

LIVE VIRTUAL COMMITTEE MEETING



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

Attention: Written public comment must be submitted via email to PublicComment@lacera.com no later than 5:00 p.m. the day before the scheduled meeting.

AGENDA

A REGULAR MEETING OF THE REAL ASSETS 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, JUNE 10, 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 866-952-8437, Access Code 819-316-488 or view the meeting online at <https://attendee.gotowebinar.com/register/6468995760628588816>

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 Regular Real Assets Committee Meeting of September 11, 2019

III. PUBLIC COMMENT

(**You may submit written public comments by email to 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 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.)

June 10, 2020

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IV. REPORT

- A. Real Estate 2020 Structure Review
Jonathan Grabel, Chief Investment Officer
(Memo dated May 28, 2020)

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 REAL ASSETS COMMITTEE
AND BOARD OF INVESTMENTS

LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION

300 NORTH LAKE AVENUE, SUITE 810, PASADENA, CA 91101

8:00 A.M., WEDNESDAY, SEPTEMBER 11, 2019

PRESENT: Ronald Okum, Chair

 Alan Bernstein, Vice Chair

 Wayne Moore

 Gina Sanchez

ABSENT: David Muir

MEMBERS AT LARGE:

 Herman Santos

 David Green

 Keith Knox

STAFF, ADVISORS, PARTICIPANTS

 Jonathan Grabel, Chief Investment Officer

 John McClelland, Principal Investment Officer

 Jim Rice, Principal Investment Officer

 Daniel Joye, Investment Officer

 Mike Romero, Senior Investment Analyst

STAFF, ADVISORS, PARTICIPANTS (continued)

Meketa Investment Group
Tim Filla, Managing Principal
Leandro Festino, Managing Principal

The Townsend Group
Jennifer Young Stevens, Principal

Albourne America, LLC
James Walsh, Partner
Chris Slavin, Partner

I. CALL TO ORDER

The meeting was called to order at 8:01 a.m., in the Board Room of Gateway Plaza.

II. APPROVAL OF THE MINUTES

- A. Approval of the Minutes of the Regular Real Assets Committee Meeting of April 10, 2019

Mr. Bernstein made a motion, Ms. Sanchez seconded, to approve the minutes of the regular meeting of April 10, 2019. The motion passed unanimously.

III. PUBLIC COMMENT

There were no requests from the public to speak.

IV. NON-CONSENT

- A. Recommendation as submitted by Mike Romero, Senior Investment Analyst: That the Committee advance the Real Estate appraisal management service provider search minimum qualifications and change the external appraisal frequency. (Memo dated August 30, 2019)

IV. NON-CONSENT (Continued)

Messrs. McClelland and Romero were present and answered questions from the Committee.

Ms. Sanchez made a motion, Mr. Moore seconded, to advance the agenda item IV.A. to the Board of Investments for approval. The motion passed unanimously.

- B. Recommendation as submitted by James Rice, Principal Investment Officer, Daniel Joye, Investment Officer and Brenda Cullen, Investment Officer: That the Committee advance the Real Assets 2019 Structure Review to the Board of Investments for approval. (Memo dated August 28, 2019)

Messrs. Grabel, Rice and Joye were present and answered questions from the Committee.

Ms. Sanchez made a motion, seconded by Mr. Bernstein that the committee advance the proposed plan to the Board while asking staff to include a plan for implementation for consideration of direct investing and local investments in infrastructure when brought to the Board for consideration. The motion passed unanimously.

(This item was handled out of order before item to IV.A.)

V. REPORT ON STAFF ACTION ITEMS

There was nothing to report.

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

Mr. Bernstein requested that the discussion of direct investments in real assets not only belongs at this Committee but he believes it also belongs in the Corporate Governance Committee as it speaks to both investment categories and values. Mr. Grabel proposed bringing it to the full Board for discussion.


Corporate Governance should discuss as well. This speaks to both investment strategies and values.

VI. ADJOURNMENT

There being no further business to come before the Committee, the meeting was adjourned at approximately at 9:20 a.m.

