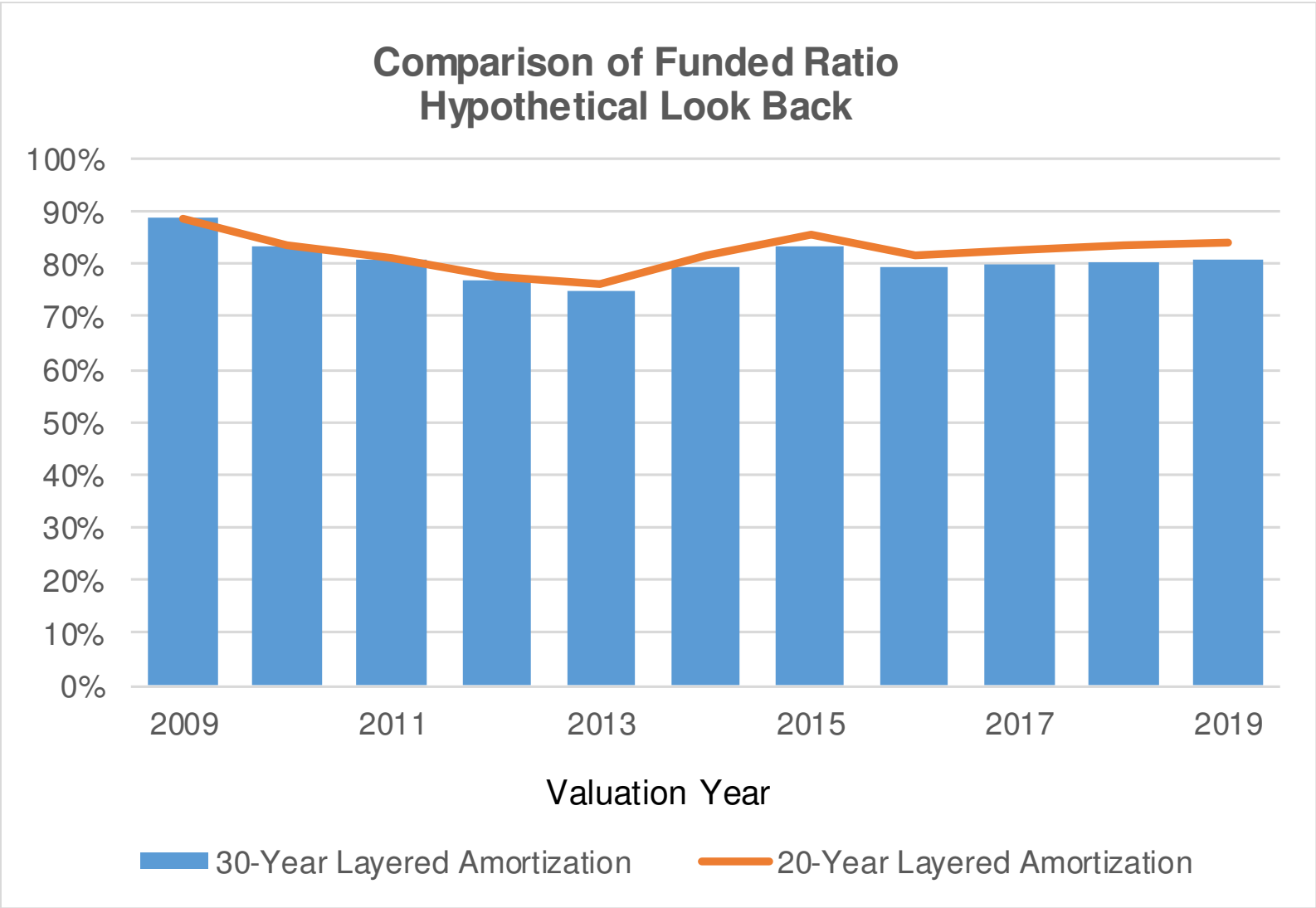
# Comparison of Amortization Periods – Employer Rate Change

- Actual (30-year amortization) employer rate changes ranged from a 2.0% decrease to a 2.3% increase
- Employer rate changes under 20-year amortization would have ranged from a 2.8% decrease to 3.4% increase



# Comparison of Amortization Periods – Funded Ratio

- It is projected the Valuation Assets would have been \$2.0 billion greater at 6/30/2019 if a 20-year amortization period had been used
- An additional \$2.0 billion in assets is equivalent to an increase in the funded ratio of 2.8%

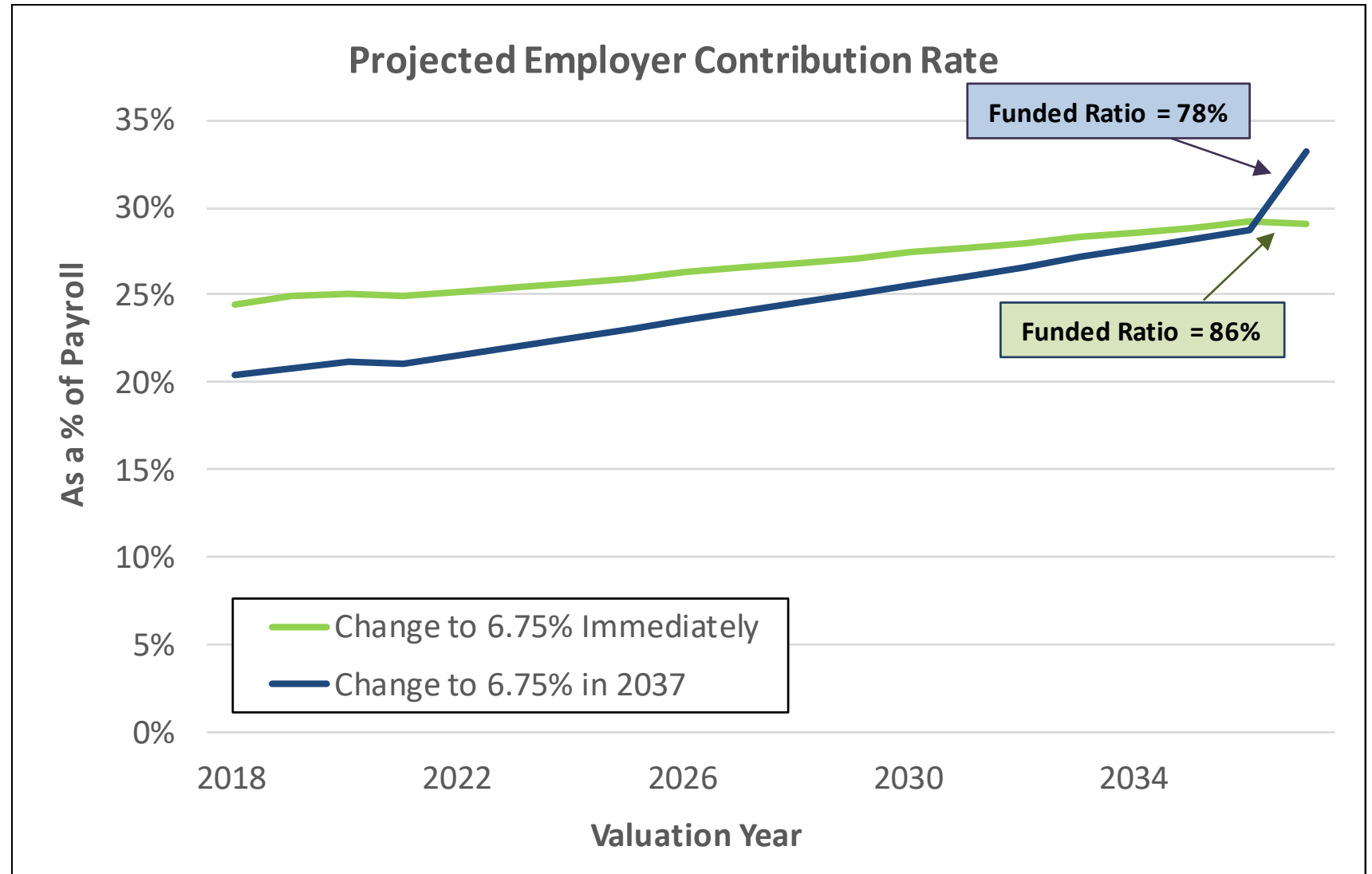


# Financial Impact of Lowering Return Assumption

- Short-term impact (if assumption is lowered)
  - Higher member and employer contribution rates
  - Lower reported funded ratio
- Long-term impact (if assumption is lowered)
  - Employer rates and total dollar contributions will ultimately be lower
    - Not for a long time in the future
  - Member rates will remain higher
  - Better funded, although reported funded ratio may not be higher
  - Easier to recover from bad experience
- If inflation is lowered by the same amount as the investment return assumption, this would offset about half of the impact
- Examples show projected impact of lowering return assumption 1/2% compared to staying at current 7.25% assumption
  - First scenario is bad returns and second scenario is good returns

