

LIVE VIRTUAL BOARD MEETING



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

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

AGENDA

A SPECIAL JOINT MEETING OF THE BOARD OF RETIREMENT

AND THE BOARD OF INVESTMENTS

LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION

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

9:00 A.M., WEDNESDAY, SEPTEMBER 30, 2020

This meeting will be conducted by the Board of Retirement and Board of Investments by teleconference under the Governor's Executive Order No. N-29-20.

Any person may view the meeting online at

https://members.lacera.com/lmpublic/live_stream.xhtml.

*The Boards 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 Special Joint Meeting of the Board of Retirement of August 18, 2020

B. Approval of the Minutes of the Special Joint Meeting of the Board of Investments of August 18, 2020

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.)

IV. REPORTS

- A. Review of the Education and Travel Policy, Expenses, and Practices Summary Report as submitted by Mosaic Governance Advisors, LLC. (Report dated September 15, 2020)
(Presentation dated September 30, 2020)

Amy McDuffee, CEBS
Catherine Jackson, CPA, CA
David Maurek, CPA

- B. Management's Response to Mosaic Report on Review of Education and Travel Policy, Expenses, and Practices as submitted by Santos H. Kreimann, Chief Executive Officer. (Memo dated September 23, 2020)

V. NON-CONSENT ITEMS

- A. Recommendation as submitted by Steven P. Rice, Chief Counsel: That the Boards approve an amendment to the Chief Executive Officer's Employment Agreement to provide that, due to the unavailability in the present market of life insurance as required by the agreement, LACERA will, until such time as insurance can be obtained, pay \$200,000 to the CEO's beneficiaries upon his death while employed by LACERA and for the rest of his life if employed at least three years after his original start date, provided he is not terminated by LACERA. (Memo dated September 22, 2020)

Harvey L. Leiderman, Fiduciary Counsel

VI. ITEMS FOR STAFF REVIEW

VII. GOOD OF THE ORDER

VIII. EXECUTIVE SESSION

- A. Public Employment
(Pursuant to Paragraph (1) of Subdivision (b) of California Government Code Section 54957)

Title: Chief Executive Officer

VIII. EXECUTIVE SESSION (Continued)

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. Number of Potential Cases: 1

IX. ADJOURNMENT

Documents subject to public disclosure that relate to an agenda item for an open session of the Board of Retirement and Board of Investments that are distributed to members of the Boards 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 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 BOARD OF RETIREMENT FROM
A SPECIAL JOINT MEETING OF THE BOARD OF RETIREMENT
AND THE BOARD OF INVESTMENTS

LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION
300 NORTH LAKE AVENUE, SUITE 810, PASADENA, CALIFORNIA 91101

9:00 A.M., TUESDAY, AUGUST 18, 2020

This meeting was conducted by the Board of Retirement and Board of Investments
by teleconference under the Governor's Executive Order No. N-29-20.

PRESENT: Herman B. Santos, Chair

Vivian Gray, Vice Chair

JP Harris, Alternate Retiree Member

Keith Knox

Wayne Moore

Les Robbins

Thomas Walsh

ABSENT: Gina Zapanta, Secretary

Shawn Kehoe

Ronald Okum

William Pryor, Alternate Safety Member

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BOARD OF INVESTMENTS

PRESENT: David Green, Chair

Herman B. Santos, Vice Chair

Wayne Moore, Secretary

Elizabeth Greenwood

Keith Knox

David Muir

Gina Sanchez

ABSENT: Alan Bernstein

Shawn Kehoe

STAFF ADVISORS AND PARTICIPANTS

Santos H. Kreimann, Chief Executive Officer

JJ Popowich, Assistant Executive Officer

Jon Grabel, Chief Investments Officer

Steven P. Rice, Chief Counsel

Carly Ntoya, Human Resources Director

Nossman LLP

Ashley K. Dunning, Fiduciary Counsel

The Learner's Group

Rodney S. Patterson

Lisa Summerour

Brent Bilodeau

Anthony Chavez

I. CALL TO ORDER

The meeting was called to order by Mr. Santos at 9:00 a.m., in the Board Room of Gateway Plaza.

II. APPROVAL OF MINUTES

A. Approval of the Minutes of the Special Joint Meeting of the Board of Retirement of June 24, 2020

Ms. Gray made a motion, Mr. Knox seconded, to approve the minutes of the special meeting of June 24, 2020. The motion passed (roll call) with Messrs. Moore, Santos, Knox, Robbins, Walsh and Ms. Gray voting yes.

B. Approval of the Minutes of the Special Joint Meeting of the Board of Investments of June 24, 2020

No action was taken on this item by the Board of Retirement.

III. PUBLIC COMMENT

Mr. Goodmon, Ms. Johnson and Ms. Williams addressed the Board regarding investment transaction of the Baldwin Hills Crenshaw Plaza.

We received four written public comments that will be part of the meeting record.

IV. REPORT

A. Diversity, Equity, and Inclusion in the Boardroom — What are They, and What do They Mean for LACERA Trustees as Fiduciaries, as submitted by Santos H. Kreimann, Chief Executive Officer and Carly Ntoya, Human Resources Director. (Memo dated August 10, 2020)

Ashley K. Dunning, Nossaman LLP, Fiduciary Counsel

August 18, 2020

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IV. REPORT (Continued)

Rodney S. Patterson, The Learner's Group
Lisa Summerour, Ph.D., The Learner's Group
Brent Bilodeau, Ph.D., The Learner's Group
Anthony Chavez, The Learner's Group

Ms. Dunning, Mr. Patterson, Mr. Bilodeau, Mr. Chavez and Ms. Summerour provided a presentation and answered questions from the Board.

V. ITEMS FOR STAFF REVIEW

There were no items to report.

VI. GOOD OF THE ORDER

There was nothing to report.

VII. ADJOURNMENT

There being no further business to come before the Board, the meeting was adjourned at 11:34 a.m.

GINA ZAPANTA, SECRETARY

HERMAN SANTOS, CHAIR

MINUTES OF THE BOARD OF INVESTMENTS FROM
A SPECIAL JOINT MEETING OF THE BOARD OF RETIREMENT
AND THE BOARD OF INVESTMENTS

LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION
300 NORTH LAKE AVENUE, SUITE 810, PASADENA, CALIFORNIA 91101

9:00 A.M., TUESDAY, AUGUST 18, 2020

This meeting was conducted by the Board of Retirement and Board of Investments
by teleconference under the Governor's Executive Order No. N-29-20.

PRESENT: David Green, Chair

Herman B. Santos, Vice Chair

Wayne Moore, Secretary

Elizabeth Greenwood (Joined the meeting at 10:45 a.m.)

Keith Knox

David Muir

Gina Sanchez

ABSENT: Alan Bernstein

Shawn Kehoe

BOARD OF RETIREMENT

PRESENT: Herman B. Santos, Chair

Vivian Gray, Vice Chair

JP Harris, Alternate Retiree Member

August 18, 2020

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BOARD OF RETIREMENT (Continued)

Keith Knox

Wayne Moore

Les Robbins

Thomas Walsh

ABSENT: Gina Zapanta, Secretary

Shawn Kehoe

Ronald Okum

William Pryor, Alternate Safety Member

STAFF ADVISORS AND PARTICIPANTS

Santos H. Kreimann, Chief Executive Officer

JJ Popowich, Assistant Executive Officer

Jon Grabel, Chief Investments Officer

Steven P. Rice, Chief Counsel

Carly Ntoya, Human Resources Director

Nossman LLP

Ashley K. Dunning, Fiduciary Counsel

The Learner's Group

Rodney S. Patterson

Lisa Summerour

Brent Bilodeau

Anthony Chavez

August 18, 2020

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I. CALL TO ORDER

The meeting was called to order by Mr. Santos at 9:00 a.m., in the Board Room of Gateway Plaza.

II. APPROVAL OF MINUTES

A. Approval of the Minutes of the Special Joint Meeting of the Board of Retirement of June 24, 2020

No action was taken on this item by the Board of Investments.

B. Approval of the Minutes of the Special Joint Meeting of the Board of Investments of June 24, 2020

Mr. Green made a motion, Mr. Muir seconded, to approve the minutes of the special meeting of June 24, 2020. The motion passed (roll call) with Messrs. Green, Knox, Moore, Muir, Santos, and Ms. Sanchez voting yes.

III. PUBLIC COMMENT

Mr. Goodman, Ms. Johnson and Ms. Williams addressed the Board regarding investment transaction of the Baldwin Hills Crenshaw Plaza.

We received four written public comments that will be part of the meeting record.

IV. REPORT

A. Diversity, Equity, and Inclusion in the Boardroom — What are They, and What do They Mean for LACERA Trustees as Fiduciaries, as submitted by Santos H. Kreimann, Chief Executive Officer and Carly Ntoya, Human Resources Director. (Memo dated August 10, 2020)

Ashley K. Dunning, Nossaman LLP, Fiduciary Counsel

August 18, 2020

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IV. REPORT (Continued)

Rodney S. Patterson, The Learner's Group
Lisa Summerour, Ph.D., The Learner's Group
Brent Bilodeau, Ph.D., The Learner's Group
Anthony Chavez, The Learner's Group

Ms. Dunning, Mr. Patterson, Mr. Bilodeau, Mr. Chavez and Ms. Summerour provided a presentation and answered questions from the Board.

(Ms. Greenwood joined the meeting at 10:45 a.m.)

V. ITEMS FOR STAFF REVIEW

There were no items to report.

VI. GOOD OF THE ORDER

There was nothing to report.

VII. ADJOURNMENT

There being no further business to come before the Board, the meeting was adjourned at 11:34 a.m.

WAYNE MOORE, SECRETARY

DAVID GREEN, CHAIR

August 18, 2020

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MOSAIC
Governance Advisors



Review of Education and Travel Policy, Expenses, and Practices Summary Report

Los Angeles County Employees Retirement Association
September 15, 2020
Mosaic Governance Advisors, LLC | Westminster, CO

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Acknowledgments

Mosaic thanks the members of the LACERA Board of Retirement, Board of Investments, management, and LACERA's Board consultants for their time and effort in answering questions and providing materials to support the scope of work. We relied heavily upon them for historical context and information. We received prompt responses to the majority of our requests and were impressed with the Boards' and management's dedication, commitment, and desire to be an industry leader and to foster an atmosphere of organizational excellence for LACERA.

Although the timing of our report issuance and presentation was impacted by the COVID-19 pandemic, our scope of work was completed in early 2020. We appreciated management's commitment and effort to complete this project.

We also wish to extend our gratitude to the executive directors, senior staffs, and Board members in other public retirement systems who agreed to be interviewed and responded to our peer survey, particularly in light of the breadth and depth of the query. We sincerely appreciate their time and willingness to share their insights.

Executive Summary

In October 2019, the Board of Retirement (“BOR”) of the Los Angeles County Employees Retirement Association (“LACERA”) retained Mosaic Governance Advisors, LLC (“Mosaic”) to review its Education and Travel Policy (“Policy”), practices, and expenses. The BOR was seeking an evaluation of Policy compliance. At the same time, it, along with the Board of Investments (“BOI”), collectively, the “Boards,” was interested in proactively evaluating LACERA’s practices in light of peers and identifying potential changes to consider in the spirit of continuous improvement. This included the broader governance elements that may be impacting education and travel.

This report (“Report”) sets forth our findings, analysis, conclusions, and recommendations.

Conclusions

LACERA is attempting to position itself as an active influencer among peers, not just within the United States but globally. Its Boards are comprised of members (“Trustees” or “Board members”) who believe they are taking their fiduciary responsibility seriously and are incurring travel expenses because they believe external education is necessary to effectively fulfill their role as fiduciaries.

Notwithstanding Trustees’ perceptions, LACERA has been criticized for the cost and lack of effective oversight of its Trustee education and travel. Both topics merit attention and are addressed within this Report. The more significant issue we found and addressed is that LACERA’s education and travel lack organizational alignment. Rather, it is being driven by the perceived needs of each individual Trustee versus being directed by a consensus view on the span of governance, the future vision for the organization, and a correlating set of Trustee competencies.

Our Report presents 49 specific recommendations across the scope of work to support our conclusions as follows in four areas:

1. Education and Travel Expenses Review

- a. We conclude that expense reporting is reasonably accurate on the whole, and the significant majority of expenses reviewed were in compliance with the provisions of the Policy.
- b. Considerable effort is being expended to ensure Policy compliance; however, the materiality threshold at which processing staff is scrutinizing travel expenditures is exceptionally conservative; more modifications are being made to staff traveler expense reports than Trustee expense reports.
- c. There are cultural issues arising from travel practices that are creating pressure points within the organization and negatively impacting morale.
- d. The reporting and monitoring provided at the Board-level are overly detailed and not useful in identifying trends to support proper oversight.

- e. The processes and infrastructure used to support education and travel are insufficient and merit attention. They lack the staffing resources, data connectivity, and technology capabilities to support an environment of strong internal controls.

2. Comparison of LACERA Policy and Practices to Peers

- a. LACERA's Policy is more prescriptive and travel-focused than that of peers; the review cycle occurs too frequently, introducing risk in awareness, implementation, and enforcement of the Policy.
- b. The Boards' use of the consent agenda is not an effective mechanism for approval of education and travel matters.
- c. LACERA has not adopted recognized best practices in the governance of education programs, such as new Trustee orientation, having a curriculum and competencies, and annual education self-assessments.
- d. The current practices around budgeting for education and travel, and monitoring actual expenses against the budget are not effective and warrant revision.

3. Governance Factors Contributing to Trustee Education and Travel Practices

- a. Broader aspects of LACERA's governance structure and practices are increasing cost, creating complexity, and producing misalignment of Trustee education with the responsibilities and competencies needed to meet organizational needs.

4. A Path Forward

- a. Opportunities exist to improve broader governance practices, which will, in turn, result in better alignment of education and travel practices.
- b. Taking a holistic approach such as that depicted within this Report couches Board and staff education and travel within a cohesive framework of Board direction and checks and balances.

We encourage the Boards and staff to review our recommendations together with the context and observations presented in this Report and determine whether to accept (in whole or part) or reject each recommendation.

Recommendations

A complete list of the Report recommendations appears on the following pages for the Boards and staff to collaboratively address. For each recommendation, we suggest that the Boards determine whether to disagree or agree with the recommendation in whole or in part, and for those where there is an agreement, the priority to place on implementation.

Number	Recommendation
Education and Travel Expenses Review	
1.1	Address the cultural issues arising from travel practices that are impacting morale through the Boards and staff working collaboratively on implementing the recommendations in this Report.
1.2	Implement annual traveler attestation in respect of compliance with LACERA's Travel Policy and Conflict of Interest Policy/Guidelines, as well as with Section II. General Ethical Standards, in the Code of Ethical Conduct.
1.3	Hire temporary contract staff in Accounting to establish proper internal controls and mitigate operational risk related to processing accounting transactions for travel occurrences until a permanent alternative solution can be found or sufficient permanent staff can be hired.
1.4	Approve funds for a comprehensive evaluation of all of LACERA's systems that support education and travel activities to establish proper data continuity, provide efficiency in record-keeping and reporting, and strengthen internal controls.
1.5	Adopt a principles-based Policy which is approved by the Board. Maintain underlying procedures that are approved, maintained by, and enforced for Trustees and staff under the delegation of the CEO.
1.6	Research the use of travel agencies for making all travel arrangements to eliminate possible interpretive and procedural errors by travelers.
1.7	Adopt a triennial review cycle for the Education and Travel Policy.
1.8	Upon Policy amendment, compel training for all individuals that are subject to or interact with the Policy.
1.9	Require that the CEO's expense reports be approved by the BOR Chair.
1.10	Direct Trustee questions of Policy interpretation to the CEO.
1.11	Conduct an analysis of whether actual meal and incidental expenses or a per diem method would be most appropriate and adopt one of these methods as a procedure for processing meal and incidental expenses.
1.12	Adopt procedures that minimize the time spent on the issue of reimbursing travelers for meals paid for and consumed when meals are otherwise provided.
1.13	Adopt a consistent approach to reimbursing expenses incurred in a foreign currency.
1.14	Require appropriate signature approval by the traveler seeking reimbursement for expense reports prepared on their behalf.

Number	Recommendation
1.15	Provide trend analytics and exception-based reports on travel expenditures in monthly and quarterly reports, as well as other analytics the Boards may deem useful, with the detail available upon request.
1.16	Ensure that there is consistency in expense documentation provided across all travelers.
1.17	Conduct periodic processing reviews to ensure that scrutiny and enforcement are equally applied across both Board and staff expenses.
Comparison of LACERA Policy and Practices to Peers	
Education Policy	
2.1	Create a standalone principles-based Board education policy. The Education Policy should be separate from the Travel Policy.
2.2	Remove staff policy provisions from the Boards' Policy and create a separate policy applicable to staff, under the direction and enforcement of the CEO.
2.3	Amend the Policy to incorporate the recommended policy elements (See pages 25-29).
Education Practices	
2.4	Establish a curriculum that defines the education and training requirements, including core competencies, specific to the needs of LACERA Trustees and the organization's current and future strategy.
2.5	Require planning practices, such as the use of individual development plans and annual trustee educational self-assessment, to create better alignment and cost-effectiveness.
2.6	Enhance the approval process, including the quality of the data provided to inform the Boards' decisions, and the continued effectiveness of the consent agenda.
2.7	Evaluate the pre-approved and monthly up-to-date conferences list and be more selective in the use of those sponsored by for-profit entities.
2.8	Establish an appropriate target for in-house and externally provided education.
2.9	Upon selection or renewal, where not already expressly stated, require in each Board consultant's contractual scope of work a requirement for providing Board and individual Trustee educational sessions and implement a process to utilize and enforce the consultant education requirement.
2.10	Refresh, formalize, and stabilize the delivery of a new Trustee orientation; develop a broader Trustee onboarding program in collaboration with staff.
2.11	Adopt post-conference evaluation practices, including a requirement for post-conference evaluations, uploading the completed evaluations to the Boards' online portal, and sharing conference materials received with the Boards and the CEO.
2.12	Engage in annual trustee education self-assessments.
Travel Policy	
2.13	Resolve the discrepancies as noted in the Policy and update accordingly (See pages 41-42).

Number	Recommendation
2.14	Develop a standalone principles-based Board travel policy that addresses the recommended elements (See pages 42-45).
2.15	Move the procedural detail, including that related to expense reimbursement, from the Policy to a travel procedures document that is maintained by the CEO.
Travel Practices	
2.16	Cease Trustee meetings with investment managers outside of opportunities presented through Board or Committee meetings; direct all manager information and communication flow through the Chief Investment Officer.
2.17	Strengthen the budget-setting and oversight process by adopting a bottom-up approach to establishing the education and travel budget.
2.18	Establish a carbon budget for travel and discuss the role that purchasing carbon offsets may have in future travel policies and practices.
Governance Factors Contributing to Trustee Education and Travel Practices	
Board Structure, Composition, and Size (in relation to Education and Travel Practices)¹	
3.1	The Boards should periodically review the costs of their education and travel to similar peers to be aware of where they stand within the community of practice, and to ensure that their costs are reasonable and prudent.
3.2	Modify the reports provided to the Boards and the public to set better context about LACERA's board size and legal education requirements.
3.3	Develop a skills matrix for use in Board and Trustee education and development.
Span of Governance (in relation to Education and Travel Practices)	
3.4	Evaluate LACERA's Committee responsibilities to ensure the full span of governance is appropriately addressed.
3.5	Explore additional governance changes to make the dual-board structure more effective, efficient, and clear.
3.6	Develop a clear long-term understanding as to the role of the JOG-C.
3.7	Attain a consensus view on LACERA's span of governance, the responsibilities of the Boards, and how they are fulfilled across the two Boards, the Committees, and the JOG-C.
3.8	Create one future vision for the organization, its priorities, goals, and success metrics, and maintain one organizational strategic plan.
3.9	Align Trustee education and training opportunities with the competencies needed to carry out the full span of governance and the LACERA strategic plan.
3.10	Amend election packets and documentation provided to the appointing authority to ensure that the span of governance, in light of the dual-board structure, is clearly communicated to those interested in future Board service.

¹ During the course of our review, we identified broader aspects of LACERA's governance structure and practices that have the potential to impact the cost associated with LACERA's Trustee education and travel practices. These governance structures and practices may also increase the complexity and/or the risk of misalignment of Trustee education with the Boards' responsibilities or the competencies needed to meet organizational needs.

Number	Recommendation
3.11	Ensure the onboarding experience for any new Trustee is appropriately aligned to the full set of Board responsibilities and strategic plan.
Governance Decision-Making Model (in relation to Education and Travel Practices)	
3.12	Evaluate LACERA's governance decision-making model, in light of the organization's evolution, to determine where adjustments are needed to best align expertise and decision-making.
Board, Committee, and Trustee Effectiveness (in relation to Education and Travel Practices)	
3.13	Adopt a formal practice of Board, Committee, and individual Trustee self-evaluation, tailoring the practice to align with the Boards' comfort level.
3.14	Seek solutions to create an environment conducive to ongoing, comprehensive Board, Committee, and individual Trustee self-evaluations.

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Background and Introduction

Mosaic is an independent governance consulting firm, located in the Denver, Colorado, metropolitan area with substantial and relevant experience in public pension finances and governance. We specialize in board and trustee education, benchmarking, strategic planning, and policy review and development. Our team has extensive experience working with public retirement systems within the United States and internationally, both as governance consultants and as former executive staff of public retirement systems. Our experience also includes working within the private sector at large financial services and investment consulting firms.

We routinely help clients with the development and review of their trustee education programs and the policies that support them. Mosaic was selected by LACERA in October 2019 through a competitive bidding process.

Scope of Work

Specifically, Mosaic was asked to perform the following scope of work in connection with the project (“Project”):

1. Review and evaluate LACERA’s current Education and Travel Policy.
2. Review and evaluate Board and staff education and travel expenses during Fiscal Years 2016, 2017, 2018, and 2019 under the pertinent Policy, and in comparison to peer systems, other organizations, and best practices.
3. Review and evaluate compliance with the current Education and Travel Policy on the part of Board and staff travelers, including consistency of compliance.
4. Review and evaluate compliance with the current Education and Travel Policy on the part of staff responsible for processing and accounting for travel expenses, including consistency of application of standards to payment approval and consistency of enforcement when there are deviations from Policy.
5. Review and evaluate the current Education and Travel Policy, expenses, compliance, processing, accounting, enforcement practices, and other aspects of the Policy and its implementation against peer systems, other organizations, and best practices.
6. Review LACERA’s broader governance structures and practices that may contribute to LACERA’s education and travel expenses.
7. Identify emerging trends in Trustee education.
8. Prepare a written report and presentation to the Board of Retirement at a public meeting with regard to the findings and recommendations from the Project.

Review Methodology

We conducted our work over five months from October 2019 to March 2020.² Our methodology consisted of the following activities:

- Reviewed pertinent documents requested and received from LACERA, including detailed expense reports and receipts for FY 15/16 – FY 18/19.
- Performed a compliance review of expenses against the policies in effect.³
- Conducted interviews with thirteen LACERA Trustees, twenty-five staff, and seven of the Boards' consultants ("Board Consultants").
- Conducted a survey of peer policies and practices in connection with public retirement system Trustee and staff travel and education.⁴
- Analyzed the results of the interviews, Policy compliance analysis, Policy and practices evaluation, and peer survey.
- Summarized our findings, observations, and recommendations in this written Report to the Boards.
- Participated in bi-monthly calls with the project team, including the Acting CEO/Chief Counsel ("Chief Counsel"), the Chief Executive Officer ("CEO") subsequent to his onboarding to LACERA, Chief Investment Officer ("CIO"), and other staff as needed, to provide status updates on the project and request additional information.
- Fact checked the Report with LACERA staff as directed by the CEO, Chief Counsel, Assistant Executive Officer ("AEO"), Chief Financial Officer ("CFO"), Chief Audit Executive, and other staff as needed, to ensure accuracy of the facts as characterized within the Report.

² The timeline to present our report was disrupted due to the circumstances created by the COVID-19 pandemic; however, the substantive work underlying the conclusions and recommendations within this report was completed by early March 2020.

³ Applicable LACERA Education and Travel Policies in effect at the time expenses were incurred were used to evaluate compliance efforts of the travelers with policy as well as those of the LACERA accounting staff processing the expense reports.

⁴ The approach to the peer survey was to identify a community of practice to gauge whether LACERA's policies and practices are reasonable. Each organization has its own unique historical context, circumstances, and characteristics that contribute to the way that it functions. Care was taken to identify domestic and international peers for LACERA that share certain comparable characteristics to LACERA, and to highlight the similarities while at the same time account for the differences.

Report Organization

The Report is organized into four sections that address the scope of work as follows:

1. Education and Travel Expenses Review (FY 15/16 – FY 18/19),
2. Comparison of LACERA Policy and Practices to Peers,
3. Governance Matters Contributing to Trustee Education and Travel Practices,
4. A Way Forward.

For each topic presented, background information is provided to set context. Our findings and observations are then presented along with the feedback gathered through the interview process, expense analysis, and peer survey results, where appropriate. We conclude each section with our recommendations.

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I. Education and Travel Expenses Review

Introduction

Policies underpin and support organizational cultural frameworks and norms. Policies can take either a principles-based form or a rules-based form.

A principles-based policy provides flexibility in the decision-making process. It sets out the values or norms which govern a certain aspect of behavior. In regulatory environments, principles-based policies are set within a “comply or explain” framework. The expectation is that those for whom the policy is intended will comply with the policy or explain the reason for their non-compliance. Regulators review disclosures, as do other stakeholders, evaluating and judging the rationale for non-compliance. For principles-based policies to work effectively, there must be a culture of trust, good judgment, and shared values in the organization, set by the highest level of leadership, typically the board.