May 28, 2020

TO: Trustees – Board of Investments

FROM: Jonathan Grabel 
Chief Investment Officer

FOR: June 10, 2020 Board of Investments Meeting

SUBJECT: **Real Estate Structure Review**

This real estate Structure Review (“Review”) is expected to cover the two-year period starting July 1, 2020. This review is being conducted in the face of tremendous uncertainty, as the pandemic-induced economic crisis has impacted real estate quite significantly. Rent collections at many properties are declining and the pace of transactions has dramatically declined as buyers and sellers try to wait out the crisis.

Fortunately, the market-driven pause in transactions provides LACERA the opportunity to take a step back and reassess its real estate investment program in a holistic manner. As such, the Review will be presented in two parts; **Part 1**, focused on operations; and **Part 2**, focusing on strategy. Addressing strategy later in the year will allow greater clarity and analysis of the market conditions and opportunities resulting from the pandemic.

ATTACHMENT A is **Part I** of the Review. It primarily addresses the operational aspects of the real estate program, which has evolved over the last 30 years, into a very complex program, largely centered around separate accounts. There are approximately 140 special purpose entities (mostly Title Holding Companies) that have been established and are maintained to support the separate account program. Each of these entities have their own bank accounts, corporate records, and require legal maintenance. This complex structure does not appear to have rewarded the Fund with superior performance. Real estate investments materially under-performed its benchmark over the ten-year period ending December 31, 2019.

Part 1 provides an overview of the role of real estate and portfolio fit within the functional asset categories used by LACERA. After reviewing the evolution of real estate investing for the Fund, the Review identifies opportunities for improvement, focusing on the three principal parties charged with implementing the program, staff, the consultant, and the external managers. Current and future operational-focused initiatives are highlighted as we work toward the goal of transitioning from an allocator to investor.

Part 2 of the Review is anticipated to be presented to the Real Assets Committee in 4Q 2020.

The real estate debt investments are not covered by this Structure Review. Real estate debt investments will be included in future Credit Structure Reviews.

Real Estate 2020 Structure Review

Real Assets Committee

June 10, 2020

Jonathan Grabel – Chief Investment Officer

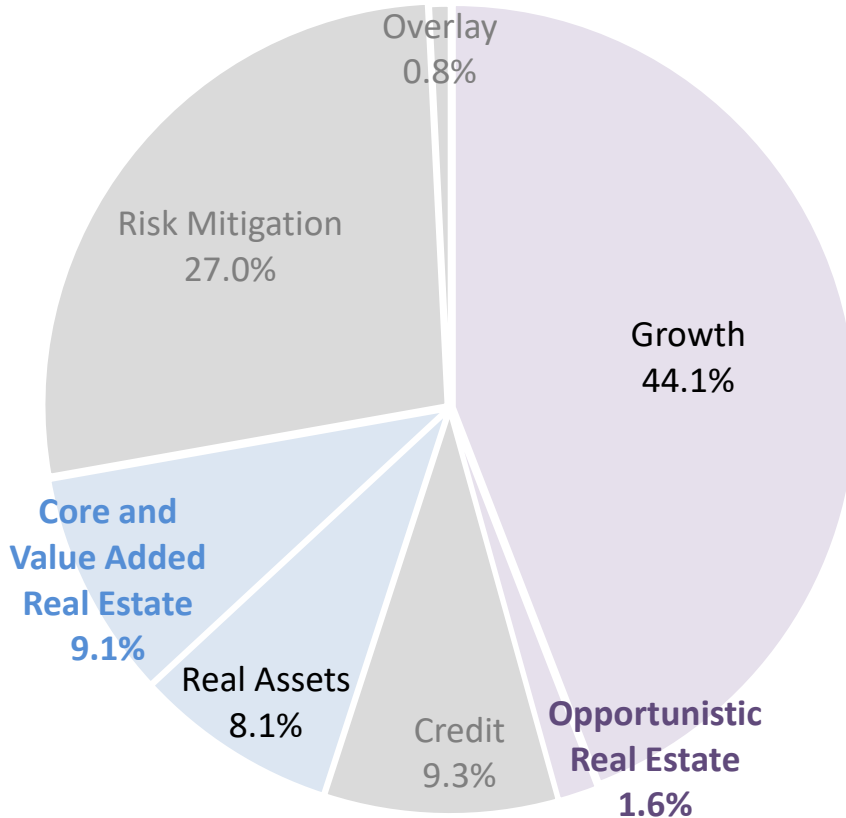


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Overview – Role and Portfolio Fit



