

# LIVE VIRTUAL BOARD MEETING

**JULY 8, 2020 AT 8:00 AM**

**Equity: Public/Private Committee**



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## TO PROVIDE PUBLIC COMMENT

You may submit a request to speak during Public Comment or provide a written comment by emailing [PublicComment@lacera.com](mailto:PublicComment@lacera.com). If you are requesting to speak, please include your contact information, agenda item, and meeting date in your request.

LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION  
300 N. LAKE AVENUE, SUITE 650, PASADENA, CA

**Attention:** Public comment requests must be submitted via email to [PublicComment@lacera.com](mailto:PublicComment@lacera.com) no later than 5:00 p.m. the day before the scheduled meeting.

## AGENDA

### A REGULAR MEETING OF THE EQUITY: PUBLIC/PRIVATE COMMITTEE OF THE BOARD OF INVESTMENTS\*

LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION

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

8:00 A.M., WEDNESDAY, JULY 8, 2020

*This meeting will be conducted by teleconference pursuant to the Governor's Executive Order N-29-20. The public may attend the meeting at LACERA's offices.*

Any person may listen by telephone to the meeting by dialing 877-309-2071, Access Code 999-998-330 or view the meeting online at <https://attendee.gotowebinar.com/register/4144644673065281039>

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

#### I. CALL TO ORDER

#### II. APPROVAL OF MINUTES

- A. Approval of the Minutes of the Equity: Public/Private Committee Meeting of February 12, 2020.

#### III. PUBLIC COMMENT

(\*\*You may submit written public comments by email to [PublicComment@lacera.com](mailto:PublicComment@lacera.com). Please include the agenda number and meeting date in your correspondence. Correspondence will be made part of the official record of the meeting. Please submit your written public comments or documentation as soon as possible and up to the close of the meeting.

You may also request to address the Boards. A request to speak must be submitted via email to [PublicComment@lacera.com](mailto:PublicComment@lacera.com) no later than 5:00 p.m. the day before the scheduled meeting. Please include your contact information, agenda item, and meeting date so that we may contact you with information and instructions as to how to access the Board meeting as a speaker.)

July 8, 2020

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#### IV. NON-CONSENT ITEM

- A. Recommendation as submitted by Christopher J. Wagner, Principal Investment Officer; Ted Wright, Principal Investment Officer; David Chu, Senior Investment Officer; David Simpson, Investment Officer; Ron Senkandwa, Investment Officer; and Mel Tsao, Senior Investment Analyst: That the Committee advance the Growth functional category 2020 Mid-Cycle Structure Review and the proposed modification to the private equity co-investment program to the Board of Investments for Board approval.

#### V. ITEMS FOR STAFF REVIEW

- VI. GOOD OF THE ORDER  
(For information purposes only)

#### VII. ADJOURNMENT

***\*The Board of Investments has adopted a policy permitting any member of the Board to attend a standing committee meeting open to the public. In the event five or more members of the Board of Investments (including members appointed to the Committee) are in attendance, the meeting shall constitute a joint meeting of the Committee and the Board of Investments. Members of the Board of Investments who are not members of the Committee may attend and participate in a meeting of a Committee but may not vote, make a motion, or second on any matter discussed at the meeting. The only action the Committee may take at the meeting is approval of a recommendation to take further action at a subsequent meeting of the Board.***

***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.***

***\*\*Requests for reasonable modification or accommodation of the telephone public access and Public Comments procedures stated in this agenda from individuals with disabilities, consistent with the Americans with Disabilities Act of 1990, may call the Board Offices at (626) 564-6000, Ext. 4401/4402 from 8:30 a.m. to 5:00 p.m. Monday through Friday or email PublicComment@lacera.com, but no later than 48 hours prior to the time the meeting is to commence.***

MINUTES OF THE REGULAR MEETING OF THE EQUITY: PUBLIC/PRIVATE  
COMMITTEE OF THE BOARD OF INVESTMENTS

AND BOARD OF INVESTMENTS

LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION

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

8:00 A.M., WEDNESDAY, FEBRUARY 12, 2020

PRESENT: Herman B. Santos, Chair

Wayne Moore

Gina V. Sanchez

David Green, Alternate

ABSENT: Elizabeth Greenwood, Vice Chair

MEMBERS AT LARGE:

David Muir

Alan Bernstein

Keith Knox

STAFF, ADVISORS, PARTICIPANTS

Jonathan Grabel, Chief Investment Officer

Christopher Wagner, Principal Investment Officer

David Chu, Senior Investment Officer

Didier Acevedo, Investment Officer

STAFF, ADVISORS, PARTICIPANTS (Continued)

StepStone Group, LP  
John Coelho, Partner  
Natalie Walker, Managing Director

Meketa Investment Group  
Leandro Festino, Managing Director

I. CALL TO ORDER

The Meeting was called to order by Chair Santos at 8:00 a.m., in the Board Room of Gateway Plaza.

II. APPROVAL OF MINUTES

- A. Approval of the Minutes of the Equity: Public/Private Committee Meeting of November 20, 2019.

Mrs. Sanchez made a motion, seconded by Mr. Green, to approve the minutes of the meeting of November 20, 2019. The motion carried by unanimous vote.

III. PUBLIC COMMENT

There were no requests from the public.

IV. REPORTS

- A. Investment Recommendation Format Redesign  
Christopher Wagner, Principal Investment Officer  
(Memo dated January 31, 2020)

Messrs. Grabel, Wagner, Chu, and Acevedo provided a presentation and answered questions from the Committee.

IV. REPORTS (Continued)

- B. Private Equity Education  
StepStone Group LP  
John Coelho, Partner  
Natalie Walker, Managing Director  
(Memo dated January 31, 2020)

Messrs. Grabel, Wagner, and Mr. Coelho and Ms. Walker from StepStone Group provided a presentation and answered questions from the Committee.

V. ITEMS FOR STAFF REVIEW

There were no items to report.

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

Mrs. Sanchez shared a quote and suggested we think about privacy when making long-term venture capital fund commitments.

VII. ADJOURNMENT

There being no further business to come before the Committee, the meeting was adjourned at 8:58 a.m.

June 26, 2020

TO: Trustees – Equity: Public/Private Committee

FROM: Christopher J. Wagner *CJW*  
Principal Investment Officer

Ted Wright *TW*  
Principal Investment Officer

FOR: July 8, 2020 Equity: Public/Private Committee Meeting

SUBJECT: **GROWTH FUNCTIONAL CATEGORY 2020 MID-CYCLE STRUCTURE REVIEW**

### **RECOMMENDATION**

Advance the Growth functional category 2020 Mid-Cycle Structure Review and the proposed modification to the private equity co-investment program as recommended on slide 28 of the attached presentation to the Board of Investments for approval.

