



July 6, 2020

TO: Each Trustee,
Board of Investments

SUBJECT: Equity: Public/Private Committee Meeting on July 8, 2020 – Green Folder Items

Following you will find the Green Folder items for the above mentioned meeting:

Equity: Public/Private Committee Meeting:

Item IV. A. - The Growth 2020 Mid-Cycle Structure Review presentation provided to you earlier this week had a date typo on slide 25. It stated that "LACERA's PE Intern will provide an overview of GP Stakes during the July 2018 BOI Meeting" but it **should have stated** "July 2020".

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

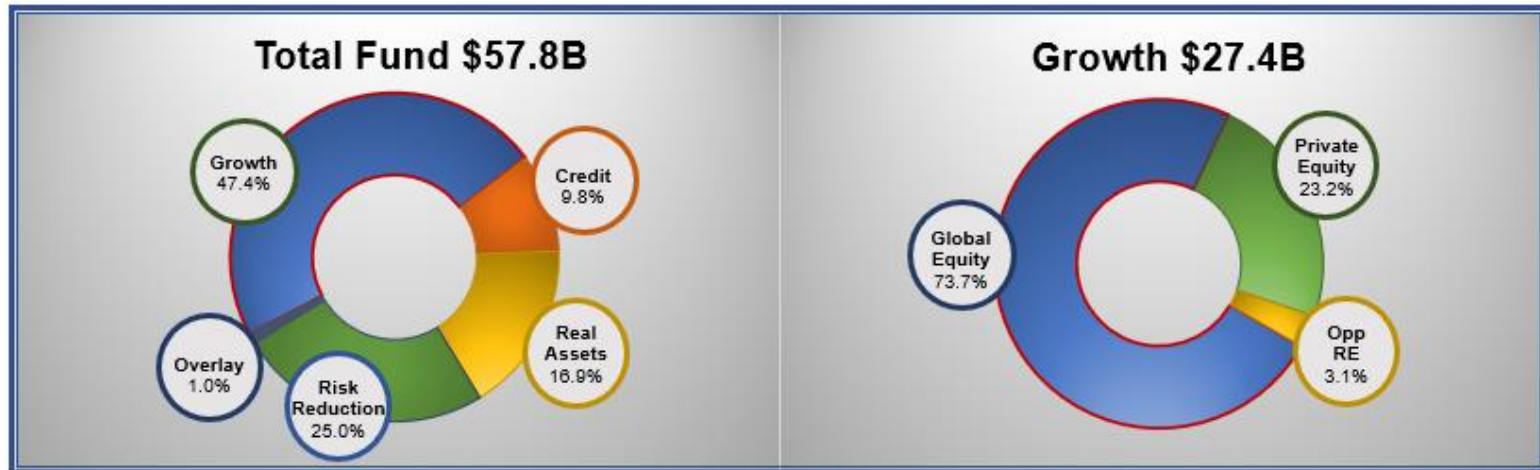
This is the first Growth category structure review combining global equity and private equity in a single presentation.

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

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

Initiatives identified in 2019-2020 Structure Reviews and Update

- Transitioned public equity portfolio into single Global Equity Composite benchmarked to the MSCI ACWI IMI¹ ✓
- 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

¹ 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

Continued due diligence actions

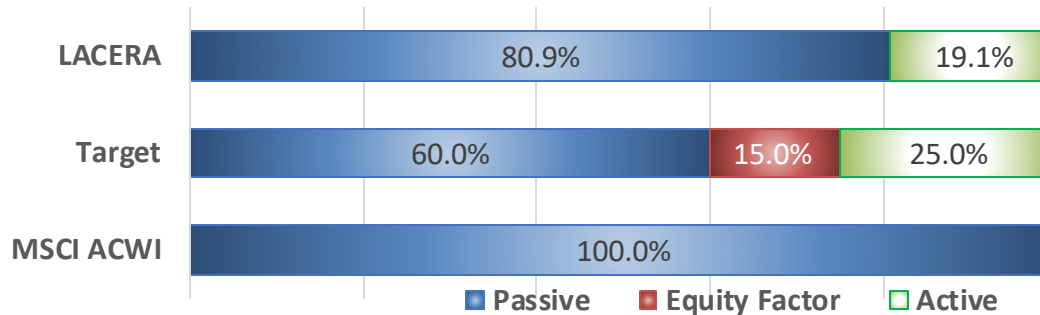
- Daily, monthly, and quarterly compliance monitoring
- All managers and partners have been responsive by telephone and email