Role:

- **Core and Value Added Real Estate** objectives:
 - Generate income
 - Diversify the total Fund
 - Hedge inflation risks
- **Opportunistic Real Estate** objective:
 - Deliver excess returns

Portfolio Fit:

- **Core and Value Added Real Estate** is **9.1%** of total Fund
 - 7.0% target allocation
 - Resides in Real Assets
- **Opportunistic Real Estate** is **1.6%** of total Fund
 - 2.0% target allocation
 - Resides in Growth

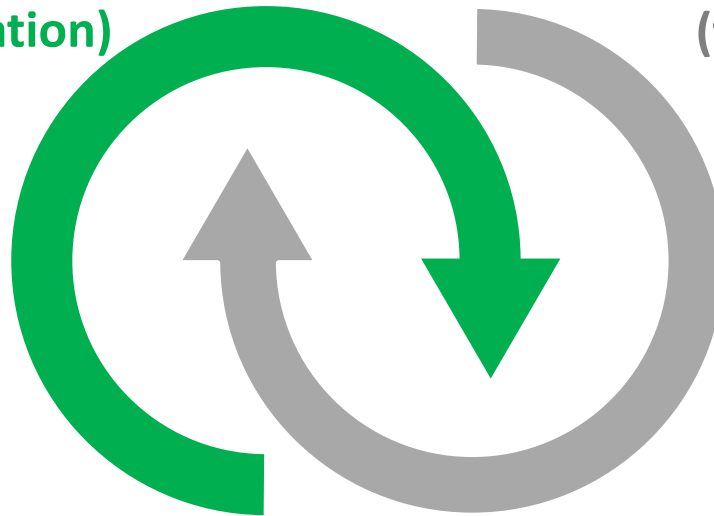
Data as of March 31, 2020. Real estate debt is excluded from this presentation since it is part of the Credit functional asset class.



Overview – Structure Review Framework

Part 1: Operations (this presentation)

- Structure and practices
- Implementation approach
- Uncompensated risks



Part 2: Strategy and Portfolio (future presentation)

- Delaying completion due to uncertain impacts of COVID-19
- Investment strategy
- Portfolio characteristics

Overview – Evolution

Aspirational 3.0



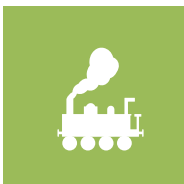
- TBD mixture of investment structures optimized for post COVID-19
- Goals:
 - a) Continuous improvements
 - b) Recognize complexity in decision making and underwriting
 - c) a + b = improved risk/return outcome
- More strategic portfolio

2.0



- Primary vehicle: separate accounts
- Growth in number of investment vehicle options
- U.S. and international
- Mixed performance
- Perceived control
- Under-investment in middle and back office
- Did not fully appreciate operational risks

1.0



- Primary vehicle: closed end commingled funds
- Fewer investment vehicles
- Predominately U.S.
- Disappointing performance
- Limited liquidity and control