### **BACKGROUND**

This is the first Growth functional category structure review combining the global equity and private equity asset categories. While opportunistic real estate is also part of Growth, its structure review will be included in the Real Assets functional category structure review later in the year.

The benefit of a consolidated structure review at the functional level is the specific role each functional category plays in the Fund. For example, Growth's role in the portfolio is that of primary driver of long-term total returns for the Fund.

Staff has prepared the Growth functional category 2020 Mid-Cycle Structure Review (**Attachment**) for evaluation by the Equity: Public/Private Committee and ultimately for approval by the Board of Investments ("Board"). Given the turbulence in investment markets over the past several months, the primary purpose of the Mid-Cycle Structure Review is to revisit the frameworks established in the 2019-2020 Structure Reviews, approved by the Board in December 2018 for private equity and February 2019 for global equity, and propose adjustments, as appropriate. The Structure Review also addresses the impact of COVID-19, the current market environment and opportunity set, and upcoming initiatives.

### **GLOBAL EQUITY**

At the December 2019 Board meeting, staff presented the Global Equity Implementation Update on the global equity initial biennial structure review. As part of the update, recommendations were made to simplify the portfolio's benchmark to the MSCI ACWI IMI Index and establish

market capitalization and regional bands for the portfolio relative to the benchmark. These bands help to mitigate risk and construct a more intentional portfolio. Meketa concurred with these recommendations and the Trustees collectively approved the recommendation.

Since December 2019, the portfolio has meaningfully shifted closer to target weights and tracked closer to the single global benchmark. And, while the performance of the global equity portfolio has been more in line with its assigned benchmark, there still exists benchmark misfit that needs to be addressed.

As the global equity portfolio transitions toward its target weights, LACERA will continue to adjust the portfolio structure and further reduce the small cap exposure overweight. These assets will be used to fund the additional allocations to the global equity factor strategy. This change will further align the portfolio's structure weights and characteristic targets relative to the benchmark.

## **PRIVATE EQUITY**

At the June 2020 Board meeting, staff and StepStone reviewed the annual commitment pace for the 2020-2029 period. StepStone's analysis projected that LACERA should maintain its commitment target of up to \$1.6 billion (+/- 20%) in 2020. Accordingly, the topic is not further addressed in the Mid-Cycle Structure Review. The commitment pace for subsequent years will be addressed at the November 2020 Equity: Public/Private Committee meeting during the regularly scheduled 2021-2022 biennial Private Equity Structure Review.

Staff and StepStone will continue to look for quality primary commitments (both re-ups and new) in each investment strategy of the private equity program. Over the past five years, LACERA's commitments have been allocated approximately 70% to buyouts and 78% to U.S. managers. While LACERA maintains relationships with many managers, an emphasis in the upcoming period will be on increasing exposure to international funds.

Within the Mid-Cycle Review, staff is proposing a change that expands the current parameters of the co-investment program. The proposed change, if approved, will enable the private equity team to access more sources of deal flow.

## **CONCLUSION**

The COVID-19 pandemic has created both challenges and opportunities due to market volatility. As identified in the Structure Review, the global equity portfolio needs to be more intentional with a greater emphasis on the portfolio's risk/reward profile relative to the benchmark.

The private equity program will maintain the deployment pace of up to \$1.6 billion (+/- 20%) in 2020, as outlined in the 2019-2020 Structure Review. This best positions LACERA to stay at or slightly above the target private equity exposure of 10% of the overall Fund. Staff is recommending an expansion of the current sourcing parameters for its in-house co-investment program to maximize the team's ability to consider opportunities that may be created in the current market environment.



Trustees – Equity: Public/Private Committee

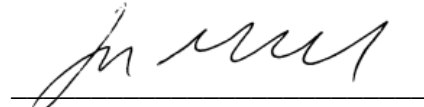
June 26, 2020

Page 3 of 3

The global equity and private equity teams will present their respective sections of the Growth functional category 2020 Mid-Cycle Structure Review at the July 8<sup>th</sup> Equity: Public/Private Committee meeting.

Attachment

Noted and Reviewed:

A handwritten signature in black ink, appearing to read 'J. Grabel', is written over a horizontal line.

Jonathan Grabel

Chief Investment Officer

CW:TW:DC:DES:MT:mm

# Growth

## 2020 Mid-Cycle Structure Review

Equity: Public/Private Committee  
July 8, 2020



Jonathan Grabel – Chief Investment Officer  
Christopher J. Wagner – Principal Investment Officer  
Ted Wright, CFA, FRM, PRM, CAIA – Principal Investment Officer  
David Chu – Senior Investment Officer  
David Simpson, CFA – Investment Officer  
Ron Senkandwa – Investment Officer  
Mel Tsao – Senior Investment Analyst

**LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION**

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# Introduction

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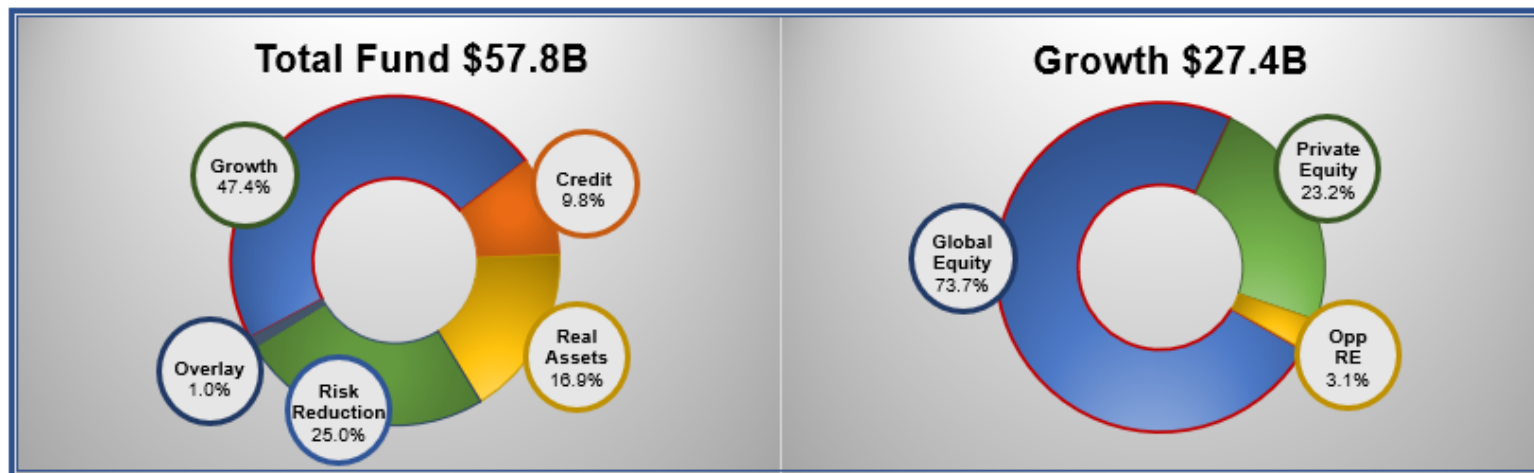
This is the first Growth category structure review combining global equity and private equity in a single presentation.