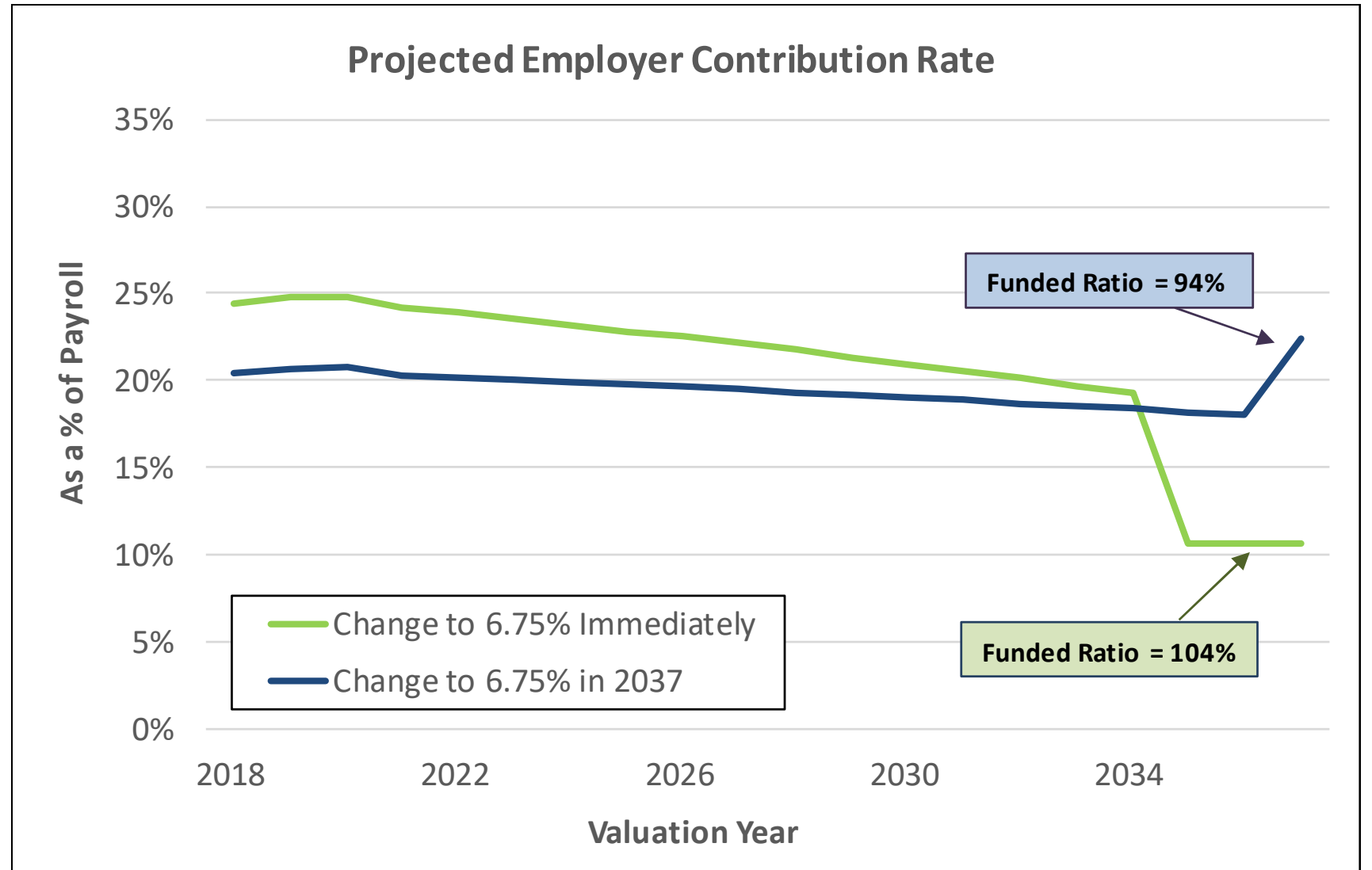
# Impact of Lowering Return Assumption – Low Returns

- Actual future returns assumed to be 6.0% each year



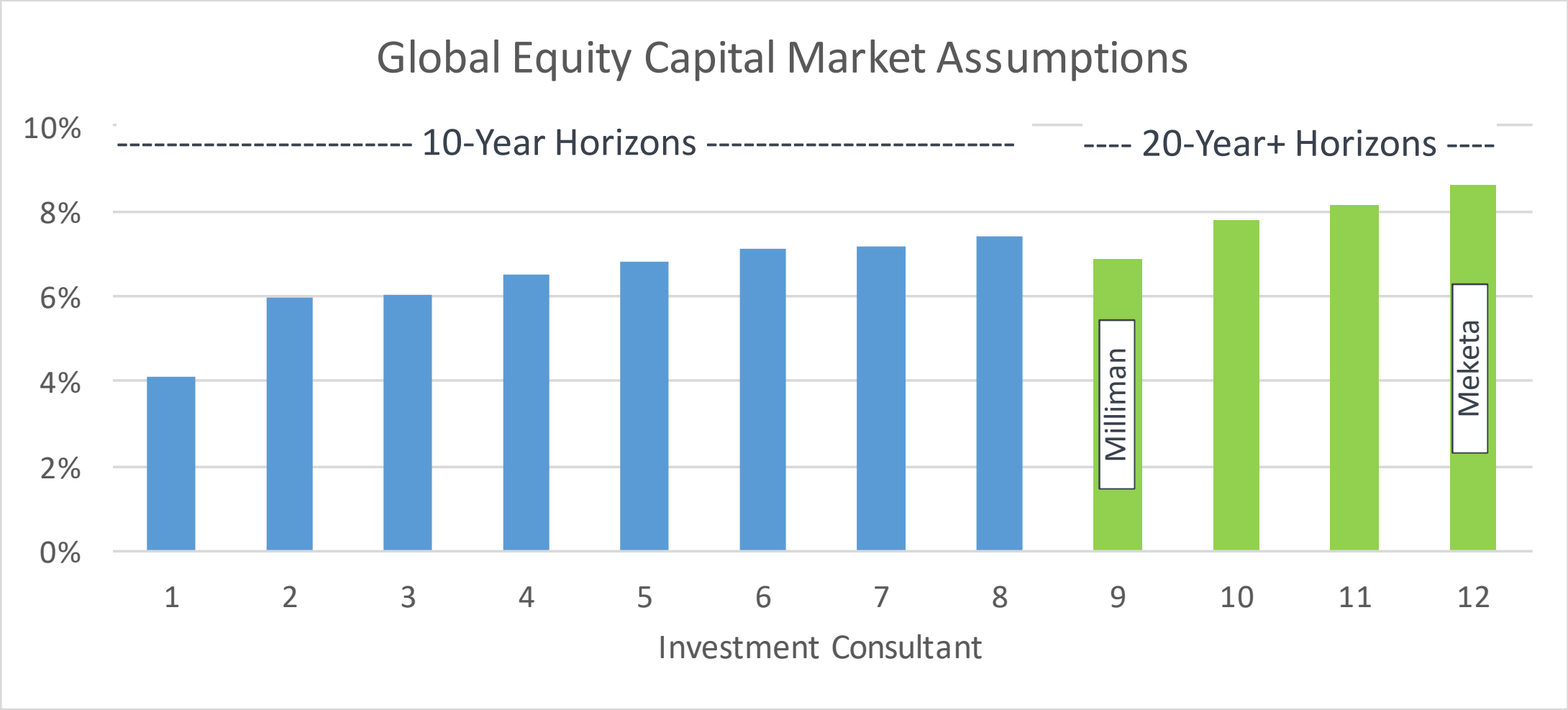
# Impact of Lowering Return Assumption – Good Returns