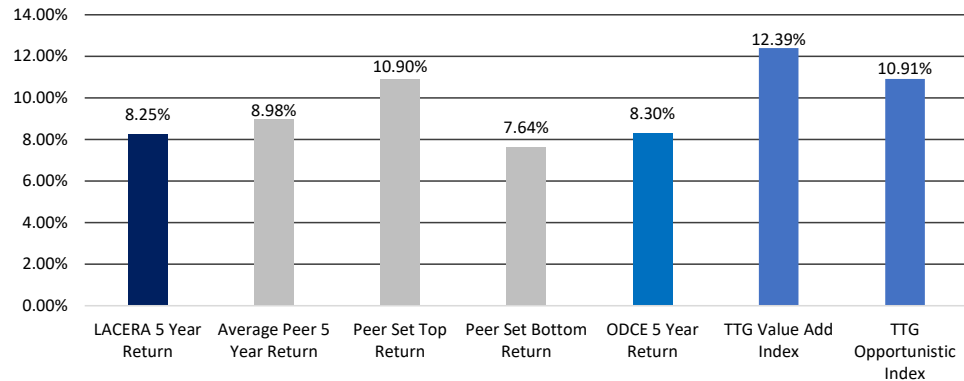
2020s

1990s, 2000s,
and 2010s

1970s and 1980s

Performance – Peer Evaluation

LACERA 5-Year Peer Set Comparison
Net Returns



	Peer Average	LACERA
RE Target Allocation	9.0%	10.0%
Core Exposure	67.5%	76.5%
% Commingled	77.0%	18.3%
% IMA	23.0%	81.7%
% Ex US	8.7%	9.0%

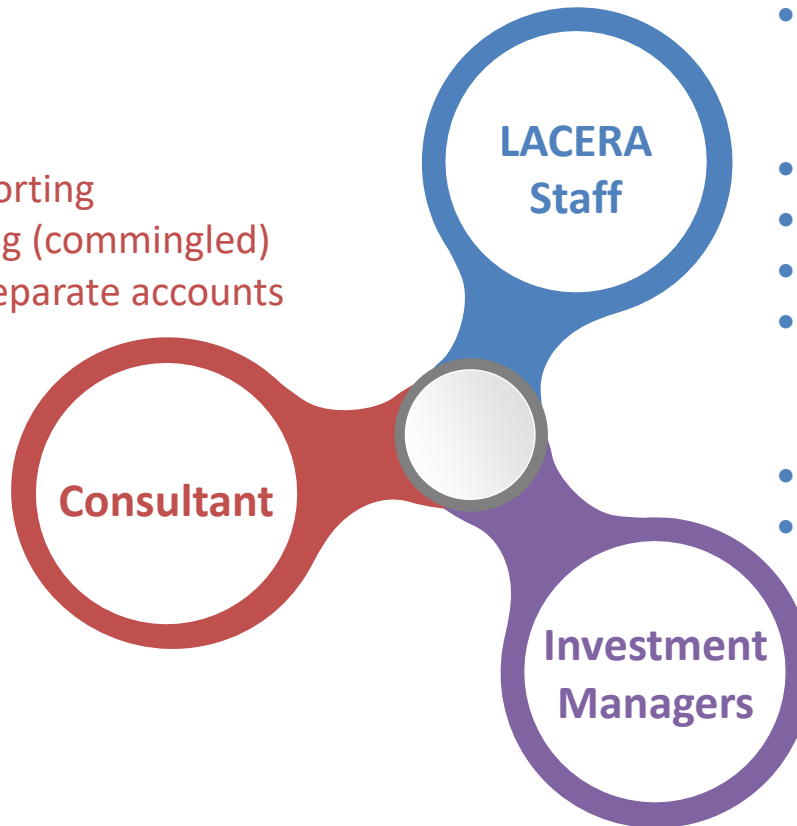
- The above compares LACERA to a set of 10 Townsend clients of similar risk profile, as well as several real estate fund indices
- Over the last 5-year period, LACERA’s Real Estate portfolio has trailed the average peer return by 73 basis points
- The Appendix contains additional performance and portfolio positioning information

Source: Townsend. As of 12/31/2019. Excludes real estate debt, which is part of the Credit functional asset class.