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

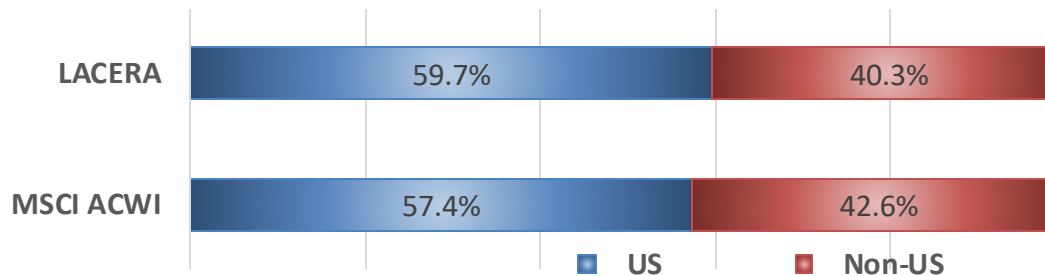
Portfolio Structure – Compared to MSCI ACWI¹

Allocation:



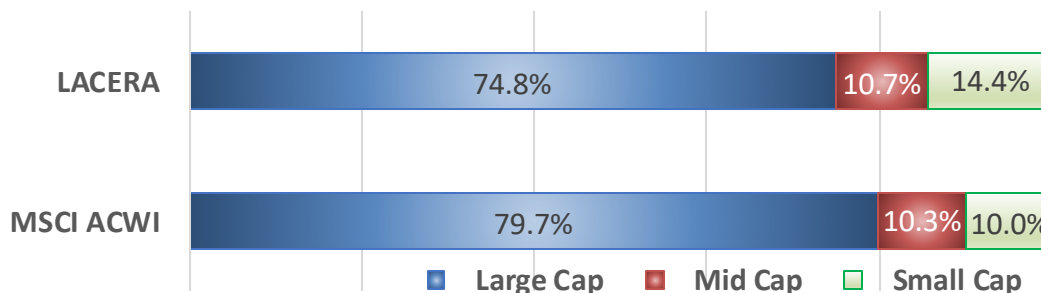
Equity factor funding began in June

Geography:



Overweight US exposure

Cap Size:



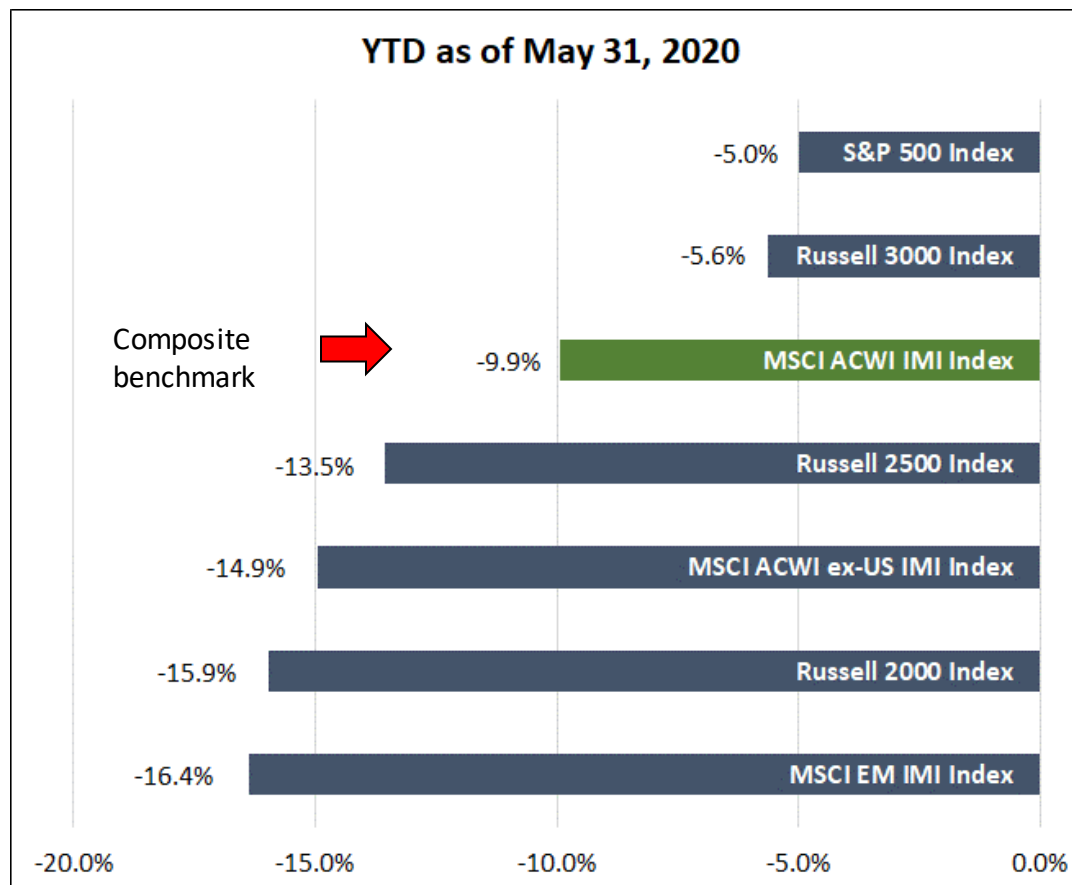
Overweight small cap

¹ 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%
Net Excess	0.00%	0.00%	0.56%

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 Returns¹

Manager	Benchmark	Inception Date					Common Period*	Since Inception
			1Q 2020	3-Month	YTD	1 Year		
US Equity Managers								
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%
Non US Equity Managers								
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%
Global Equity**	Global Equity Custom BM	Apr-19	-0.1%	0.0%	0.0%	0.6%	N/A	0.4%

As of May 31, 2020.

¹ 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 Statistics¹

November 2018 - May 2020

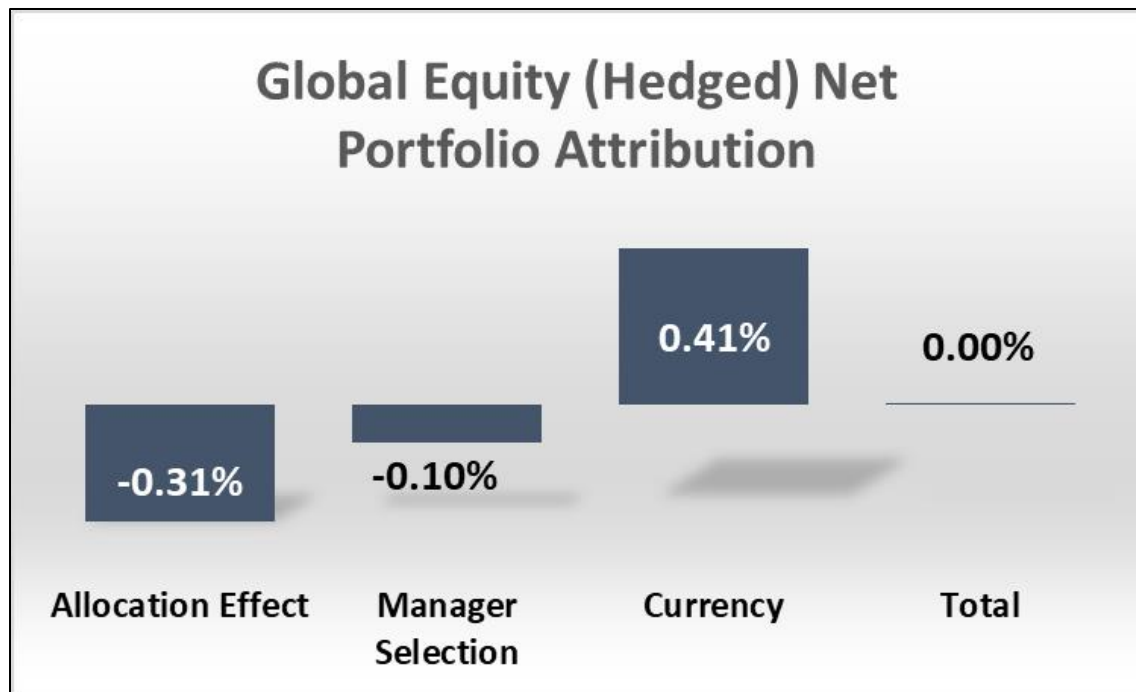
Manager	vs. Respective Benchmark			
	Beta	Up Capture	Down Capture	Information Ratio
U.S. Large Cap				
JANA	1.33	118.80%	119.90%	-0.21
U.S. Small/Mid Cap				
Frontier	1.17	123.69%	111.98%	-0.4
U.S. Small Cap				
CornerCap	1.02	100.90%	104.00%	-0.62
QMA	1.13	98.80%	111.40%	-1.74
Matarin	1.05	92.60%	108.60%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

¹ Manager risk statistics are net-of-fees.