- Actual future returns assumed to be 7.5% each year

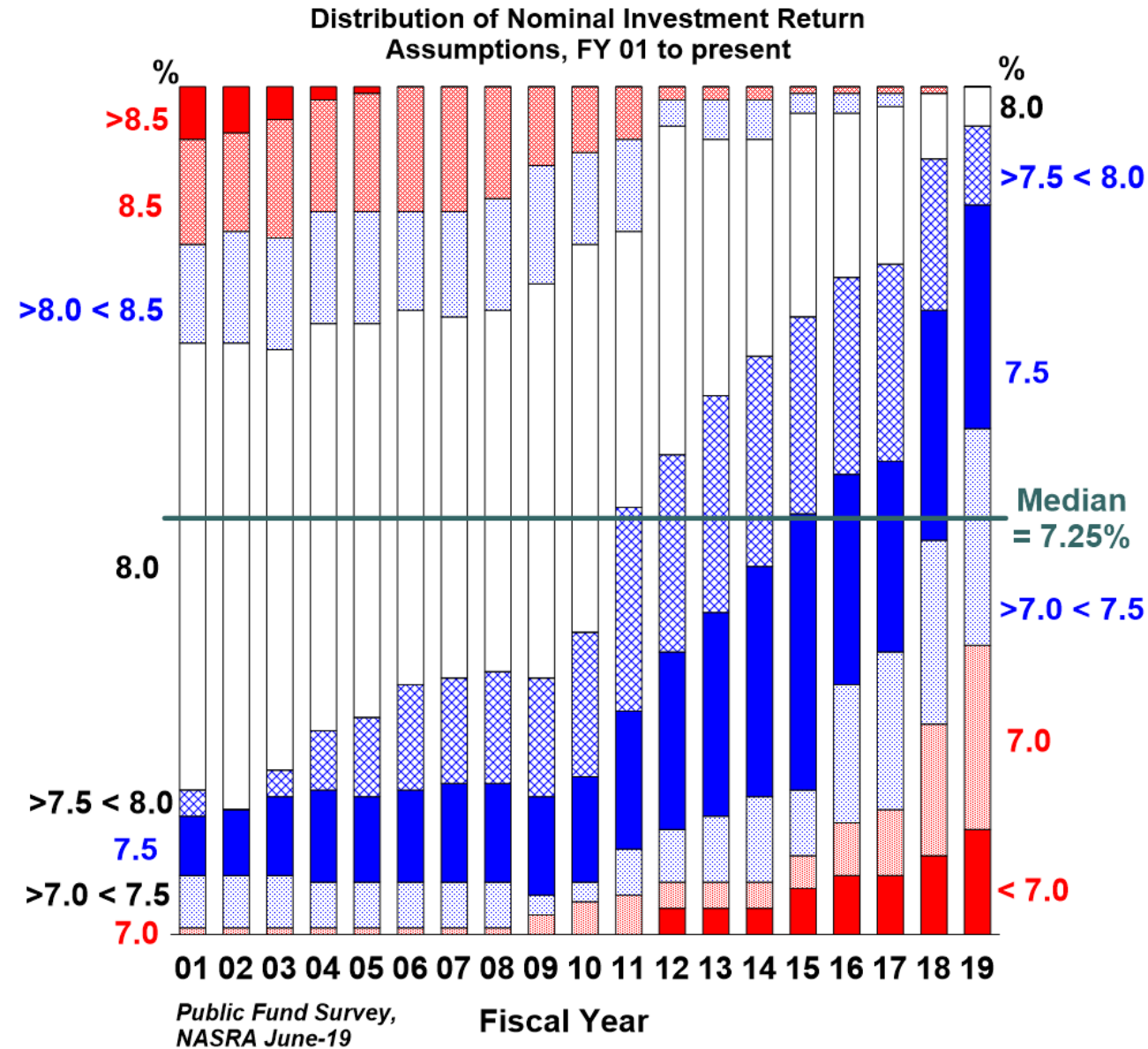


# Expected Return – Variance in Capital Market Assumptions

- Greatest variance appears to be in expectation of future equity returns (example, Global Equity)



# Current Environment for Expected Returns



# Expected Returns: U.S. Large Cap Equity

- We develop expected returns from three models:
  - Dividend discount model
  - Equity risk premium model
  - Smoothed earnings yield model (from Shiller CAPE)
- Dividend discount model
  - Price is discounted present value of all expected future dividends
  - Discount rate is the expected return
  - So, expected return = div yield + real growth of dividends + inflation
  - Dividend yield is observable (approximately 2.15%)
  - Need expected real growth rate of dividends and inflation
  - We assume dividend growth rate matches earnings growth rate



# Expected Returns: U.S. Large Cap Equity

- Over the long run, we expect real earnings growth per share to closely track real GDP per capita
- Current forecasts for long-term growth of real GDP per capita are in the 1.2% to 1.6% range
  - We assume real earnings and dividends will grow at 1.4% per year
- We examine market data and expert forecasts of future inflation
  - Break-even inflation (30 yrs) = 2.11%
  - Cleveland Fed Inflation Model (30 yrs) = 2.32%
  - Blue Chip Financial Forecasts (10 yrs) = 2.30%
  - Survey of Professional Forecasters (10 yrs) = 2.30%
  - Congressional Budget Office (30 yrs) = 2.40%
  - We assume inflation (CPI-U) will increase at 2.30% per year

# Calibrating the CAPM

- With expected returns for two major asset classes, we calibrate the CAPM by solving for the risk-free rate and the expected return on the global portfolio
- We estimate betas using our estimates of the standard deviation of the returns of each asset class and the correlation between the returns of each pair of asset classes
- We use historical returns and other factors to estimate these two risk measures
- Our Capital Markets Committee reviews all of the resulting expected returns and may make adjustments based on current valuation measures and other factors

September 20, 2019

TO: Each Member  
Board of Investments

FROM: John McClelland   
Principal Investment Officer-Real Estate

FOR: October 8, 2019 Board of Investments Meeting

SUBJECT: **PROCUREMENT POLICY FOR INVESTMENT-RELATED SERVICES**

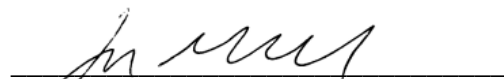
Staff has drafted a Procurement Policy for Investment-Related Services (Procurement Policy or Policy) that describes how investment-related services may be procured on an on-going basis. **ATTACHMENT A** is the draft Procurement Policy. The draft Policy is presented in clean version only since it has been fundamentally rewritten based on Board feedback during meetings held in January and May 2019.

This is the first time the Policy is being shared with the Board and feedback is invited/requested. The current draft reflects the input of all asset classes within the investment office as well as the Legal Office and the Board's general consultant, Meketa. Staff plans to integrate Board-directed changes to the draft Policy, whereupon it will be presented again to the Board. Staff's goal via this effort is to end up with a Board-approved Procurement Policy.

The Procurement Policy only relates to investment-related services. Procurement of all non-investment-related services is expected to be controlled by LACERA's General Policy Guidelines for Purchasing Goods and Services, which is currently being developed.

Attachment

Noted and Reviewed:



Jonathan Grabel  
Chief Investment Officer

JM/dr

**PROCUREMENT POLICY FOR  
INVESTMENT-RELATED SERVICES**

Revised: \_\_\_\_\_, 2019

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## Statement of Purpose

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

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## **Legal Authority**

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

### **A. Fiduciary Duty**

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

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

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

**C. Process**

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

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## 1. Introduction

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

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

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

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

## INVESTMENT RELATED SERVICES-PROCUREMENT POLICY

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

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

### **Scope**

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

## **Term**

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

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

## 2. Definitions

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

## INVESTMENT RELATED SERVICES-PROCUREMENT POLICY

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

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

### 3. Service Being Procured and Selection Method

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

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

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

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

#### a) Investment Management Services

- Active Management
  - Liquid Investments

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

- Illiquid Investments

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

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

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

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

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

**b) Consulting Services**

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

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

**c) Other Investment Related Services**

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

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

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

**d) Legal Services Procurements**

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

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



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

**e) Miscellaneous Small Purchases**

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

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

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

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

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

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

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

## INVESTMENT RELATED SERVICES-PROCUREMENT POLICY

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

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

DRAFT

## 5. Observance of a Quiet Period

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

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

## INVESTMENT RELATED SERVICES-PROCUREMENT POLICY


- G. The quiet period does not prevent Board-approved meetings or communications by staff with an incumbent contractor that is also a candidate provided that their communication is strictly limited to matters necessary in connection with the contractor's existing scope of work. Other than due diligence, discussion related to the pending selection is not permitted during these activities.
  