In contrast, rules-based policies set out explicit rules against which behavior will be measured. There is limited opportunity for the use of discretion given that such policies are typically prescriptive. Rules-based policies don't require a culture of trust in order to work. In fact, careful monitoring is needed so that they do not contribute to a culture of distrust and excessive monitoring to ensure compliance with the policy. Balance is key to designing effective controls at a reasonable organizational cost. Experts have cautioned that rules-based compliance systems can “possess hidden costs that prevent maximum compliance at a level of economic efficiency.”⁵

In respect of expense reimbursement policies specifically, one goal is that it be easily understood. Such a policy, coupled with an expense submission process, should allow for proper supporting documentation and a low difference of opinion on interpretations of the policy components.

Review Methodology

Our approach to reviewing Trustee and staff expense practices included sampling expense reports during fiscal years 2015/2016, 2016/2017, 2017/2018, and 2018/2019 above certain materiality thresholds. We also sampled expense reports below our thresholds on both a random and non-random basis to increase our sample size and offset sampling bias inherent in materiality thresholds. In total, we sampled 146 expense reports against the pertinent fiscal year LACERA Education and Travel Policy, placing emphasis on those expense reports occurring in the later fiscal years of the review period. Fifty-four (54) of the expense reports were for Board travel, and 92 were for staff travel. Expense reports were selected for review in accordance with a professional sampling methodology that ensured a cross-section of Trustees and staff travelers. The methodology utilized dollar thresholds per

⁵ https://www.huffpost.com/entry/principlesbased-regulaton_b_7204110, Professor Caroline Kaeb, University of Connecticut School of Business.

travel event, multiple travelers for the same event, as well as random sampling across all travelers so as to not unduly scrutinize any one particular traveler.

We reviewed expenses against the Policy in effect at the time to determine whether expense processing was consistent with the provisions of the various versions of the Policy.⁶ We also reviewed controls such as the expense approval and reimbursement process, conducted interviews with accounting staff processing expense reports and staff providing approval, and with LACERA's internal and external auditors to develop an understanding of the above as well as consistency of enforcement in situations of deviations from the Policy.

Observations

All four of the Education and Travel Policies ("Policies") we examined during the scope period are lengthy and detailed, varying in length from 20 to 23 pages. In substance and in form, they present as rules-based policies and procedures. They have been updated and amended in accordance with a random review cycle; therefore, the Policies have varying effective dates falling in different months and on different dates within those months during the fiscal year periods. Ensuring compliance for travel or education that transitions the period from one Policy to another is hindered by the lack of a consistent approach and timing to the Policy review cycle. As such, we recommend that a triennial review cycle be adopted for the Education and Travel Policy (Recommendation 1.7).

We believe that the Policies were created with the good intention of governing good behavior in connection with education and travel. However, their high level of detail and prescriptive nature seems to be more aligned with a compliance approach to adherence within the mandated boundaries of the Policies rather than being reflective of common principles.

In this section, we present our observations in three areas as follows: Policy Compliance, Reporting and Monitoring, and Systems.

A. Policy Compliance

There was a high level of focus and a considerable amount of time spent by travelers and processing staff on ensuring compliance with each Policy. We believe that this is due to aspects of each Policy being misunderstood or inadequately supported by documentation in the expense submission process, along with the detailed and highly directive Policy

⁶ Three different Education and Travel Policies were in effect over the four fiscal years ending June 2019. Each had different effective dates and varying levels of limitations and advance approval requirements. The current Policy, effective as of August 2019, has significant modifications and control-based specificity over previous Policies. Although our review of expenses did not include those incurred after the effective date of the current Policy, we nevertheless reviewed the current Policy and offer our comments for LACERA's consideration in Section II of this Report.

structure. We found some examples where the Policy was either not consistently applied or consistently enforced, as set out on the following pages.

Level of Resources Required to Submit/Approve Expenses

Examples of considerable effort expended in ensuring compliance with Policy are as follows:

1. Over half (55%) of the sampled expense reports had some form of modification after being reviewed by Accounting staff. This was significantly higher than the 10 to 20% range of adjustments we would have expected to see based on our experience and third-party, published data.⁷

Amounts were changed or modified, with and without attached support. Some of the adjustments were for extremely insignificant amounts, such as two cents or one-tenth of a mile on the mileage reimbursement request. The majority of these adjustments appeared to be made to staff expense reports. We noted fewer adjustments to Trustee expense reports. In order to eliminate possible interpretive and procedural errors⁸ and better manage travel arrangements per the Policy, we recommend that LACERA explore the use of a travel agency (Recommendation 1.6).

2. Lengthy supporting documentation is required to support expense report submissions. Some samples we reviewed, including those of frequent travelers who appear to have perfected the Policy and documentation expectations, exceeded 70 pages.
3. Policy misinterpretations were evident in the sampled expense reports we reviewed with per diem expense claims, although the topic is addressed in significant detail in the Policies. Allowing either the reimbursement of actual expenses incurred or a per diem method, “so long as only one method is used per calendar day,” presented numerous confusing scenarios and supporting documentation occasionally

⁷ A November 2015 Global Business Travel Association survey of 533 travel managers (i.e., travel buyers or intermediaries for organizations around the globe) found that 19% of expense reports are filed incorrectly, needing adjustment. The same survey found that on average, it takes an employee approximately 20 minutes to complete a typical expense report; however, if there is any error, including missing or incorrect information, it takes almost as long – 18 minutes – to correct. Considering all resources used, it costs a company an average of \$53 USD to process one expense report for a single night stay in a hotel and an average of \$48 USD to correct the expense report if it was submitted with an error.

⁸ We also observed difficulties in Policy interpretation with respect to air travel reservations. The Policy states that all air travel will only be reimbursed at the lowest available fare at the time of purchase offered by select airlines for the dates of travel. The Policy implies a “prove it or lose it” approach. It was reported to us that additional clarification has had to be provided to demonstrate how this part of the Policy will work in practice and to avoid any discrepancies in its application by travelers. Moreover, with so many airline fares charged to the corporate credit card, it made this aspect of compliance difficult to monitor.

exceeding 15 pages. Confusion about when per diem should start and stop was also evident. The process would be made more efficient for the traveler and the processing staff if either actual expenses or a per diem method was permitted, but not both. As such, we recommend that LACERA conduct an analysis of which method would be most beneficial for it to adopt (Recommendation 1.11).

4. There was evidence of confusion in respect of meals that are pre-paid or included in conference registration fees. Numerous claims for expense reimbursement were resolved only after extensive communications involving multiple LACERA staff, with detailed justification by the traveler. While Policy implementation requires such documentation, we recommend that LACERA adopt procedures that minimize the time spent on this issue (Recommendation 1.12). One example could be to permit per diem expense reimbursement for travelers with dietary restrictions.
5. Expense report samples we reviewed included inconsistencies, without explanation, in the methods for determining foreign exchange rates along with differences in accompanying supporting documentation. Some expense reports included documentation of actual expenses converted from local currency into U.S. dollars by the credit card companies, while others used a different method as calculated by the traveler. While the differences in amounts were relatively small in nature, we recommend that LACERA adopt a consistent approach to reimbursing expenses incurred in a foreign currency, such as using actual expenses (Recommendation 1.13).

Consistency in Adherence to and Enforcement of Policy

We identified a number of areas where travelers were consistently complying with each Policy in the expense reports reviewed. These include incidental airline-related expenses, supporting documentation for additional legroom fees, baggage fees, online internet fees, and other incidental expenses. However, we also found examples of Board and staff travel occurrences where there was a lack of consistency in adherence to the Policy, enforcement of the Policy, or other questionable practices. Our observations are as follows:

1. From the Policy effective April 2016 until the most recent Policy, the sections titled Education Authorization and Conference Attendance Limitations had conflicting limitations for preapproval. Regardless of which section of the Policy had priority, during the four fiscal years we reviewed, it was clear that compliance with these provisions has caused confusion and was problematic. Although it was remedied in the most recent Policy, over the scope of our review, we noted over 100 instances with respect to these conflicting Policy provisions.
2. During the scope period, three Trustee expense reports included requests for and receipt of reimbursement for advanced payments for international airfare. All Policies are clear that such payments are not allowed unless specifically approved by the appropriate Board. If, and when, exceptions to the Policy are made by the

Board, supporting documentation should be included with the appropriate expense report. In these cases, no supporting approvals were evident.

3. During the scope period, we observed instances where education-related travel appeared to conflict with regularly scheduled Board meetings. Attendance at Board meetings should receive priority over attendance at education conferences.

Overall, we observed a strict mindset of adherence to and enforcement of the Policy on the part of staff charged with the responsibility of processing expense reports. Our understanding is that the role of Policy enforcement was fulfilled by a previous CEO and that it has informally become the responsibility of Accounting staff due to a lack of consistent CEO approach and presence at LACERA. The role of development and enforcement of travel procedures should be the responsibility of the CEO, as we set out in Section II of this Report.

Through our interviews, we became aware of a culture of distrust within LACERA over travel and education-related matters that is negatively impacting morale and creating pressure points in the Boards' and the organization's cultural dynamic. These pressure points are widespread and exist at all levels that were visible through our review -- between the Boards, among individual Trustees on the same Board, between the Boards and staff, and among and within staff divisions. Some examples expressed to us by interviewees included the following perceptions:

- There is unfairness under the Policy, particularly with regard to the difference in allowance between the Boards for international travel,
- Certain travelers are not appropriately monitoring and responding to the potential for reputational risk,
- Trustee travel is subject to less scrutiny than staff,
- Staff are judging other staff for the reasons they travel,
- Some staff are not availing themselves of perquisites permitted by the Policy in an attempt to correct what they believe is a public perception of excessive expenditures on travel, and
- The organization is becoming more known for its travel than it is for the good work that it's doing for its members and beneficiaries.

The cultural pressure points demonstrate a lack of consensus and uniformity that is imperative to repair before it begins to negatively impact organizational performance.⁹ It was reported to us that the organization is undertaking an engagement study of the staff. While we commend such an effort, it is important to note that cultural issues present themselves across all levels of an organization. There is an opportunity for LACERA to address the cultural issues through the Boards and staff working collaboratively on

⁹ A 2017 report of the National Association of Corporate Directors (NACD) Blue Ribbon Commission titled "Culture as a Corporate Asset," recommended that oversight of organizational culture be among the top governance imperatives for every board, regardless of its size or sector.

implementing the recommendations in this Report (Recommendation 1.1). We also believe that the organization would benefit from requiring an annual signed attestation by Trustees and staff that they complied with the Policy and with Section II—General Ethical Standards contained in the Code of Ethical Conduct (Recommendation 1.2). Attestations indicating compliance with codes of conduct and principles-based policies are considered standard practice.

Controls Including Separation of Duties

Controls could be strengthened. Examples include:

1. Appropriate separation of duties should be ensured so that a subordinate does not approve a supervisor's expense report. For example, to instill appropriate governance practices, the CEO's expense reports should be approved by one of the Board Chairs, and not an Assistant Executive Officer who reports to the CEO, as is the current practice (Recommendation 1.9). Subordinates approving a supervisor's expenses can create perverse incentives.
2. Appropriate separation of duties should be maintained among processing staff. It was reported to us that all travel-related transactions are processed manually and reviewed by one Accounting staff member, without backup. The staff member is responsible for properly inputting, verifying, and initiating the disbursement process for all travel-related transactions for accounting and reporting purposes, and at the same time, alongside other Accounting colleagues, auditing, and enforcing the submissions against the Policy for compliance and accuracy. Given our finding that over 50% of expense submissions needed adjustment before being paid, this is not only an example of improper separation of duties but also of insufficient staffing. It was reported to us that an ongoing personnel classification study that began in mid-2017 has resulted in the inability to hire general Accounting staff until the study concludes. In order to mitigate the significant operational risk, we recommend that LACERA hire qualified accounting staff (Recommendation 1.3).
3. Through our interviews and expense report review process, we learned that some Trustees rely on Executive Board Assistants to make scenario-specific interpretations of the Policy as it relates to their travel situations. Such questions should be directed to the CEO to avoid placing the Executive Board Assistants in a potential position of conflict due to an imbalance of power (Recommendation 1.10).
4. We found several instances where expense forms were not signed, but rather, "approval by email" was noted. In cases where the expense report is not completed by the person seeking reimbursement for approved expenses, the expense report should still be appropriately signed by the traveler. Electronic signature approvals can facilitate this process and should be utilized (Recommendation 1.14). DocuSign and Acrobat Adobe are two examples of electronic signature applications.

- Supervisors were uncertain as to their role in the review process. For example, whether they should be checking for the reasonableness of travel expenses, or completeness of receipts, or both. A formal training process for all individuals that are subject to or interact with the Policy, including the role of supervisors as approvers of expense reports, should be conducted (Recommendation 1.8).

B. Reporting and Monitoring

Reporting to the Boards is done on a quarterly basis via a working Education and Travel Expenditure Report in the form of a spreadsheet. Reports identify who traveled and for what purpose across both Boards and staff and provide a detailed breakdown of expenditures, as shown in Figure 1.

Figure 1. Excerpt of Education and Travel Expenditure Report to the Boards

Attendee	Purpose of Travel - Location - Travel Dates	Travel Status	Total Expense	Registration	Lodging	Airfare	Ground Trans	Mileage	Porterage	Parking	Meals	Per Diem	Misc.
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Totals for each column are provided per traveler as well as for all travelers per Board and each LACERA Division. Furthermore, each travel event is manually assigned a unique reference number to track education and non-education related travel.

The level of heavily-detailed reporting results in reports to the Boards that are excessively lengthy¹⁰ and not particularly useful in identifying higher-level trends. The format of reporting and manual coding is also prone to human error. Further, including staff travel in reports to the Boards is unnecessary since it ought to be under the purview of the CEO and not the Boards.

LACERA's current reporting practices underscore the challenges that the Boards and staff have in overseeing and monitoring this area. The dense reporting format is providing data but not insights. It is not conducive to effective oversight of education or travel, and risks being ignored, poorly understood, or potentially mischaracterized. We recommend that reporting be modified for the Boards to facilitate more effective oversight. At a minimum, we recommend that detailed information pertaining to staff travel be removed from Board reporting, and responsibility for oversight of staff travel be delegated to the CEO. Notably, the Boards would still retain responsibility for organization-wide travel expenses, which would be reviewed by the Boards during the budget and financial reporting processes. Further modifications to Board and CEO travel reports could include the addition of analytics and trend analyses to highlight trends or irregularities in trends (Recommendation 1.15).¹¹

¹⁰ We noted one report of 86 pages and another of 81 pages.

¹¹ Reports with trend analysis may be useful in helping LACERA be more cost-effective in its travel by informing modifications to administrative procedures. For example, this could include requiring a certain number of days advance booking for airfare for educational conferences.

C. Systems

We found the systems that support LACERA's travel and expense reimbursement process to be suboptimal in capability and coordination, particularly in light of the volume of annual travel instances processed. The documentation we requested in connection with our review of expenses was only available in hard copy. It was manually scanned for us by staff from paper documents and emails. It was reported to us that to fulfill our documentation requests, staff was required to photograph some of the documents using their LACERA issued smartphones because digital scanners were either not available to them at the time or, once they were made available during the process of our review, functioned unreliably. The process of locating and scanning or photographing paper documents required extensive time and effort on the part of LACERA staff, impacting the timeline of our review.

Tracking travel and education at LACERA require the use of different systems including Microsoft Dynamics "Great Plains,"¹² a general ledger system; Bank of America Works, the bank's online corporate credit card system; Travel Manager, an internally developed and maintained database to track and report trip cost per traveler; paper such as receipts and conference brochures; spreadsheets;¹³ and emails to establish and maintain a trail of documentation. The systems have limited integration, and the process is heavily paper-based.

As reported to us by staff, when Accounting receives paper-based forms indicating approval for Trustees or staff to travel from the Executive Office or Divisional Managers, an event with a unique reference number is created in Travel Manager by Accounting staff, and traveler names are added to this event. Paper-based approval forms are stored in a binder except for Trustee travel, where forms have been stored since July 2019 in a shared folder on LACERA's network. When payment requests are submitted through Great Plains, the Accounting staff enters a description of each transaction as well as the unique reference number associated with the occurrence of travel.

Expenses charged to corporate credit cards are filed under separate cover sheets from expense reports. This separation makes it difficult to link travel-related credit card costs to individual expense reimbursements. The lack of coordination also creates challenges for staff processing expense submissions containing corporate credit card charges. Reconciliation is manual. For example, a Trustee's travel expense report requested reimbursement for airfare that was paid for using the corporate credit card. Fortunately, Accounting staff identified and removed it before reimbursement was made. In another instance, travel booked on the corporate credit card was not manually cross-referenced on the expense report through Travel Manager using the unique event code. Having said this, we were informed by staff that the number of corporate credit cards issued was recently

¹² Version 2016 R2.

¹³ The County of Los Angeles Department of Auditor-Controller Report dated November 8, 2019 noted that LACERA relies on over 100 Excel spreadsheets in the budgeting process alone.

reduced, which mitigates some of the risks arising from this manual reconciliation process due to a decrease in transactions to reconcile.

As we understand it, there is a lack of two-way communication between LACERA's systems. For example, Travel Manager pulls expense data from Great Plains when creating travel reports, but data does not automatically flow from Travel Manager back to Great Plains. This lack of communication is also the case at specific initiation points pertaining to travel, including trip approvals which are input into Travel Manager, payment requests which are input into Great Plains, and corporate credit card transactions through Bank of America Works, creating a disconnect in data continuity between payment requests, payments, and travel occurrences. To mitigate this risk to LACERA's internal controls, credit card expenditures should be integrated into the expense report process, travel approval and other relevant travel information should be integrated into the general ledger, and expense and other documentation related to travel (such as evidence that international prerequisite training has been achieved for Trustees¹⁴) should be scanned and electronically stored in a centralized document management system along with expense reports so that they can be recalled with little effort. Automated workflow processing should be added to strengthen controls, reinforce the segregation of duties, and provide a sufficient trail of documentation from input to verification to approval.

Multiple compliance challenges are presented by the systems supporting LACERA's education and travel processing environment. Given the reliance on paper-based systems, the cost to LACERA of the human capital required to process this information as well as the effort expended to ensure compliance is high.

Third-party cloud-based travel systems are widely available and are cost-effectively used by a variety of organizations across all industry sectors. While it is common for peer systems to use internal software that they maintain or that is maintained through their State's technology department, peers are beginning to evaluate legacy systems in favor of moving toward using third-party technology tools to submit, approve, and track education and travel expense submissions.

Examples of technology tools in use by peers include Concur and Oracle Fusion. Such tools make it easier to more efficiently process and audit travel expenditures by automating workflow and help to ensure that both travel and travel-related expense processes comply with legal, policy, and procedural requirements. Altogether, this reduces compliance-related risks and should be explored by LACERA as it modernizes its operational and back-office systems.

¹⁴ Pre-approval paperwork/notices for Trustee travel to international conferences were not included in the expense report information for Trustees that we reviewed. In contrast, we found that the staff expense reports we reviewed always included this information. Staff informed us that there is a separate process for providing Board approvals to Accounting staff which was not apparent in our review of expense documentation. This was also the case for Trustee compliance with completion of pre-requisite training prior to attending international conferences.

To initiate and facilitate this process, we recommend that the Boards approve the expense for a comprehensive evaluation of all of LACERA's systems that support education and travel activities to establish proper data continuity, provide efficiency in record-keeping and reporting, and strengthen internal controls (Recommendation 1.5). The evaluation should compare the costs, risks, benefits, and impacts of LACERA's buy or build options by addressing, among others, the feasibility and needs requirements for bringing the current internal software up to modern standards that can support the volume of travel today and into the future, as well as implementing a third-party technology solution.

Section Conclusions

We reviewed policy compliance over the scope period to determine whether expense processing was consistent with the provisions of the various versions of the Policy. Based on our review, we conclude that expenses were processed in a manner that is reasonably compliant on the whole, though the materiality threshold was exceptionally conservative in some situations. As a result, a significant effort is undertaken to scrutinize expenses in order to achieve compliance.¹⁵

Based on our review of expense reports modified by Accounting staff, we noted an adjustment rate that was two to three times higher than we would have expected. LACERA is spending significant amounts of time and money to correct submitted expense reports. Further, we observed that more modifications were made to staff traveler expense reports than Trustee expense reports.

For the purpose of processing travel-related transactions within the various systems it uses, LACERA is under-resourced, lacks proper controls in the inputting, verifying, and payment initiation processes, and has exposure to operational risk. Its processes are heavily paper-based and lack technology capabilities such as comprehensive data continuity, centralized document management, and automated workflow management. We recommend that this situation be prioritized for resolution by LACERA. For example, it could be resolved initially by hiring temporary contract staff until a more permanent technology-based or outsourced solution can be agreed upon and implemented.

Finally, the bright-line and complex system of rules contained within the Policy creates areas of systemic confusion and need for fact-checking, which seems to be misaligned with the education and travel in support of the mission of LACERA. We believe that this detracts from the original intent of the Policy, which is to govern good behavior, instead

¹⁵ The International Standards for the Professional Practice of Internal Auditing define Adequate Control as: Present if management has planned and organized (designed) in a manner that provides reasonable assurance that the organization's risks have been managed effectively and that the organization's goals and objectives will be achieved efficiently and economically.

<https://na.theiia.org/standards-guidance/Public%20Documents/IPPF-Standards-2017.pdf>

of turning it into one of monitoring compliance with rules, contributing to a perspective of distrust. Indeed, we observed cultural pressure points that are negatively impacting morale, including a perception among staff travelers that their expenses are unfairly scrutinized.

Improvements to the Policy should be considered in the next review cycle with the goal that any amendments to the Policy be easily understood. We recommend that the Policy, which is primarily a travel Policy, takes the form of a principles-based approach that is approved by the Board (Recommendation 1.5). Underlying procedures should create a low difference of opinion on interpretations of the Policy components and should be developed, approved, and maintained by the CEO for Trustees and staff.

Section Recommendations

- 1.1. Address the cultural issues arising from travel practices that are impacting morale through the Boards and staff working collaboratively on implementing the recommendations in this report.**
- 1.2. Implement annual traveler attestation in respect of compliance with LACERA's Education and Travel Policy and Conflict of Interest Policy/Guidelines, as well as with Section II. General Ethical Standards, in the Code of Ethical Conduct.**
- 1.3. Hire temporary contract staff in Accounting to establish proper internal controls and mitigate operational risk related to processing accounting transactions for travel occurrences until a permanent alternative solution can be found or until sufficient permanent staff can be hired.**
- 1.4. Approve funds for a comprehensive evaluation of all of LACERA's systems that support education and travel activities to establish proper data continuity, provide efficiency in record-keeping and reporting, and strengthen internal controls.**
- 1.5. Adopt a principles-based Policy which is approved by the Board. Maintain underlying procedures that are established, approved, maintained by, and enforced for Trustees and staff under the delegation of the CEO.**
- 1.6. Research the use of travel agencies for making all travel arrangements to eliminate possible interpretive and procedural errors by travelers.**
- 1.7. Adopt a triennial review cycle for the Education and Travel Policy.**
- 1.8. Upon Policy amendment, compel training for all individuals that are subject to or interact with the Policy.**

- 1.9. Require that the CEO's expense reports be approved by the BOR Chair.**
- 1.10. Direct Trustee questions of Policy interpretation to the CEO.**
- 1.11. Conduct an analysis of whether actual meal and incidental expenses or a per diem method would be most appropriate and adopt one of these methods as a procedure for processing meal and incidental expenses.**
- 1.12. Adopt procedures that minimize the time spent on the issue of reimbursing travelers for meals paid for and consumed when meals are otherwise provided.**
- 1.13. Adopt a consistent approach to reimbursing expenses incurred in a foreign currency.**
- 1.14. Require appropriate signature approval by the traveler seeking reimbursement for expense reports prepared on their behalf.**
- 1.15. Provide trend analytics and exception-based reports on travel expenditures in monthly and quarterly reports, as well as other analytics the Boards may deem useful, with the detail available upon request.**
- 1.16. Ensure that there is consistency in expense documentation provided across all travelers.**
- 1.17. Conduct periodic processing reviews to ensure that scrutiny and enforcement are equally applied across both Board and staff expenses.**

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II. Comparison of LACERA Policy and Practices to Peers

Introduction

Mosaic administered a survey of public retirement system peers to obtain data and information regarding the structure and nature of board education and travel policies and practices. The survey sought information from a select group of comparable public retirement systems throughout the United States and internationally. Peers were selected based on board size and composition, scope (investments and benefits), asset size and portfolio complexity, and regionality.

The survey was comprehensive. It included questions relating to applicable board education requirements, the existence of policies on board education and travel, modes and types of education offered to trustees, the education and travel approval process, planning, budgeting, and reporting practices, supporting technology programs, and areas of perceived strengths and challenges in education and travel practices. U.S. peers completed the survey online. International peers were interviewed via phone to accommodate the high-level differences in their governance regimes and markets.

We received completed responses from eleven U.S. public retirement systems and five international systems.¹⁶ Additionally, we evaluated the available education and travel policies of the participating systems.

In this section, we compare the current August 2019 version of LACERA's Education and Travel Policy ("Policy") and practices with that of peers. LACERA's Policy addresses the topics of education and travel within the same Policy. To separately evaluate each topic, we have organized this section of the Report to address:

- i. Comparison of Education-Related Aspects of LACERA's Policy and Practices
- ii. Comparison of Travel-Related Aspects of LACERA's Policy and Practices

Given that policies and practices originate from the laws by which a system is governed, the practices of a specific peer or the majority of peers does not necessarily equate to a best practice. We are also not suggesting that what the majority of peer systems practice is a recommended practice. The peer survey and policy review were conducted to give a perspective on the landscape and create a "community of practice" that can be instructive for LACERA to evaluate as it considers enhancements to its own program.