This Growth Mid-Cycle Structure Review serves to update the Committee on the status of the portfolio driven by ongoing market volatility resulting from COVID-19 and social events. The review addresses the market environment, portfolio structure, performance, due diligence processes, and marketplace risks and opportunities.

## Recommendation

Expand existing parameters for Private Equity co-investments that may be approved by the CIO.

# Role of Growth



As of May 31, 2020.

LACERA's Strategic Asset Allocation consists of four primary functional categories: ***Growth, Credit, Real Assets and Inflation Hedges, and Risk Reduction and Mitigation***

- Growth's role in the portfolio is to be the primary driver of long-term total returns for the Fund
- The two major components of the Growth category are Global Equity and Private Equity. Opportunistic Real Estate will be reviewed in the Real Assets Structure Review

# Market Environment and Investment Themes

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## **Themes identified in 2019-2020 Structure Reviews remain relevant**

- High valuations
- Demographic shifts
- Technological advancement

## **COVID-19 impact**

- Increased market volatility
- Monetary and fiscal actions
- Societal transformation
  - Uncertain duration of industries negatively impacted – airlines, retail, leisure, real estate
  - Acceleration of modern technologies – video, cloud services, connectivity, digital media
  - Increased focus on changing consumer behaviors

## **Potential market trends emerging from pandemic**

- Supply chain diversification and localization
- De-urbanization with distributed workforces
- Highly levered companies in need of restructuring
- Marginal business models under duress



# GLOBAL EQUITY



# Initiatives: Mid-Cycle Update

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## Initiatives identified in 2019-2020 Structure Reviews and Update

- Transitioned public equity portfolio into single Global Equity Composite benchmarked to the MSCI ACWI IMI<sup>1</sup> ✓
- Revised strategy categories to Passive, Factor-Based, and Active ✓
- Established +/- 5% band ranges for market capitalization and regional allocations ✓
- Initiated allocation to US Factor-Based equity strategies ✓

## Upcoming initiatives

- Address benchmark misfit
- Manager guideline reviews
- Evaluate effectiveness of active management
- Internal management review
- Emerging manager program search

<sup>1</sup> Morgan Stanley Capital International All Country World Index, Investable Market Index – A global benchmark capturing large, mid- and small cap representation across 23 Developed Markets and 26 Emerging Markets covering approximately 99% of the global investment opportunity set.





# COVID-19 Due Diligence Process Impact

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## Continued due diligence actions

- Daily, monthly, and quarterly compliance monitoring
- All managers and partners have been responsive by telephone and email

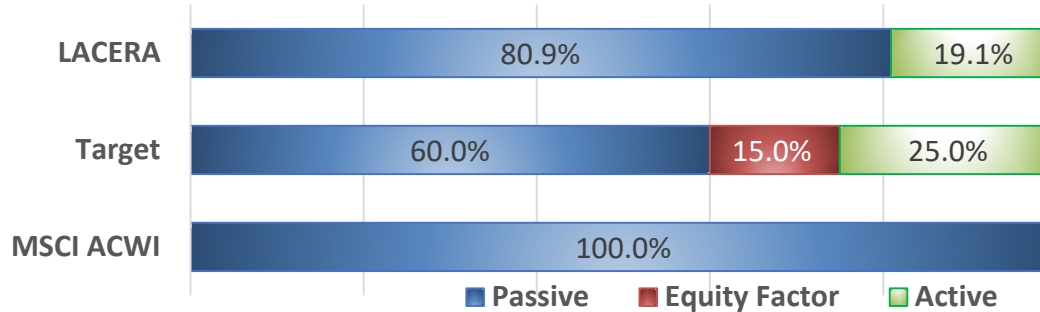
## Modified due diligence actions

- Access to custodian bank and market data platforms are available through remote access
- Transition to web-based manager platforms for FactSet, Bloomberg, Informa-Zephyr
- Increased ad-hoc manager calls



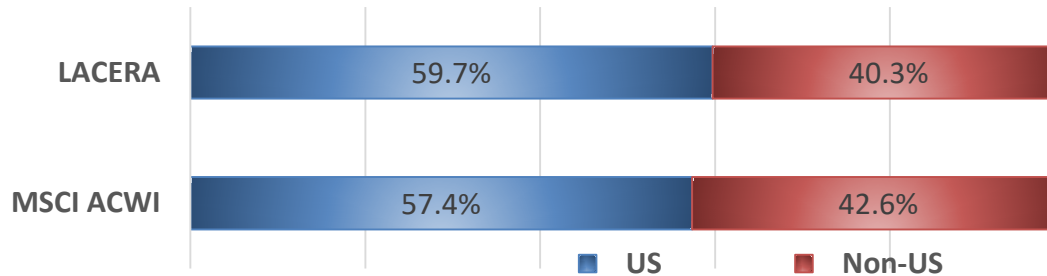
# Portfolio Structure – Compared to MSCI ACWI<sup>1</sup>