Current Structure – Key Implementation Resources

- Book of record
- Performance reporting
- Fund underwriting (commingled)
- Not involved in separate accounts
- Special projects



- Approve and monitor manager-prepared business plans for individual assets
- Manage appraisal process
- Performance reconciliation
- Reporting
- SPE/THC (Special Purpose Entity/Title Holding Company) maintenance
- Bank account management
- Fund underwriting

- Portfolio discretion (buy/sell)
- Underwrite investments
- Asset manage sub-portfolio
- Prepare quarterly reports
- Self-report performance

Structure – Improvement Opportunities



Investment Vehicle

Real Estate is an illiquid investment and vehicle does not change the nature (i.e., liquidity profile) of the underlying assets

Portfolio Design

Portfolio design could be centralized and more intentional

Risk and Reward

Operational and portfolio complexity has not had commensurate compensation via risk adjusted return

Enhance Portfolio Diversification

Decrease large single asset impact

Optimize Middle and Back Office

Engage third party specialists in mid and back office functions and simplify internal operations

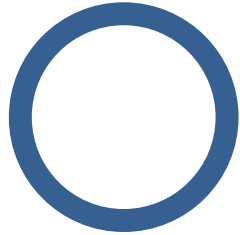
Decentralized Functions

Better coordinate internal functions

Harmonization – Allocator to Investor

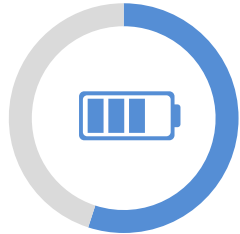
Focus on best practices across investment office

Operations – Initiatives



Completed

- Hired an appraisal management service provider
- Created a formal quarterly reconciliation process



In-Process

- Search for an alternative asset administrator
- Formalize desktop procedures
- Update manager scorecard
- ESG analysis



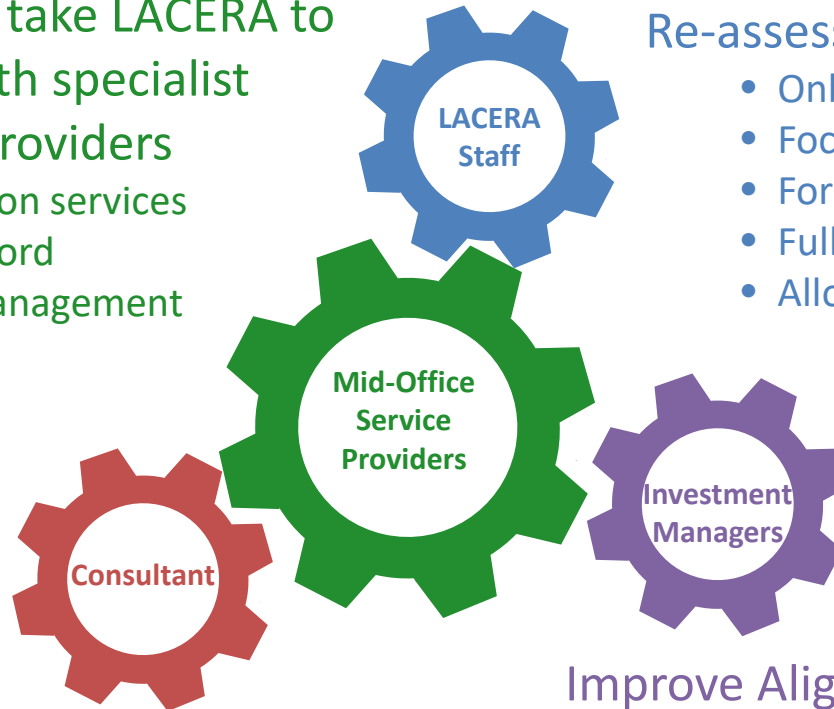
Upcoming

- Search for a real estate consultant
- Greater alignment with the investment office
- Review of banking operations

Operations – Future Initiatives

Enhancements to take LACERA to a 3.0 structure with specialist external service providers

- Administration services
- Books of record
- Appraisal management



Re-assess Role

- Onboard specialist service providers
- Focus on return-generating functions
- Formalize desktop procedures
- Fully integrate with investment office
- Allocator to investor