Portfolio Evaluation – Attribution

- Currency hedge offset losses from Allocation Effect¹ and Manager Selection²



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

¹ Allocation Effect: decision to tilt portfolio away from the program benchmark.

² Manager Selection: decision to implement active management as opposed to a passive index.



What Worked and Areas of Refinement



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

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 ^{1, 2, 3, 4}

<i>As of 12/31/2019</i> <i>\$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%	
Buyout	42	\$3,775	\$2,930	\$6,705	62%	50% - 85%
Co-Investments	2	\$273	\$117	\$390	4%	
Fund of Funds	3	\$857	\$469	\$1,327	12%	
Secondaries	2	\$102	\$19	\$121	1%	
CFS	7	\$1,232	\$605	\$1,837	17%	10% - 25%
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%	
VC/Growth Equity	22	\$1,247	\$614	\$1,860	17%	15% - 30%
Total	75	\$6,477	\$4,296	\$10,773	100%	

All strategies are within policy range.

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

² Fund-of-Funds represent an additional 100+ primary fund relationships.

³ Some GPs appear in multiple strategies.

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



COVID-19 Due Diligence Process Impact

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

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 1st and May 1st

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

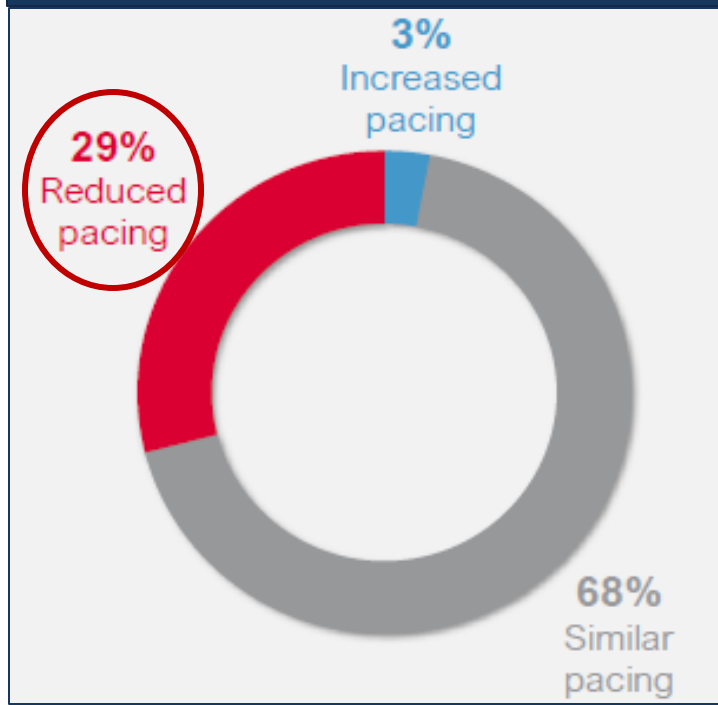
- The six industries with the largest estimated losses as a result of COVID-19 in aggregate represented < 17% of LACERA's total PE exposure (included commercial services and supplies, media, diversified financials, and airlines)



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

Q: WHAT ARE YOUR EXPECTATIONS FOR 2021 DEPLOYMENT PACING RELATIVE TO 2019?



Q: WHAT IS YOUR APPETITE FOR CO-INVEST IN THE NEAR / MEDIUM TERM POST COVID?