## Allocation:



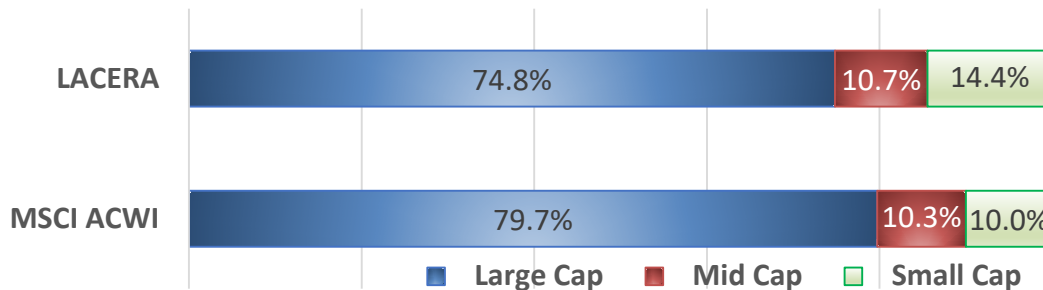
Equity factor funding began in June

## Geography:



Overweight US exposure

## Cap Size:



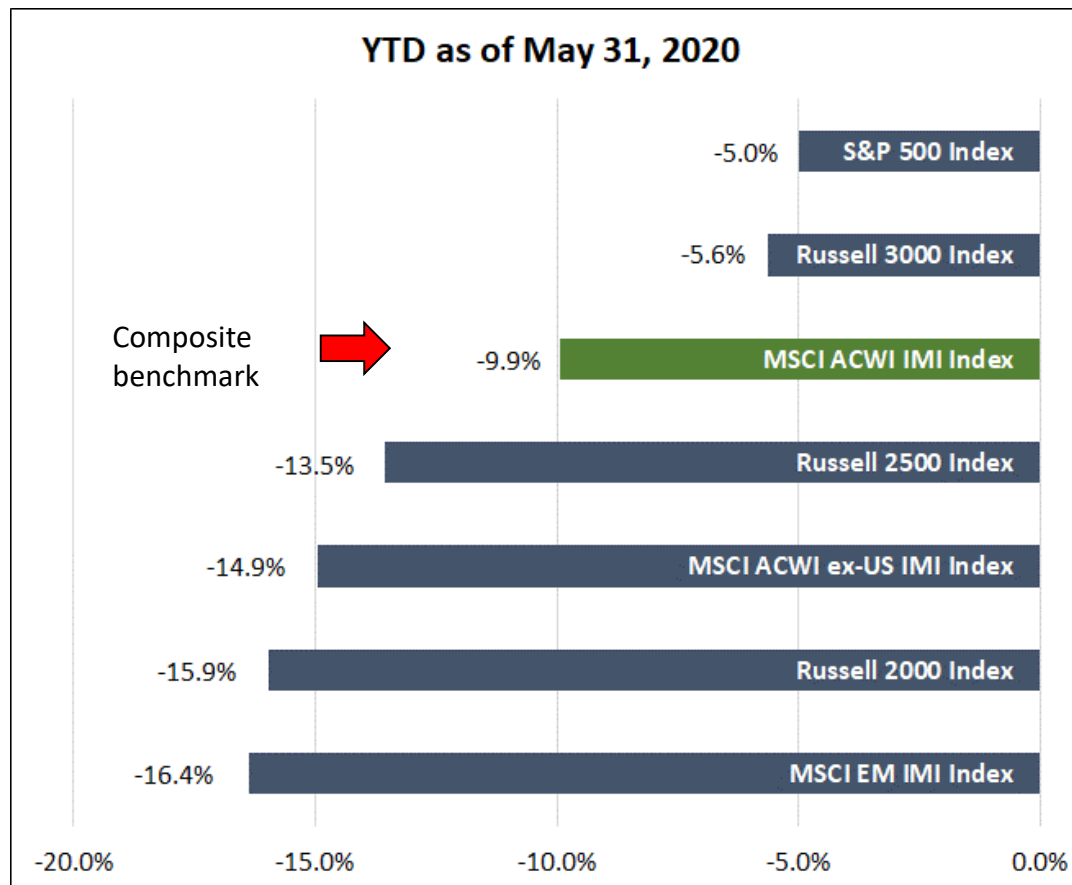
Overweight small cap

<sup>1</sup> As of May 31, 2020.



# Portfolio Evaluation – Index Returns

- Majority of global equity benchmarks underperformed composite benchmark
- Benchmark misfit exists within global equity portfolio



# Portfolio Evaluation – Performance

	3-Month	YTD	1-Year
Global Equity Composite (Net)	-0.59%	-9.94%	4.46%
MSCI AWCI IMI Index	-0.59%	-9.94%	3.90%
<b>Net Excess</b>	<b>0.00%</b>	<b>0.00%</b>	<b>0.56%</b>

As of May 31, 2020.

- Year-to-date performance matching the benchmark understates risk in the current portfolio
- Portfolio has over- and underweights relative to the MSCI ACWI IMI benchmark
  - Overweight US exposure in passive mandates
  - Underweight US exposure in active mandates
  - Overweight small cap stocks



# Portfolio Evaluation – Manager Excess Returns<sup>1</sup>

Manager	Benchmark	Inception Date	1Q 2020	3-Month	YTD	1 Year	Common Period*	Since Inception
<b>US Equity Managers</b>								
Jana Partners	S&P 500	Oct-16	-13.5%	-7.9%	-8.5%	0.9%	-4.2%	3.4%
CornerCap	Russell 2000	Oct-18	-2.9%	-3.1%	-5.4%	-5.2%	-2.7%	-1.7%
Frontier	Russell 2500	Jun-02	-6.0%	-2.2%	-4.2%	-1.4%	-2.3%	0.7%
Matarin	Russell 2000	Oct-18	-5.0%	-3.2%	-7.4%	-8.0%	-8.0%	-7.4%
QMA	Russell 2000	Jul-18	-6.8%	-7.0%	-8.7%	-8.0%	-8.7%	-7.2%
Systematic	Russell 2000	Jul-18	-1.8%	-4.3%	-6.2%	-5.3%	-4.5%	-4.0%
<b>Non US Equity Managers</b>								
Acadian	MSCI EAFE + Canada Net	Apr-06	2.2%	1.9%	2.5%	0.5%	-0.3%	0.9%
Capital Group	MSCI EAFE + Canada Net	Oct-87	3.8%	8.6%	8.7%	13.3%	12.2%	3.4%
BTC Euro Tilts	MSCI Europe	Jan-07	0.1%	0.7%	0.8%	-0.8%	-0.3%	0.7%
Cevian	MSCI Europe	Oct-16	-1.9%	-3.7%	0.3%	-3.7%	-5.5%	-1.9%
Global Alpha	MSCI EAFE Small Cap Net	Nov-18	-1.0%	-2.5%	-2.9%	-2.1%	0.8%	0.8%
Symphony	MSCI Japan Small Cap Net	Nov-16	4.6%	14.1%	0.7%	9.8%	16.7%	13.6%
Genesis	MSCI EM IMI Index	Sep-07	-1.3%	-1.0%	-0.7%	2.1%	5.5%	2.4%
Lazard	MSCI EM	Feb-13	-1.2%	1.7%	0.0%	1.7%	4.0%	0.3%
<b>Global Equity**</b>	<b>Global Equity Custom BM</b>	<b>Apr-19</b>	<b>-0.1%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.6%</b>	<b>N/A</b>	<b>0.4%</b>

As of May 31, 2020.

<sup>1</sup> Manager excess returns are net-of-fees and versus respective benchmarks.

\* Common period for underlying global equity managers is November 1, 2018 to May 31, 2020.

\*\* Global Equity portfolio inception date is April 1, 2019.