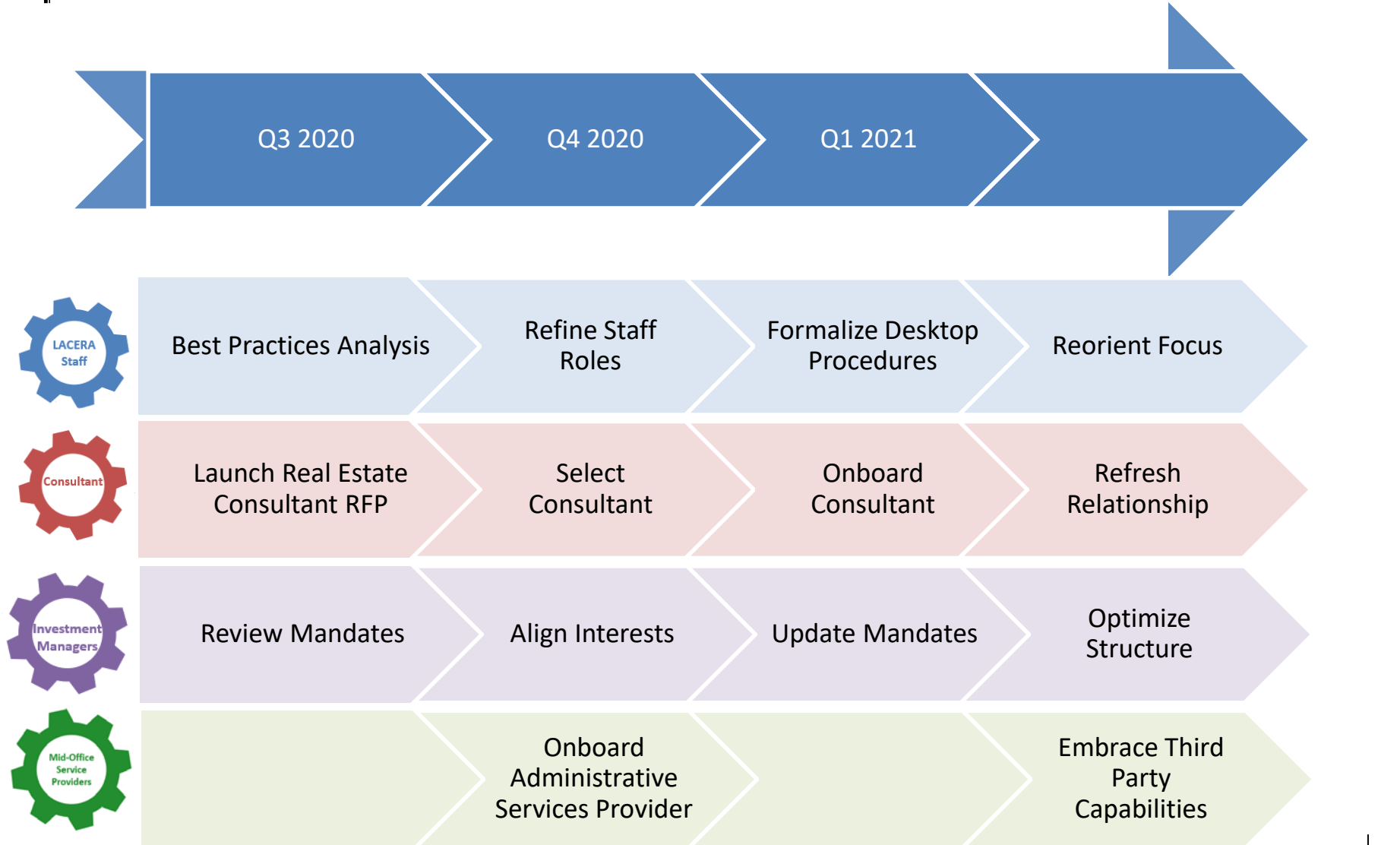
Launch Real Estate Consultant RFP

- More comprehensive scope of work
- Will return with MQs in July

Improve Alignment

- Restrict investments in new properties until Structure Review Part 2
- Real Estate over target
- Clarify mandates
- Fund / separate account / hybrid structures

Operations – Timeline



Appendix



Meketa Recommendations & Staff Response

Meketa Recommendations	Staff Response
Align the performance reporting processes of the real estate program with those of LACERA's other asset classes to bolster controls and uniformity of the performance book of record.	RFP underway for alternative assets administrative services provider. Selection recommendation expected in Q4 2020.
Develop formal, written desktop procedures to guide the real estate program's operations.	Underway. Office-wide effort will consolidate procedures for all asset classes.
Proceed with RFP for third-party administration services provider to augment reinforced internal process.	Underway.
Refine real estate implementation model to (i) better support investment objectives, (ii) incorporate best practices around portfolio construction and alignment of interests, and (iii) align with the size and skills of investment team resources.	Structure Review Parts 1 and 2.