- H. A contractor candidate may be disqualified from a search process for a willful violation of this policy.

DRAFT

**FOR INFORMATION ONLY**

September 10, 2019

TO: Each Member  
Board of Investments

FROM: Scott Zdrazil   
Senior Investment Officer

FOR: October 8, 2019 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**).

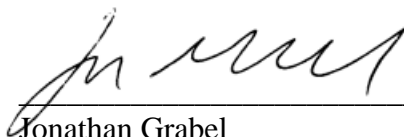
**BACKGROUND**

LACERA is a member of CII. CII held a general members' business meeting on September 17, 2019, during which members voted to approve CII's annual budget for 2020 and a revised CII policy on executive compensation. CII proposed a revised executive compensation policy, as described in **Attachment 2**, after incorporation of input and feedback from two open comment periods and focused roundtable discussions. It streamlines previous policy language and incorporates emphasis on simplifying pay plan designs and longer performance periods for pay metrics. The policy is generally consistent with LACERA's *Corporate Governance Principles*.

LACERA voted the ballot in advance of the deadline in adherence to its *Corporate Governance Policy*, including review and consultation with the Corporate Governance Committee Chair.

Attachments

Noted and Reviewed:



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Jonathan Grabel  
Chief Investment Officer



## CII General Members' Business Meeting Advance Ballot

ADVANCE BALLOTS DUE ON OR BEFORE: 5:00 PM ET ON FRIDAY, SEPTEMBER 13.

**Ballots may be emailed or faxed to:**

Attention: Michael Miller  
Email: [Michael@cii.org](mailto:Michael@cii.org)  
Fax: 202-822-0801

**Action Items:**

1. Approve CII 2020 budget.

FOR                      \_\_\_\_\_ AGAINST                      \_\_\_\_\_ ABSTAIN

2. Approve revised CII policy on executive compensation.

FOR                      \_\_\_\_\_ AGAINST                      \_\_\_\_\_ ABSTAIN

Signature:  Print Name: DALE F. JOHNSON

Organization: LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION (LACERA)

*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--**



1000 Lakeside Drive, Suite 1000  
Chicago, IL 60606  
www.councilofinvestors.org

# **GENERAL MEMBERS’ BUSINESS MEETING**

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**Tuesday, September 17, 2019**

**4:30 – 5:15 PM CT**

**Hilton Minneapolis**

Date of publication: August 22, 2019



## AGENDA

<b>Chair Report</b>	<b>Ash Williams</b>
<b>Staff Report</b>	<b>Ken Bertsch</b>
<b>Financial Report</b> <i>(See Appendix 1, page 3 of this booklet)</i>	<b>Scott Zdrazil</b>
<b>Ballot Items</b>	
<ul style="list-style-type: none"><li>• <b>Ballot Item 1: Approve 2020 Budget</b> <i>(See <a href="#">Appendix 1, page 3 of this booklet</a>)</i></li><li>• <b>Ballot Item 2: Approve Revised CII Policy on Executive Compensation</b> <i>(See <a href="#">Appendix 2, page 9 of this booklet</a>)</i></li></ul>	<b>Scott Zdrazil</b>  <b>Aeisha Mastagni</b>
<b>Policies Committee Report</b> <i>(See <a href="#">Appendix 3, page 18 of this booklet</a>)</i>	<b>Aeisha Mastagni</b>
<b>Shareholder Advocacy Committee Report</b> <i>(See <a href="#">Appendix 4, page 19 of this booklet</a>)</i>	<b>Louis Malizia</b> <b>Gianna McCarthy</b>
<b>International Governance Committee Report</b> <i>(See <a href="#">Appendix 5, page 20 of this booklet</a>)</i>	<b>Glenn Davis</b>
<b>General Members Advisory Council Report</b>	<b>Alec Stais</b>
<b>Corporate Governance Advisory Council Report</b>	<b>Rosemary Lally</b>
<b>Markets Advisory Council Report</b>	<b>Jeff Mahoney</b>
<b>Constituency Reports</b>	<b>Mary Francis</b> <b>Michael Garland</b> <b>John Keenan</b> <b>Ken Bertsch (for Associate Members)</b>
<b>Comments from the Membership</b> <i>Any member wishing to present information is invited to address the membership.</i>	

## APPENDIX 2

### ACTION ITEM 2: APPROVE CII POLICY ON EXECUTIVE COMPENSATION

General Members will vote on a re-write of CII's policy on executive compensation, which was last revised nearly a decade ago. Very broadly, the proposed new policy lifts up two important objectives for the next decade: simplifying executive pay design, so that both investors and executives can reasonably understand how it works; and lengthening periods of performance measurement with respect to variable pay.

The CII board adopted the language under consideration on August 1. The Policies Committee adopted the draft on May 28 following an 18-month inquiry, which included two roundtables and two comment periods, all of which contributed to the committee's careful consideration, and in several cases, substantive revisions. Please note that the committee intends to replace a legacy section of the policy addressing executive stock sales (legacy Section 5.15b) with a separate statement currently under development.

The existing policy can be found [here](#) (please go to Section 5).

#### **Section 5.1 Core Objectives of Executive Pay**

Executive compensation should be designed to attract, retain and incentivize executive talent for the purpose of building long-term shareholder value and promoting long-term strategic thinking. CII considers "the long-term" to be at least five years. Executive rewards should be generally commensurate with long-term return to the company's owners. Rewarding executives based on broad measures of performance may be appropriate in cases where doing so logically contributes to the company's long-term shareholder return.

Executive compensation should be tailored to meet unique company needs and circumstances. A company should communicate the board's basis for choosing each specific form of compensation, including metrics and goals. This may include industry considerations, business lifecycle considerations and other company-specific factors. Companies should explain how the components of the package tie to the company's core objectives and fit together to a collective end.

Executive compensation should be comprehensible. The compensation committee should consider whether participants, board members and investors are likely to understand the program and each of its components. Compensation practices that committee members would find difficult to explain to investors in reasonable detail are prime candidates for simplification or elimination.

Executive pay should be cost-effective and equitable. It is the job of the board of directors and the compensation committee specifically to ensure that executive compensation programs are effective, reasonable and rational with respect to critical factors such as

company performance, industry considerations, risk considerations and compensation paid to other employees.

## **Section 5.2 Governance of Compensation**

### **5.2a Compensation Committee**

CII believes that reasonable, appropriately structured executive compensation is a key board responsibility performed mainly through the board's independent compensation committee and informed by annual shareholder say-on-pay votes and engagement with shareholders.

The compensation committee should devote its attention to adopting executive compensation practices that advance the above core objectives and avoiding practices that undermine or obscure them. The compensation committee should recognize that incentives can help or damage long-term shareholder value, with potential harm from pay and pay opportunities that are excessive or not calibrated appropriately for risk.

The committee should ensure that the structure of employee compensation throughout the company is fair, non-discriminatory and forward-looking, and that it motivates, recruits and retains a workforce capable of meeting the company's strategic objectives. The committee should be fully independent and abide by a process that provides for well-informed decision-making without undue influence from management or third parties influenced by management.

The committee should take into consideration employee compensation throughout the company as a reference point for setting executive pay consistent with the company's strategic objectives.

### **5.2b Independent Consultants and Advisors to the Compensation Committee**

The compensation committee should identify, select, retain and, as necessary, terminate outside experts, including consultants, legal advisors and any other advisors as it deems appropriate, including when negotiating contracts with executives. The committee should disclose any management role in identifying or recommending one or more candidates as the committee's compensation consultant. Committees that retain compensation consultants should seek competitive bids at least every five years.