# Portfolio Evaluation – Manager Risk Statistics<sup>1</sup>

November 2018 - May 2020

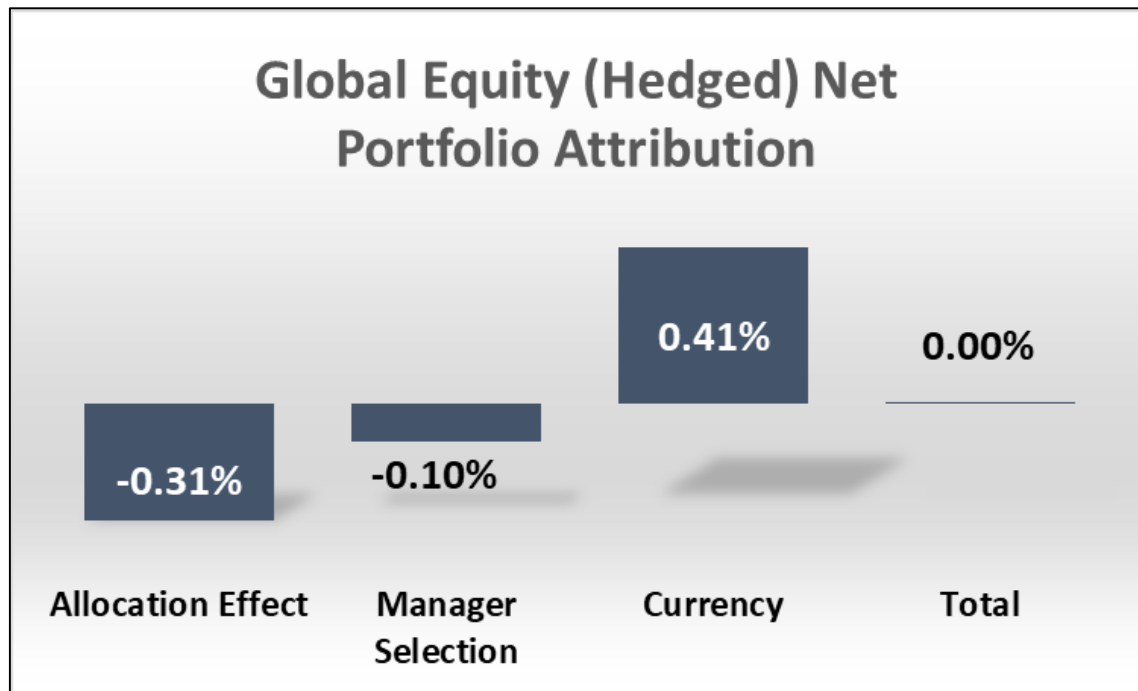
Manager	vs. Respective Benchmark			
	Beta	Up Capture	Down Capture	Information Ratio
<b>U.S. Large Cap</b>				
JANA	1.33	118.80%	119.90%	-0.21
<b>U.S. Small/Mid Cap</b>				
Frontier	1.17	123.69%	111.98%	-0.4
<b>U.S. Small Cap</b>				
CornerCap	1.02	100.90%	104.00%	-0.62
QMA	1.13	98.80%	111.40%	-1.74
Matarin	1.05	92.60%	108.60%	-1.69
Systematic	0.96	90.60%	102.90%	-0.98
<b>EAFE + Canada</b>				
Acadian Developed	0.93	89.20%	94.30%	-0.09
Capital Group Developed	0.97	135.50%	86.80%	2.67
<b>Europe</b>				
BTC Europe Tilts	1.01	102.10%	101.90%	-0.15
Cevian Capital	1.1	93.80%	110.90%	-0.71
<b>EAFE Small Cap</b>				
Global Alpha	1.03	105.80%	101.20%	0.15
<b>Japan Small Cap</b>				
Symphony	1.02	183.60%	102.40%	0.65
<b>Emerging Markets</b>				
Genesis	1.03	114.90%	94.70%	1.32
Lazard	1.01	116.80%	99.40%	1.09

<sup>1</sup> Manager risk statistics are net-of-fees.



# Portfolio Evaluation – Attribution

- Currency hedge offset losses from Allocation Effect<sup>1</sup> and Manager Selection<sup>2</sup>



Calendar Year-to-Date as of May 31, 2020.

<sup>1</sup> Allocation Effect: decision to tilt portfolio away from the program benchmark.

<sup>2</sup> Manager Selection: decision to implement active management as opposed to a passive index.



# What Worked and Areas of Refinement

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## What Worked (YTD)

- Non-US active management
- Currency positioning
- Fee savings



## Areas of Refinement

- Continue to reduce small cap overweight
- Address benchmark misfit
- Manager guidelines review
- Active management analysis
- Better understand risk profile of portfolio



# PRIVATE EQUITY



# Initiatives: Mid-Cycle Update

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## Initiatives identified in 2019-2020 Structure Review

- Review of Co-Investment program ✓
- Exploration of VC incubators ✓
- Incorporating ILPA ESG diversity and inclusion initiatives ✓
- Continued assessment of legacy relationships ✓
- Manager scorecard development ✓

## Initiatives subsequently identified

- Expand sourcing parameters for in-house co-investment program to capitalize on market dislocations due to events such as COVID-19
  - Opportune time as LPs potentially retrench and valuations drop
  - Enhances returns, lower fees, and increases portfolio intentionality



# Portfolio Structure by Investment Type <sup>1, 2, 3, 4</sup>

<i>As of 12/31/2019 \$MMs</i>	Active GPs	Market Value	Outstanding Commitments	Sum of Exposure	Percent of Total Exposure	Current Range
Buyout - Global	8	\$1,498	\$982	\$2,480	23%	
Buyout - Large	4	\$695	\$597	\$1,293	12%	
Buyout - Mid	12	\$723	\$729	\$1,452	13%	
Buyout - Small	14	\$858	\$622	\$1,480	14%	
Special Situations	4	\$223	\$147	\$370	3%	
<b>Buyout</b>	<b>42</b>	<b>\$3,775</b>	<b>\$2,930</b>	<b>\$6,705</b>	<b>62%</b>	<b>50% - 85%</b>
Co-Investments	2	\$273	\$117	\$390	4%	
Fund of Funds	3	\$857	\$469	\$1,327	12%	
Secondaries	2	\$102	\$19	\$121	1%	
<b>CFS</b>	<b>7</b>	<b>\$1,232</b>	<b>\$605</b>	<b>\$1,837</b>	<b>17%</b>	<b>10% - 25%</b>
Growth Equity	7	\$388	\$195	\$584	5%	
VC - Balanced	5	\$406	\$135	\$541	5%	
VC - Early Stage	8	\$255	\$265	\$520	5%	
VC - Late Stage	2	\$198	\$17	\$216	2%	
<b>VC/Growth Equity</b>	<b>22</b>	<b>\$1,247</b>	<b>\$614</b>	<b>\$1,860</b>	<b>17%</b>	<b>15% - 30%</b>
<b>Total</b>	<b>75</b>	<b>\$6,477</b>	<b>\$4,296</b>	<b>\$10,773</b>	<b>100%</b>	

All strategies are within policy range.

<sup>1</sup> Excludes legacy GPs with <\$750K remaining in market value.