¹⁶ U.S. Systems included: California Public Employees Retirement System; California State Teachers' Retirement System; University of California Pension Fund (Board of Regents); New York State Teachers Retirement System; Wisconsin Department of Employee Trust Funds; Virginia Retirement Systems; Colorado Public Employees' Retirement System; Maryland State Retirement and Pension System; Public School and Education Employee Retirement Systems of Missouri; Orange County Employees Retirement System; San Diego County Employees Retirement Association. International Systems included: PGGM, Netherlands; Ontario Teachers' Pension Plan, Canada; Public Sector Pension Investments, Canada; Investment Management Corporation of Ontario, Canada.

i. Comparison of Education-Related Aspects of LACERA’s Policies and Practices

a. Comparison of Education Policy

Education policies provide an important opportunity for public retirement systems to create alignment between their organization’s current and future needs and the skills and competencies of the slate of diverse trustees that collectively oversee it. Based on our review of peer policies, third-party best practice principles,¹⁷ and our own knowledge from our experience in assisting other peers with the development and amendment of their education policies and programs, we developed recommended high-level policy elements for an education policy (Recommendation 2.3) and compared whether the education provisions in LACERA’s Policy reflect those elements. The results of our analysis appear in the following chart.

It is important to note that the recommended high-level policy elements provide an example of a hybrid between a rules-based policy format and a principles-based policy format. This accomplishes the objective of moving LACERA in the direction of a principles-based policy format in a controlled manner that manages the risk associated with changing from the current rules-based policy format.

Recommended Policy Elements	Addressed by LACERA’s Policy?	Observations	Recommended Action
Statement of Purpose Identifies the rationale for the policy and acknowledges a board’s collective and trustees’ individual fiduciary duty	Partially	Rationale addressed (Statement of Purpose); Trustee individual fiduciary duty not expressly addressed	Enhance
Definition of Covered Individuals Clearly delineates the individuals covered by the policy, particularly when there may be designees for ex-officio members.	No	No definition of “designated staff”; silent as to the applicability to Treasurer and Tax Collector’s delegate(s)	Add

¹⁷ For example, see Clapman, Peter, et. al. “Model Governance Provisions to Support Pension Fund Best Practice Principles,” Clapman Report 2.0, 2013. Clapman, Peter, et. al. “The Stanford Institutional Investors’ Forum Committee on Fund Governance Best Practice Principles,” 2007.

Recommended Policy Elements (cont'd)	Addressed by LACERA's Policy?	Observations	Recommended Action
<p>Principles Examples of policy principles can include:¹⁸</p> <ul style="list-style-type: none"> • Views on appropriate methods for educating trustees. • Need for education tailored to individual trustees' educational needs in alignment with the organization's strategic plan and the board's governance-decision making model. • Expectation that only reasonable and necessary expenses should be incurred on behalf of the system. 	Partially; not expressly stated as such	Statement of Purpose contains principles about the need for education and expectation of reasonable and necessary expenses	Enhance
<p>Statement of Education Requirement For example:</p> <ul style="list-style-type: none"> • Twenty-four hours of board member education within the first two years of assuming office and for every subsequent two-year period.¹⁹ • Any additional mandatory education requirements by policy or by law such as fiduciary training, open meetings law training, ethics training, and prohibition on sexual harassment training. 	Partially	Statement of Purpose references hourly requirement; Attachment C provides indirect reference to appropriate topics through Pre-Approved Conferences	Enhance

¹⁸ Ibid.

¹⁹ See California Government Code §31522.8.

Recommended Policy Elements (cont'd)	Addressed by LACERA's Policy?	Observations	Recommended Action
<p>Qualifying Educational Opportunities that Satisfy Requirement</p> <p>Identifies types and modalities of education and training.</p> <ul style="list-style-type: none"> Provides consensus preferences for education sourcing: targeted mix of internally and externally provided education; local, in-State, national, and international opportunities. 	No	Not expressly addressed; Statement of Purpose defines education conferences and administrative meetings, implying that Trustees travel to obtain education	Add
<p>New Trustee Onboarding</p> <p>Ensures that new trustees are informed of the system's issues and acquire the skills and capabilities in a structured way in their first year of service to effectively acclimate to the system.</p>	No	Not expressly addressed; the Policy does not require orientation or address the timing or outline of such a program. There are pre-requisites that Trustees must complete before they can attend international conferences (§705.00.A.8)	Add
<p>Continuing Education (Trustee Development)</p> <ul style="list-style-type: none"> Expresses importance of staying abreast of current issues and trends to effectively fulfill fiduciary duties and the system's vision as expressed in the strategic plan. Outlines the curriculum for continuing education and preferred board/trustee competencies. 	Partially	Not expressly addressed beyond reference to legal Board member education requirement (Statement of Purpose)	Enhance
<p>Limitations</p> <p>Limits and process for addressing the limitations. For example:</p> <ul style="list-style-type: none"> Number of conferences that can be attended. Number of individuals (i.e., Board members and staff) attending the same event. How attendance priority is determined. 	Partially	See §§ 705.00.A.1-2, 705.00.A.4-6, 705.00.A.8, Attachments B and C	Enhance

Recommended Policy Elements (cont'd)	Addressed by LACERA's Policy?	Observations	Recommended Action
<p>Mentoring Assists new trustees in becoming familiar with board norms, context, and protocols, through the lens of an experienced board member.</p>	No	Not expressly addressed	Add
<p>Tracking, Monitoring, and Reporting Addresses how and when reporting on compliance with the policy will be provided. For example:</p> <ul style="list-style-type: none"> • Tracking board member compliance with the Education Policy.²⁰ • How transparency will be achieved with Board member policy compliance.²¹ • How annual self-evaluation of education and training will occur.²² 	Partially	Reporting (§705.12); Trustees are “encouraged” to share with other Trustees what they learned at their conference at a regular Board meeting, but it is not “required” (§705.13); Record of compliance not expressly addressed	Enhance
<p>Approval Process Addresses pre-authorized education, if applicable, as well as who has the authority to approve individual education events, the process by which approval occurs for covered persons under the policy, and exceptions.</p>	Yes	See §705.00, which contains detail about the approval process for trustees. The approval process for staff focuses on travel, is silent on education approval, and contains confusing or possibly conflicting provisions (§705.00.B).	Enhance

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²⁰ California Government Code § 31522.8 (d).

²¹ Ibid.

²² The Board of Investments Charter, Section 4.5, references an annual self-assessment requirement.

Recommended Policy Elements (cont'd)	Addressed by LACERA's Policy?	Observations	Recommended Action
<p>Responsibilities of the Board, Individual Trustees, and the CEO Delineates responsibilities in developing, overseeing, and participating in the education program, including:</p> <ul style="list-style-type: none"> • Identify appropriate topics for board member education (curriculum and core competencies).²³ • Establish a means for determining the programs, training, and educational sessions that qualify as board member education.²⁴ 	Partially	Only addressed as it relates to travel (§705.00.B., §705.03.2); no express delineation of Boards', CEO's, or individual Trustee's responsibilities relative to the education program, including new Trustee orientation.	Enhance
<p>Coordination with Other Related Policies Cross-references related provisions of other charters or policies within a board's framework that are linked to trustee education such as a code of conduct and board self-evaluation policy.</p>	No	Not expressly addressed	Add
<p>Policy Review Cycle Every three years.</p>	Yes	Annually or as needed (§705.18)	Enhance

In our review of LACERA's policy documentation on its website, we found other education-related policies of the Boards. It was unclear how these policies interacted with the Education and Travel Policy. We also noted that the Boards' Charters delineate specific responsibilities regarding education oversight. This type of reference demonstrates the expected coordination within LACERA's overall policy framework; however, there are inconsistencies between the requirements of the Charters and actual practice. For example:

- The BOR Charter²⁵ references a development policy, which presumably would be related to individual Trustee development; however, we were informed by staff that this policy does not actually exist.

²³ See California Government Code §31522.8.

²⁴ Ibid.

²⁵ Board of Retirement Charter, Section 6.1.4.

- The BOI Charter²⁶ compels the BOI to conduct an annual self-assessment. It was confirmed by staff that this responsibility has not been fulfilled in a formal way. The BOI conducted a review of its Committees in 2019.
- There is no similar reference to a self-assessment in the BOR Charter.
- The BOI Charter²⁷ references an annual evaluation of training requirements, which, again, as confirmed by staff, is not conducted in a formal or holistic way.
- A Board Training Policy exists on LACERA's website among the Boards' governance documents. We were informed by staff that it has not been approved by the Boards, though we understand that it is presently in the process of being updated.
- A Board Member Educational Requirements Policy exists for each Board, dated August 2012. Although it is available through LACERA's website, it is not specifically referenced by the Education and Travel Policy.

As demonstrated by the comparative chart above, and through our review of LACERA's related Charters and policies, LACERA's governance documentation on board education can be improved. As a starting point, we recommend that the education policy be separated from the travel policy in order to rebalance the focus between education and travel that exists in the current Education and Travel Policy, and ensure that there are appropriate linkages between other existing education-related policies and documents to the education policy (Recommendation 2.1).²⁸ Through the interview process, we found that some Trustees already had insights into this concept and suggested such a split, believing it would enhance usability.

The peer survey research supports the direction of separation. The majority of US peers surveyed (8 of 11) have a policy in place to address board education, all of whom have a standalone board education policy. Of the international peers surveyed, only one had an education policy. This is due to the fact that the vast majority of directors come to board service with decades of experience as actuaries, professional investors, central bankers, and academics, among others. In some markets, director candidates are tested by regulators on a body of knowledge to be qualified to sit on the board.

Furthermore, only one U.S. peer addressed the topic of staff education and training in the same policy as for the board. Because trustee and staff duties and educational requirements vary greatly, provisions related to staff education and training ought to be removed from LACERA's Board Education and Travel Policy and maintained by the CEO in a separate staff policy (Recommendation 2.2).

It was also reported to us that peer information was not consistently provided to the Boards for consideration during the Education and Travel Policy review process, though some peer

²⁶ Board of Investments Charter, Section 4.5.

²⁷ Board of Investments Charter, Section 4.5.2.

²⁸ For purposes of readability and further reference within this Report, the defined term Education and Travel Policy refers to LACERA's current combined education and travel policy. References to a standalone education policy or travel policy will be specifically described as such within the text.

information was provided in the most recent cycle of amendment in August 2019. Information related to peer education and travel policies and practices should be regularly provided to the Boards when they are considering policy amendments.

b. Comparison of LACERA Education Practices with Peers

We conducted a comparison of LACERA's education practices with those of surveyed peers. We also compared LACERA practices to recognized best practices and our own knowledge and experience in working with other public retirement systems.

We organized our analysis across the following four categories: Education Requirements, Approval Process, and Types of Education that Satisfies Requirements, and Monitoring, Reporting and Evaluation Practices.

i. Education Requirements

To ensure that public retirement systems are overseen by well-informed boards, trustees may be required by applicable law or by policy to satisfy a minimum number of continuing education hours. Although some systems have had long-standing legal requirements for trustee education, there has been a notable trend over the last decade for legislatures to enact laws requiring continuing education. Because some of the states that enacted such laws have a large number of public retirement systems, the net result is that trustee education requirement is becoming more commonplace within the industry.

Most of the U.S. peers surveyed (9 of 11) have educational requirements in some form. However, the requirements varied greatly in number of hours required, the applicable time period (annually or biannually), and, for some systems, the requirements differed based on trustee tenure (new versus experienced trustee). Among the peer group, the education requirement for new trustees ranged from undefined to 30 hours every two years, and continuing education ranged from undefined to 24 hours every two years. The significant range in the requirements is due to the fact that there is no uniformly accepted standard within the industry for what amount or type of education is needed by public retirement system trustees to perform optimally.

LACERA's applicable law requires Trustees to attain 24 hours of education every two years regardless of tenure. This requirement is on the high side of the range for Trustee education reported among the peer group. It is consistent with the legal requirement and/or policy requirement applicable to other California public retirement system trustees.

LACERA's applicable law also provides examples of appropriate topics for Board member education, including fiduciary responsibilities, ethics, pension fund investments and investment program management, pension funding, benefits administration and new Board member orientation. Some peers have either been subjected to a comprehensive curriculum, or certain aspects of competency, such as professional

knowledge or skills, through a statutory provision or have voluntarily adopted a curriculum.

LACERA has the legal authority to establish a means for determining the programs that qualify as “board member education,” but it has not established a curriculum specific to its own Trustees’ and organizational needs. A curriculum-based approach to education would be more effective at ensuring that the process of obtaining education is a strategic and deliberate one in support of the LACERA’s organizational goals and objectives (Recommendation 2.4).

While a curriculum is useful in the ongoing development of experienced Trustees, it is particularly important for new Trustees. Although LACERA reported to us that it has a basic internally provided orientation program that has evolved over time, it does not have a comprehensive, standardized, and consistently applied core training expectation for new Board members beyond the successful completion of Education and Travel Policy pre-requisites for Trustees to attend an international benefits or investment conference.

ii. Approval Process

Pre-Approval Process and Use of Conference Lists

LACERA staff produces and circulates to Trustees an “up to date” conference list on a monthly basis that identifies upcoming conferences of possible interest. LACERA’s Policy also includes a list of pre-approved external conferences. According to the Policy,²⁹ if a Trustee would like to attend a conference not on the pre-approved list, and not subject to Section 705.00.A.2 of the Policy, the Policy requires approval from that Trustee’s Board. All international conferences also require Board approval.³⁰

While LACERA’s pre-approved list commendably provides for a somewhat tailored approach in that each Trustee can self-select education opportunities aligned with interest areas, the list of possible topics permitted through the Pre-Approved Conferences in Attachment C is very broad, and its entire focus is external conference opportunities.

As mentioned previously, LACERA does not have a customized curriculum or Board competency framework, so there is no specific guidance to aid a new or experienced Trustee in linking back to what is appropriate and necessary for LACERA or to align with LACERA’s future vision and strategy. Further, LACERA Trustees do not rely on any particular planning practice, such as individual development plans, to prospectively plan their education paths. While a minority of Trustees reported to us that they plan their educational opportunities a full year in advance, the more common approach

²⁹ 2019 Education and Travel Policy, Section 705.00.A.4.

³⁰ 2019 Education and Travel Policy, Section 705.00.A.5.

reported was for Trustees to make an ad hoc determination to attend conferences and events.

Many surveyed peers have adopted limitations as a way to ensure that the system's resources are being used optimally. Half of the peer systems reported having policy limits on Trustee education. These limits took a variety of forms, including an overall budget, a per-trustee budgeted amount, the number of conferences allowed per year, the number of international trips per year, approval for an event not on a pre-approved or circulated current conferences list, and approval of all international education opportunities whether it was on a pre-approved list or not. This is consistent with LACERA's recent practices and Policy.

Also consistent with LACERA's practices, the majority of systems reported maintaining an up-to-date listing of high-value professional association conferences or seminars for trustees to consider. Over the years, the peers reported a purposeful shift away from for-profit or industry-sponsored conferences supported by investment management organizations to mitigate the appearance of potential influence or conflict of interest situations. One Canadian pension fund cited a board norm that such events are not to be attended.

As we understand it, LACERA has not reviewed its pre-approved conference list or up-to-date conference list from a holistic perspective of lenses of value, quality, and other reputational risks, but could benefit from doing so given the increasing scrutiny that such conferences are receiving in an already crowded sphere of conference providers (Recommendation 2.7). Interviews with some of the Boards' consultants supported this insight.

Approval Process

LACERA uses the consent agenda to approve Trustee education requests when Board approval is required by the Policy. A consent agenda item by its nature suggests a non-controversial or routine subject matter. Through the interviews, a number of Trustees questioned whether the consent agenda remains an effective mechanism for which to approve education and travel. Some Trustees reported that, particularly in light of items highlighted through recent audits, they would have liked to have had the opportunity to ask questions about the selection of certain educational conferences at the time of approval. Some expressed concern in hindsight that some conference attendance had the potential perception of being too closely related to personal interests. While this was not the perception for the vast majority of education conferences attended by Trustees, the consent agenda label supports the impression that the item offered for review and action was within acceptable Board norms.

Staff reported to us that it recently enhanced the information provided to the Boards with expected costs for each requested trip to support the approval process. While this additional information is useful, we believe that the Boards should also take into consideration, at a minimum, the year-to-date expenditures on education and education-related travel costs in comparison to the annual budget at a Board level to better align with peer practices. For example, some peer systems reported providing

their boards with information on total committed expenditures to date versus the approved fiscal year education and travel budget. LACERA may also want to provide detail as to the requesting Trustee's total travel expenditures to year-to-date, as well as the Trustee's progress toward satisfying education requirements.

To further mitigate reputational risk associated with education, LACERA ought to consider requiring that Trustees provide additional documentation in the approval process for conferences. This could take the form of attestation that the traveler requesting the trip has reviewed other available local or regional alternatives, and that, to the best of his/her knowledge, provides an appropriate rationale as to why attendance at the educational event is important. While this increases the documentation burden on individual Trustees, it provides protection to the Boards from a fiduciary standpoint by having a prudent process in place to address such items that are naturally subject to interpretation and reputational risk.

Although the use of a consent agenda to approve board education is a common practice, it seems to have contributed to putting LACERA and its Trustees in a position of undue reputational risk. Modifying the information provided may be the enhancement needed to yield meaningful improvement. In the interim, LACERA ought to consider removing education and travel approval requests from the consent agenda and evaluating alternative approval processes to ensure that effective opportunity for discussion is provided and decision-making is supported (Recommendation 2.6).

iii. Types of Education that Satisfy Education Requirements

Qualifying Education in Light of Legal Requirements

When continuing education is required by law and/or policy, peers reported that it could be fulfilled through many mediums, including:

- Professional association conferences or seminars, such as participation in a State association or university-sponsored investment or pension management program,
- Education presentations made during board/committee meetings by staff, board consultants, or outside speakers,
- Board education offsites sponsored by the system,
- New trustee orientation provided by staff or consultants,
- Self-study such as webinars or reading relevant books or periodicals, and
- Immersive training such as meetings with staff outside of regularly scheduled board meetings and attendance at specified education meetings provided to the membership such as member benefit group education meetings (retirement or health care meetings).

Although LACERA's Policy delineates some of the high-level functions of the Boards relative to the need for education, it does not clearly outline the various modalities that can fulfill the continuing education requirements. It is a combined Education and Travel

Policy; however, the majority of the text outlines how much and when travel is allowed and how it will be reimbursed.

In practice, LACERA makes available all of the aforementioned forms of trustee/board education. However, as noted in our policy comparison, LACERA's Policy sets a tone that Trustee travel to external conferences is necessary for Trustees to satisfy the education requirement.

The tone was reflected in the interview process. Specific examples include:

- While some Trustees reported to us that they engage in self-study such as webinars or reading relevant books or periodicals, the large majority view external conferences as the only way to satisfy their educational requirement. Some questioned whether online training like webinars should count at all toward satisfying education requirements because there is no check and balance to ensure that attendees engaged without distraction throughout the entire session.³¹ The sentiment was that online training is not and does not provide legitimate education.
- Some Trustees acknowledged that traveling for educational purposes is a long-standing cultural belief of the Boards. Reflecting on their time as new Trustees to the Boards, they reported being informed by other Trustees that they need to travel to obtain education.
- The majority of Trustees could not clearly articulate the internal education opportunities that counted toward meeting their legal education requirements, such as that provided through new trustee orientation,³² Board offsites, or regular Board and Committee meetings.

Staff reported tracking the continuing education hours that Trustees receive from external conferences, but not for the entire suite of education modalities.

Use and Applicability of In-House Versus External Education Events

LACERA's practices regarding the applicability of in-house education differ significantly from the current practices of peers surveyed. The majority of U.S. peers provide some level of trustee education internally, with the majority providing between 50% and 75% of the education provided to trustees internally. This mode of internal education included bringing in outside experts to address the board members during regular board and committee meetings or board offsites. Among international peers, opportunities for external education are rarely partaken. Instead, when education is sought, preference is heavily weighted toward internal education.

³¹ There is also no such check and balance at industry conferences that conference registrants attend and engage without distraction in the sessions offered.

³² California Government Code § 31522.8 expressly provides that new board member orientation satisfies the education requirements set forth under law.

There is a clear trend over the last decade to favor the provision of “in-house education” over externally provided education events. All U.S. peers except one reported having the same or an increased level of in-house education over the past decade, citing reduced cost and convenience as the primary benefits. Research also has established a linkage between the value of teams learning together and their overall effectiveness.³³

As the allocation to in-house education has increased among the peer group, attendance at external education events, including association conferences, has either decreased (1 of 11) or stayed the same (9 of 11). In response to the same survey questions, LACERA reported that less than 25% of its education was provided internally versus externally with in-house education levels staying the same over the past ten years. During that same time period, LACERA has experienced an increase in attendance at external education events by Trustees.

It is important to note that public pension industry association conferences design content to attract the interest of their general membership and not for any system specifically. The alignment, or lack thereof, with LACERA’s needs can be significant. This is particularly notable given that the majority of Trustees reported to us through the interview process a belief that as an organization, LACERA has few, if any, peers.

Trustees reported through their interviews a perception that in-house education was not as reflective of emergent issues faced by LACERA as what could be obtained externally. This could possibly be due to the omission of in-house education in the Policy. At the same time, when asked to provide examples of quality in-house education provided, specific examples were referenced that clearly addressed some emerging trends. For example, the sustainability education sessions, which were led by internal staff who sourced expert speakers were positively referenced, along with education sessions on the disability process through the Disability Procedures Committee. In light of how readily the in-house education success stories were recalled, it is challenging to know if the lack of acceptance of in-house education is being supported by the long-standing cultural belief that education for LACERA is defined through external sources where travel is required.

To evaluate the high-level sufficiency of in-house education, we reviewed as a proxy the agendas of the 2019 offsites for the BOR and BOI. Education spanned a wide range of topics, including healthcare issues, investment strategy matters, actuarial matters, state and federal legislative updates, and technology issues such as cybersecurity. Each agenda provided six to seven hours of content, delivered by staff, Board consultants, and outside experts and guest speakers. This practice is consistent with peers. It is notable that some peers intentionally pre-plan their offsites and regularly provided board education such that trustee education requirements can be completely satisfied through attendance.

LACERA staff and Board consultants also provide education periodically through regular Board and Committee meetings. The LACERA staff and the Boards’ consultants

³³ Schein, E. (2013) *Humble Inquiry*. Oakland: Berrett-Koehler Publishers.

are experts in their fields who routinely speak at national or regional industry association conferences. Upon review of LACERA's Board consultant contracts, we found the majority of Board consultants had general contractual provisions requiring them to provide Board or individual Trustee education (Recommendation 2.9). This is consistent with over half of the peer funds surveyed, as well as with best practices. LACERA should standardize its agreements in this regard.

We recommend that LACERA establish a target for in-house and externally provided education (Recommendation 2.8).

New Trustee Orientation

Having a formalized trustee orientation program is a globally recognized best practice in governance.^{34 35} All of the peers that reported having an education policy also indicated having a form of trustee orientation, ranging from a basic program to one that is comprehensive and inclusive of various topics and elements.

For new trustees, the process of orientation can feel overwhelming, given the significant breadth of topics covered. In response, international and progressive U.S. peers are expanding their orientation process from one or two days to a period spanning several months. Under this newly expanded approach to orientation, each session can take up to four to five hours and is planned around board meeting schedules and the agendas of upcoming board meetings. The new board member learns about the topics which will be discussed at the next board meeting.

Orientation sessions include information about the current status of strategic initiatives of the system, but also historical context, key changes that have been made over time and why, and how the funding, investment, and governance policies work. Other thematic topics cited for this approach to orientation were risk and managing the brand of the organization.

Materials are provided in advance, and new board members are expected to come to sessions prepared to participate. The board leadership or existing board members are invited to attend so that they may offer their insights from the board's perspective. More tailored education for new trustees is also provided based on which committee that individual will be serving, as well as their areas of expertise and interest. To round out the approach, a follow up is scheduled with new board members after a period of time, such as six months or one year. The purpose of the follow up is to assess whether there is any additional information the individual needs that the onboarding process hasn't to date been provided.

³⁴ Clapman, Peter, et. al. Clapman Report 2.0, "Model Governance Provisions to Support Pension Fund Best Practice Principles," Stanford Institutional Investors Forum, 2013.

³⁵ NACD, "Navigating the First Year: An Onboarding Guide for New Directors," 2019. <https://www.nacdonline.org/insights/publications.cfm?ItemNumber=39560>

Through the interview process, we asked LACERA Trustees to describe the type, level, and timing of orientation received at the outset of their service to the Board. The experiences reported were wide, varied, and largely inconsistent. While we believe the inconsistency in approach and delivery is likely due to the turnover in senior management, it is the responsibility of the Boards to ensure that a prompt, thorough orientation is provided to its new members by its CEO, staff, and consultants, and to hold the CEO accountable for implementing the Board's direction in this regard.

Trustees were also unclear as to whether orientation counted toward satisfying the legal education requirement for Board members. Staff reported to us that the approach, content, materials, and accountability for delivering the new trustee orientation program has been in transition over the past several years; however, orientation materials were scheduled to be updated within the next year. We recommend that LACERA refresh, formalize, and stabilize the delivery of new trustee orientation and develop a broader Trustee onboarding program (Recommendation 2.10).

iv. Monitoring, Reporting, and Evaluation Practices

Monitoring Overall Education Policy Compliance

Given the legal basis of LACERA's board education requirement, it is important to monitor compliance with the Policy and periodically report on it. It is also an important mechanism in supporting the transparency of board operations.

LACERA's Boards need to receive appropriate content at the right frequency to sufficiently fulfill their responsibility to oversee the Trustee education program. Just under half of peers reported a practice of annually providing information to their board on trustee continuing education compliance. A minority provided reporting more frequently – either semi-annually or quarterly. The significant majority of peers with a staff education requirement (8 of 10) reported that their board does not review information related to staff continuing education, other than for the CEO if continuing education requirements apply since that is the domain of management and not the board.

LACERA Trustee education compliance reports are completed semi-annually (in terms of hours, not competencies or subject matter), consistent with the minority of peer practices. They provide an aggregate view of all Trustees and their current compliance status.³⁶ Additionally, LACERA provides a snapshot of Trustees' compliance status within the individual biographies posted on LACERA's website. Trustee education and travel reports are provided monthly, and expenditure reports are provided quarterly. These various reports are publicly available through LACERA's website, furthering its commitment to transparency. The Boards also receive monthly reports on staff continuing education and travel expenditures, which is not necessary.