Individual compensation advisors and their firms should be independent of the client company and its executives and should not have conflicts of interest with board members. The independent advisors should report solely to the compensation committee. The committee should annually disclose an assessment of its advisors' independence along with a description of the nature and dollar amounts of services commissioned from the advisors and their firms by the client company's management. Companies should not agree to indemnify or limit the liability of compensation advisors or the advisors' firms.

### **Section 5.3 Transparency of Compensation**

Compensation committees should make compensation disclosures (including those in the U.S.-style Compensation Disclosure and Analysis), as clear, straightforward and comprehensible as possible. Each element of pay should be clear to shareholders, especially with respect to any goals, metrics for their achievement and maximum potential total cost.

Descriptions of metrics and goals in the proxy statement should be at least as clear as disclosures described in other investor materials and calls. To the extent that compensation is performance-based, it is critical that investors have information to evaluate the choice of metrics, how those metrics relate to key company strategic goals, and how challenging the goals are. Any intra-period or *post hoc* discretionary adjustments to awards should be justified, disclosed and fully explained.

### **Section 5.4 Peers**

A committee should design a pay program that is appropriate for that company. Overreliance on benchmarking to peer practices can escalate executive compensation and lead compensation committees to adopt pay practices that may not be optimal for their companies. It makes sense for a compensation committee to understand what peers are doing, but not necessarily to imitate peers. In making reference to peers, it is imperative that compensation committees have a clear-eyed understanding of how peers performed relative to the company.

Compensation committee members have an important responsibility to guard against opportunistic peer group selection. Compensation committees should disclose to investors the basis for the particular peers selected, and should aim for consistency over time with the peer companies they select. If companies use multiple peer groups, the reasons for such an approach should be made clear to investors.

### **Section 5.5 Elements of Compensation**

A variety of executive compensation approaches are valid, depending on analysis of the company's particular circumstances. Shareowners look to the compensation committee to determine pay approach, but expect clear disclosure to investors on the elements of pay, and why the committee determined to structure pay in a particular manner. Shareowners also look to the compensation committee to set goals, but expect clear disclosure of the goals.

Most U.S. companies provide salary, an annual bonus and a long-term incentive. However, this approach need not be written in stone. It could simplify and sharpen compensation at certain companies to focus pay on salary and a single incentive plan, for example to make an annual award of long-vesting restricted shares or restricted share units. We would expect such an approach to focus on a long-term incentive and alignment, although there may be

circumstances for which sharper focus on relatively short-term incentives makes sense (e.g., in some turnaround situations with highly challenging near-term requirements).

#### 5.5a Fixed pay

Fixed pay is a legitimate element of senior executive compensation. Compensation committees should carefully consider and determine the right risk balance for the particular company and executive. It can be appropriate to emphasize fixed pay (which essentially has no risk for the employee) as a significant pay element, particularly where it makes sense to disincentivize “bet the company” risk taking and promote stability. Fixed pay also has the advantage of being easy to understand and value, for the company, the executive and shareholders. That said, compensation committees should set pay considering risk-adjusted value, and so, to the extent that fixed pay is a relatively large element, compensation committees need to moderate pay levels in comparison with what would be awarded with contingent, variable pay.

#### 5.5b Time-vesting restricted stock

For some companies, emphasis on restricted stock with extended, time-based vesting requirements—for example, those that might begin to vest after five years and fully vest over 10 (including beyond employment termination)—may provide an appropriate balance of risk and reward, while providing particularly strong alignment between shareholders and executives.

Extended vesting periods reduce attention to short-term distractions and outcomes. As full-value awards, restricted stock ensures that executives feel positive and negative long-term performance equally, just as shareholders do. Restricted stock is more comprehensible and easier to value than performance-based equity, providing clarity not only to award recipients, but also to compensation committee members and shareholders trying to evaluate appropriateness and rigor of pay plans.

#### 5.5c Performance-based compensation

Performance-based compensation in the form of a cash incentive plan or performance stock units may be an appropriate incentive tool, particularly to encourage near-term outcomes that generate progress toward the achievement of longer-term performance. For reasons described below, however, compensation committees should apply rigorous oversight and care when designing and approving these award types.

Performance-based compensation plans are a major source of today’s complexity and confusion in executive pay. Metrics for performance and performance goals can be numerous and wide-ranging. They often are based on non-GAAP “adjusted” measures without reconciliation to GAAP. Investors need sufficient information to understand how the plan works. Performance-based award programs typically are more difficult to

understand, more difficult to value and more vulnerable to obfuscation than time-vesting restricted stock.

Performance-based plans also are susceptible to manipulation. Executives may use their influence and information advantage to advocate for the selection of metrics and targets that will deliver substantial rewards even without superior performance (e.g., target awards earned for median performance versus peers). Except in extraordinary situations, the compensation committee should not "lower the bar" by changing performance targets in the middle of performance cycles. If the committee decides that changes in performance targets are warranted in the middle of a performance cycle, it should disclose the reasons for the change and details of the initial targets and adjusted targets.

The compensation committee should ensure that performance-based programs are not too complex to be well understood by both participants and shareholders, that the underlying performance metrics support the company's business strategy, and that potential payouts are aligned with the performance levels that will generate them. In addition, the proxy statement should clearly explain such plans, including their purpose in context of the business strategy and how the award and performance targets, and the resulting payouts, are determined.

Finally, the committee should consider whether long-vesting restricted shares or share units would better achieve the company's long-term compensation and performance objectives, versus routinely awarding a majority of executives' pay in the form of performance shares.

#### 5.5d Stock options

Depending on a company's risk and financial profile, a compensation committee may have valid reason to compensate executives in part with stock options. They may be essential for a small, growth-stage company with more promising ideas than cash but illogical for a mature, large-cap company not seeking to encourage transformative risk-taking. Thoughtful calibration by the compensation committee to the company's current and intended position on the risk spectrum is important. CII opposes option backdating and option repricing, whether achieved through amending exercise prices or cancelling and replacing outstanding options with lower exercise prices.

### **Section 5.6 Stock Ownership Guidelines**

Stock ownership policies help align the interests of executives and shareholders. Companies should require executives to reach and maintain a minimum level of full-value company stock holdings—often stated as a multiple of their salary, more meaningfully expressed as a percentage of shares obtained—and should bar executives and directors from hedging activity that reduces alignment.

The ownership guideline should apply until at least one year following the executive's departure from the company. Those not in compliance should be barred from liquidating stock-based awards (beyond tax obligations) until satisfaction of the guideline.

Some boards may determine that a hold-to-departure requirement or hold-beyond-departure requirement for *all* stock-based awards held by the highest-level executives is an appropriate and workable commitment to long-termism. Other boards may consider such restrictions unnecessary to the extent that awards include extended vesting periods.

### **Section 5.7 Compensation Recovery**

Clawback policies should ensure that boards can refuse to pay and/or recover previously paid executive incentive compensation in the event of acts or omissions resulting in fraud, financial restatement or some other cause the board believes warrants recovery, which may include personal misconduct or ethical lapses that cause, or could cause, material reputational harm to the company and its shareholders. Companies should disclose such policies and decisions to invoke their application.

### **5.8 Poor Pay Practices**

#### **5.8a Gross-ups**

CII generally opposes tax gross-ups for senior executives not provided to employees.

#### **5.8b Employment Contracts, Severance and Change-of-control Payments**

Various arrangements may be negotiated to outline terms and conditions for employment and to provide special payments following certain events, such as a termination of employment with or without cause or a change in control. The Council believes that these arrangements should be used on a limited basis.

**Employment Contracts:** Companies should only provide employment contracts to executives in limited circumstances, such as to provide modest, short-term employment security to a newly hired or recently promoted executive. Such contracts should have a specified termination date (not to exceed three years). Contracts should not be "rolling" on an open-ended basis.

**Severance Payments:** Executives should not be entitled to severance payments in the event of termination for poor performance, resignation under pressure or failure to renew an employment contract. Company payments awarded upon death or disability should be limited to compensation already earned or vested.

In the event of a change in control, companies should not permit automatic accelerated vesting of all equity awards not yet awarded, paid or vested. A

board's compensation committee may have discretion to permit full, partial or no accelerated vesting of equity awards not yet awarded, paid or vested. For example, adjustments may be appropriate to account for the actual performance delivered or the proportional amount of time that passed from the beginning of the performance or vesting period to the trigger date. If the board decides to accelerate awards in full, the company should disclose in the relevant public filing a detailed rationale of the decision and how it relates to shareholder value.