<sup>2</sup> Fund-of-Funds represent an additional 100+ primary fund relationships.

<sup>3</sup> Some GPs appear in multiple strategies.

<sup>4</sup> For reference, see Appendix B – PE Performance by Sub-Strategy as of 12/31/2019



# COVID-19 Due Diligence Process Impact

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## **Modified due diligence actions**

- Onsite due diligence session(s) replaced by web video calls
- Increased numbers of reference calls, especially to longstanding LPs and industry contacts
- Leveraging institutional marketplace knowledge

## **Additional line of questioning pursued**

- How did the GP communicate with LPs during COVID-19
- How did GPs and portfolio company management respond and interact
- How is the GP conducting due diligence during COVID-19

## **Process observations**

- + Multiple LACERA team members on calls
- + More interactions with consultants
- Loss of casual social interactions, eye-to-eye contact, and body language insights



# Estimated COVID-19 Portfolio Impact

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*Based on industry exposures in the portfolio, staff estimates that the peak-to-trough COVID-19 impact on the PE portfolio was -10%, based on public market movement between February 1<sup>st</sup> and May 1<sup>st</sup>*

## **Low exposure to highly impacted industries**

- The twelve industries which were most impacted by COVID-19 dropped >25% on the public indices (led by airlines, energy equipment & services, and automobiles) in aggregate represented just 11% of the PE portfolio

## **High exposure to less impacted industries**

- LACERA's largest 3 industry exposures representing ~40% of the portfolio were less impacted by COVID-19:
  - Software
  - Internet Software & Services
  - Healthcare Providers & Services

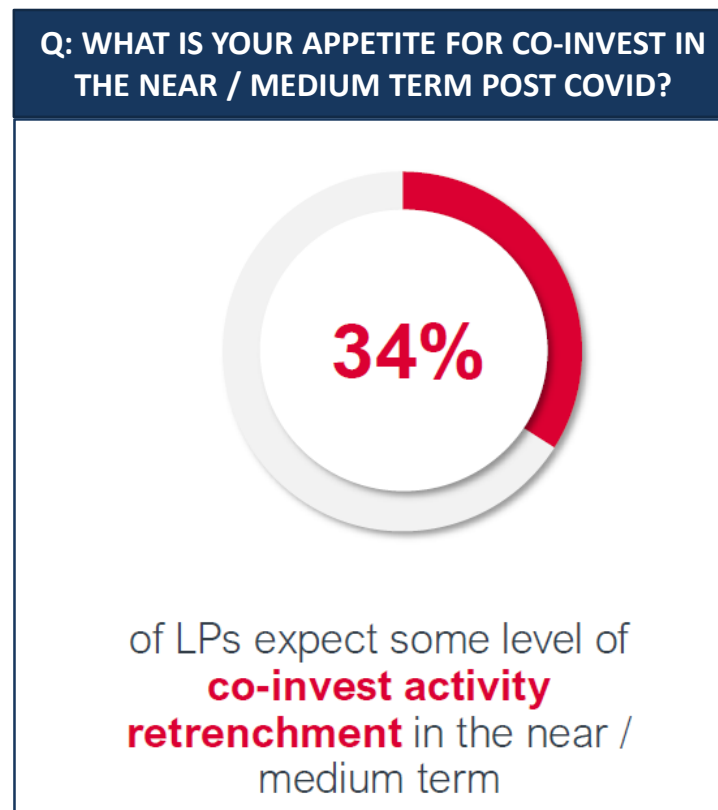
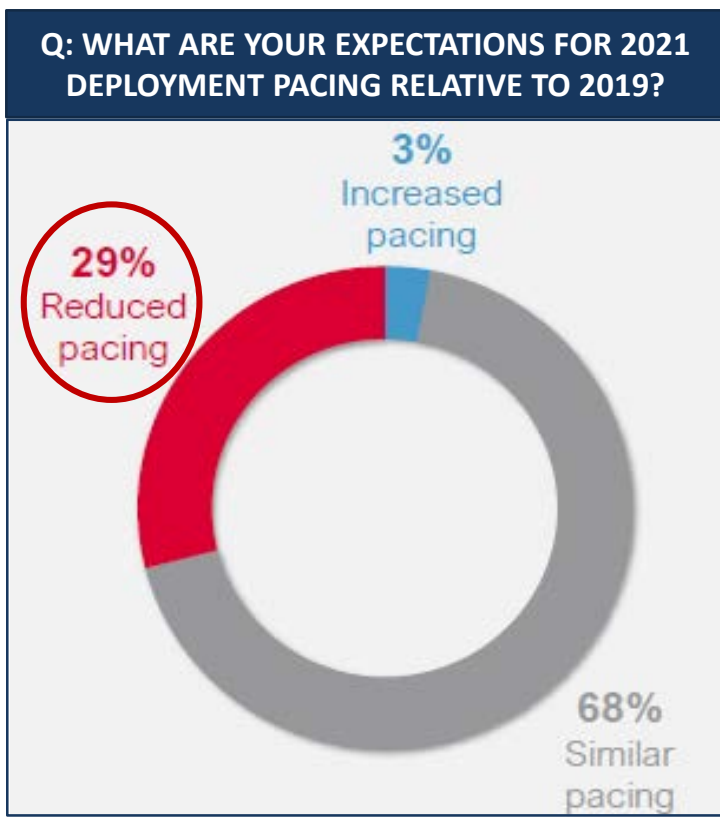
## **Biggest estimated dollar impacts contained**

- The six industries with the largest estimated losses as a result of COVID-19 in aggregate represented < 17% of LACERA's total PE exposure (included commercial services and supplies, media, diversified financials, and airlines)



# COVID-19 Market Impact – Potential LP Retrenchment

- Other investors may reduce PE deployment and co-investments
- Opportune time for LACERA to fill the hole in demand as an investor with long-term patient capital