³⁶ For example, met requirements or in the process of meeting requirements.

LACERA's reporting frequency of Trustee continuing education is reasonable, given the peer group's practices. LACERA's monitoring practices do not take into consideration the full spectrum of education opportunities undertaken by Trustees, and accordingly, need improvement. While compliance with applicable legal standards for continuing education is met by LACERA's monitoring process, the Boards receive virtually no information as to the quality or appropriateness of education received by Trustees given LACERA's organizational needs. We believe that this is a result of LACERA's Policy being principally dedicated to rules governing travel more so than education. We recommend that LACERA rebuild its continuing education reports in alignment with any changes it makes to its education policy. For example, this could include linking to established curriculum requirements in addition to satisfying education hours.

Post-Conference Evaluations

Considerable resources are invested by public retirement systems in trustees' education and training. To ensure that the resources are utilized effectively, some systems require trustees to share information from the events attended to the board and/or staff, and to evaluate the relevancy and value of external conferences given its cost. Half of the peer systems surveyed required or encouraged some form of information sharing and/or evaluation of the conferences attended. Related practices included the following:

- Requiring a trustee's completed conference evaluation as a condition of expense reimbursement,
- Posting the trustees' written evaluations to the board's web portal,
- Requiring, versus simply encouraging, trustees to share their experience and perspectives about the recently attended conference or seminar during the next board meeting,
- Providing the materials from the conference or seminar to the CEO or staff, and
- For non-pre-approved conference attendance, requiring that a written report be provided to the board after the conclusion of the conference.

Consistent with LACERA's Policy, LACERA reported that Trustees are encouraged, but not required to share their experiences from conference attendance. It was reported to us through the interview process that when this type of sharing does occur, it is limited and typically at a very general level. Some Trustees reported to us that as a matter of personal practice, they typically share materials obtained through conferences with staff. When asked through the interviews about bolstering post-conference attendance evaluations, Board sentiment was mixed. Many saw the value in sharing information and feedback; others believed that such practices had limited usefulness, would be overly burdensome on Trustees, and should not be considered or required.

To be clear, it should be conveyed and understood that post-conference evaluation practices are recognized best practices³⁷ and serve the purpose of providing sufficient fiduciary documentation, and therefore risk mitigation, given the expense. It should also serve the purpose of sharing perspectives about the quality of educational events. At a minimum, we recommend LACERA's practices include a requirement for Trustees to complete a post-conference evaluation, including key substantive takeaways and whether the conference merits future attendance, post the evaluations to the Boards' online portal, and share any conference materials received with the Boards and the CEO (Recommendation 2.11).

Annual Trustee Education Self-Assessments

Some peers have adopted a practice of requiring trustees to annually reflect on and develop a self-directed continuing education program for the upcoming year based on individual interests, fiduciary responsibilities, educational requirements, including curriculum and competencies, and the system's overall strategy. Approximately half of the peer survey respondents had a trustee educational self-assessment, which is consistent with recognized best practices among public retirement systems.³⁸

LACERA does not currently use such a practice, but we believe it could benefit from doing so. As mentioned previously, LACERA's current method of having Trustees report out during regular Board meetings about recent conference attendance is not a particularly useful or effective practice. It should be discontinued in lieu of engaging in annual self-evaluations of Trustee education where all Trustees can reflect on their educational experiences and needs (Recommendation 2.12). This discussion venue can also be used to shape future in-house educational offerings. Through the interview process, we queried Trustees to gauge sentiment as to the potential value of such a practice. The majority believed that it could be useful and would be worthwhile to consider.

ii. Comparison of Travel-Related Aspects of LACERA's Policies and Practices

Travel policies provide an important opportunity for public retirement systems to create organizational alignment around travel as set out by the board, ensure prudent expenditure of trust fund money, and provide a framework for board oversight and staff implementation. In addition, they should address the need to have an accountable plan under Internal

³⁷ Clapman, Peter, et. al. Clapman Report 2.0, "Model Governance Provisions to Support Pension Fund Best Practice Principles," Stanford Institutional Investors Forum, 2013.

³⁸ Clapman, Peter, et. al. Clapman Report 2.0, "Model Governance Provisions to Support Pension Fund Best Practice Principles," Stanford Institutional Investors Forum, 2013.

Revenue Service guidelines.³⁹ Here, we present our evaluation of the following topics: Policy Discrepancies, Travel Policy Comparison, and Travel Practices Comparison.

a. Policy Discrepancies

Through our evaluation of LACERA's travel expenses⁴⁰ and, therefore, close inspection of the Policy, we noted two things that are worthy of mention. First, we noted through the amendment of prior Policies an intention by the Boards to strengthen travel practices with the goal of reducing some of the costs associated with travel. Second, we observed discrepancies in the newly revised Policy that ought to be addressed (Recommendation 2.13). Examples of discrepancies are as follows:

1. It is unclear whose approval is required for staff member travel.⁴¹ The Policy references approval by the traveling staff member's Division Manager, Assistant Executive Officer, and the CEO. However, this same Policy section states that the CIO has the sole authority for all staff travel approvals and decisions under any provisions of the Policy. This latter provision suggests that the CIO approves not just investment staff travel, but all staff travel, including the CEO's. This section is confusing, inconsistent with actual practice as reported to us by staff, and needs clarification.
2. The travel and education portions of the Policy provide different definitions of the term "international." Canada and Mexico are identified as international locations under the travel portion of the Policy,⁴² but they are not defined as international locations under the education portion of the policy.⁴³ The definition should be consistently applied across both education and travel.
3. Business-class travel is, in part, defined by originating or departing "international location," including Canada and Mexico.⁴⁴ We observed the interpretation of the business class travel Policy criteria causing confusion among travelers within our expense review. It may be clearer to streamline the criteria and limit business travel to any trips exceeding a certain number of direct flight hours, irrespective of whether travel is domestic or international, and eliminate the definition of international travel.
4. Under the "Waiver of Policy Provisions,"⁴⁵ the Boards may waive compliance with any aspect of the Policy when in the best interests of LACERA. For clarity, the best

³⁹ Please see IRS guidance on accountable plans at 26 Code of Federal Regulations, Section 1.62-2, "Reimbursements and Other Expense Allowance Arrangements," and IRS Publication 463, Travel, Gift and Car Expenses - Reimbursements.

⁴⁰ Please see Section 1 of this Report – Education and Travel Expenses Review.

⁴¹ Section 705.00.B

⁴² 2019 Education and Travel Policy, Reimbursement Schedule, Attachment A, Section A.1.c.

⁴³ 2019 Education and Travel Policy, Section 705.00, A.1.

⁴⁴ 2019 Education and Travel Policy, Reimbursement Schedule, Attachment A, Section A.1.

⁴⁵ 2019 Education and Travel Policy, Section 705.16.

interests of LACERA should be defined so as to ensure consensus agreement and transparency around the circumstances of waiver.

b. Travel Policy Comparison

All responding U.S. peer systems address travel through a standalone travel policy separate from the education policy. Slightly more than half combined board and staff policies, the remaining peers did not. Some peers were subject to their plan sponsor’s travel regulations and guidelines (e.g., the state); therefore, they had little control over parameters for reimbursable expenses. Regardless of whether they did or did not have control over their applicable travel rules and regulations, the peers’ travel policies tended to be shorter, higher-level policies than LACERA’s.

LACERA has a combined education and travel policy that sets forth provisions applicable to both the Boards and staff. LACERA also reported not being subject to the County’s travel guidelines and parameters. Therefore, it has the responsibility to develop and implement its own travel regulations and guidelines and has the opportunity to set out principles that govern behavior related to travel.

Based on our review of peer policies, best practice principles, and our own knowledge and experience in assisting other peers with the development and amendment of their travel policies and programs, we observed that LACERA’s policy contains mainly travel procedures versus policy language. We recommend that LACERA capture the Boards’ principles and positions on Trustee travel in a standalone Board travel policy and that administrative procedures be removed from the Policy document and delegated to the CEO (Recommendations 2.14 and 2.15).

A description of the recommended policy elements (Recommendation 2.14) follows. Similar to the recommended policy elements that appear earlier in this report pertaining to the education policy, we provide an example of a hybrid between a rules-based policy format and a principles-based policy format, with the suggestion that the majority of prescriptive rules around travel could be moved to an administrative procedures document under the purview of the CEO. This accomplishes the objective of moving LACERA in the direction of a principles-based policy format in a manner where the amount and pace of change can be controlled.

Recommended Policy Elements	Addressed by LACERA’s Policy?	Observations	Recommended Action
Statement of Purpose Identifies the rationale for the policy and acknowledges the Board’s collective and Trustees’ individual fiduciary duty.	Yes	See Statement of Purpose; Trustee individual fiduciary duty not expressly addressed	Enhance

Recommended Policy Elements	Addressed by LACERA's Policy?	Observations	Recommended Action
<p>Definition of Covered Individuals Clearly delineates the individuals covered by the policy, particularly when there may be alternate Trustees or designees for Ex-officio members.</p>	No	No definition of "designated staff"; silent as to applicability to Treasurer and Tax Collector's delegate(s)	Add
<p>Principles Examples include:</p> <ul style="list-style-type: none"> • Covered travelers are expected to use prudence, discretion, and good judgment to ensure that all expenses incurred are authorized, reasonable, and necessary. • A traveler is expected to make travel arrangements in the most economical manner to the system, in consideration of the traveler's schedule. • Travel should be conducted in relation to and support of the board's governance responsibilities, individual trustees' development plans, system's specific education competencies and curriculum, and the strategic plan. • Local, in-state, and in-country opportunities should be emphasized over international opportunities, where possible. • Prohibition on receiving gifts of travel or traveling for events that can create the appearance of "pay-to-play" or other such impropriety. • Appropriate and timely reimbursement shall be made for expenses incurred in the completion of duties. 	Partially	See Statement of Purpose; There is no connectivity to a curriculum/competencies, trustee development plans, or the System's strategic plan. There is no emphasis on local, in-state, and in-country opportunities.	Enhance

Recommended Policy Elements	Addressed by LACERA's Policy?	Observations	Recommended Policy Elements
<p>Types of Travel For example, educational conferences, non-educational events when requested or approved by the Board, travel to Board and Committee meetings, stakeholder events, etc.</p>	Yes	Statement of Purpose contains definitions of Educational Conferences and Administrative Meetings	Maintain
<p>Broad Categories of Limitations and Non-Reimbursable Expenses Addresses policy positions on common situations such as when traveling with family and friends, or with other Board members, staff, or system service providers, as well as a situation where a Trustee has resigned, retired, lost their election bid, or chose not to seek another term on the Board.</p>	Partially	See §705.00.A.9 requires cessation of future travel once a Trustee is aware their term of service will end. See §705.08 for limitations on expenses when traveling with personal companions. Beyond §701.15, Brown Act Compliance, the Policy does not expressly address situations where Board members travel with staff or system service providers.	Enhance; Alternatively, this concept could be expressed as a high-level principle, with specific details maintained in the administrative travel procedures.
<p>Approval Process. Addresses who has the authority to approve, the process by which approval occurs for covered persons under the policy, and exceptions.</p>	Yes	See §705.00, which contains detail about the approval process for trustees. The approval process for staff contains confusing or possibly conflicting provisions (§705.00.B). It is unclear who approves CEO travel.	Enhance
<p>Expense Reimbursement Process. Cross-references the administrative procedures that are developed, maintained and enforced by the CEO.</p>	Yes	See Attachment A, Reimbursement Schedule	Maintain in a document separate from the Travel Policy.
<p>Monitoring and Reporting. Describes how oversight of Board compliance with the policy will occur, at what frequency, and addresses transparency in reporting.</p>	Yes	See §705.12, which contains detail about the Travel Reports provided to the Boards and the frequency and manner in which they are provided.	Reduce the detail describing the format/content of the reports.

Recommended Policy Elements	Addressed by LACERA's Policy?	Observations	Recommended Action
Responsibilities of the Boards, Individual Trustees, and CEO. Addresses oversight of the travel policy, the responsibility to become familiar with the travel policy and procedures prior to embarking on business travel, and other expectations around maintaining and enforcing the travel procedures.	Partially	Provisions that apply are organized under each relevant topic and not in a centralized area within the Policy	Enhance
Coordination with Applicable Law and Other Policies. Addresses applicability of FPPC requirements, IRS requirements, education policy, standards of ethical conduct, conflict of interest and gift policies, no-contact policy, or quiet period during active procurements.	No.	Not expressly addressed	Add
Policy Review Cycle. Every three years.	Yes	See §705.18, which calls for an annual or “as needed” review	Enhance

While LACERA’s Policy addresses some of the recommended elements, it is not as comprehensive as needed in some areas, and it also contains a significant amount of procedural detail. A major revision to the Policy is needed, along with separating out administrative detail into its own procedural document, in order to move toward a principles-based policy format.

Importantly, we compared LACERA’s procedures at a high level to those shared with us by some peers. While the procedural elements in LACERA’s Policy are materially complete in their scope and not significantly different from that of peers, they ought to support the Boards’ principles and beliefs around travel. For example, if the Boards’ preference is to emphasize through its principles, the concept of cost sensitivity, then mechanisms to implement that concept, such as requiring that airfare is booked a certain number of days in advance, and restricting the use of business class travel, should be incorporated into the procedures. It is important for the Boards to come together to build a consensus view on their beliefs and philosophies on the purpose of travel in order for LACERA to develop an appropriate principles-based policy and appropriately align procedures.

c. Travel Practices Comparison

Types of Travel

Beyond continuing education, the majority of U.S. peers surveyed reported that their trustees travel for similar reasons as LACERA, including non-educational events.⁴⁶ While a minority of peers noted that also similar to LACERA, their trustees travel to testify before their legislature or Congress and meet with board consultants; no U.S. peers reported that their trustees travel to meet with external investment managers without investment staff. This is likely because many of the peers have delegated the implementation decision to select and terminate investment managers to their professional investment staff; therefore, it is the staff's role to meet with investment managers and not the board's.

International peers have different practices around travel, particularly those with multiple foreign office locations. However, their expectation, which aligns with the norm among U.S. peers, is that fund managers will travel to them and provide education at their board meetings. One Canadian fund board director indicated that their board members travel once per year to one of the foreign office locations for the purpose of meeting with the senior management teams there.⁴⁷

We understand through the interview process that LACERA Trustees are divided on this issue. Some Trustees believe that travel to meet with investment managers without staff present is part of fulfilling their oversight duty. Other Trustees questioned the value of such an exercise and believe that it treads on the staff's role. The Boards should come to an agreement on what the appropriate role of the Board is. Doing so will inform how travel is conducted in support of it. We address this concept in more depth in Section III of this Report, where we discuss the role of the boards as governing bodies.

While some peer system trustees might, on a one-time basis through the onboarding process, attend staff's due diligence meeting with an investment manager, it is for the purpose of education about the system and how it works and not for the purpose of leveraging the trustee's skills and abilities to perform the due diligence or effectuate board oversight. This distinction is important in light of the fact that a board's oversight role includes assessing the staff's performance in implementing board policy. As such, a board needs to ensure that it maintains sufficient independence from the investment process. A board must not inadvertently put itself in a position where its objectivity in assessing staff's performance in selecting and monitoring investment opportunities and investment managers is impaired due to the participation of trustees in the due diligence and continued manager oversight process. There is an important line to be maintained between setting and overseeing policy and implementing policy. Setting and overseeing policy is the role of the board. Implementing policy is the role of staff. In short, we recommend that LACERA Trustees cease meeting with investment managers outside of opportunities presented through Board or Committees meetings (Recommendation 2.16).

⁴⁶ Non-educational events include serving as leadership for a relevant external committee, serving as an expert/panelist representing the system, meeting with legislators/policymakers, meeting with constituent and stakeholder groups.

⁴⁷ They do not visit each location every year and cited the example of missing Hong Kong in 2019 due to the geopolitical risks and riots.

Budgeting Practices

LACERA annually sets an overall budget for Trustee education for each of the Boards as part of the overall administrative budgeting process. The approach includes reviewing the prior years' budgeted amount and rolling it forward with or without a percentage increase. The budget includes funds to support the expenditures in connection with the Boards' annual offsites, Trustee attendance at external conference events, and other non-educational event travel. Historically, peer data has not been provided as a point of reference.

Through the interview process, it was reported to us that there is limited visibility by the Boards into the line items that drive the budgeted amounts. Both Trustees and staff informed us that they believed the overall budgeting process needed improvement. Specific improvements mentioned ranged from the Boards' involvement in the budgeting process to stronger oversight of the actual expenses versus the budget. While the overall LACERA operating budget (including education and travel) is approved by the Boards, it was reported to us through the interviews that the perception is that the Boards are not providing the degree of rigor necessary to set or question the amount of the education and travel budget. It was also reported to us that information regarding the education and travel budgets of peer systems had not been provided to the Boards during the budgeting process.

The most recent annual budgets to support board travel, as reported by peers,⁴⁸ ranged widely from \$25,000 to \$220,000. For LACERA, the most recent budget for the BOR was reported as \$225,500, and for the BOI, it was \$335,500. When taken individually, the BOR budget is only slightly higher than the highest peer, and the BOI outside of the range. The total combined budget of the BOR and BOI is higher than the peer systems that shared their data.⁴⁹

Some peers have adopted a per-Trustee budgeted amount, such as \$10,000 or \$15,000 per year, to place a limit on the educational dollars that the system is willing to invest. Others take a bottom-up approach to identify the educational events that Trustees plan to attend and produce a budgeted amount that is in alignment with that approach.

LACERA has adopted some Policy limits on the number of educational conferences per year that Trustees may attend. These limits have been in place for the duration of the periods we reviewed, and we believe they were intended to serve as a de facto limitation on expenditures. The most recent amendment to the Policy further strengthened the limits.

We recommend that LACERA also adopt a bottom-up approach to establishing the education and travel budget based on individual Trustee development plans and education provided through offsites and regular Board and Committee meetings (Recommendation

⁴⁸ Six of the responding peer systems shared information regarding their budgeting practices.

⁴⁹ We believe there are aspects of LACERA's broader governance structure that play into this disparity, such as board structure, board size, and span of governance. We address this in detail in Section III.

2.17). This would not only accomplish the objective of broadening the Boards' participation in the process but, combined with our prior recommendation⁵⁰ to enhance Board-level reporting, should address the need to monitor actual versus budgeted expenditures. On the whole, we believe these recommendations will result in a thoughtful and defensible process of costs incurred related to education and travel.

Carbon Costs of Travel

Systems in Europe are revisiting travel policies and practices in light of their carbon cost of travel. In coming to a decision to travel or not, they consider not just the financial cost of the trip, but also the carbon cost. This is in part because they are monitoring the carbon footprint of their investments as well as their own operations. Their policies, which have been tightened over the years to take climate change factors into consideration, require them to purchase carbon offsets for all air travel. Other modifications include, for example, expanding the flight time in which economy travel occurs to any trip under 8 hours and reducing memberships at industry organizations. All of this related activity has produced a net result of systems being significantly more selective about travel, and specifically conference-related travel. We recommend that LACERA establish a carbon budget for travel and discuss the role that purchasing carbon offsets may have in future travel policies and practices (Recommendation 2.18).

Section Conclusions

Our review of LACERA's Policy showed a significant imbalance toward travel to fulfill Trustee education. This was underscored when we compared the elements of education and travel in LACERA's Policy against that of peers, highlighting the opportunity for improvement to LACERA's Policy.

We note the good intention of documenting procedures in the Education and Travel Policy. However, it has not protected LACERA or its Trustees from the potential reputational risks that all public retirement systems share relative to trustee travel expenditures. Furthermore, we believe that the layers of prescriptive Policy present a higher risk of noncompliance for LACERA's Boards.

As such, we offer some recommendations to amend the Policy, including that it be separated into an Education Policy and a Travel Policy, and shifted to a higher-level principles-based policy. We believe these changes would capture the Boards' beliefs, thus setting the tone from the top of the organization on expectations related to education and travel. We acknowledge that policies do not drive behavior, and as such, focus the majority of recommendations around the practices which LACERA's Boards ought to consider as they move forward.

⁵⁰ See Section I of this Report.

Section Recommendations

Education Policy

- 2.1. Create a standalone principles-based Board education policy. The Education Policy should be separate from the Travel Policy.**
- 2.2. Remove staff policy provisions from the Boards' Policy and create a separate policy applicable to staff, under the direction and enforcement of the CEO.**
- 2.3. Amend the Policy to incorporate the recommended policy elements (See pages 25-29).**

Education Practices

- 2.4. Establish a curriculum that defines the education and training requirements, including core competencies, specific to the needs of LACERA Trustees and the organization's current and future strategy.**
- 2.5. Require planning practices, such as the use of individual development plans and annual trustee educational self-assessment, to create better alignment and cost-effectiveness.**
- 2.6. Enhance the approval process, including the quality of the data provided to inform the Boards' decisions and the continued effectiveness of the consent agenda.**
- 2.7. Evaluate the pre-approved and monthly up-to-date conferences list and be more selective in the use of those sponsored by for-profit entities.**
- 2.8. Establish an appropriate target for in-house and externally provided education; codify it into policy.**
- 2.9. Upon selection or renewal, where not already expressly stated, require in each Board consultant's contractual scope of work, a requirement for providing Board and individual Trustee educational sessions and implement a process to utilize and enforce the consultant education requirement.**
- 2.10. Refresh, formalize, and stabilize the delivery of a new Trustee orientation; develop a broader Trustee onboarding program in collaboration with staff.**
- 2.11. Adopt post-conference evaluation practices, including required post-conference evaluations, uploading the completed evaluations to the Boards' online portal, sharing conference materials received with the Boards and the CEO.**
- 2.12. Engage in annual trustee education self-assessments.**

Travel Policy

- 2.13. Resolve the discrepancies as noted in the Travel Policy and update accordingly (See pages 40-41).**
- 2.14. Develop a standalone principles-based Board Policy that addresses the recommended elements (See pages 42-45).**
- 2.15. Move the procedural detail, including that related to expense reimbursement, from the Policy to a travel procedures document that is maintained by the CEO.**

Travel Practices

- 2.16. Cease Trustee meetings with investment managers outside of opportunities presented through Board or Committee meetings; direct all manager information and communication flow through the Chief Investment Officer.**
- 2.17. Strengthen the budget-setting and oversight process by adopting a bottom-up approach to establishing the education and travel budget.**
- 2.18. Establish a carbon budget for travel and discuss the role that purchasing carbon offsets may have in future travel policies and practices.**

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III. Governance Factors Contributing to Trustee Education and Travel Practices

Introduction

During the course of our review, we identified broader aspects of LACERA's governance structure and practices that have the potential to impact the cost associated with LACERA's Trustee education and travel practices. These governance structures and practices may also increase the complexity and/or the risk of misalignment of Trustee education with the Boards' responsibilities or the competencies needed to meet organizational needs. These include the following:

- i. Board Structure, Composition, and Size
- ii. Span of Governance
- iii. Governance Decision-Making Model
- iv. Board, Committee, and Trustee Effectiveness

While these areas extend beyond the scope of the Education and Travel Policy, they are important for LACERA to evaluate as they not only impact individual Trustee education but the ability of Trustees to govern effectively as a group. The ability to address some of these governance structures and practices is within the LACERA's control, while the ability to address others is more within the sphere of LACERA's potential influence.

i. Board Structure, Composition, and Size

Assuming each trustee must be educated and properly trained to be an effective fiduciary, and maintain a sufficient level of education and training over time, it is important to evaluate the foundation of the board's purpose, who is being asked to serve, and the number of trustees required to fulfill the board's purpose. Consequently, board structure, composition, and size are directly linked to the type of education that trustees need to prudently perform as fiduciaries and the costs of a trustee education program. Board structure sets the purpose of a board and informs the curriculum of educational content needed to govern effectively. Board composition provides a baseline of the likely background, skills, and experiences of trustees fulfilling the role, the competencies each brings to board service, and insight into education and training that may be needed to align with the board's preferred competencies. Board size impacts the effort and resources expended, including travel costs, to educate and train trustees.

The majority of U.S. public retirement boards have a legal mandate to oversee benefit administration, including retirement, disability, and sometimes healthcare and ancillary benefits, along with investment of the system's assets. While the demands placed upon

large public retirement system boards are numerous,⁵¹ the majority are legally structured to address them with one board.⁵²

In some states, however, oversight of pension administration and investments is bifurcated between two boards with investments managed by a sole trustee of a state agency.⁵³ In these situations, there may be one or more common board members across both boards, but there is a distinct separation between them as legal entities, including that the boards are supported by different staff.

Most large public retirement system boards, having an average of 9 to 11 members, use some type of committee structure made up of a subset of board members to assist in the oversight of certain aspects of the system's functional areas.

LACERA's Board Structure

LACERA operates within the legal framework of the California Constitution⁵⁴ and the County Employees Retirement Law of 1937 ("CERL" or "1937 Act").⁵⁵ The 1937 Act provides for a board of retirement, and if so resolved by the Los Angeles County Board of Supervisors, a board of investments. For purposes of this Report, we refer to this as a "dual-board structure."

LACERA currently has a BOR and a BOI, with among them a total of nine committees, including joint committees. The BOR has three committees, the BOI has four committees, and there are two joint committees as mentioned previously, the Audit Committee and the Joint Organizational Governance Committee ("JOG-C"). The BOR's three committees include the Insurance, Benefits and Legislative Committee; Operations Oversight Committee; and Disability Procedures and Services Committee, a structure set in place by the BOR in 1995. The BOI's four committees include Corporate Governance Committee, Public/Private Equity Committee, Credit and Risk Mitigation Committee, and Real Assets Committee, a structure that was established in 2014. We understand that the BOI reviewed its committee structure in 2019.