Change-in-control Payments: Any provisions providing for compensation following a change-in-control event should be "double-triggered." That is, such provisions should stipulate that compensation is payable only after a control change actually takes place and if a covered executive's job is terminated because of the control change.

Transparency: The compensation committee should fully and clearly describe the terms and conditions of employment contracts and any other agreements covering the executive oversight group and reasons why the compensation committee believes the agreements are in the best interests of shareholders.

Timely Disclosure: New executive employment contracts or amendments to existing contracts should be promptly disclosed.

Shareholder Ratification: Shareholders should ratify all employment contracts, side letters or other agreements providing for severance, change-in-control or other special payments to executives exceeding 2.99 times average annual salary plus annual bonus for the previous three years.

#### 5.8c Perks and Retirement Arrangements

Company perquisites blur the line between personal and business expenses. Executives, not companies, should be responsible for paying personal expenses. The compensation committee should ensure that any perquisites are warranted and have a legitimate business purpose, and it should consider capping all perquisites at a de minimis level. Supplemental retirement plans, deferred compensation plans, and other retirement arrangements for executives can result in hidden and excessive benefits. They should be consistent with the retirement program covering the general workforce.

#### Background and Intent

The pay landscape has changed in several important respects since 2010 when CII last updated its executive compensation policies. Market participants increasingly agree that executive compensation should not only compensate, but help drive long-term outcomes. They also have greater appreciation for the role that executive compensation plays as a tool



for boards to calibrate appropriate risk-taking, while recognizing the limits of what compensation, both in terms of design and amount, can do; to some degree the attraction, retention and motivation of an executive is internally driven.

The introduction of mandatory advisory votes on compensation has increased expectations for stewards of capital, too. As a result, there is greater urgency on companies to design and explain pay in a way that is comprehensible and defensible to those outside the boardroom. Demand for actively engaged, independently informed compensation committee members has never been stronger. For many investors, frustration with complex and opaque incentive arrangements—marginally beneficial in some cases, a contributing factor in pay-for-performance breakdowns in others—has resulted in greater openness to simplified packages. Recent tax code changes afford new opportunities for boards to shape pay around what is sensible, rather than what is most tax efficient.

The proposed policy is the culmination of the most extended policy inquiry in CII's history. The Policies Committee launched an inquiry in January 2018 with a roundtable comprised of both the full board and a broad range of market participants, in particular asset owners and asset managers. The roundtable was a "blue sky" discussion of executive compensation without any consideration of CII policy. Following that event and the committee's deliberation, a consensus was reached that CII's existing policies were in several respects out of step with the current landscape, too granular or insufficiently clear. After a year of language development, the committee put forward an initial draft in December 2018. CII convened a second roundtable in January 2019 of additional interested CII members. The Policies Committee's deliberation was enhanced by two member-wide comment periods, one taking place before the second roundtable and the other taking place after it. Substantive revisions resulted from both rounds.

**FOR INFORMATION ONLY**

September 23, 2019

TO: Each Member  
Board of Retirement  
Board of Investments

FROM: Barry W. Lew  
Legislative Affairs Officer

FOR: October 2, 2019 Board of Retirement Meeting  
October 8, 2019 Board of Investments Meeting

SUBJECT: **Monthly Status Report on Legislation**

Attached is the monthly report on the status of legislation that staff is monitoring or on which LACERA has adopted a position.

**Reviewed and Approved:**



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**Steven P. Rice, Chief Counsel**

**Attachments**

LACERA Legislative Report

cc: Steven P. Rice  
John Popowich  
Jon Gabel  
Anthony J. Roda, Williams & Jensen  
Joe Ackler, Ackler & Associates

LACERA Legislative Report  
2019-2020 Legislative Session  
Status as of September 23, 2019

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File name: CERL-PEPRA-2019

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CA AB 472	<b>AUTHOR:</b> <b>TITLE:</b> <b>INTRODUCED:</b> <b>SUMMARY:</b>	Voepel [R] Public Employees' Retirement 02/11/2019 Makes nonsubstantive changes to existing law which prescribes limits on service after retirement without reinstatement into the applicable retirement system. <b>STATUS:</b> 02/11/2019 INTRODUCED. <b>Staff_Action:</b> Monitoring
CA AB 664	<b>AUTHOR:</b> <b>TITLE:</b> <b>INTRODUCED:</b> <b>LAST AMEND:</b> <b>SUMMARY:</b>	Cooper [D] County Employees' Retirement: Permanent Incapacity 02/15/2019 03/13/2019 Requires, for purposes of determining permanent incapacity of certain members employed as peace officers in Sacramento County, that those members be evaluated by the retirement system to determine if they can perform all of the usual and customary duties of a peace officer. Requires the Board of Retirement to develop a method of tracking the costs of providing permanent disability retirement to the members who become eligible for disability retirement. <b>STATUS:</b> 06/26/2019 In SENATE Committee on LABOR, PUBLIC EMPLOYMENT AND RETIREMENT: Not heard. <b>Comments:</b> In 2017, the Board of Retirement adopted a Neutral position on AB 283 (Cooper), a similar bill by the same author. <b>BOR_Position:</b> Oppose 06/05/2019, Support 05/01/2019 <b>IBLC_Recommendation:</b> Support 04/11/2019 <b>Staff_Recommendation:</b> Watch
CA AB 979	<b>AUTHOR:</b> <b>TITLE:</b> <b>INTRODUCED:</b> <b>SUMMARY:</b>	Reyes [D] Judge's Retirement System II: Deferred Retirement 02/21/2019 Authorizes a judge who is a member of the Judge's Retirement system to retire upon attaining both 63 years of age and 15 or more years of service, or when a judge who has accrued at least 5 years of service and who has not received specified discipline is defeated for reelection. <b>STATUS:</b> 04/24/2019 In ASSEMBLY Committee on PUBLIC EMPLOYMENT AND RETIREMENT: Not heard. <b>Comments:</b> AB 979 proposes structural changes to the retirement eligibility provisions for judges and a different employee contribution percentage than that which is currently prescribed in PEPRA. <b>Staff_Action:</b> Monitoring
CA AB 1198	<b>AUTHOR:</b> <b>TITLE:</b>	Stone [D] Public Employees' Retirement: Pension Reform

**INTRODUCED:** 02/21/2019

**LAST AMEND:** 03/21/2019

**SUMMARY:**

Excepts transit workers hired before a specified date, from the Public Employees' Pension Reform Act, or PEPRA, by removing the federal district court contingency language from the provision excepting certain transit workers from PEPRA.

**STATUS:**

04/24/2019 In ASSEMBLY Committee on PUBLIC EMPLOYMENT AND RETIREMENT: Not heard.

**Comments:**

The bill affects those retirement systems whose members include transit workers and whether they are subject to PEPRA.

**Staff\_Action:** Monitoring

CA SB 430

**AUTHOR:** Wieckowski [D]

**TITLE:** Public Employees Retirement Benefits: Judges

**INTRODUCED:** 02/21/2019

**LAST AMEND:** 05/17/2019

**SUMMARY:**

Relates to the State Public Employees' Pension Reform Act of 2013. Grants a judge who was elected to office in a specific year the option of making a one-time, irrevocable election to have a membership status prior to a certain date in the Judges' Retirement System II for service accrued after a certain date.

**STATUS:**

06/26/2019 In ASSEMBLY Committee on PUBLIC EMPLOYMENT AND RETIREMENT: Not heard.

**Staff\_Action:** Monitoring

CA SB 783

**AUTHOR:** Labor, Public Employment & Retirement Cmt

**TITLE:** County Employees Retirement Law of 1937

**INTRODUCED:** 03/07/2019

**SUMMARY:**

Corrects several erroneous and obsolete cross references within the County Employees Retirement Law of 1937.

**STATUS:**

05/16/2019 To ASSEMBLY Committee on PUBLIC EMPLOYMENT AND RETIREMENT.

**Comments:**

The bill will be forwarded to the SACRS member systems for review and voting instructions for approval at the SACRS 2019 Fall Conference.