Meketa – Best Practice Recommendations

Area of Focus	Recommendation(s)
I. OPERATIONS	
A. Performance Calculations	<ul style="list-style-type: none"> (i) Identify managers' performance calculations (ii) Uniformity of performance calculations
B. Document Storage	<p>Store for a seven-year period</p> <ul style="list-style-type: none"> (i) Plan documents: Quarterly Capital Statements, Cash Flow Statements, Management and Incentive Fee details, Subscription & Legal Agreements (detailing commitment amounts and agreed to terms) (ii) Fund documents: Quarterly Financial Statements, Quarterly Reports
C. Reporting Elements	<ul style="list-style-type: none"> (i) Essential performance elements: IRR, Net Multiple (ii) Essential capital account elements: Total Commitment, Contributions, Distributions, Current Unfunded Commitments (iii) Essential valuation elements: Current valuation
D. Additional Elements	<ul style="list-style-type: none"> (i) Plan details: comprehensively track of commitments, quarterly cash flows, and reporting methodology (ii) Fund details: track performance drivers and underlying debt characteristics (iii) Evolving data opportunity: improve ESG policies and practices (iv) Compliance with investment policy and strategic planning documents
E. Cash Flow Coordination	<ul style="list-style-type: none"> (i) Manage cash flows internally or through a fund administrator with a rigorous process (ii) Proactive coordination and communication (iii) Confirm all transfers and reconcile between each book of records (iv) Closely monitor wire instruction changes and obtain confirmation (v) Yearly or quarterly, independently confirm all cash flows and valuations information from managers

Source: Meketa "Real Estate Presentation", May 13, 2020.



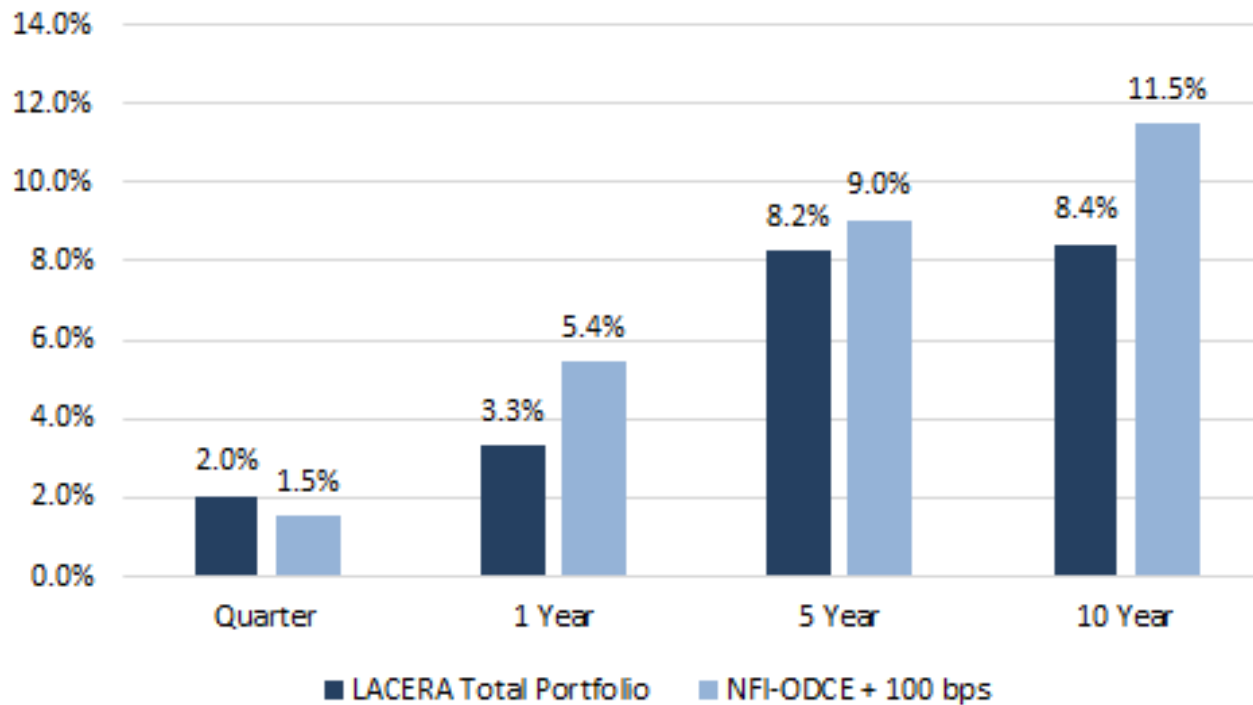
Meketa – Best Practice Recommendations (cont'd)