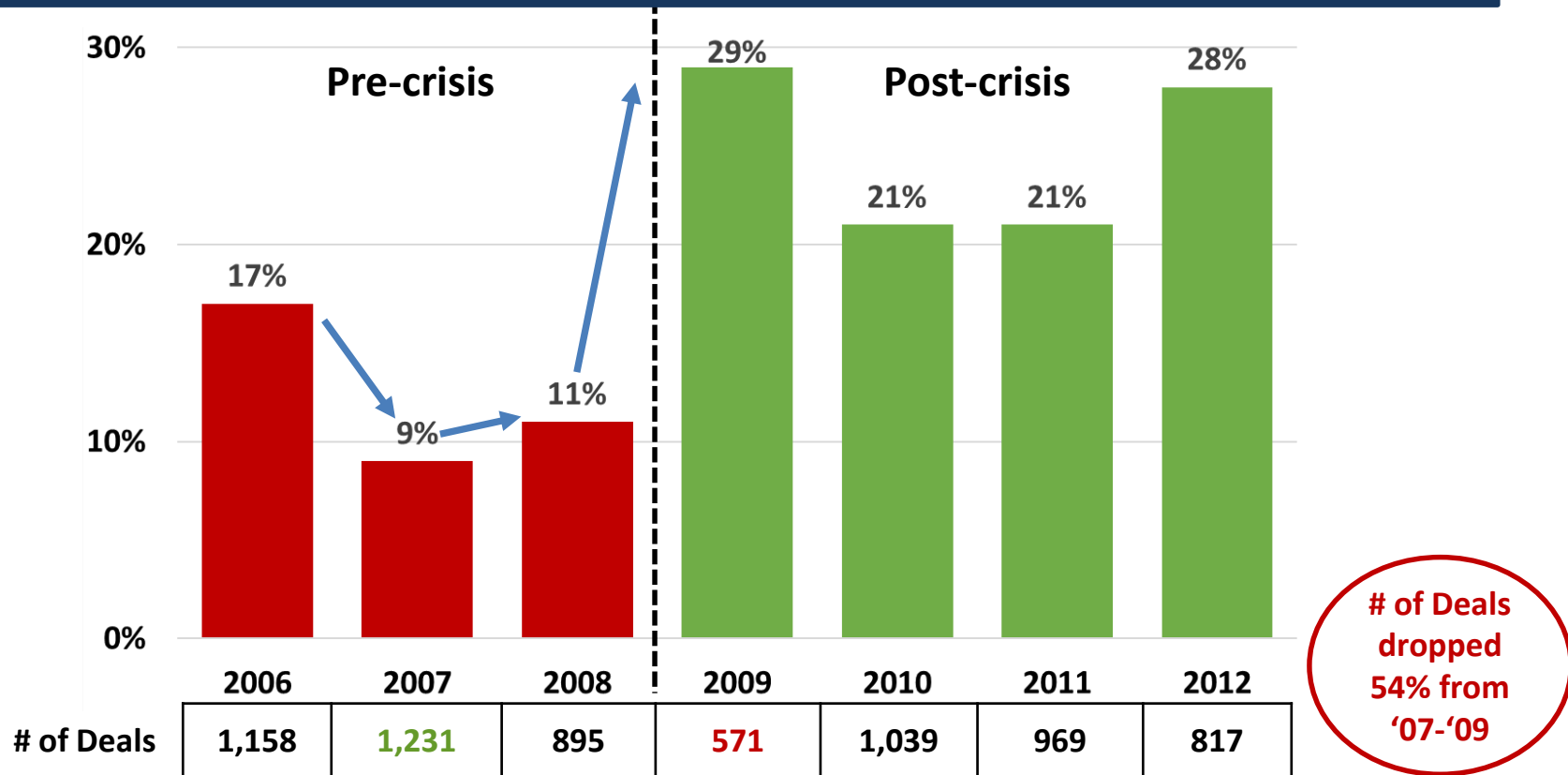
Source: Rede Pulse Survey (Issue Five). Depicts data gathered from conversations with 43 institutional LPs (> €2 trillion in aggregate AUM) across May 4-18.



# Downturns Have Been an Attractive Time to Make Co-Investments

- Investments made during or after a downturn tend to outperform pre-crisis periods

## Pooled Investment Rate of Return (PIRR)<sup>1</sup> by Deal Investment Year



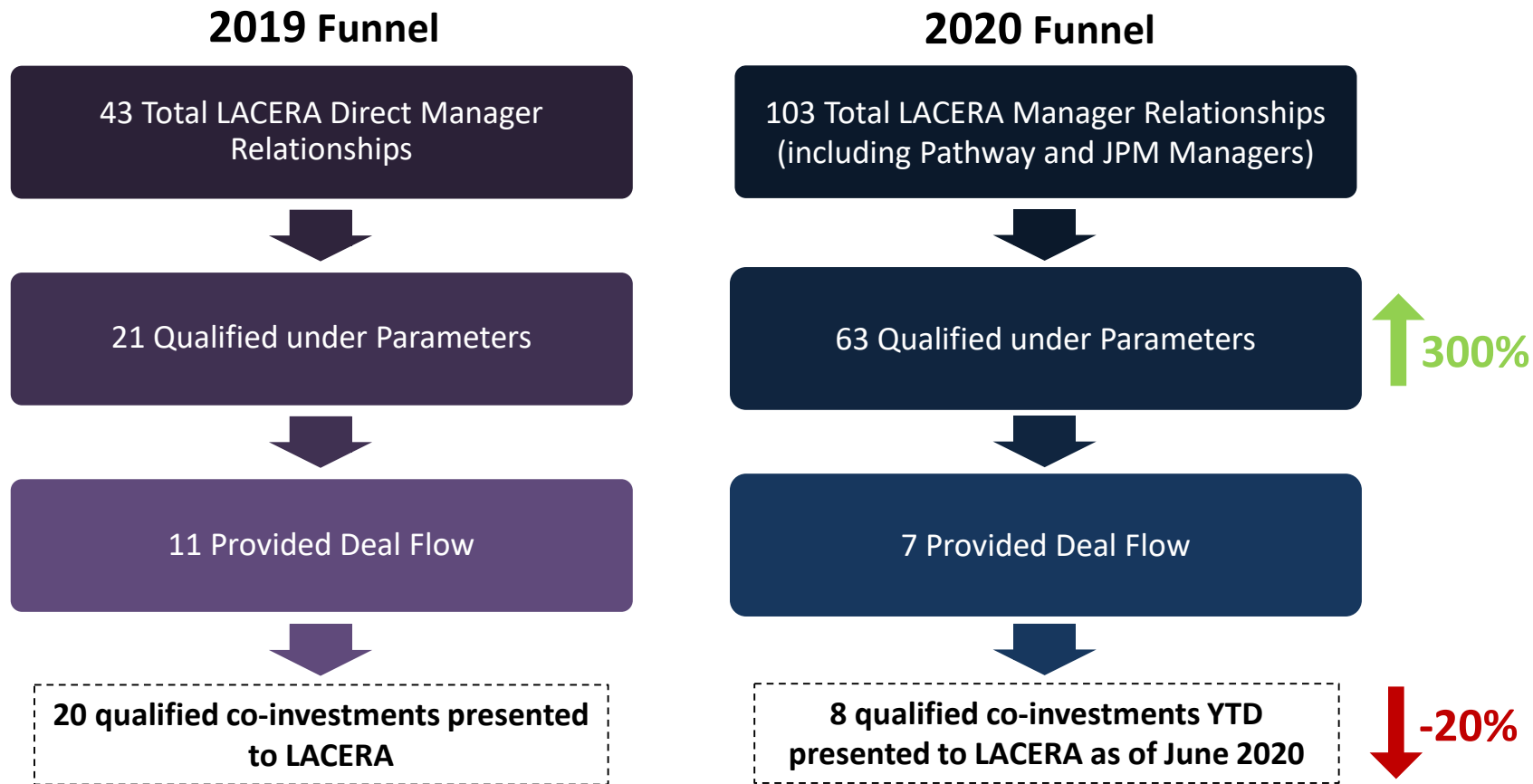
Source: Bain & Company, CEPRES Platform. Includes buyouts, turnaround, and special situation deals globally.