It is common for U.S. public retirement systems to organize the work of their boards through committees. Canadian pension funds take a similar approach. Common committees include audit, investments, those addressing finance, budget and compensation matters, benefits and services, appeals, and governance. In evaluating the committee structures of the surveyed peer systems, half of the peers have between four and six committees, with two peers having only one committee, an audit committee.

⁵¹ Boards commonly set actuarial assumptions and methods, investment policy and asset allocation, and appoint the CEO and board consultants.

⁵² See "Overview of Public Pension Plan Governance," National Association of State Retirement Administrators, November 2019.

⁵³ Ibid.

⁵⁴ CA Constitution art XVI § 17.

⁵⁵ California Government Code §§ 31450 – 31897.

LACERA has more committees that operate within a narrower scope than we would expect, especially when compared to peers who perform similar functions with a more streamlined governance structure. The scope of the committees appears to be creating an operational versus governance focus. Based on our interviews, there is a perception that trustees must become experts in specific areas to fulfill their role. Thus, LACERA's governance structure, with a greater number of committees staffed by an overall higher number of Trustees, will likely contribute to higher education costs, including higher travel costs in support of education.

LACERA's Board Composition

LACERA's Boards reflect a mixture of elected, appointed, and ex-officio members. The BOI is composed of nine members. Four members are elected, four of its members are appointed by the Los Angeles County Board of Supervisors. The law requires the County Treasurer and Tax Collector to serve as an ex-officio member. The BOR is composed of nine members with two alternates. Four members plus two alternates are elected, four of its members are appointed by the Los Angeles County Board of Supervisors. Here, too, the County Treasurer and Tax Collector serves as an ex-officio member.

It is generally accepted that the board as a whole must have the proficiency to fulfill its function. In pursuit of this collective body of knowledge and experience, individual trustees are unlikely to and indeed, cannot have or acquire all of the skills required of the board as a whole. As such, the use of a "skills matrix" has emerged as a strategic tool for a board to ensure that its trustees collectively possess all of the needed skills and attributes to carry out effective governance. Its application varies among markets due to differences in public pension system board authority.

Outside of the U.S., public pension system core competencies are identified by trustee appointing bodies. In the case of one European pension fund, the appointing body defines approximately twenty trustee core competencies⁵⁶ in a collaborative process involving the system's regulator. For example, competencies include strategic thinking and the will to act independently. Potential trustees are trained, tested, and vetted relative to these competencies before they even take a seat on the board. While this approach is very different than that here in the U.S., it demonstrates the importance placed on having qualified trustees.

In a similar form, some U.S. public retirement systems have undertaken the process of identifying the competencies needed for their own specific system's board.⁵⁷ Instead of being used for trustee placement, which is outside the board's authority, the skills matrix is

⁵⁶ A competency is the set of demonstrable characteristics, behaviors, and skills that enable, and improve the efficiency and performance of a job. The use of the term varies widely, which has led to considerable misunderstanding.

⁵⁷ Some systems, like LACERA, have legal requirements that also prescribe expertise qualifications for certain individual board seats, such as a background in investments or finance.

instead used for planning and development of trustees. The skills of trustees are mapped against the core competencies to identify any gaps and source education to fill them.

Used in this way, the skills matrix is emerging as a critical tool in evolving the expertise of public retirement system boards because it allows for the board itself to proactively evolve and adapt to the changing needs of the environment in which the system operates.

Through the interview process, we learned that LACERA communicates the expectations of Trustees to those considering candidacy for elected board seats.⁵⁸ This is a commendable practice. However, it does not currently use a skills matrix. We recommend using a skills matrix to better align board educational needs with the education of individual Trustees (Recommendation 3.3). This practice should result in a more focused education of each Trustee, but also an evolution of education over the tenure of the Trustee.

LACERA's Board Size

LACERA's Boards are each squarely within the industry average with the BOR comprised of 11 members and the BOI comprised of 9 members. These numbers include two alternate Trustees for the BOR should there be an absence by certain Trustee seats. The alternates must be informed, educated, and ready to vote at a moment's notice. It has been the practice of the County Treasurer and Tax Collector to appoint a designee to participate and vote on behalf of the office in the event of an absence.

Currently, there are 4 Trustees who serve on both Boards. With the exception of the County Treasurer and Tax Collector, who serves by virtue of the position, there is no legal requirement for overlap. In theory, the County Board of Supervisors could appoint no individuals to sit on both Boards.

Although the size of the BOR and BOI each individually aligns with the average U.S. public pension fund board size, their combined scope aligns with that of other large U.S. public retirement peer systems, which commonly use a one-board model to address a similar scope to LACERA's. This means LACERA must legally educate the Trustees of both Boards, which, combined, is nearly double that of the average of 9 to 11 trustees, and on the larger side of peer systems overall.⁵⁹

By virtue of its structure, LACERA's combined board size has the potential to produce higher than average total trustee education and travel costs. Therefore, it is imperative to periodically monitor overall and per trustee education and travel costs relative to peers to

⁵⁸ See LACERA.com, "Powers and Duties of Retirement Board Members," and "Powers and Duties of Investments Board Members."

⁵⁹ According to the National Association of State Retirement Administrators, public retirement system board size ranges from 5 to 19. See "Overview of Public Pension Governance," NASRA, November 2019.

ensure reasonableness in accordance with fiduciary responsibilities (Recommendation 3.1).⁶⁰ This can be done every three years in conjunction with the Policy review cycle.

Making comparisons and drawing insights between the education and travel budgets supporting public retirement system boards of trustees can be challenging at best, given the degree of variety among boards. Because LACERA's dual-board structure functions in a way that is unique, parties outside of the organization looking to compare education and travel costs will likely lack the industry context and understanding needed for accurate comparison. Should these parties misinterpret their findings, this not only inflicts reputational risk onto LACERA but requires system resources to correct the misinformation. LACERA should be more proactive in providing appropriate context in its reports to the Board and to the public in order to mitigate this risk (Recommendation 3.2).

ii. **Span of Governance**

A board's span of governance is defined as its primary responsibility and decision-making set. It is important to align trustee education with a board's span of governance, so that new and experienced trustees alike are equipped to understand what decisions they will be making and when, and have confidence in individual board decisions.

Unless otherwise stated in law, the fundamental purpose of a public retirement system board of trustees is to administer the benefits and invest the system's assets for the exclusive benefit of the system's members and beneficiaries. Accordingly, high-performing boards typically focus on the following set of policy-level responsibilities:

- Set strategy by setting organizational goals over both long- and short-term horizons, performance metrics to measure progress against goals, and mission and vision statements to guide the organization in achieving its strategy,
- Select, evaluate, compensate, and plan for the succession of the CEO, and any other of the board's direct reports,
- Select and evaluate the board and committee consultants,
- Monitor the board's performance, health, and effectiveness,
- Set and monitor the risk appetite for the organization, and ensure that an appropriate risk management framework is in place,
- Establish policy to direct, appropriately resource, and monitor organizational results under an appropriate compliance framework and a culture of ethical conduct, and
- Establish policy to direct, appropriately resource, and monitor the overall sustainability and performance of benefit plans (trusts), programs, services, and investments.

These responsibilities roll up into a span of governance across board, organizational, and plan governance matters that are appropriately significant and holistic for a governing body.

⁶⁰ In reviewing the routine reports provided to the Boards to monitor the costs of education and travel, we found limited evidence of comparative peer data.

The board’s “job” at a high policy level is to focus on governance, strategy, organizational risk, and compliance. While there are differences in the degree of legal authority that public retirement systems have in which to accomplish their span of governance, the fundamental fiduciary framework is shared. Figure 2 visually depicts the span of a modern public retirement system board’s decisions.

Figure 2. Public Retirement System Board Span of Governance



It is essential that trustees have an awareness of what they are called into board service to do and how they must go about doing it within the contours of the legal structure they operate within. They must know where their span of governance starts and ends, how their board is organized to address it, the line between governance and management, and if there are shared areas of responsibility with management, what those are, and how they will be effectively addressed with the line of accountability appropriately assigned. Moreover, the span of governance should be directly linked to the education and development opportunities that are provided to trustees.

LACERA’s Span of Governance

The BOR is responsible for the overall management of the retirement system and the LACERA-administered retiree healthcare benefits program. The BOI is responsible for determining LACERA’s investment objectives, strategies, and policies, as well as exercising authority and control over the investment management of assets. The BOI also invests and manages the Other Post-employment Benefits assets for participating employers. In addition, the BOI is responsible for obtaining pension actuarial valuations that measure the funded status and serve as the basis for setting employer contribution rates required to fund the system. The BOR is responsible for obtaining actuarial valuations for the OPEB program as part of its responsibility for administration of this program.⁶¹

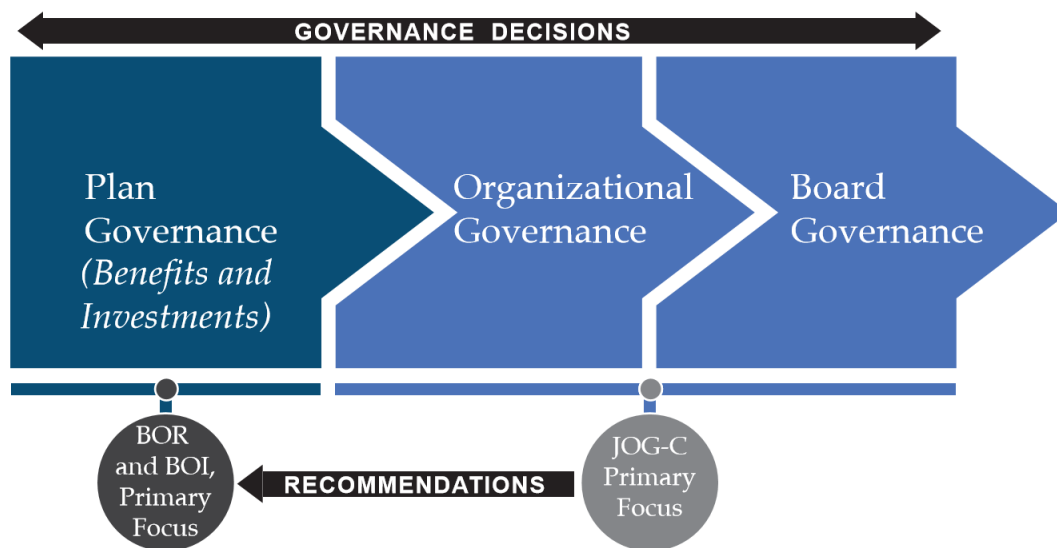
The BOR and BOI have joint authority under CERL over certain shared responsibilities, including classification and compensation of personnel; adoption of LACERA’s administrative budget; the appointment and evaluation of the CEO; and other matters as specified in CERL. The JOG-C was created to serve and facilitate the work of both Boards

⁶¹ JOG-C Charter: <https://www.lacera.com/BoardResourcesWebSite/BoardOrientationPdf/JOGC-Charter.pdf>

where the two Boards' duties intersect, improve the combined oversight of both Boards, facilitate effective two-way communications and act as a liaison between the Boards, ensure that both Boards are comfortable that their perspectives are properly represented, and make recommendations, not decisions.

The Boards are structured by legal mandate in respect of their governance responsibilities, yet the work of the Boards is organized through committees with a tilt toward LACERA's plans, programs, and services. While they jointly share responsibility for organizational governance and board governance matters, many of the most significant governance responsibilities around strategy and budget are addressed by recommendations of the JOG-C as depicted in Figure 3.

Figure 3. LACERA Boards' Practice for Addressing the Span of Governance⁶²



Outside of the JOG-C, the Audit Committee is the only other committee with a scope that, per its charter,⁶³ can reach across the entire span of governance. Its primary function is to monitor operational activities against financial and policy metrics, which is appropriately backward-looking. It is unclear how and through what means the Boards jointly participate in directing strategy, which is forward-looking. We recommend that LACERA evaluate its Board and committee responsibilities to ensure the full span of governance is addressed (Recommendation 3.4). Any resulting findings should be threaded back into Trustee onboarding, continuing education, and development opportunities.

⁶² It is important to note the role of the organization's management and professional staff in supporting a board's governance decision-making model. A board does not operate on its own. Within its role, there are areas where a board leads by directing and making decisions, oversees its delegations and management's decisions, and partners with management to advance initiatives of the system. For purposes of this report, we focus on the board's role and not that of management or professional staff.

⁶³ Per its Charter, the Audit Committee aids the Boards in fulfilling their responsibilities relative to the financial reporting process, the system of internal controls, the audit processes, and the organization's method for monitoring compliance with laws and regulations. This committee also makes recommendations to the Boards and not decisions.

It is our philosophy that all of a board's members should participate to the fullest extent possible in board and organizational governance responsibilities, such as strategic planning, selecting, evaluating, and planning for the succession of the CEO and any other direct board reports, setting and monitoring the risk profile for the entire organization, and monitoring the health and performance of the board.

LACERA has a complicated approach to addressing its span of governance that is challenging to understand, and, as previously mentioned, is overly tilted toward its plans, programs, and services. In the areas where we would expect the Boards to lead, there is a lack of clarity. Some specific evidence includes:

- LACERA has three strategic plans organized by subject – retirement, healthcare, and investments,
- It is uncertain from our review of all Board and Committee charters how the enterprise-wide risk profile and appetite is set and monitored,
- The Boards do not formally monitor their own health, performance, and cultural dynamic through self-evaluation,
- It is unclear how the Boards execute their role of setting the tone at the top and monitoring organizational culture,⁶⁴
- The Boards have not engaged in long-range succession planning for the CEO in alignment with a future vision as expressed through the strategic plan, and it is uncertain through charter review which Board entity would have this area within its scope.⁶⁵

Through the interview process, some Trustees emphasized the importance of the Board embracing its responsibilities in these areas. However, the examples demonstrate the complicated nature of the structure and how the policy-level focus across the entire span of governance is inadvertently diluted. The result is that it is more challenging for the Boards to readily identify where there are gaps that need resolution. This concept was corroborated through the interview process when we asked Board members to identify their most significant Board-level responsibilities. The majority of responses addressed the responsibilities in overseeing LACERA's plans, programs, and services. A small minority of Board members addressed responsibilities spanning the entire scope of governance. This offers telling insights into the degree of the inherent tilt, resulting misalignment in the span of governance caused by LACERA's dual-board structure and why the Boards have organized a shared committee to aid in addressing joint responsibilities.

LACERA should explore which additional governance changes should be made to make the dual-board structure more effective, efficient, and clear (Recommendation 3.5). The Boards and CEO should create one consensus future vision for the organization, its priorities, goals, and success metrics, and maintain one organizational strategic plan (Recommendation 3.8)

⁶⁴ We understand that the Audit Committee has recently commissioned a study of employee engagement.

⁶⁵ The JOG-C charter delineates responsibilities related to conducting a CEO search; this is distinctly different than long-range succession planning.

Additionally, through the interview process, we heard from Trustees about the difficulties of working within this heavily carved approach to addressing LACERA's span of governance. The most frequently cited challenge was knowing where a Trustee's role starts and stops, particularly for new Trustees, what matters the BOR and BOI should respectively involve themselves in, particularly with respect to the selection of the key personnel, and what education and training they should or shouldn't be seeking out as a result. To better aid new Trustees, we recommend amending election packets and documentation provided to the appointing authority to ensure that the span of governance, in light of the dual-board structure, is clearly communicated to those interested in future Board service (Recommendation 3.10). Further, LACERA should ensure the onboarding experience for any new Trustee is appropriately aligned to the full set of responsibilities and strategic plan (Recommendation 3.11). We also recommend that LACERA align Trustee education and training opportunities with the agreed-upon competencies needed to carry out the full span of governance (Recommendation 3.9).

Indeed, the types of education sought align with the narrower focus on plans, programs, and services.⁶⁶ Through the interviews, some Trustees suggested that plan level responsibilities are the most important responsibilities of the Boards and that all other topics were secondary.⁶⁷ This tilt has produced a challenge in mindset which needs to be appropriately reframed. We recommend that LACERA Trustees undertake efforts to reach a consensus view on the span of governance, the responsibilities of the Boards, and how they are fulfilled across the two Boards, the Committees, and the JOG-C (Recommendation 3.7).

Additional examples noted by Trustees of working within the format currently set up to address LACERA's span of governance included a sentiment by some BOR members that they aren't to seek out investment-related education and limitations on international travel for BOR members that do not exist for BOI members. It was reported to us these areas have been a source of tension among the Boards. We believe the refresher training, as well as having clarity into the full set of responsibilities of the Boards, may serve to alleviate the tension.

Further, the JOG-C, which was established in August 2017 with the intention of providing a forum to diffuse these tensions, has experienced challenges from the very start. It was dissolved in January 2018, only to be reinstated in January 2019 when the next change in the leadership of the Boards occurred. While some Board members had confidence that the JOG-C, now reinstated, would serve to alleviate and address some of the issues that the Boards are experiencing, some reported to us a lack of confidence and reservations as to whether it had the support to be sustainable over the long-term. We recommend that

⁶⁶ An analysis of the educational events attended by Trustees in FY 18/19 demonstrated that 70% of the educational conferences were aligned with content regarding benefits or investments matters.

⁶⁷ Some examples included reviewing investment strategies, selecting investment managers, staying current on investment opportunities, overseeing the day-to-day operations of LACERA, and administering retiree healthcare.

LACERA should address and resolve the long-term role with the JOG-C (Recommendation 3.6)

iii. Governance Decision-Making Model

For many U.S. systems, what it means to administer benefits and investment system assets – to carry out their fundamental purpose – looks very different today than it did when they were first created. What decisions the boards make and how they make them – the governance model⁶⁸ – have evolved significantly in several important ways. Since board decisions are inextricably linked to the training and continuing education that trustees need to be effective fiduciaries, it is important to contextualize the causes that are drove the evolution.

First, U.S. public retirement systems have grown dramatically in asset size.⁶⁹ Second, they have experienced increased complexity from an administrative, benefits, and investment perspective. This is particularly true with respect to investments due to the increased use of alternative investments and active management,⁷⁰ but also with respect to the sophisticated technology needed to support and operate all aspects of system operations. Third, the size and specialization of internal public retirement systems staff⁷¹ and the number of consultants that support boards has increased. In fact, today's modern large public retirement systems bear many more similarities to large diversified financial services firms or commercial insurance institutions than they do governmental entities.⁷²

During this same time, the underlying common law fiduciary framework also shifted significantly,⁷³ particularly as it relates to the standard of prudence. Whereas the prior rules limited delegation by boards, the revised framework was interpreted as not only formally permitting delegation within parameters but suggesting that pension trustees have an affirmative duty to delegate if they do not have the training and experience necessary to perform the function themselves.

⁶⁸ The governance model is the different dimensions of the roles and responsibilities of the board, based on the relationship between board members and staff members, which reflect the differences in the size, purpose, and history of the organization.

⁶⁹ The top ten largest statewide plans combined for a total of \$822.9 billion in 2001. By 2018, according to a list compiled by *Pensions & Investments*, the top ten largest statewide plans accounted for a total of \$1.7 trillion, more than doubling since 2001.

⁷⁰ Hughes, Von, "Understanding U.S. Public Pension Plan Delegation of Investment Decision-Making to Internal and External Investment Managers (Part One of Three), *Hedge Fund Law Report*, February 2014.

⁷¹ Hughes, Von, "Understanding U.S. Public Pension Plan Delegation of Investment Decision-Making to Internal and External Investment Managers (Part Two of Three), *Hedge Fund Law Report*, February 2014.

⁷² It is important to note that international public retirement systems have much more uniformity in how the purpose of the board is fulfilled. International public pension system boards are well-established in their role of strategy, policy, risk setting, and oversight, providing for sufficient independence for the board to oversee and judge the effectiveness of implementation.

⁷³ Promulgation of the Restatement (Third) of Trusts.

As a result, the role of the board itself started to shift. Over the past two decades, boards have reevaluated and realigned authority with expertise and board focus with the systems' most significant risks, pressing higher into the policy realm of the governance decision-making model but still within the same contours of their fundamental purpose. There are many different ways in which this occurred, and systems are at different stages in their evolution. This has led to a wide variety of governance decision-making models in play.

At the individual system level, evolution has manifested itself through the replacement or adjustment of some well-established, long-standing decision-making routines in favor of new constructs. For example, decisions once routinely made by a board might now be made by a board committee, CEO, or professional staff. By way of example, public retirement system boards have made the following types of delegations:

- Approval of benefits, including disability benefits, are now made by staff, a committee of staff, or in some cases even outsourced to a third-party benefits administrator,
- Investment decision-making is delegated to internal investment staff,
- Selection of some outside service providers such as information technology providers are delegated to internal technology experts,
- Decisions related to shareholder responsibilities such as proxy voting and litigation are made by internal experts, and
- Human resources decisions, with the exception of those related to the CEO, are delegated to the CEO.

Such change requires considerable discipline, openness, competence, and clarity in the purpose and span of governance. Sometimes it requires legislative efforts to modernize applicable law. It also takes an understanding of the fiduciary constructs applicable when making and monitoring delegations.

Ultimately, the line between governance and management is not only reflected in the work of the board but in the alignment between the competencies needed by trustees and the education sought and provided to them.

LACERA's Governance Decision-Making Model

Through the interview process, LACERA Trustees confirmed a sense of increased complexity in multiple areas of their oversight role. Many also noted the increased pressure and overall scrutiny in serving as a public retirement system trustee. A significant number of Trustees reported to us that they have responded to this shift by intensifying the frequency with which they seek out external education, training, and travel to conduct their own due diligence. They see it as part of their job as a fiduciary. Some were openly skeptical of public retirement system peers who engage in lesser levels of education, training, and personal due diligence.

This sentiment is observable in the results of the peer survey we conducted. Responding U.S. public retirement system peers reported on the average number of hours that their trustees spend annually on education outside of the boardroom. The majority (6 of 10)

peers reported spending between 0 and 20 hours. LACERA's results came in at the highest end of the continuum of practices reported, at over 81 hours spent per year on education outside of the boardroom.

This data is further substantiated by a Board workload analysis⁷⁴ conducted by staff in 2017, which demonstrated that BOI Trustees attended an average of 9.6 conferences that year at 3.2 days per conference, and BOR Trustees attended an average of 4.4 conferences at 4 average days per conference. Assuming an 8-hour day, that equals approximately 245 hours at education conferences for BOI Trustees and approximately 140 hours for BOR Trustees.

U.S. public retirement system peers also reported the average number of hours spent per month by trustees preparing for board meetings. The majority of peers (7 of 10) reported their trustees spend 60 hours or less preparing for board meetings. Here, too, LACERA rated among the highest in peers surveyed with over 80 hours spent on meeting preparation. This data provides another indicator of perceived complexity.

We also evaluated the documentation describing the Trustee time commitment of LACERA's Boards to those considering Board service.⁷⁵ The documentation advises that BOR members "...can expect to spend approximately 120 to 140 hours per month (equivalent to 3 to 3.5 40-hour workweeks) in discharging their duties to LACERA.⁷⁶ Members of the Board of Investments can expect to spend approximately 80 hours per month (equivalent to 2 40-hour workweeks).⁷⁷" These figures are significantly higher than we have experienced in our work with other public retirement systems, both within the U.S. and internationally. They are also significantly higher than the average time spent by the directors of U.S. public companies who, in a recent study, reported an average director time commitment of 245 hours per year.⁷⁸

LACERA's Boards are comprised of both working and retired professionals. Through the interview process, some Trustees expressed a sentiment of feeling underappreciated for their time and efforts. In light of the reported time commitment, this is understandable.

While LACERA Trustees have responded to the complexity through increased education, the Boards have not engaged in a broader discussion of how Trustee education and accompanying travel supports the way in which the organization has evolved, and consequently, LACERA's organizational effectiveness, including where the governance line falls between the Boards and management. Through the interview process, the job of the Boards was found to be largely the same as it was two decades ago. Commentary obtained through Board consultant interviews verified this finding. Some noted that while

⁷⁴ December 4, 2018 Memo from Staff to the ILBC, Attachment 3.

⁷⁵ December 4, 2018 Memo from Staff to the ILBC, including Powers and Duties of Retirement Board Members, Board of Investments Members.

⁷⁶ December 4, 2018 Memo from Staff to the ILBC, including Powers and Duties of Retirement Board Members.

⁷⁷ December 4, 2018 Memo from Staff to the ILBC, including Powers and Duties of Board of Investments Members.

⁷⁸ Although corporate boards operate differently from public pension boards, it can be instructive to compare relevant data. 2016-2017 NACD Public Company Governance Survey, <https://www.nacdonline.org/insights/publications.cfm?ItemNumber=37388>.

other public funds with whom they work had undergone an evaluation and subsequent modernization in the work of the board in the past two decades, LACERA has not yet undertaken similar holistic discussions, but could benefit from doing so. We concur. LACERA should evaluate its governance decision-making model, in light of the organization's evolution, to determine where adjustments are needed to best align expertise and decision-making (Recommendation 3.12).

iv. Board, Committee, and Trustee Effectiveness

Board, committee, and individual trustee self-evaluations are a recognized best board governance best practice⁷⁹ and a key ingredient to an effective, efficient, and dynamic board in today's modern business environment. The self-evaluation has much in common with the board's duty to evaluate executive performance in that both are mandatory for good governance, and they are both ongoing instead of sporadic or infrequent.⁸⁰

Corporations have recognized the importance of embracing self-evaluations as part of a broader continuous improvement strategy. While the same can be said generally for U.S. public retirement system boards, most open meetings laws that they are subject to provide that such a discussion must be held in open session. For some boards, this equates to visiting a personal therapist to honestly and meaningfully discuss conflicts and challenges while being filmed in a live broadcast.

Within the industry, there is a perception that open session self-evaluations are not an effective use of board time, and as a result, many public fund boards have put off or not engaged in any type of board, committee, or individual trustee self-evaluation at all. Since culture begins and ends with the board, this is not only detrimental to trustees and the organizations they oversee, but more importantly, to the right of the systems' members and beneficiaries to have a well-functioning and efficient governing board. Self-evaluations also play a role in addressing board evolution when needed, board values, and trustee competencies and skills needed to be effective in the future.