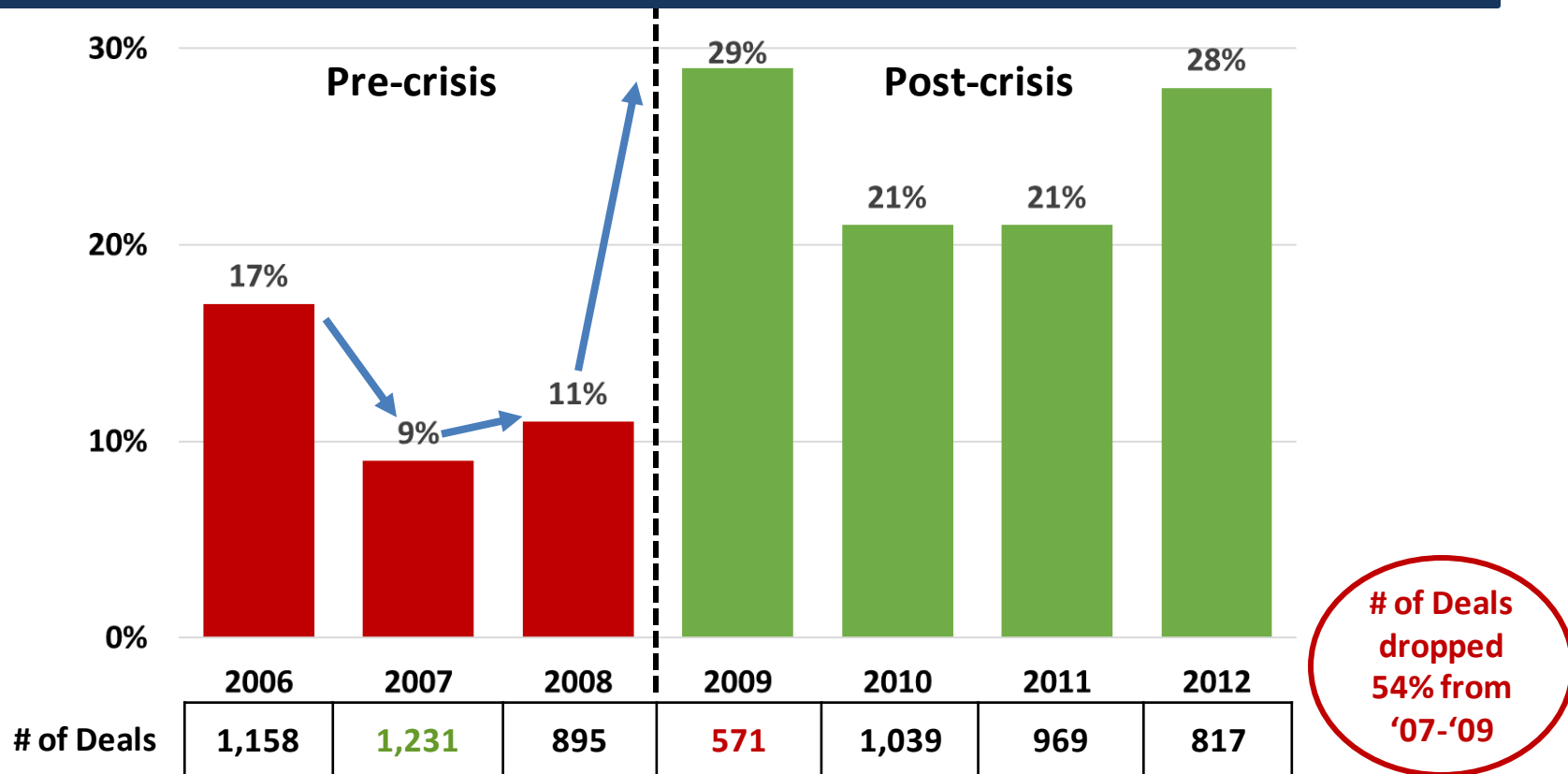
Source: Rede Pulse Survey (Issue Five). Depicts data gathered from conversations with 43 institutional LPs (> €2 trillion in aggregate AUM) across May 4-18.