Area of Focus	Recommendation(s)
I. OPERATIONS	
F. Cash Flow and Valuation Reconciliation	<ul style="list-style-type: none"> (i) Reconcile cash flows and valuations on a quarterly/annual basis against manager reporting (ii) Record cash flows with the most granular level of detail possible (iii) Reconcile cash flow amounts and classifications against capital account statements and/or financial statements on a quarterly/annual basis
G. Annual Budgeting and Planning	<ul style="list-style-type: none"> (i) Consistently produce budgets and investment plans on a fiscal year basis (ii) Include detailed revenue, expense, capex and sale/refinancing recommendations in budgets (iii) Consider budgets and investment plans during audit and reporting efforts
H. Book of Record	<ul style="list-style-type: none"> (i) Maintain three books of record: Accounting, Investment, and Performance (ii) Clarify which book is represented in investment presentations (iii) Establish a reconciliation process across books on a "best fit" approach (iv) Update new investment information at Townsend and State Street
I. Banking	<ul style="list-style-type: none"> (i) Ensure team is specialized and well-trained on nuances within portfolio (ii) Experienced and easily accessible team (iii) Routinely evaluate team quality and service accuracy



Returns

LACERA Relative Performance *Net Returns*



As of 12/31/2019. Excludes real estate debt, which is part of the Credit functional asset class.

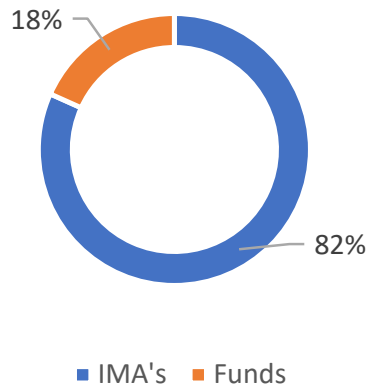


Portfolio Profile

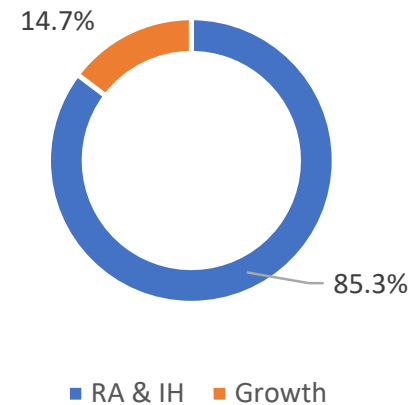
\$ in millions

Functional Class	Separate Accounts		Commingled Funds		Total	
	\$	%	\$	%	\$	%
RA & IH	4,276	86.1%	690	13.9%	4,966	85.3%
Growth	449	52.4%	409	47.6%	859	14.7%
Total	4,726	81.1%	1,099	18.9%	5,825	100.0%

Account Type



Functional Asset Class



As of 12/31/2019. Excludes real estate debt, which is part of the Credit functional asset class.