LACERA's Board, Committee, and Trustee Effectiveness

Through the interview process, we learned from both Board members and staff that there is a common understanding of the value that Board, Committee, and individual Trustee self-evaluations bring. It was reported to us that the Boards are reluctant, however, to agendaize open session self-evaluation discussions. We noted strong support for the discussion to the extent it could be held in closed session. While this reluctance is understandable, the lack of such discussions has enabled unhealthy tensions to develop and impact productivity and relationships among the Boards, between the Boards and their Committees, and between

⁷⁹ <https://corpgov.law.harvard.edu/2018/05/18/board-performance-evaluations-that-add-value/>

⁸⁰ Carver, John, *Boards That Make a Difference: A New Design for Leadership in Nonprofit and Public Organizations* Third Edition, 2006.

the Boards and staff. It has also inhibited the Trustees' ability to discuss and attain consensus on the effectiveness of the educational opportunities they are seeking and receiving.

Some Board members noted that during a prior BOI educational offsite, informal comments were made by Trustees in open session about the Board's operations and functioning, its cultural dynamic and values, and the need to timely address matters perceived as conflicts to revert them back to being healthy tensions. The commenter noted that the informal discussion was valuable and ought to be raised again. Staff reported that it is seeking solutions to help the Boards formally address this need.

Through our peer survey, the majority (70%) of peers reported that they conduct an annual self-evaluation. Based on our first-hand experience in supporting and facilitating public retirement system board self-evaluations, and our knowledge of the practices of many different public fund boards, there are a variety of ways in which self-evaluations are agendized. Some are conducted in open session at a board educational offsite or retreat. Other systems have connected their self-evaluation discussion as an integral and inseparable part of their CEO/Executive Director performance evaluation process⁸¹ and therefore classify it as a personnel matter exempt from open session discussion. Still, others have successfully sought an exemption to their applicable open meetings law to discuss matters of board operations in closed session. This demonstrates that there are various avenues open to LACERA to explore the opportunity to reflect and improve upon overall Board, Committee, and Trustee effectiveness.

We recommend that LACERA adopt a formal practice of Board, Committee, and individual Trustee self-evaluation, tailoring the practice to align with the Boards' comfort level (Recommendation 3.13). In addition, LACERA should seek solutions to create an environment conducive to ongoing, comprehensive Board, Committee, and individual Trustee self-evaluations (Recommendation 3.14). These evaluation processes will provide the Boards with the opportunity to identify issues identified throughout this report, such as the cultural issues, and discuss what changes ought to be made at the Board level in order to shift perceptions.

Section Conclusions

We have presented the ways in which LACERA's governance structures and practices differ from peers, align with peers, and may impact Trustee education and travel practices as well as overall Board effectiveness.

⁸¹ This approach reflects the fact that a primary topic of discussion within a typical self-evaluation is board operations (e.g., agenda development and construction, meeting format, sufficiency of meeting materials, access to staff and consultants, etc.), which typically results in direction that requires follow up by the CEO/Executive Director.

While we agree with the sentiment voiced by some Trustees that LACERA is unique, this is true of all organizations. As such, this perception should not hinder the Boards and Trustees from evaluating their own performance in the context of the evolution of the organization and how their governance practices can best support further evolution. Self-reflection and self-evaluation will assist the Boards in exploring how to work more effectively and efficiently within their mandated organizational constructs. This is particularly true, because, as the Trustees well know, their Boards have to work harder than other public retirement system boards to ensure that the full span of governance is effectively addressed, not in the least because of their structurally supported strong alignment with LACERA's plans, programs, and services.

Many of the Trustees acknowledged that the circumstances LACERA finds itself in today are different than they were two decades ago. As a result, the Boards should have greater clarity about the current governance decision-making model and why they are doing what they are doing. And in doing so, identify and gain consensus around the type of evolution that the organization has experienced, what the job of the Boards are now as a result, and develop a set of principles to help the Boards move forward where it is within their authority to do so.

Ultimately, the Boards should have their own job and work products. Management, which has also grown in size, staff expertise, and sophistication over the years, should have its own job and work products. The two jobs should be distinctly different yet ought to work hand in glove. Experts have cited that making decisions that staff should be making trivializes the board's job, disempowers staff and interferes with their work, and reduces the degree to which the CEO can be held accountable for outcomes.⁸² We concur.

Within a consensus set of principles, Trustees need to draw the line between what they can reasonably be expected to know and when and where to gather advice and expertise from experts, particularly as staff size, staff professionalism, and organizational complexity grows. Effective delegation has become and will continue to be an important feature of good governance and a key element of the long-term evolution within the U.S. pension system.⁸³ As the Boards' jobs continue to evolve, the education and training sought out by Trustees, and the travel conducted in support of it should move in lockstep.

Section Recommendations

Board Structure, Composition, and Size

3.1. The Boards should periodically review the costs of their education and travel to similar peers to be aware of where they stand within the

⁸² Ibid.

⁸³ Hughes, Von, "Understanding U.S. Public Pension Plan Delegation of Investment Decision-Making to Internal and External Investment Managers (Part Two of Three), *Hedge Fund Law Report*, February 2014.

community of practice, and to ensure that their costs are reasonable and prudent.

- 3.2. Modify the reports provided to the Boards and the public to set better context about LACERA's Board size and legal education requirements.
- 3.3. Develop a skills matrix for use in Board and Trustee education and development.

Span of Governance

- 3.4. Evaluate LACERA's Committee responsibilities to ensure the full span of governance is appropriately addressed.
- 3.5. Explore additional governance changes to make the dual-board structure more effective, efficient, and clear.
- 3.6. Develop a clear-long-term understanding as to the role of the JOG-C.
- 3.7. Attain a consensus view on LACERA's span of governance, the responsibilities of the Boards, and how they are fulfilled across the two Boards, the Committees, and the JOG-C.
- 3.8. Create one future vision for the organization, its priorities, goals, and success metrics, and maintain one organizational strategic plan.
- 3.9. Align Trustee education and training opportunities with the competencies needed to carry out the full span of governance and the LACERA strategic plan.
- 3.10. Amend election packets and documentation provided to the appointing authority to ensure that the span of governance, in light of the dual-board structure, is clearly communicated to those interested in future Board service.
- 3.11. Ensure the onboarding experience for any new Trustee is appropriately aligned to the full set of responsibilities and strategic plan.

Governance Decision-Making Model

- 3.12. Evaluate LACERA's governance decision-making model, in light of the organization's evolution, to determine where adjustments are needed to best align expertise and decision-making.

Board, Committee, and Trustee Effectiveness

- 3.13. Adopt a formal practice of Board, Committee, and individual Trustee self-evaluation, tailoring the practice to align with the Boards' comfort level.
- 3.14. Seek solutions to create an environment conducive to ongoing, comprehensive Board, Committee, and individual Trustee self-evaluations.

IV. A Path Forward

Throughout this Report, we have made recommendations for governance changes within each individual section of our review, starting with how travel expenses are processed and reported, how LACERA's Policy and Practices can be amended, and how its broader governance structure and practices can be better aligned in support of the organizational mission. The common thread linking each section is that Trustee education and any travel conducted in support of it should be synchronized around a cohesive framework of Board consensus direction and principles.

In this final section, we demonstrate how the individual recommendations, while valuable on their own, can work together in alignment to form a cohesive framework of effective governance. We believe this will be useful for LACERA as it looks forward, particularly as the Boards prepare to collaborate with staff in the strategic planning process.

Linking to a Future Vision of Success

All of LACERA's decisions, whether they are made by the Board or by staff or pertain to education and travel, or other topics, should individually and collectively align with a future vision for the organization as reflected in an organizational strategic plan. The following provides an example of what visioning for LACERA might look like or include:

In the year 2025...⁸⁴

- LACERA has membership satisfaction survey results in the top percentile of all U.S. public pension systems.
- When Board Trustees or staff encounter LACERA members or beneficiaries, the members share their immense satisfaction at being members of LACERA.
- LACERA is an employer of choice among new recruits and experienced employees alike. Its staff are sought-after experts, industry leaders, and influencers.
- Staff are proud to work at LACERA; employee engagement surveys consistently yield high levels of satisfaction, and employees freely promote LACERA as a great place to work.
- LACERA Trustees govern together as a tight-knit professional team, model the spirit of public service, and are highly respected for the culture they promulgate and oversee at LACERA.

⁸⁴ Example based on the visioning conducted by an international pension fund.

- Case studies are written about LACERA, and other U.S and international pension systems travel to Pasadena to see how it operates.

There is no reason that LACERA in 2020 can't achieve some or all elements of this vision, or something similar to it, for LACERA in 2025 or sooner. However, a consensus starting point is needed from the Boards that takes stock of where the organization is currently, and what kind of organization they are governing toward. This includes answering questions such as:

- What kind of board governance do the Boards today want to be known for in 5, 10, or 15 years?
- What kind of organizational governance do the Boards today want to set in motion so that their vision lives on?

While this may seem on its face to be a distant line of inquiry from the topics of education and travel, it is connected. In fact, progressive pension funds would view having such a vision for the future as a requirement for moving forward with evaluating education and travel practices or any other important governance practices. They believe this is so important to their performance and organizational health that they have intentionally developed an organizational competency in long-range planning practices. Planning brings their organization together under a common set of goals to produce value and mitigate risk on behalf of their members and beneficiaries.

While it may not be observable to from an external lens, long-range planning, and their board's leadership role in it, has become a key competitive advantage for progressive peers. It is embedded within their cultural DNA. The net result is the alignment of resources and efforts with the long-range strategic direction in a way that guides every decision made, from the board all the way through to the newest staff member.

Clarity around the culture they set, the division of responsibilities between the board and management, and ensuring authority along with accountability, are all part of the framework of core governance functions which are understood, practiced, and supported by internal infrastructure, including their governance documentation. This proper planning also helps the organizations identify the early signals of situations that could increase reputational risk far before they materialize.

Figure 4 depicts what governance alignment at LACERA could look like, specifically for the practices of Trustee education and travel, and how the recommendations in this Report, when brought together holistically, can support the Boards as they embrace their leadership role through planning and achieving their unified vision for LACERA's next chapter.

Figure 4. Snapshot of Education and Travel Practices within an Aligned Governance Environment



The Boards address the biggest questions first regarding LACERA's future vision, its mission, values, strategies, and definition of success (desired outcomes). Formulating these foundational elements is a matter of collaboration between the Boards and their CEO and management staff. The latter group provides information, insights, and recommendations as the Boards' internal experts, and the Boards engage in healthy deliberation to set and approve the direction. The outcomes of this exercise are documented in an organizational strategic plan.

Once the foundation is set, the Boards can move on to address specific topics within the Board's span of governance, such as Board education and travel. The Charters and Policies are vehicles to capture the parameters defined by the Boards, as anchored or nested within the broader direction. Included in any specific policy are the Boards' consensus principles and beliefs – the fundamental set of expectations shared by the Boards pertaining to that topic. While the CEO, management staff, and the Boards' consultants may contribute to the process by providing peer data, industry and organizational insights, and recommendations, it is the job of the Boards to set policy.

Each policy topic – including education and travel - comprises an array of underlying issues, some of which are significant in scope and impact and others that are important but singular and/or transactional in nature. There is shared responsibility between the Board and CEO because all issues cannot and should not rise to the level of policy. It is important for the Boards to attain consensus on the issues they will opine on as policy matters and those that are to be made by the CEO and management staff in alignment with the Boards' foundational framework and beliefs.

Planning, execution, and performance assessment practices are then put into place to support the Boards' ability to properly fulfill and comply with its policy and principles and the CEO and management staff's ability to implement them through standards, procedures, processes, and technology. Accountability mechanisms are established for the Boards as well as the CEO and management staff to support a culture that values continuous improvement in alignment with the mission and a long-range consensus view.

What is important is that all policies that live in the organization are in harmony with the broader policies delineated by the Boards. Assurance as to whether management's actions appropriately comply with the Boards' policies and principles are provided through internal audit.

Section Conclusions

Opportunities exist for LACERA to improve broader governance practices, which will, in turn, result in better alignment with education and travel practices. Taking a holistic approach, such as that depicted within this Report, achieves the following objectives:

- Couches Board and staff education and travel within a cohesive framework of Board vision, principles, and appropriate checks and balances,
- Ties education and travel to a narrative that contextualizes how the Boards have chosen to govern, the various strategic decisions chosen for LACERA's future, and the Board and organizational competencies that are being developed to achieve it,
- Provides the Boards with a pathway to account for its own actions and pave the way to evolve unproductive cultural perceptions that exist today into a productive organizational asset,
- Firmly grounds LACERA within standards of prudence; thereby reducing the risk of negative outcomes from the scrutiny of individual education and related travel practices; and
- Positions LACERA as a leader among peers.

Section Recommendations

No additional recommendations.



Review of Education and Travel Policy, Expenses, and Practices Summary Report

A Presentation to the LACERA Board of
Retirement and Board of Investments

Amy McDuffee, CEBS
Catherine Jackson, CPA, CA
David Maurek, CPA
Mosaic Governance Advisors, LLC

September 30, 2020



Purpose of Today's Discussion

- Present our findings.
- Hear your questions, ideas, aspirations, and concerns.
- Share your early views with each other through interactive, facilitated discussion.
- Identify priority areas, where possible, for moving forward.

Introductions – Presenters



Amy McDuffee, Founder and CEO, Co-Lead Project Consultant

Specialties: Strategic planning, governance structures, models and practices, succession planning, policy review/development, board self-assessments, board education and training, executive performance evaluations, benchmarking reviews, organizational assessments, and other governance matters

Career Highlights: 20+ years industry experience, recognized public pension governance expert, former statewide retirement system executive staff, and private sector financial services experience



Catherine Jackson, Co-Lead Project Consultant

Specialties: Strategic planning, board effectiveness, governance structure and practices, sustainable finance, ESG, and other governance matters

Career Highlights: 20+ years industry experience, led corporate governance efforts at Ontario Teachers' Pension Plan in Canada, consulting since 2010 to international clients in Europe, Asia, and North America



David Maurek, Lead Project Contributor

Specialties: Operational, fiduciary, and benchmarking reviews, internal audit, information technology, operations, risk assessment, governance, strategy and innovation

Career Highlights: 30+ years industry experience, former statewide retirement system executive staff and chief audit executive, co-founder of the Association of Public Pension Fund Auditors, public pension trustee instructor, over 10 years of consulting experience to U.S. public pension clients, private sector experience

Introductions – Supporting Team

Leslie Kaniecki, CPA/CGMA, MBA – Principal, Kaniecki Accounting & Tax

Don Kaniecki, CPA, MBA – Principal, Kaniecki Accounting & Tax

Saba Hashmi, Senior Analyst, Mosaic

Eva Berninzoni, Administrative Coordinator, Mosaic

Topics

- Introduction
- Presentation of Report Conclusions and Facilitated Discussion by Section
- Summary and Next Steps



Introduction



Opening Discussion

- What areas of the Report especially resonated with you or stood out as intriguing?
- What overarching questions or areas would you like to ensure we address during today's discussion?

Scope of Review

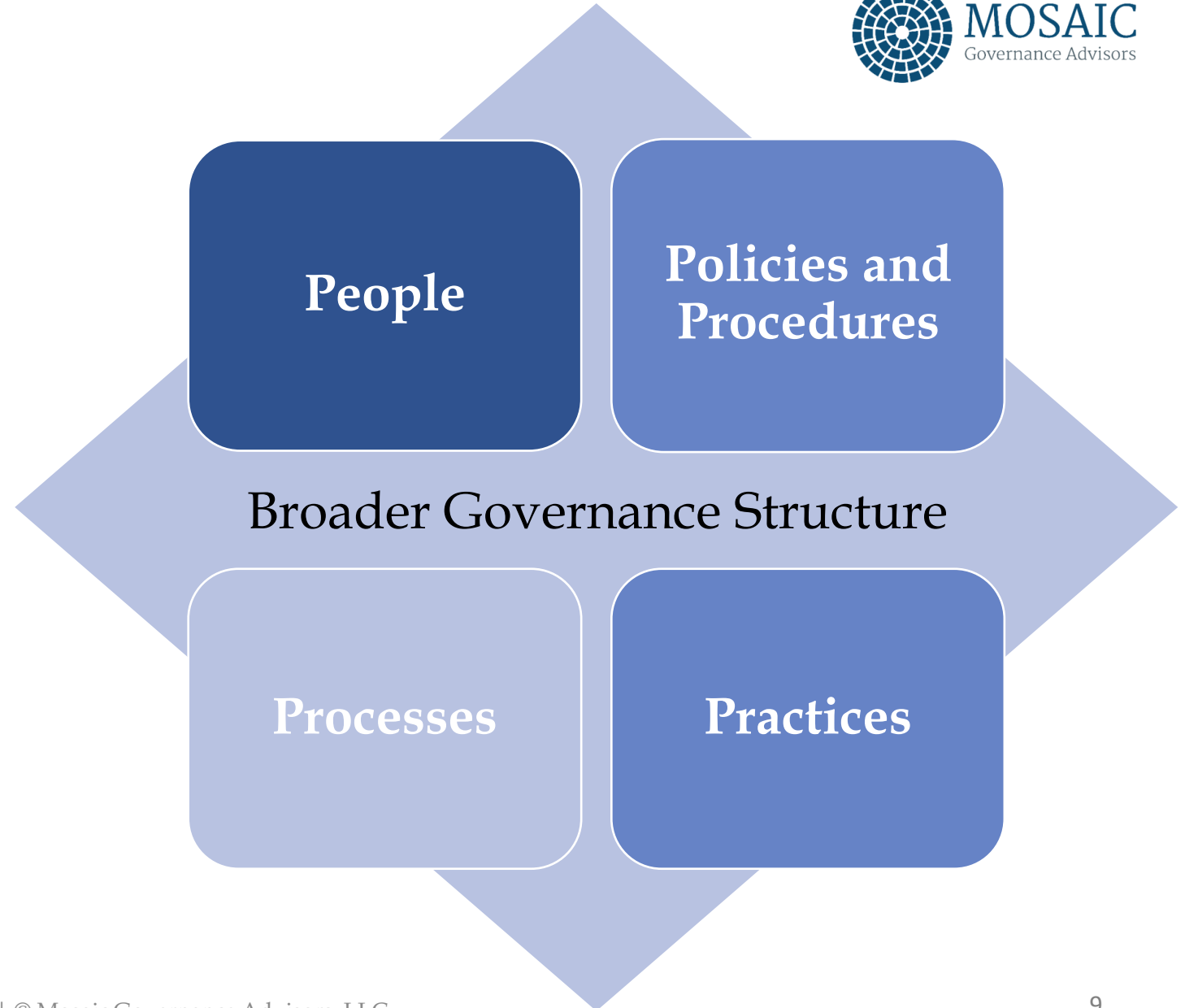
Scope

- Commissioned by the Board of Retirement
- Review Period (FY 15/16 – 18/19)
- Conducted over 5 months (October 2019 – March 2020)
- Included Board and Staff Travelers
- Addressed Policy Compliance, Peer Comparison, Governance, and Opportunities to Improve

Summary Report

- Education and Travel Expenses Review
- Comparison of LACERA Policy and Practices to Peers
- Governance Factors Contributing to Trustee Education and Travel Practices
- A Path Forward

Methodology



Overall Conclusions

- Many Trustees and staff believe their good intentions are being practiced through appropriate fiduciary behavior; however, travel practices are having a negative impact on organizational morale.
- A significant majority of travel expenses reviewed complied with the policy; however, LACERA's Policy and practices tend to be outliers within the community of peers.
- Enhanced processes, technology infrastructure, internal controls, reporting, and oversight are needed relative to education and travel.
- Aspects of LACERA's governance structure not shared by peers contribute to the increased costs and complexity of LACERA's education/travel program.
- Overall, LACERA's education/travel lacks organizational alignment to a consensus future vision and strategic plan; this is a root cause and an important opportunity for LACERA to take a leadership position in the industry.
- Report presents 49 specific recommendations for Board and staff to discuss and determine how to move forward.



Section I. Education and Travel Expenses Review



Section I. Findings

- Expense reporting is reasonably accurate; most expenses reviewed complied with pertinent Policy.
- Considerable effort and resources are expended to ensure Policy compliance.
- The processes and infrastructure supporting education and travel are insufficient to support an environment of strong controls. This includes staff resources, data connectivity, and technology.
- Cultural issues arising from travel practices are creating pressure points within the organization and negatively impacting morale – at the Board and staff level.
- Reports provided to the Board are overly detailed and devoid of analytics to support proper oversight and monitoring.

Section I. Recommendation Themes

- Address cultural issues arising from travel practices.
- Move in the direction of a principles-based policy format.
- Put better structure and controls around the expense reimbursement process by prioritizing the infrastructure needs to support it:
 - Staff resources,
 - Technology,
 - Training, and
 - Streamline and simplify procedures.
- Enhance Board oversight and monitoring practices and the reports that support them.

Section I. Facilitated Discussion

- What recommendations regarding expense review could you support at this point?
- Which recommendations might be difficult for you to support at this point?
- What are the top 3 priorities?
- Other questions?



Section II. Comparison of LACERA Policy and Practices to Peers

Section II. Findings

- LACERA's Policy is more prescriptive and travel focused than the peer community of practice.
- The Policy review cycle is too frequent introducing risk in awareness, implementation, and enforcement of the Policy.
- The consent agenda has lost its effectiveness as a mechanism for education and travel approval.
- Misalignment with peers exists in the governance of education and travel practices.
- The Boards' budgeting and monitoring practices regarding education and travel need strengthening.

Section II. Recommendation Themes

- Undertake significant Policy revisions
 - Separate education and travel
 - Resolve existing Policy discrepancies
 - Delegate and relocate procedural detail to CEO's domain
- Resolve areas of peer misalignment
 - Use of in-house and externally provided education
 - Investment manager meetings outside of the Boardroom
- Strengthen the Boards' planning, execution, and assessment practices
 - Core competencies and curriculum aligned with mission and future strategy
 - Individual development plans
 - Approval process
 - Trustee orientation and onboarding
 - Evaluation practices
 - Budgeting and oversight process

Section II. Facilitated Discussion

- What recommendations regarding policy content and a competencies-based approach to education could you support at this point?
- Which recommendations might be difficult for you to support at this point?
- What are the top 3 priorities?
- Other questions?



Section 3. Governance Factors Contributing to Trustee Education and Travel Practices



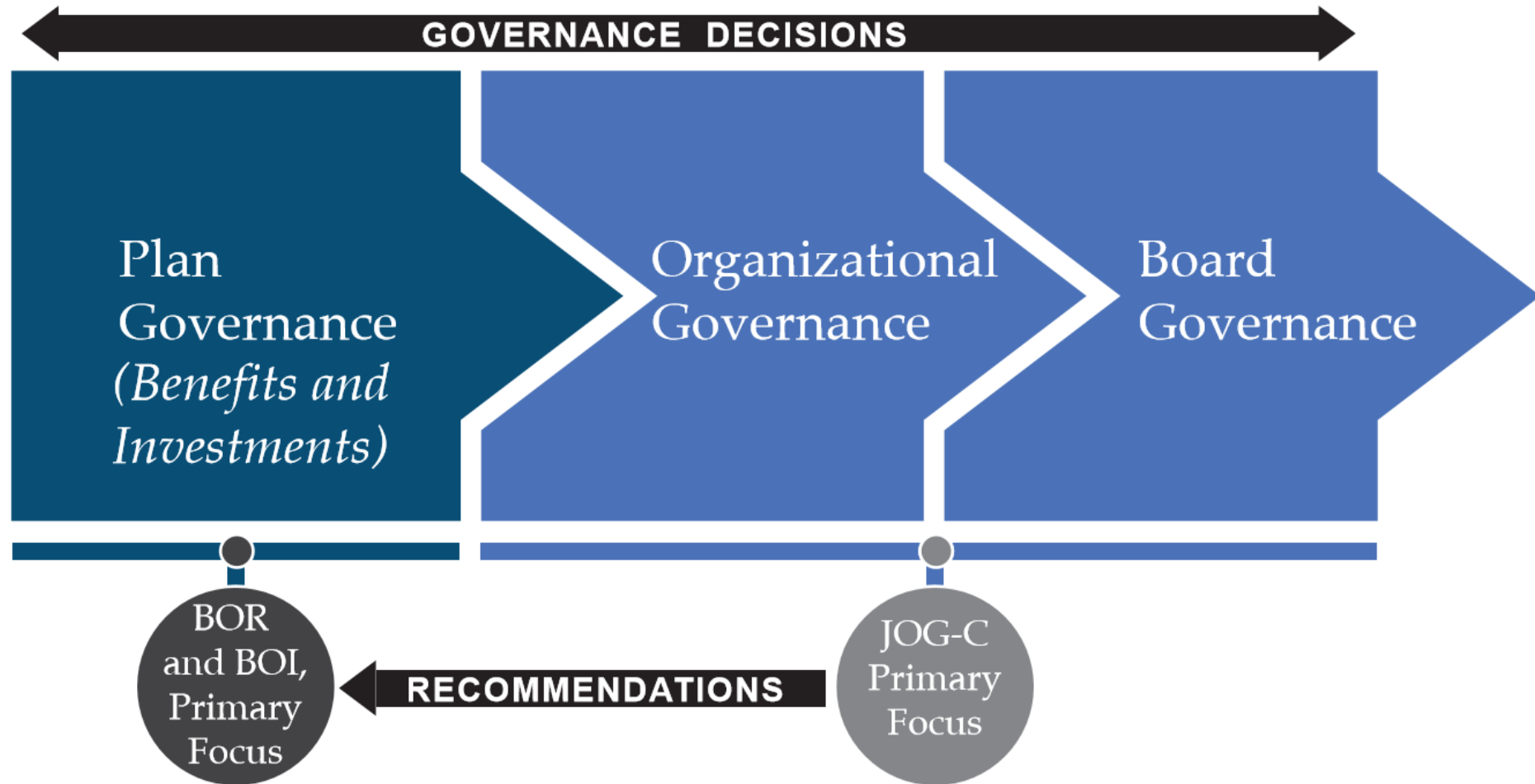
Section III. Findings

- Aspects of LACERA's governance structure and practices result in:
 - Increased cost and complexity in respect of education and travel, and
 - Misalignment of Trustee education with the responsibilities and competencies needed to meet organizational needs.
- Factors include:
 - Board Structure, Composition, and Size
 - Span of Governance
 - Governance Decision-Making Model
 - Practices for Evaluating Board, Committee, and Trustee Effectiveness

Common Public Retirement System Board Span of Governance



LACERA Boards' Practice for Addressing the Span of Governance



Section III. Recommendation Themes

- Be more proactive in monitoring peer education and travel costs and reporting on LACERA's costs in a way that reflects its unique structural differences
- Attain a consensus view on LACERA's full span of governance, how it is fulfilled, and governance-decision making model. Align it to Trustee education competencies and curriculum.
- Create a unified future vision for the organization, maintained in one organizational strategic plan, owned by the Board, and aligned with Board education.
- Strengthen Board, Committee, and Trustee performance evaluation practices.