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)¹ by Deal Investment Year



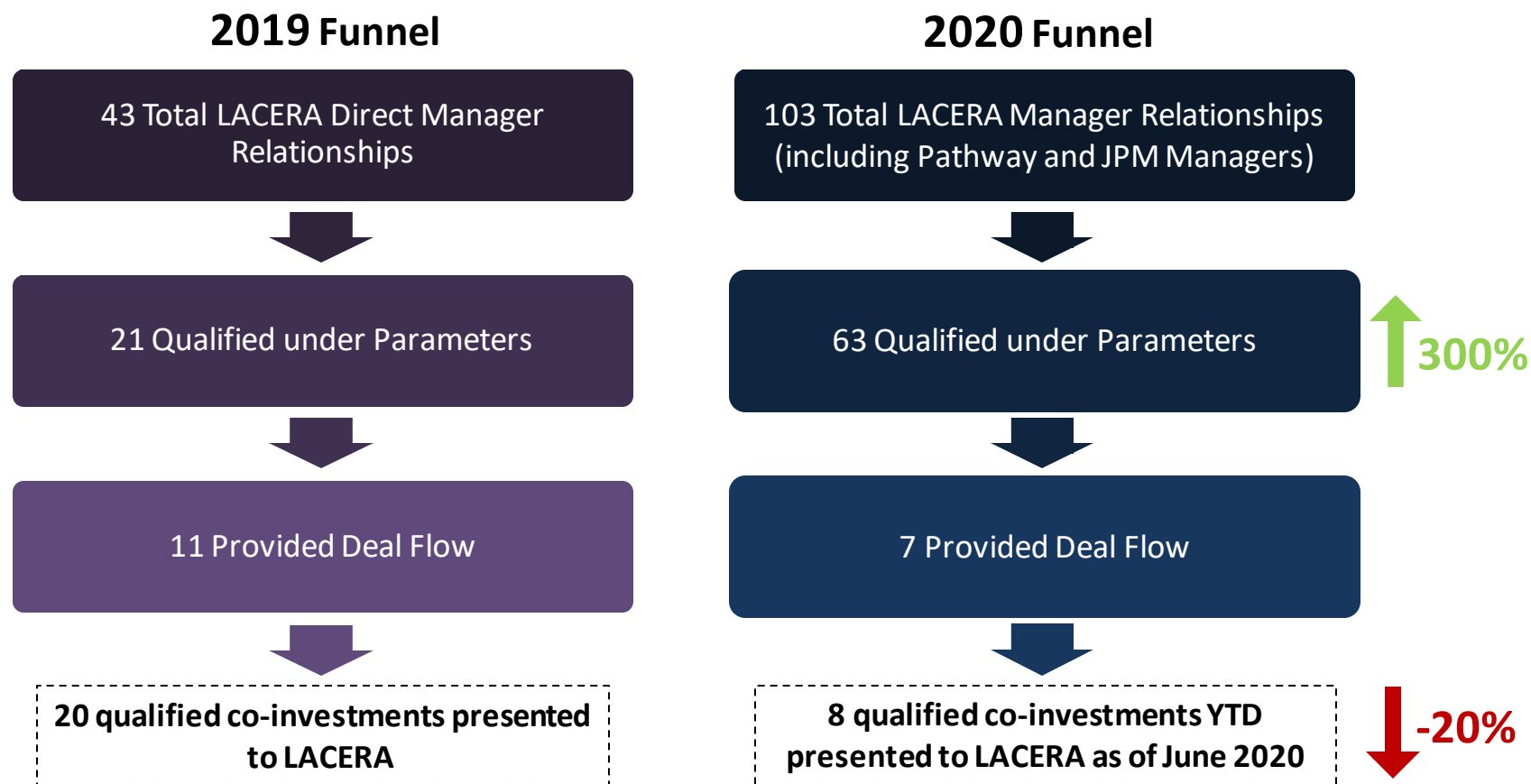
Source: Bain & Company, CEPRES Platform. Includes buyouts, turnaround, and special situation deals globally.

¹ 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

- 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
General Partner ("GP") Equity Stake	A direct equity investment representing a minority ownership position in a GP's underlying management company
Stapled Commitment	Combines the acquisition of a co-investment or a secondary investment opportunity with a capital commitment to the general partner's next fund
GP Seeding	A form of GP equity stake investing to provide seed capital to newly established GPs
Preferred Equity	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 2020 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

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 ¹
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
Buyout	\$9,184	\$11,102	\$3,775	\$14,877	1.62x	13.7%	1.35
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
Venture Capital	\$1,439	\$1,890	\$859	\$2,749	1.91x	21.7%	1.47
Growth Equity	\$760	\$1,128	\$388	\$1,516	2.00x	86.8%	1.67
Special Situations	\$835	\$897	\$223	\$1,120	1.34x	8.6%	1.12
Co-Investments	\$617	\$757	\$273	\$1,030	1.67x	18.1%	1.35
Fund of Funds	\$1,024	\$777	\$857	\$1,634	1.60x	11.6%	1.29
Secondaries	\$240	\$231	\$102	\$333	1.39x	17.4%	1.27
Total	\$14,098	\$16,784	\$6,477	\$23,260	1.65x	16.1%	

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

¹ 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
Sourcing	<ul style="list-style-type: none">• Co-investments offered by Board-approved managers• Co-investments alongside Board-approved discretionary PE managers (e.g., JPMorgan, Pathway) approved for investment for LACERA
Investment Size	Up to \$40 million per investment
Geography	U.S. only
Deal Types	Buyout and growth capital
Annual Deployment	Up to \$150 million
Advisor Confirmation	Third party confirmation that LACERA's due diligence was satisfactorily followed