<sup>1</sup> Pooled Investment Rate of Return (PIRR) refers to a method of determining the internal rate of return (IRR) for a group of funds or investments.



# LACERA Co-Investment Pipeline Funnel

- Sourcing parameters were expanded in Q4 2019, but deal flow has not increased
- Negative COVID-19 impacts on deal flow warrants casting an even wider net





# Proposed Co-Investment Modifications

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- Expand existing sourcing parameters as follows
  - Co-investments alongside a Board-approved discretionary PE manager (e.g., JPMorgan, Pathway, Morgan Stanley), LACERA's PE Consultant (StepStone), or their approved managers
- All co-investments will still require third-party documentation that LACERA's due diligence process was followed in a satisfactory manner

***Expanding the sources of co-investment deal flow will provide LACERA with a wider range of potential opportunities which may arise during the downturn***



# Potential Future Initiatives

**Non-traditional PE investments having the highest likelihood of being actionable in the near future:**

Opportunity	Brief Description
<b>General Partner ("GP") Equity Stake</b>	A direct equity investment representing a minority ownership position in a GP's underlying management company
<b>Stapled Commitment</b>	Combines the acquisition of a co-investment or a secondary investment opportunity with a capital commitment to the general partner's next fund
<b>GP Seeding</b>	A form of GP equity stake investing to provide seed capital to newly established GPs
<b>Preferred Equity</b>	A fund-level financing that establishes a senior class of LP interests with preferential terms

***LACERA's PE Intern will provide an overview of GP Stakes during the July 2018 BOI meeting. Staff will seek to provide future education to the Board on the other topics***



# Conclusion

## Four Key Assertions

- Long-term strategic asset allocation will be the primary determinant of LACERA's risk/return outcomes
  - Growth is LACERA's largest asset category and critical to meeting actuarial rate of return
- Adhering to established policies and procedures ensures integrity of processes
  - Diligently monitor activity in the portfolio
  - Our search for new managers proceeds unabated
  - Our due diligence processes, while altered with virtual meetings, remain thorough, robust, and uncompromised
- LACERA remains active and risk-aware in the marketplace
  - Proactive outreach to our networks identify opportunities
  - Positioning the portfolio to act on opportunities arising from market disruption and dislocation
- Focus on integration of active strategies within public and private equity to create a more intentional Growth portfolio



# ADVANCE TO BOARD



# Advance to Board

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## Private Equity

Modify existing parameters to expand sources of deal flow for co-investments

# Appendices



# Appendix A – PE Performance by Sub-Strategy

Strategy / Sub-Strategy	Cumulative Contributions	Cumulative Distributions	Market Value	Total Value	Total Value to Paid-in	Since-Inception Net IRR	Since-Inception PME <sup>1</sup>
Buyout - Global	\$3,587	\$4,483	\$1,498	\$5,981	1.67x	16.2%	1.40
Buyout - Large	\$2,205	\$3,156	\$695	\$3,852	1.75x	15.3%	1.44
Buyout - Mid	\$1,722	\$1,771	\$723	\$2,494	1.45x	10.2%	1.22
Buyout - Small	\$1,670	\$1,692	\$858	\$2,550	1.53x	11.0%	1.26
<b>Buyout</b>	<b>\$9,184</b>	<b>\$11,102</b>	<b>\$3,775</b>	<b>\$14,877</b>	<b>1.62x</b>	<b>13.7%</b>	<b>1.35</b>
VC - Balanced	\$648	\$798	\$406	\$1,203	1.86x	16.3%	1.39
VC - Early Stage	\$526	\$791	\$255	\$1,046	1.99x	73.0%	1.53
VC - Late Stage	\$265	\$301	\$198	\$500	1.89x	24.7%	1.59
<b>Venture Capital</b>	<b>\$1,439</b>	<b>\$1,890</b>	<b>\$859</b>	<b>\$2,749</b>	<b>1.91x</b>	<b>21.7%</b>	<b>1.47</b>
<b>Growth Equity</b>	<b>\$760</b>	<b>\$1,128</b>	<b>\$388</b>	<b>\$1,516</b>	<b>2.00x</b>	<b>86.8%</b>	<b>1.67</b>
<b>Special Situations</b>	<b>\$835</b>	<b>\$897</b>	<b>\$223</b>	<b>\$1,120</b>	<b>1.34x</b>	<b>8.6%</b>	<b>1.12</b>
<b>Co-Investments</b>	<b>\$617</b>	<b>\$757</b>	<b>\$273</b>	<b>\$1,030</b>	<b>1.67x</b>	<b>18.1%</b>	<b>1.35</b>
<b>Fund of Funds</b>	<b>\$1,024</b>	<b>\$777</b>	<b>\$857</b>	<b>\$1,634</b>	<b>1.60x</b>	<b>11.6%</b>	<b>1.29</b>
<b>Secondaries</b>	<b>\$240</b>	<b>\$231</b>	<b>\$102</b>	<b>\$333</b>	<b>1.39x</b>	<b>17.4%</b>	<b>1.27</b>
<b>Total</b>	<b>\$14,098</b>	<b>\$16,784</b>	<b>\$6,477</b>	<b>\$23,260</b>	<b>1.65x</b>	<b>16.1%</b>	

## Performance Commentary

- In each sub-strategy, LACERA has generated performance that exceeds the PME benchmark
- Growth equity and venture capital, driven by long term relationships, have performed exceptionally well

<sup>1</sup> Public Market Equivalent designs a set of analyses used in the Private Equity Industry to evaluate the performance of a Private Equity Fund against a public benchmark or index.



# Appendix B – Current Co-Investment Parameters

Term	Current Parameters
<b>Sourcing</b>	<ul style="list-style-type: none"><li>• Co-investments offered by Board-approved managers</li><li>• Co-investments alongside Board-approved discretionary PE managers (e.g., JPMorgan, Pathway) approved for investment for LACERA</li></ul>
<b>Investment Size</b>	Up to \$40 million per investment
<b>Geography</b>	U.S. only
<b>Deal Types</b>	Buyout and growth capital
<b>Annual Deployment</b>	Up to \$150 million
<b>Advisor Confirmation</b>	Third party confirmation that LACERA’s due diligence was satisfactorily followed