Section III. Facilitated Discussion

- What recommendations regarding the role of board governance in education and travel issues could you support at this point?
- Which recommendations might be difficult for you to support at this point?
- What are the priorities?
- Other comments or questions?



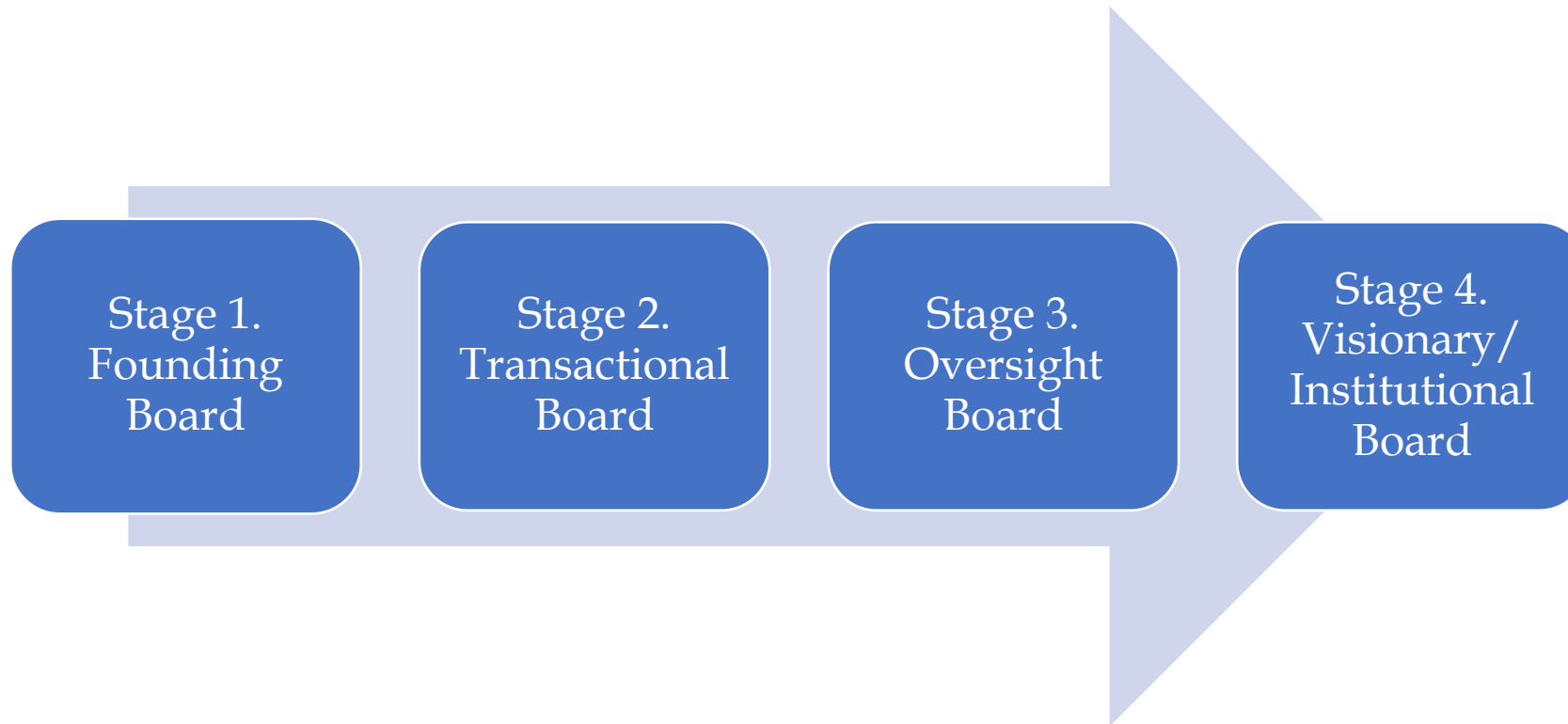
Section IV. A Path Forward

Section IV. A Path Forward

- The Report recommendations, if implemented holistically:
 - Can improve LACERA's own education and travel policies and program, and
 - Create leadership on the topic within the industry.
- Improving broader governance practices can create proper alignment of resources and reduce the risk of negative outcomes from scrutiny of education/travel practices.

Special Insert: Evolution of Board Purpose and Role (*Mosaic Research Preview*)

The multiple stages of the pension fund board lifecycle include the following:



*Example -
A Path
Forward*

**Board
Driven**

RESPONSIBILITY

**CEO
Driven**

**VISION, MISSION, VALUES, STRATEGY, DESIRED OUTCOMES
CHARTERS & POLICIES | PRINCIPLES & BELIEFS**



STANDARDS, PROCEDURES, PROCESSES, TECHNOLOGY

Section IV. Facilitated Discussion

- What advantages or disadvantages do you see to the proposed model?
- After today's discussion, on a scale of 1 to 10 (with 1 being not at all committed and 10 being very committed), how would you rate your level of commitment to addressing education and travel more holistically?
- What next steps would you like to see regarding this initiative?
- Other questions or comments?



Summary and Next Steps

Summary and Next Steps

- We recommend that the Board and staff work collaboratively to review the recommendations within our Report.
- There is not a “quick and easy” fix; both short-term and longer-term improvements are needed that will require the Boards’ ongoing support and attention.
- The recommendations, if made holistically, will not only enhance LACERA’s program, but place LACERA in an industry-leading position.
- We thank the members of the Boards, staff, and Board consultants for their candor, insights, and time.



Questions and Open Discussion

Mosaic Governance Advisors, LLC

Denver | Toronto

www.MosaicGovernance.com

September 17, 2020

TO: Each Trustee,
Board of Retirement

Each Trustee,
Board of Investments

FROM: Santos H. Kreimann ^{SHC}
Chief Executive Officer

SUBJECT: Management's Response to Mosaic Report on Review of Education and Travel Policy, Expenses, and Practices

This memo will provide (1) information on the recent history and status of the Education and Travel Policy (Policy), (2) management's response to the recommendations in the review report of Mosaic Governance Advisors, LLC (Mosaic), and (3) staff's request that the Board of Retirement and Board of Investments (Boards) provide guidance as to the process for next steps to update the Policy and the Boards' approach to education and travel in furtherance of their fiduciary duty.

A. History and Status of the Policy.

The Policy was significantly revised by the Boards in August 2019. At that time, the Boards stated that there were issues that had not yet been addressed, including findings and recommendations from the June 2019 Internal Audit report on the Policy, education and travel practices, and costs. The Boards discussed that they would meet at a future date to consider the remaining issues and possible further Policy revisions. Copies of the current Policy and the Internal Audit Report are provided separately.

In August 2019, the Board of Retirement also authorized Chief Counsel to select an auditor to review the Policy, analyze education and travel costs for the four-year period including FYs 2016, 2017, 2018, and 2019, and consider implementation and governance practices related to the Policy. Chief Counsel selected Mosaic Governance Advisors, LLC (Mosaic), as the Boards were informed at their October 2019 meetings.

Mosaic has now completed its review, based on analysis of costs and supporting documents for the specified four-year period, review of the various versions of the Policy in effect during that period, interviews with trustees and staff, and extensive follow up discussions with staff in the Executive Office and the Financial and Accounting Services,

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Internal Audit, Investments, and Legal Divisions. The final Mosaic report is provided separately.

B. Management's Response to Mosaic's Recommendations.

Mosaic's report contains 49 recommendations. Staff recognizes that the Boards will consider these recommendations, formulate their response, and determine next steps on the Policy. Therefore, staff will not provide a separate itemized response to each recommendation at this time.

Instead, staff will respond at a high level to the conceptual issues that underlie the Mosaic report. Management believes that discussion of these concepts is the first step from which the structure and details of the Policy will follow. Direction from the Boards on these concepts will form the basis for development of an education program as a tool to comply with the fiduciary duty to provide benefits to members and their beneficiaries, maximize risk-adjusted investment returns, minimize employer contributions, and defray the reasonable costs of administering the system.

1. Management Supports A Principles-Based Education Policy That Will Focus On the Fiduciary Purpose of Education As Preferable To The Current Rules-Based Approach; Travel Should Be Addressed In Separate Administrative Procedures.

Mosaic's report discusses the distinction between a policy that states the principles that govern education, on the one hand, and a policy, like LACERA currently has, that primarily states detailed rules and procedures for education and travel, on the other hand. Management supports a change to a principles-based approach.

A policy based on principles will identify the beliefs that support the need for education, its alignment with fiduciary duty, and the goals to be achieved through education. A principles-based policy will emphasize and explain that the purpose of education is knowledge to assist in the performance of fiduciary duty. Such a policy will support the fiduciary responsibility to obtain education. The policy will also, by contrast, put travel in proper perspective by identifying it as one of many tools to obtain needed education, not an end to itself.

Combining travel with education in Board policy creates the inaccurate impression that travel is necessary to obtain education when this is not the case. The current approach of an "Education and Travel Policy" suggests that the two areas have equal importance. The policy should focus entirely on education.

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Management agrees with Mosaic that travel is best managed by separate administrative procedures, rather than as part of the Boards' education policy. Travel procedures should be developed and administered by the Chief Executive Officer (CEO), based on the principles identified in the Boards' education policy, just as the CEO oversees other organizational costs. The proposed approach will align the process for travel with other costs, such as the procedures that support the Procurement Policy for Goods and Services. Travel procedures will be separate from other procurement procedures.

Management recognizes that the proposed approach requires a cultural and governance shift. However, the past effort to follow a rules-based approach has resulted in frequent modifications of the current Policy as the Boards have attempted to fine tune it, which has taken time away from other board priorities. The rules-based approach has also led to issues of policy interpretation and differences of opinion which have in turn led to misunderstandings at the Board and staff levels. A principles-based policy would be placed on a regular review cycle every three years, like other policies, which will encourage consistency in education practices as opposed to the inconsistency and uncertainty that comes from frequent revision.

Management believes that a principles-based policy will establish broad parameters to follow in obtaining needed education, improve educational outcomes, reduce complication in administration of the education process, and put responsibility for day-to-day cost issues with the Chief Executive Officer, operating under administratively-defined procedures that will be consistently applied. In management's view, the principles-based approach will enhance education based on defined beliefs expressing a fiduciary framework as to the purpose and desired outcomes.

2. Management Supports That The Board Education Policy and Travel Procedures Should Be Separated From The Policy And Procedures For Staff.

Management supports the recommendation of the Mosaic report that Board education and travel be addressed separately from the staff program.

Management believes that the Boards will be well-served by adopting an education policy only for trustees, thereby allowing a focus on the unique needs, sophistication, and goals of trustee education. Similarly, as stated above, management supports a change under which the CEO develops, implements, and oversees travel procedures for the trustees, thereby reducing the current need for the Boards to take time in the boardroom to consider costs and payment processes.

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Development of travel procedures for the Boards is a responsibility that can be entrusted to the CEO, just as he oversees other Board costs. The CEO will monitor the effectiveness and consistent management of trustee travel, again like his other administrative responsibilities.

The objectives and needs of staff education, and staff travel requirements and processes, are different from trustees. Staff generally are responsible for discrete tasks in the organization, whereas the trustees have responsibility and fiduciary accountability for oversight of the entire LACERA organization. The CEO is the exclusive appointing authority for all staff, except for the Chief Investment Officer, Chief Counsel, and Chief Audit Executive. Therefore, the CEO has responsibility and should separately develop and manage staff education policy and travel procedures. (The Chief Investment Officer (CIO) should retain his authority for managing the education needs and travel costs of investment staff.)

For these reasons, management supports that a proper allocation of responsibility will be for the Boards to adopt the education policy for trustees, with the CEO developing and administering trustee travel procedures. Management also supports that the CEO should have administrative responsibility for the staff education policy and staff travel procedures.

3. Management Supports A Skills-Based Approach To Trustee Education, With Core Competencies, Annual Self-Assessment, And Customized Curriculum Development To Assist Each Trustee In Developing A Relevant Educational Program For Their Individual Needs.

As stated in the Mosaic report, trustees are currently on their own in selecting education. Management supports the recommendation that the CEO oversees an individualized skills-based approach to trustee education.

All trustees will benefit from a common foundation of knowledge. This principle is the basis of Government Code Section 31522.8 in the County Employees Retirement Law, which provides for all trustees to obtain 24 hours of education every two years that may include, but is not limited to, fiduciary responsibilities, ethics, pension fund investment and investment program management, actuarial matters, pension funding, benefits administration, disability evaluation, fair hearings, pension fund governance, and new board member orientation. While LACERA tracks compliance with the 24-hour minimum requirement, the fund does not presently track education in any specific areas or coordinate education in these areas, or other subject matter interests that individual trustees may wish to pursue based on the Board on which they serve or their individual needs beyond the common core.

The Mosaic report discusses identification of core competencies for trustees, periodic skills-assessment, and individual curriculum development as best practices utilized by peer systems to assist trustees in performing their fiduciary duty. Management supports, and the CEO is prepared to oversee, in conjunction with the Boards and other staff, development of such a trustee program, which may include a combination of in-house education and external conferences (live or virtual). Off-site training should include a process for knowledge sharing by the trustees that attend such events. Management supports an effort to make trustee education cohesive and relevant to the needs of each individual trustee.

With respect to staff education, a program currently exists for Benefits Division staff through the Core Benefits Training program they are required to attend upon entry. Other division managers oversee the education of their staff. Human Resources assists with staff education, including required courses for all employees and an online educational platform, Udemy, available for staff to pursue training relevant to individual needs and interests. The CEO oversees all staff education, with the Executive Office providing review and approval for individual staff education requests and coordination with HR and managers for broader training programs. Management supports the review and update of the approach to staff education.

4. Management Supports Improved New Trustee Orientation.

The Mosaic report recommends an improved new trustee orientation program. Management supports this recommendation.

The current orientation is basic, high level, and relatively brief. Orientation should be carefully planned by staff to be more informative and relevant; it should cover background knowledge as well as education relevant to current issues facing the Boards. Trustee orientation should include all divisions and provide not just technical information but also an understanding of how LACERA functions as an organization. Orientation should include introductions and substantive roles for more of LACERA's staff and key consultants, such as fiduciary counsel, so that new trustees learn about the organization's people and outside resources.

A detailed orientation of this type will require a commitment of time, preparation, and attention by both the incoming trustees and participating staff. However, management agrees that the benefits of such a program are substantial. Management is currently working on an enhanced new trustee orientation experience for this year's incoming trustees. An improved orientation also will be provided for returning trustees who may have been off the Board for a gap year.

5. Management Supports Increased Education For Trustees In The Boardroom.

The Mosaic report mentions the use of on-site trustee education. Management is aware that staff currently provides both Boards with education in the boardroom. The Investments Division has been particularly skillful in providing such education (such as the curriculum offered a few years ago in environmental, social, and governance (ESG) issues with leading national speakers), regular staff-led education, and education from investment consultants. Staff has also provided both Boards with education from fiduciary counsel and other outside speakers on ethics, the Brown Act, and sexual harassment issues, among other topics. The Diversity, Equity, and Inclusion (DEI) program for the Boards that began in August 2020 and will continue for the next few months is another example of valuable, high quality trustee education in the boardroom.

In line with the Mosaic report, management supports development of increased (virtual and live, when possible) boardroom education for both Boards in consultation with the trustees. Management believes such education can be provided from quality speakers at low or no cost to address relevant subjects for trustees on each Board.

Management is also aware, as Mosaic mentions, that many of LACERA's consultants are contractually obligated to provide education, and management supports taking better advantage of these provisions to provide education.

Boardroom education has the benefit of providing information to all trustees, rather than just the few that might attend an off-site conference and provides an opportunity for trustee discussion. LACERA-sponsored education will be directly tailored to be relevant to current topics of interest of the trustees. Boardroom educational presentations also benefit staff, who will have the ability to widely attend.

6. Management Supports Cost Containment And Value.

In response to Mosaic's recommendations, management supports careful consideration of cost control and achieving value. Management recognizes that the August 2019 policy revisions achieved material cost savings, even though they were only in effect for less than six months before the COVID-19 crisis placed travel on hold. There are other steps, as described in the Mosaic report and in the Internal Audit report that have not yet been addressed, which will provide opportunities for additional savings.

In addition, management believes that the focus of education should not only be on its cost, but on the efficiency and value that is provided to the trustees and staff by each dollar of educational expenditure. On-site (or virtual) education, improved orientation, skills assessment, and customized educational curriculum, as discussed above, are

additional ways of achieving value as well as efficiency and cost control while providing high quality educational experiences.

7. Management Supports Improved Travel Expense Processes, Staff Resources, And Technology.

The Mosaic report identifies areas for review and enhancement of LACERA's existing travel expense processes, including additional staff, and technology. Mosaic and management believe that staff in the Executive Office, Financial and Accounting Services Division, and the other divisions generally do a good job in accurately and timely processing trustee and staff travel expenses within compliance of the existing Policy. However, the change from a rules-based to principles-based education policy and the development of travel procedures, as discussed above, will positively impact expense processing by eliminating ambiguities that exist in the current Policy. Management also supports additional staff resources and improved expense technology. Use of a travel agency may also help with expense control and adherence to the education policy and travel procedures.

Management will utilize internal and external resources to investigate the options in travel expense processes, staffing models, and technology, and will report to the Boards at a future meeting.

8. Management Supports A Revised Education and Travel Expense Report Format.

The Mosaic report recommends that the format and frequency of the monthly education and travel report and the quarterly expenditure report provided to the Boards be changed to make it a more useful tool for monitoring and managing expenses. Management supports this recommendation. Management will redesign the report, based on the Boards' direction with regard to future changes in the education policy and travel procedures, to provide a dashboard of metrics to address the issues and achieve the goals discussed in the Mosaic report.

9. Management Agrees That LACERA's Approach To Education And Travel Should Be Viewed Through A Governance Lens.

Mosaic puts consideration of education policy and travel procedures in the context of Board governance. Management concurs that education, and any travel that is made, should support the Boards' span of governance, and demonstrably enhance trustee decision-making and effectiveness. The same is true of staff governance. Management believes the concepts from the Mosaic report discussed above will enhance governance. Management will support the Boards in achieving this objective.

C. Management's Request for Board Guidance on Next Steps.

Management believes that the Mosaic report provides an opportunity to make positive fundamental changes in LACERA's education program for trustees and staff. Management requests that the Boards discuss and provide guidance and instructions with respect to the findings and recommendations of the Mosaic report, the June 2019 Internal Audit report, and management's response and proposals contained in this memo. With such guidance and instruction, staff can return to the Boards with a revised policy and an update and action plan on other aspects of trustee and staff education and travel at a joint meeting in November 2020.

c: Jonathan Grabel
JJ Popowich
Steven P. Rice
Ted Granger
Richard Bendall

September 23, 2020

TO: Each Trustee,
Board of Retirement

Each Trustee,
Board of Investments

FROM: Steven P. Rice *SPR*
Chief Counsel

FOR: September 30, 2020 Joint Board of Retirement and Board of Investments Meeting

SUBJECT: Insurance Under CEO's Employment Agreement

RECOMMENDATION

That the Board of Retirement and Board of Investments approve an amendment to the Chief Executive Officer's Employment Agreement to provide that, due to the unavailability in the present market of life insurance as required by the Agreement, LACERA will, until such time as insurance can be obtained, pay a lump sum \$200,000 benefit to the CEO's beneficiaries upon his death while employed by LACERA and for the rest of his life if employed at least three years after his original start date, provided he is not terminated by LACERA at any time.

BACKGROUND

The Boards are the appointing authority for the CEO. Cal. Gov't Code § 31522.2. In November 2019, the Boards approved hiring Santos H. Kreimann as CEO on the terms stated in the Employment Agreement attached to this memo as Attachment A. The Employment Agreement includes as Exhibit B a list of benefits that LACERA will provide to the CEO, including "'Split Dollar' Life Insurance - A LACERA paid level life insurance death benefit the amount of which is dependent upon age at entry into the plan." This is a standard benefit that has been provided to LACERA's CEOs since at least the 1990s as "L" Item employees.

"Split-dollar" life insurance provides a lump sum death benefit to the employee's beneficiaries, which in this case is \$200,000 based on the employee's age at the time of employment under the standard terms of the program. The insurance also pays a benefit to LACERA upon death equal to all or part of the premiums paid. The insurance remains in effect, and the benefits are payable, for so long as the employee is employed by LACERA. In addition, if the employee stays with the organization at least three years and is not terminated by LACERA at any time, the policy vests for the rest of their life, with

LACERA paying the premiums. LACERA continues to pay lifetime premiums for eligible past CEOs, and LACERA has done so for many years pursuant to the terms of the program.

Shortly after the CEO's start date in November 2019, LACERA contacted the broker for the program and requested "split-dollar" insurance for the CEO. However, the broker advised in December 2019 that the insurance was not available to the CEO from the company that issues the "split-dollar" policies under the program. LACERA requested the broker obtain other quotes. LACERA was told, in January 2020, that other coverage was not available. The broker suggested that LACERA try again after 6-12 months. LACERA contacted the broker in June 2020, as well as another independent broker, to obtain quotes. LACERA was advised by both brokers that the insurance was not available. The brokers suggested that LACERA continuing trying approximately every 6-12 months.

During the past three months, staff and the CEO have remained in contact with the broker for the "split-dollar" program. However, the insurance is still not available. Inquiry was made about term insurance, but it is also unavailable.

Give these facts, it is not at possible at this time to provide the CEO with the specific insurance the parties agreed to in his Employment Agreement. The Agreement also provides that "[b]enefits may be adjusted by the Boards in their discretion consistent with the Los Angeles County Code." A confidential memo providing further information is also provided with this item. Information in the confidential memo should not be discussed in open session. A closed session has been agendized, if needed, to discuss the confidential information.

DISCUSSION

LACERA is presently unable to provide the CEO with life insurance, as provided in the Employment Agreement, for reasons outside of its control and unknown to LACERA at the time it entered into the Employment Agreement. LACERA staff discussed this matter with the Boards' fiduciary counsel. Fiduciary counsel believes that, while the express terms of the Agreement appear impossible to perform, nevertheless both parties have a good faith obligation to perform the Agreement so that both parties can enjoy the benefits of their bargain as near to its express terms as possible. The Boards have discretion to adjust the benefits so as to be able to perform the material terms of the Agreement. Fiduciary counsel concurs that, until such time as "split-dollar" insurance can be obtained, LACERA alternatively could provide a comparable death benefit of \$200,000 to the CEO, which would be payable on the same terms as under the "split-dollar" insurance. The death benefit would be payable for so long as the CEO is employed by LACERA, and if

he is employed at least three years and is not terminated by LACERA at any time, for the rest of his life.

Split-dollar insurance has two features of value to the parties: It pays a death benefit to the insured employee, and a return of premiums to the employer. The insurance, if it was possible to obtain it, would cost \$7,500-10,000 per year, based on information provided by the broker for the "split-dollar" program, and LACERA would incur the opportunity cost of not having those funds available for investment until the insurer repays LACERA in some future year, likely some 20-30 years from now. Under the alternative proposal where LACERA incurs the responsibility of paying the \$200,000 death benefit itself, LACERA will not have to pay any premiums for those 20-30 years, and instead will be able to invest the amount of those premiums at its assumed rate of return over that period (presently 7% annually, compounded). In later years, these funds likely will have earned more than the death benefit when combined with the premiums saved. Further, the \$200,000 benefit amount will not increase with inflation.

JUNE 24, 2020 JOINT BOARD MEETING

This item was previously agendized for discussion and action at the June 24, 2020 joint board meeting. After discussion, the Boards directed staff to work with fiduciary counsel and return the item at a future meeting. Fiduciary counsel will be present at the September 30 meeting.

The main questions raised at the June 24 meeting included:

- Trustees requested confirmation that the "split-dollar" insurance was a lifetime benefit after the three-year vesting period, subject to the terms of the coverage agreement. Staff confirmed through consultation with the program broker, another review of the policy, and review of accounting records showing the practice with three past LACERA CEOs that the benefit is a lifetime benefit upon vesting, provided the CEO is not terminated by LACERA at any time. LACERA continues through the present time to pay the premiums on "split-dollar" policies held by eligible prior CEOs.
- Trustees requested that the Boards be provided with a proposed amendment to the CEO's Employment Agreement for review. The proposed amendment is attached to this memo as Attachment B, prepared with fiduciary and tax counsel. Consistent with the terms of the program, the amendment provides that insurance will be in place for so long as the CEO remains employed by LACERA, and that LACERA will continue to provide the benefits and pay the premiums for the CEO's lifetime, provided he is not terminated by LACERA at any time.