**Staff\_Action:** Monitoring

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File name: Federal-2019

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US HR 141

**SPONSOR:** Davis R [R]

**TITLE:** Government Pension Offset Repeal

**INTRODUCED:** 01/03/2019

**SUMMARY:**

Amends Title II of the Social Security Act; repeals the Government pension offset and windfall elimination provisions.

**STATUS:**

01/31/2019 In HOUSE Committee on WAYS AND MEANS: Referred to

Subcommittee on SOCIAL SECURITY.  
**BOR\_Position:** Support 04/11/2019  
**IBLC\_Recommendation:** Support 03/14/2019  
**Staff\_Recommendation:** Support

US HR 1994

**SPONSOR:** Neal [D]  
**TITLE:** Retirement Savings  
**INTRODUCED:** 03/29/2019  
**SUMMARY:**

Amends the Internal Revenue Code; encourages retirement savings.

**STATUS:**

05/23/2019 In HOUSE. Considered under the provisions of Rules Committee Resolution H. Res. 389.

05/23/2019 In HOUSE. Passed HOUSE. \*\*\*\*\*To SENATE. (417-3)

**Comments:**

Also known as the SECURE Act, the bill would increase the age for required minimum distributions from 70 1/2 to 72, which would require conforming amendments to CERL.

**Staff\_Action:** Monitoring

US HR 3934

**SPONSOR:** Brady K [R]  
**TITLE:** Windfall Elimination Provision Replacement  
**INTRODUCED:** 07/24/2019  
**SUMMARY:**

Amends Title II of the Social Security Act; replaces the windfall elimination provision with a formula equalizing benefits for certain individuals with non-covered employment.

**STATUS:**

07/24/2019 INTRODUCED.

07/24/2019 To HOUSE Committee on WAYS AND MEANS.

**Staff\_Action:** Monitoring

US S 521

**SPONSOR:** Brown S [D]  
**TITLE:** Government Pension Offset Repeal  
**INTRODUCED:** 02/14/2019  
**SUMMARY:**

Amends Title II of the Social Security Act; repeals the Government pension offset and windfall elimination provisions.

**STATUS:**

02/14/2019 INTRODUCED.

02/14/2019 In SENATE. Read second time.

02/14/2019 To SENATE Committee on FINANCE.

**BOR\_Position:** Support 04/11/2019

**IBLC\_Recommendation:** Support 03/14/2019

**Staff\_Recommendation:** Support

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File name: Other-2019

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CA AB 199

**AUTHOR:** Calderon I [D]  
**TITLE:** California Online Notary Act of 2019  
**INTRODUCED:** 01/10/2019  
**SUMMARY:**

Allows a notary public or an applicant for appointment as a notary public to register with the Secretary of State to be an online notary public by submitting

an application for registration that meets certain requirements. Authorizes an online notary public to perform notarial acts, and online notarizations by means of audio-video communication. Establishes various requirements applicable to an online notary public.

**STATUS:**

04/23/2019 In ASSEMBLY Committee on JUDICIARY: Not heard.  
**BOR\_Position:** Oppose 08/07/2019  
**IBLC\_Recommendation:** Support 07/11/2019  
**Staff\_Recommendation:** Support

CA AB 287

**AUTHOR:** Voepel [R]  
**TITLE:** Public Employees' Retirement: Annual Audits  
**INTRODUCED:** 01/28/2019  
**SUMMARY:**

Requires each state and local pension or retirement system to post a concise annual audit of the investments and earnings of the system on that system's internet website no later than the ninetieth day following the audit's completion.

**STATUS:**

02/07/2019 To ASSEMBLY Committee on PUBLIC EMPLOYMENT AND RETIREMENT.  
**BOR\_Position:** Support 05/01/2019  
**IBLC\_Recommendation:** Support 04/11/2019  
**Staff\_Recommendation:** Neutral

CA AB 1212

**AUTHOR:** Levine [D]  
**TITLE:** Public Employees' Retirement: Pension Fund  
**INTRODUCED:** 02/21/2019  
**LAST AMEND:** 08/12/2019  
**SUMMARY:**

Requires a state agency that is responsible for infrastructure projects to produce a list of priority infrastructure projects for funding consideration by the retirement boards, as described, and to provide it to them. Requires a state agency also to provide further project information to a board upon request. Defines a state agency for these purposes as the Department of Transportation and the Department of Water Resources.

**STATUS:**

09/19/2019 \*\*\*\*\*To GOVERNOR.  
**Staff\_Action:** Monitoring

CA AB 1332

**AUTHOR:** Bonta [D]  
**TITLE:** Sanctuary State Contracting and Investment Act  
**INTRODUCED:** 02/22/2019  
**LAST AMEND:** 04/29/2019  
**SUMMARY:**

Provides for the Sanctuary State Contracting and Investment Act. Requires the Department of Justice to publish a list on its internet website, based on specified criteria, of each person or entity that, in the opinion of the Department of Justice, is providing data broker, extreme vetting, or detention facilities support to any federal immigration agency. Prohibits an agency from entering into a contract with an entity that appears on the list except under certain circumstances.

**STATUS:**

05/16/2019 In ASSEMBLY Committee on APPROPRIATIONS: Held in

committee.

**Comments:**

As amended on 4/10/2019, the bill exempts contracts and agreements related to administration and investments of retirement benefits.

**Staff\_Action:** Monitoring

CA AB 1400

**AUTHOR:** Kamlager-Dove [D]

**TITLE:** Employment Safety: Firefighting Equipment: Mechanics

**INTRODUCED:** 02/22/2019

**LAST AMEND:** 09/06/2019

**SUMMARY:**

Requires the Commission on Health and Safety and Workers' Compensation, in partnership with the County of Los Angeles and relevant labor organizations, to submit a study on the risk of exposure to carcinogenic materials and incidence of occupational cancer in mechanics who repair and clean firefighting vehicles in the County of Los Angeles.

**STATUS:**

09/20/2019 Enrolled.

**Comments:**

As amended on 7/2/2019, the bill no longer relates to a cancer presumption but would require a study on exposure to carcinogens and incidence of occupational cancer as well as adoption of related regulations. The LA County Board of Supervisors removed its support of the bill and has taken no position.

**BOR\_Position:** No\_Position 08/07/2019

**IBLC\_Recommendation:** Watch, Watch 07/11/2019

**Staff\_Recommendation:** Watch

CA SB 343

**AUTHOR:** Pan [D]

**TITLE:** Healthcare Data Disclosure

**INTRODUCED:** 02/19/2019

**LAST AMEND:** 08/12/2019

**SUMMARY:**

Eliminates alternative reporting requirements for certain plans or insurers. Requires instead that those entities report information consistent with any other health care service plan, health insurer, or health facility, as appropriate. Eliminates the authorization for hospitals to report specified financial and utilization data to the Office of Statewide Health Planning and Development.

**STATUS:**

09/05/2019 Chaptered by Secretary of State. Chapter No. 2019-247

**BOR\_Position:** Watch 08/07/2019

**IBLC\_Recommendation:** No\_Position 07/11/2019

**Staff\_Recommendation:** No\_Position

CA SJR 3

**AUTHOR:** Wilk [R]

**TITLE:** Social Security Act

**INTRODUCED:** 03/04/2019

**SUMMARY:**

Requests the Congress of the United States to enact, and the President to sign, legislation that would repeal the Government Pension Offset and the Windfall Elimination Provision from the Social Security Act.

**STATUS:**

08/19/2019 Chaptered by Secretary of State.

08/19/2019 Resolution Chapter No. 2019-129

BOR\_Position: Support 05/01/2019  
Staff\_Recommendation: Support

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**FOR INFORMATION ONLY**

September 25, 2019

TO: Each Member  
Board of Retirement  
Board of Investments

FROM: Beulah Auten, CPA, CGFM, CGMA  
Chief Financial Officer

*JA*  
*For*

**SUBJECT: MONTHLY EDUCATION & TRAVEL REPORT – AUGUST 2019**

Attached, for your review, are the Board and Staff Education & Travel Reports as of August 2019. These reports include travel (i.e., completed and canceled) during Fiscal Year 2019-2020.

REVIEWED AND APPROVED:

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Steven P. Rice  
Chief Counsel

BA/IS/krh

Attachment

c: J. Popowich  
K. Hines



**BOARD EDUCATION AND TRAVEL REPORT  
FOR FISCAL YEAR 2019 - 2020  
AUGUST 2019**

<b>Attendee</b>	<b>Purpose of Travel - Location</b>	<b>Event Dates</b>	<b>Travel Status</b>
<b>Alan Bernstein</b>			
A	1 Edu - PPI 2019 Summer Roundtable - Chicago IL	07/10/2019 - 07/12/2019	Attended
<b>Vivian Gray</b>			
B	- Admin - SACRS Program Committee and SACRS Board of Directors Meeting - Sacramento CA	07/15/2019 - 07/16/2019	Attended
	- Admin - SACRS Legislative Committee - Sacramento CA	07/19/2019 - 07/19/2019	Attended
	- Edu - SACRS Public Pension Investment Management Program - Berkeley CA	07/22/2019 - 07/24/2019	Attended
<b>James Harris</b>			
B	- Edu - CALAPRS Principles of Pension Governance - Malibu CA	08/26/2019 - 08/29/2019	Attended
<b>Shawn Kehoe</b>			
A	1 Edu - IAFCI Annual Training Conference & Exhibitor Show - Raleigh NC	08/26/2019 - 08/30/2019	Attended
<b>Wayne Moore</b>			
A	1 Edu - PPI 2019 Summer Roundtable - Chicago IL	07/10/2019 - 07/12/2019	Attended
<b>Gina Sanchez</b>			
A	1 Edu - Oxford Impact Measurement Program - Oxford, United Kingdom	07/15/2019 - 07/19/2019	Attended
<b>Gina Zapanta-Murphy</b>			
B	- Edu - SACRS Public Pension Investment Management Program - Berkeley CA	07/22/2019 - 07/24/2019	Attended
	- Edu - Network Ethnic Physician Organizations (NEPO) Summit - Pasadena CA	08/23/2019 - 08/24/2019	Attended

Category Legend:

- A - Pre-approved conferences and conferences not listed in Attachment C of the LACERA Education and Travel Policy.
- B - Administrative conferences and/or local educational conferences that do not require common carrier travel and lodging totaling less than \$1,500.
- C - Events pending receipt of reimbursement claim.
- X - Canceled events for which expenses have been incurred.

**STAFF EDUCATION AND TRAVEL REPORT  
FOR FISCAL YEAR 2019 - 2020  
AUGUST 2019**

<b>Attendee</b>		<b>Purpose of Travel - Location</b>	<b>Event Dates</b>	<b>Travel Status</b>
<b>Benefits</b>				
Sylvia Botros	1	Edu - IIA Institute of Internal Auditors 2019 International Conference - Anaheim CA	07/07/2019 - 07/10/2019	Attended
<b>Financial &amp; Accounting Services</b>				
Ana Chang	1	Edu - IIA Institute of Internal Auditors 2019 International Conference - Anaheim CA	07/07/2019 - 07/10/2019	Attended
Esther Chang	1	Edu - Association of Government Accountants (AGA) 2019 Professional Development Training (PDT) - New Orleans LA	07/21/2019 - 07/24/2019	Attended
Chona Labtic-Austin	1	Edu - Association of Government Accountants (AGA) 2019 Professional Development Training (PDT) - New Orleans LA	07/21/2019 - 07/24/2019	Attended
Felisa Valdepenas	1	Edu - Association of Government Accountants (AGA) 2019 Professional Development Training (PDT) - New Orleans LA	07/21/2019 - 07/24/2019	Attended
Edward Wong	1	Edu - IIA Institute of Internal Auditors 2019 International Conference - Anaheim CA	07/07/2019 - 07/10/2019	Attended
<b>Internal Audit</b>				
Nathan Amick	1	Edu - IIA Institute of Internal Auditors 2019 International Conference - Anaheim CA	07/07/2019 - 07/10/2019	Attended
Richard Bendall	1	Edu - IIA Institute of Internal Auditors 2019 International Conference - Anaheim CA	07/07/2019 - 07/10/2019	Attended
Leisha Collins	1	Edu - IIA Institute of Internal Auditors 2019 International Conference - Anaheim CA	07/07/2019 - 07/10/2019	Attended
Kristina Sun	1	Edu - IIA Institute of Internal Auditors 2019 International Conference - Anaheim CA	07/07/2019 - 07/10/2019	Attended
Gabriel Tafoya	1	Edu - IIA Institute of Internal Auditors 2019 International Conference - Anaheim CA	07/07/2019 - 07/10/2019	Attended
Summy Voong	1	Edu - IIA Institute of Internal Auditors 2019 International Conference - Anaheim CA	07/07/2019 - 07/10/2019	Attended
<b>Investments</b>				
Didier Acevedo	1	Admin - Due Diligence of Illiquid Credit Finalist Managers - New York NY	08/27/2019 - 08/29/2019	Attended
Kevin Bassi	1	Admin - Due Diligence of Clarion Partners - Seattle WA	08/08/2019 - 08/08/2019	Canceled
David Chu	1	Admin - GGV Capital Limited Partner Advisory Committee Roundtable and Private Limited Partner Reception - San Francisco CA	07/25/2019 - 07/25/2019	Attended
Dale Johnson	1	Admin - Due Diligence with Prospective Manager - Plano TX	08/20/2019 - 08/20/2019	Attended
Vache Mahseredjian	1	Admin - Due Diligence of Illiquid Credit Finalist Managers - New York NY	08/27/2019 - 08/29/2019	Attended
Chad Timko	1	Admin - Due Diligence with Prospective Manager - Plano TX	08/20/2019 - 08/20/2019	Attended
	2	Admin - Due Diligence of Illiquid Credit Finalist Managers - New York NY	08/27/2019 - 08/29/2019	Attended
Scott Zdrazil	1	Admin - Council of Institutional Board and Committee meetings - Washington D.C.	07/31/2019 - 08/01/2019	Attended



**STAFF EDUCATION AND TRAVEL REPORT  
FOR FISCAL YEAR 2019 - 2020  
AUGUST 2019**

<b>Attendee</b>		<b>Purpose of Travel - Location</b>	<b>Event Dates</b>	<b>Travel Status</b>
<b>QA &amp; Metrics</b>				
Derwin Brown	1	Edu - IIA Institute of Internal Auditors 2019 International Conference - Anaheim CA	07/07/2019 - 07/10/2019	Attended
Flora Zhu	1	Edu - ATD Certificate Program - Train the Trainer - Orlando FL	07/08/2019 - 07/10/2019	Attended
<b>Retiree Healthcare</b>				
Tionna Fredericks	1	Edu - IIA Institute of Internal Auditors 2019 International Conference - Anaheim CA	07/07/2019 - 07/10/2019	Attended
<b>Systems</b>				
James Brekk	1	Edu - IAFCI Annual Training Conference & Exhibitor Show - Raleigh NC	08/26/2019 - 08/30/2019	Attended



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**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**

**FOR INFORMATION ONLY**

October 1, 2019

TO: Each Member  
Board of Investments

FROM: Steven P. Rice *SPR*  
Chief Counsel

FOR: October 8, 2019 Board of Investments Meeting

SUBJECT: Monthly Status Report on Board of Investments Legal Projects

Attached is the monthly report on the status of Board-directed investment-related projects handled by the Legal Division as of October 1, 2019.

Attachment

c: JJ Popowich  
Jonathan Grabel  
Vache Mahseredjian  
John McClelland  
Christopher Wagner  
Ted Wright  
Jim Rice  
Jude Perez  
Christine Roseland  
John Harrington  
Cheryl Lu  
Margo McCabe  
Lisa Garcia



LACERA Legal Division  
Board of Investments Projects  
Monthly Status Report - Pending as of October 1, 2019



	Project/ Investment	Description	Amount	Board Approval Date	Completion Status	% Complete	Notes
EQUITIES	MSCI ACWI IMI Index Manger (State Street)	Investment Management Agreement	\$14,800,000,000.00	August 14, 2019	In Progress	<div style="width: 25%;"></div> 25%	Legal review in process.
PRIVATE EQUITY	RedBird Capital Partners Series 2019, L.P.	Subscription	\$150,000,000.00	August 14, 2019	In Progress	<div style="width: 75%;"></div> 75%	Legal negotiations in process.



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