- Trustees requested confirmation that the lifetime benefit is legal. The program has been in place and has been honored by LACERA since at least the 1990s. It is part of the consideration for the current CEO's acceptance of his employment with LACERA. No authority has been found that provides that post-employment benefits cannot be guaranteed by the employer as part of a person's employment. Post-employment benefits are common in the public sector, including defined benefit pension payments, the right to retiree healthcare, and payment of a healthcare subsidy for post-retirement coverage. This is in fact the very benefit program the County provides to its employees through LACERA. Employment agreements also routinely include severance provisions providing for post-separation payments and benefits. Such benefits are not a gift, but rather they are part of the consideration negotiated by the parties in advance for the service provided as an employee. The courts have consistently held that salary and benefits paid to public employees do not constitute "gifts of public funds." See, e.g., *San Joaquin County Employees' Association, Inc. v. County of San Joaquin* (1974) 39 Cal.App.3d 83, 88 ("[I]n the area of employment, public agencies must compete, and if to so compete they grant benefits to employees for past services, they are not making a gift of public money but are taking self-serving steps to further the governmental agency's self-interest in recruiting the most competent employees in a highly competitive market.").
- Trustees requested confirmation that term insurance was sought as an alternative to the "split-dollar" insurance. Such insurance had been unsuccessfully requested prior to the June 24, 2020 meeting, and has been requested again. Such insurance also is not available for the CEO at the present time. The issue is not the type of insurance product, but rather it is the underlying circumstances, which apply to term insurance as well as "split-dollar" coverage.

CONCLUSION

For these reasons, it is recommended that the Board approve the proposed amendment to the CEO's Employment Agreement attached as Attachment B providing that LACERA will, until such time as insurance can be obtained, pay \$200,000 to the CEO's beneficiaries upon his death while employed by LACERA and for the rest of his life if employed at least three years after his original start date, provided he is not terminated by LACERA at any time. Staff will continue attempt to obtain insurance quotes at least twice annually and will notify the Boards if coverage becomes available.

Attachments

c: Santos H. Kreimann Harvey L. Leiderman
Carly Ntoya

ATTACHMENT A
CEO EMPLOYMENT AGREEMENT

**EMPLOYMENT AGREEMENT
CHIEF EXECUTIVE OFFICER, LACERA**

This Agreement (Agreement) is made and entered into as of November 16, 2019, at Pasadena, California, by and between the Los Angeles County Employees Retirement Association (LACERA), by its Board of Retirement and Board of Investments (collectively, Boards), and Santos H. Kreimann (Kreimann).

WHEREAS, the Boards have implemented the provisions of California Government Code Section 31522.2 by appointing a person to act as retirement administrator, which is the senior administrative officer of the organization; and

WHEREAS, the retirement administrator position has been designated in Los Angeles County Code Section 6.127.020 as having the title of Chief Executive Officer, LACERA (CEO); and

WHEREAS, Section 6.127.030.B.1 of the Los Angeles County Code provides that the person appointed as CEO may receive such salary and benefits as determined by written agreement between LACERA, through its Boards, and the CEO; and

WHEREAS, the Boards have determined that Kreimann is qualified to perform the duties and responsibilities of CEO, and have selected Kreimann to serve as CEO according to the terms of this Agreement.

NOW, THEREFORE, LACERA and Kreimann agree, subject to Paragraph 8, as follows:

1. APPOINTMENT. The Boards hereby appoint Kreimann as CEO, subject to the terms and conditions of this Agreement, and Kreimann accepts and agrees to such appointment. Under California Government Code Section 31522.2, the CEO shall be an employee of the County of Los Angeles, reporting to the Boards and with performance of services exclusively for LACERA as described in Paragraph 4.

2. REPRESENTATION. Kreimann represents and warrants that all information regarding qualifications, all applications and resumes, and all additional background information provided, verbally or in writing, to the Boards and their representatives, including Alliance RC and LACERA staff, and all of their respective background check vendors, at any and all times during the course of the recruiting process for the CEO position prior to the execution of this Agreement, were truthful, accurate, and complete and did not omit any facts necessary to have an accurate understanding of Kreimann's background, skills, and experience. This representation is material to the Boards' willingness to enter into this Agreement.

3. TERM. Kreimann's appointment shall commence on November 16, 2019, or such other date as determined by the Boards in their sole discretion (Effective Date). As provided by California Government Code Section 31522.2, the position of CEO is not subject to county civil service or merit system rules, and Kreimann shall be an at-will employee and serve at the pleasure of, and may be dismissed at any time at the will of, the Boards, with or without cause, and with or without any period of notice. Specific

charges, a statement of reasons, or good cause shall not be required as a basis for dismissal. Dismissal by the Boards shall constitute an immediate termination of this Agreement, except those provisions that expressly survive termination. Kreimann expressly waives and disclaims any right to any pre-termination or post-termination notice and hearing, except for the notice provided in Paragraph 11.

4. DESCRIPTION OF SERVICES. Kreimann shall perform all of the duties of CEO, as directed by the Boards from time to time, including but not limited to those described in the Position Information and Examples of Essential Job Functions stated in Exhibit A to this Agreement. As CEO, Kreimann shall be LACERA's senior administrative officer, reporting directly to the Boards, and shall be expected to fulfill the needs of the organization as they may change from time to time and as directed by the Boards based on LACERA's needs and objectives. The CEO position requires maintenance of a full-time work schedule, including presence in LACERA's office each business day, subject to business travel and vacation and other permitted personal use time and reasonable flexibility with respect to the occasional need to work remotely. Kreimann shall notify the Boards in advance if he will be out of Los Angeles County or unavailable for necessary communication during time away from the office. Kreimann is expected to engage in those hours of work that are necessary to fulfill the obligations of the CEO position. The position does not have set hours of work, and the CEO is expected to be available at all times.

Kreimann shall perform all duties hereunder in a manner consistent with the level of competency, ethics and avoidance of actual or potential conflicts of interest, and standard of care normally observed by a person employed as a Chief Executive Officer of a large California public employees' retirement system, taking into account the services required from the CEO and LACERA's working environment and resources.

Kreimann shall not engage in teaching, consulting, speaking, or other non-LACERA work or business for which any form of value is paid, without the express prior written consent of the Boards.

5. LACERA'S COMMITMENTS.

- a. LACERA shall provide Kreimann with the salary and benefits as specified in Paragraphs 6 and 7 of this Agreement, subject to Paragraph 8 and all other provisions of this Agreement.
- b. LACERA shall provide Kreimann with an individual office on LACERA premises, a secretary, and such furniture, fixtures, equipment and supplies, including those described in Exhibit B, to the extent reasonably necessary for the performance of the CEO's duties. Furniture, fixtures, equipment and supplies remain the property of LACERA and shall be promptly returned upon separation under Paragraph 11.
- c. LACERA shall pay for or provide Kreimann reimbursement for all reasonable and lawful actual out-of-pocket business expenses incurred on behalf of

LACERA. LACERA shall provide Kreimann a LACERA credit or debit card to charge reasonable and lawful business expenses.

- d. LACERA shall pay for Kreimann to attend and receive education and training reasonably related to his service as LACERA's CEO, as authorized in advance by the Board Chairs or LACERA policies. LACERA shall pay professional dues and subscriptions on behalf of Kreimann which are reasonably related to the CEO's duties and participation in national, regional, state, and local associations and organizations necessary and desirable for the good of LACERA. LACERA shall pay the reasonable and actual travel and subsistence expenses of the CEO to pursue official and other functions for LACERA, and meetings and occasions to continue the professional development of the CEO, including but not limited to national, regional, state, and local conferences, and governmental groups and committees upon which the CEO serves as a member in accordance with LACERA's Education and Travel Policy, as it may be revised by the Boards from time to time, and provided by budget and/or the preapproval of the Board Chairs.
- e. The Boards set policy, in their sole discretion, for the governance and administration of LACERA and implement their respective policies through the CEO in accordance with the Boards' policies, charters, and rules in effect from time to time.
- f. The Boards may conduct annual goal-setting and annual performance evaluations of Kreimann as CEO pursuant to a schedule, standards, and procedures in their sole discretion, including more frequently than annually, consistent with the duties of the CEO position as provided herein.

6. SALARY. Subject to Paragraph 8, Kreimann shall be compensated at a gross base salary, before taxes and any other required or elective deductions, of \$400,000 gross annually (Starting Salary), paid on a bi-monthly basis by way of direct deposit and subject to usual and customary deductions for taxes, benefits, and insurance and any other deductions required or permitted by law, commencing as of the Effective Date and continuing during the time he serves as CEO, pro-rated on a daily basis. Kreimann may, but is not entitled to, receive salary adjustments from time to time as the Boards determine in their sole discretion in accordance with California Government Code Section 31522.2 and Sections 6.127.020 and 6.127.030 and other provisions of the Los Angeles County Code, as applicable to the CEO position.

7. BENEFITS. Subject to Paragraph 8, Kreimann shall receive the benefits now and hereafter provided for those persons occupying positions designated as "L" items by Section 6.28.020.B of the Los Angeles County Code. Benefits provided as of the Effective Date are listed in Exhibit B. Benefits may be adjusted by the Boards in their discretion consistent with the Los Angeles County Code.

8. BOARD APPROVAL. This Agreement, including but not limited to the salary and benefits as provided in Paragraphs 6 and 7, is subject to approval of the Boards at a

duly noticed and agendized public meeting and, notwithstanding any other provision of this Agreement, is not effective in any respect until such approval is given. If Board approval is not obtained prior to the Effective Date, the Effective Date shall be the first business day after approval of both Boards has been obtained and the Boards have duly executed this Agreement. This Agreement is subject to public disclosure to the extent required by the California Public Records Act, Cal. Gov't Code §§ 6250 et seq.

9. CONFLICTS AND COMPLIANCE. Kreimann shall be required to file a Form 700 Statement of Economic Interests within 30 days of assuming the CEO position, and within 30 days of leaving the CEO position, to comply with California law regarding disclosure of potential conflicts of interest, and at other times as required by LACERA and applicable law. Kreimann shall abide by LACERA's Mission, Vision, and Values, its Code of Ethical Conduct and Conflict of Interest Codes, all other LACERA policies and procedures, and all applicable laws and regulations relating to LACERA's business and operations, including but not limited to LACERA policies and procedures, laws, and regulations regarding ethics and avoidance of conflicts of interest.

10. CONFIDENTIALITY AND PRIVACY. During employment with LACERA, Kreimann will have access to confidential and private LACERA member and other information. Without limiting the generality of Paragraph 9, during and after employment, Kreimann shall abide by all applicable laws and regulations and LACERA policies and procedures concerning the confidentiality and privacy of member information and other LACERA information.

11. SEPARATION.

- a. Administrative Leave. The Boards may place Kreimann on administrative leave when in the best interests of LACERA, as determined by the Boards in their sole discretion. The administrative leave shall be effective as of the date set forth in a written notice delivered to Kreimann. Upon delivery of such notice to Kreimann, Kreimann's duties under this Agreement shall be suspended as of the effective date stated in the notice, but all other provisions of this Agreement shall remain in full force and effect except as inconsistent with this subparagraph. Thereafter, Kreimann's duties under this Agreement shall be performed by the Acting CEO or other designee(s) of the Boards. Kreimann agrees that he shall not perform or attempt to perform any of the duties of CEO, or in any other way interfere with the administration or operation of LACERA, during the period of administrative leave. The administrative leave and the suspension of the duties provided for herein shall terminate on the Boards' delivery to Kreimann of a written notice terminating the leave, which may include termination of employment.
- b. Resignation. Kreimann may resign at any time and agrees to give the Boards at least 60 days advance written notice of the effective date of the resignation, unless the Parties otherwise agree in writing.

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- c. Termination and Removal. Kreimann is an at-will employee serving at the pleasure of the Boards. The Boards may remove Kreimann at any time, with or without cause, by a majority vote of the members of each Board. Notice of termination shall be provided to Kreimann in writing. No period of notice is required, and notice may be effective immediately upon delivery or at a later date, in the Boards' sole discretion. _____ [Kreimann's Initials]
- d. Transition. Given the at-will nature of the CEO position, an important element of this Agreement pertains to separation. It is in both LACERA's interest and that of Kreimann that any separation of Kreimann is done in a cooperative and businesslike manner. Kreimann shall reasonably cooperate in a transition period, including but not limited to delaying the effective date of separation, training and sharing knowledge with his successor, and leaving electronic and physical files in good condition and readily accessible after separation. Upon or after separation, Kreimann shall not, without LACERA's written consent, retain any LACERA property or the original or any copy of LACERA documents or information in any form or media. All such property or information will be returned to LACERA within five (5) days of the effective date of separation.
- e. Termination for Cause. Kreimann's employment may be terminated immediately by LACERA upon the Boards' determination that Kreimann has engaged in any of the following: (i) fraud, misrepresentation or misconduct; (ii) breach of this Agreement, and/or the policies or procedures of LACERA; (iii) breach of fiduciary duties owed to LACERA; (iv) any conduct which constitutes negligence or recklessness that is materially injurious to LACERA, the Boards, or LACERA members; (v) disloyalty, including, without limitation, fraud, embezzlement, theft or dishonesty; (vi) the misuse or disclosure of confidential information to persons not entitled to receive such information; and (vii) failure to follow a lawful direction from either of the Boards. Cause shall also include the occurrence of Kreimann's conviction of or plea of nolo contendere (i.e., no contest) to: (viii) any felony or a misdemeanor that has been found to involve moral turpitude by any published California appellate decision; or (ix) a misdemeanor violation of the California Political Reform Act (Cal. Gov't Code §§ 87100 et seq.).
- f. Termination without Cause. If LACERA terminates Kreimann without cause, he will be provided a monetary severance payment equal to the sum of six (6) months of base salary and benefits (calculated as 19% of six (6) months of base salary) as of the date of termination. As a non-severable condition precedent of receiving this severance payment, Kreimann shall provide a general release under California Civil Code Section 1542 of any and all claims, known and unknown against LACERA, and its trustees, directors, officers, employees, agents and representatives, to the maximum extent permitted by law.

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- g. Nondisparagement. Upon separation for any reason, with or without cause, Kreimann shall not make any statement, orally, in writing, or through any other media, that is reasonably likely to disparage LACERA, the Boards, LACERA's trustees and staff, or the operations of LACERA and the Boards, or to degrade their reputation with any person or entity.

12. INTEGRATION. This Agreement and the attachments to it state all terms of the parties' agreement and is the exclusive statement of the parties' understanding. Except as provided in Paragraph 2, all prior representations, statements, and understandings, express or implied, including but not limited to the Conditional Offer of Employment dated October 21, 2019, are of no force and effect and cannot be used to alter the terms of this Agreement. In the event of any inconsistencies between the terms of this Agreement and the terms of any provision of the County Code, the terms of this Agreement shall control to the maximum extent allowed by law.

13. CONTROLLING LAW; DISPUTES. This Agreement and all claims arising from or related to this Agreement or Kreimann's employment as LACERA's CEO shall be subject to the laws of the State of California, without regard to its choice of law provisions. All disputes arising from or related to this Agreement or Kreimann's employment with LACERA that must be subject to resolution in court notwithstanding Paragraph 14 shall be resolved exclusively in California state or federal courts sitting in the County of Los Angeles. The parties agree to the exclusive personal and subject matter jurisdiction of such courts for all disputes. _____ [Kreimann's Initials]

14. MANDATORY MEDIATION AND ARBITRATION. To the maximum extent permitted under applicable law, all claims arising from or related to this Agreement and the attachments to it, the recruitment for employment, the Conditional Offer of Employment, and Kreimann's employment, compensation, or separation as LACERA's CEO, including acts or omissions of the Boards or LACERA's staff or representatives, any and all such claims or disputes between them shall be subject to mandatory pre-filing mediation in the County of Los Angeles before a mutually agreed upon mediator, who absent any other agreement of the parties, shall be a retired California state or federal judicial officer; the costs of the mediation shall be paid by LACERA. If following mediation, the claims of either party are not successfully resolved, any and all such claims and disputes between them, except claims that as a matter of law cannot be subject to arbitration, shall be subject to mandatory binding arbitration in the County of Los Angeles before a single mutually agreed upon arbitrator, who absent any other agreement of both parties, shall be a retired California state or federal judicial officer associated with the Los Angeles region of the Judicial Arbitration and Mediation Service (JAMS) and administered through JAMS pursuant to its Employment Arbitration Rules & Procedures and subject to JAMS Policy on Employment Arbitration Minimum Standards of Procedural Fairness. The costs of the arbitrator and arbitration service shall be paid by LACERA. The arbitrator's award may be entered in any court having jurisdiction. _____ [Initials of All Parties]

15. SEVERABILITY. If any provision of this Agreement is declared unenforceable or invalid, such provision shall be deemed severed from the Agreement, and the

remainder of this Agreement shall remain valid and enforceable and in no way impaired or invalidated, in order to carry out the parties' intent herein the fullest extent possible.

16. WAIVER. Both parties shall be deemed to have participated equally in the drafting of this Agreement, and this Agreement shall be interpreted without regard to California Civil Code Section 1654, which is waived by the parties.


17. ASSIGNMENT. This Agreement and all rights hereunder are personal to Kreimann and may not be assigned or transferred by Kreimann at any time.

18. NOTICE. Any notice required under this Agreement shall be effective immediately upon personal delivery, 24 hours after the date of transmission via email, 48 hours after deposited for overnight delivery service, or 72 hours after deposited by delivery by U.S. First Class mail. The following information shall be used for delivery of notice to the parties, subject to change in writing:

LACERA:

Steven P. Rice
Chief Counsel
Los Angeles County Employees Retirement Association
300 N. Lake Ave, Suite 630
Pasadena, CA 91101
srice@lacera.com
(626) 564-6000, Extension 4340

Kreimann:

Santos H. Kreimann


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19. ACKNOWLEDGMENT. The parties acknowledge and agree that they have had the opportunity to consult with an attorney of their own choice in the drafting of this Agreement, and sign it without questions or reservations and with full understanding of its terms. _____ [Kreimann's Initials]

20. SURVIVAL. The parties agree that Paragraphs 9, 10, 11(d), 11(g), 12, 13, 14, 15, 16, 17, 18, and 19 shall survive termination of this Agreement to the fullest extent possible in fact and by law.

IN WITNESS WHEREOF, LACERA's Boards of Retirement and Investments each have authorized and caused this Agreement to be signed by the Chair of each Board, and Kreimann has signed this Agreement as of the Effective Date.

LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION

By: _____
Chair of the Board of Retirement

Dated: _____

By: _____
Chair of the Board of Investments

Dated: _____

Santos H. Kreimann

Dated: _____

EXHIBIT A
To
EMPLOYMENT AGREEMENT
CHIEF EXECUTIVE OFFICER, LACERA

Position Information:

The one position allocable to this class is appointed by LACERA's Board of Retirement and Board of Investments to act as retirement administrator, pursuant to Government Code Section 31522.2. The incumbent of this position is the executive and administrative head of the Retirement Association and has full responsibility for planning, organizing and directing the operations of LACERA, except that the Board of Investments may delegate specific investment authority and responsibility to others. In this role, the incumbent manages the system within the framework established by the State Constitution and State laws, and in compliance with the policies, rules, and regulations adopted by the Board of Retirement and, when applicable, the Board of Investments.

As the advisor to the Boards of Retirement and Investments, the incumbent makes recommendations on all matters pertaining to LACERA; assures Board orders and requests are implemented, cooperates with and acts as liaison between the Boards, the staff, member organizations, employers, government departments and agencies, the Legislature, and the public; and directs the administrative support and secretarial services to the Boards.

As the Chief Executive Officer, the incumbent is responsible for providing the direction for the Retirement Association, including but not limited to: establishing and accomplishing goals; ensuring accurate service to LACERA members; ensuring the best caliber staff are employed to manage LACERA's investments and programs; directing the preparation of the Retirement Association's budget; ensuring the integrity of the Association's and County's policies and practices; and ensuring the accounting, financial and actuarial programs are sound.

Examples of Essential Job Functions:

Administers a comprehensive program of retirement, disability, survivor, and health benefits for retired members.

Plan, prepare for, attend, and participate in Board meetings, offsites, strategic planning sessions, and such other meetings, conferences, and communications with trustees, staff, vendors, and other parties as required.

Directs all activities relating to benefits, investments, accounting, auditing, administrative services, legal services, information systems and services, and human resources.

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Directs the development of and presents recommendations concerning organizational priorities and operations objectives for the consideration and approval of LACERA's governing Boards of Retirement and Investments.

Serves as liaison between LACERA staff and LACERA's governing boards by coordinating the implementation of Board policies.

Directs the development and implementation of LACERA's annual budget, obtaining Board approval, and enforcing appropriate expenditure control.

Directs the monitoring compliance activities of the Retirement Association with respect to applicable federal, state, and County laws and regulations.

Directs the analysis of and development of responses to proposed legislation; formulates strategies to achieve LACERA's legislative goals; and addresses legislative committees and other groups on subjects relating to retirement laws, operations of the system and its programs, and positions taken by the Boards on proposed laws and other issues.

Directs the negotiation of contracts for actuarial services, independent auditing services, consultant services, professional services, or other services that may be necessary for the administration of the system.

Directs the development of the annual financial report covering operations and expenditures of the system for the preceding fiscal year.

Establishes and directs the maintenance of an adequate system of records and accounts following recognized accounting principles and controls.

Oversees and directs the efforts of LACERA's external consultants including actuaries, auditors, attorneys, lobbyists, and investment advisors.

Serves as a corporate officer of LACERA's real estate holding companies.

Represents LACERA in interactions with the Los Angeles County Board of Supervisors, Los Angeles County's Chief Executive Officer, regulatory agencies, other participating employers in LACERA, members of LACERA, the media, and the general public.

EXHIBIT B
To
EMPLOYMENT AGREEMENT
CHIEF EXECUTIVE OFFICER, LACERA

PROVIDED BENEFITS:

MegaFlex Benefit Plan - Benefits may be purchased using a monthly benefits allowance of 19% of the employee's monthly salary. If the monthly cost of the benefits selected is less than the monthly allowance, the employee receives the difference as additional taxable wages.

Purchasable monthly benefits include Medical, Dental, Disability, Life and Accidental Death & Dismemberment (AD&D) Insurance, Optional Group Variable Universal Life Insurance, Health & Dependent Care Spending Account, and Dependent Care Spending Accounts.

LACERA Defined Benefit Retirement Plan - Pays a specified monthly lifetime benefit at retirement based on years of service, final average compensation (within any cap on the pensionable portion), age at retirement, and other factors, subject to applicable law, including vesting and eligibility requirements. Contributions into this plan are made by both the employee and employer.

Savings Plan (401k) - Optional tax-deferred income plan. Provides a LACERA match of up to 4% of the employee's salary subject to IRS limits.

Deferred Compensation Plan (457) - Optional tax-deferred income plan. Provides a LACERA match of up to 4% of the employee's salary subject to IRS limits.

Flexible Spending Accounts - Employees may contribute up to \$200 per month tax-free to a Health Care Spending Account and up to \$400 per month tax-free to a Dependent Care Spending Account. Employees may be eligible for up to \$75 per month contribution paid by LACERA to a Dependent Care Spending Account.

"Split Dollar" Life Insurance - A LACERA paid level life insurance death benefit the amount of which is dependent upon age at entry into the plan.

Holidays - 12 days per year.

Leave - The position does not earn or accrue leave and does not require the use of leave to cover absences from work, including reasonable vacation.

Tuition Reimbursement - Subject to tuition program limitation.

Company Vehicle - An assigned LACERA vehicle is provided, for which LACERA will pay for fuel, maintenance, and insurance. Under State and Federal tax regulations, employees are taxed on the value of this benefit. Alternatively, Kreimann may elect to receive a separately negotiated monthly vehicle allowance.

Technology - Use of a LACERA cellular phone, laptop, and home workstation with internet.

This information is intended to provide a general summary of benefits available. LACERA does not contribute into Social Security. Benefits may be taxable beyond those expressly stated as such.

ATTACHMENT B
PROPOSED AMENDMENT NO. 1

PROPOSED

**AMENDMENT NO. 1 TO
EMPLOYMENT AGREEMENT
CHIEF EXECUTIVE OFFICER, LACERA**

This Amendment No. 1 is made and entered into as of _____, 2020, at Pasadena, California, by and between the Los Angeles County Employees Retirement Association (LACERA), by its Board of Retirement and Board of Investments (collectively, Boards), and Santos H. Kreimann (Kreimann).

WHEREAS, the parties entered into an Employment Agreement as of November 16, 2019 (Agreement), which stated the terms of Kreimann's employment as Chief Executive Officer, LACERA (CEO). The Employment Agreement was approved by the Boards at a public meeting on November 6, 2019;

WHEREAS, the Agreement provides, in Paragraph 7, that, "Kreimann shall receive the benefits now and hereafter provided for those persons occupying positions designated as "L" items by Section 6.28.020.B of the Los Angeles County Code. Benefits provided as of the Effective Date are listed in Exhibit B. Benefits may be adjusted by the Boards in their discretion consistent with the Los Angeles County Code;"

WHEREAS, Exhibit B to the Agreement provides that Kreimann's benefits shall include, "'Split Dollar' Life Insurance - A LACERA paid level life insurance death benefit the amount of which is dependent upon age at entry into the plan" (Split-Dollar Insurance). Under the terms of the program as provided to "L" items in effect as of the date of the Agreement and based Kreimann's age at the time, the available death benefit was \$200,000, subject to the other terms and conditions of the Split-Dollar Insurance program;

WHEREAS, after Kreimann commenced employment, LACERA attempted diligently to obtain Split-Dollar Insurance as provided in and according to the terms of the Agreement. Split-Dollar Insurance was not available in the market for Kreimann at that time, and it remains unavailable as of the date of this Amendment No. 1;

WHEREAS, for reasons beyond LACERA's control and knowledge at the time it entered into the Agreement, it has become impossible for LACERA to provide Kreimann with the Split Dollar Insurance benefit; and

WHEREAS, the parties now wish to provide for an alternative benefit in lieu of the Split Dollar Life Insurance benefit, at least until such benefit again becomes available in the market.

NOW, THEREFORE, LACERA and Kreimann agree as follows:

1. DEATH BENEFIT. Subject to termination of this Amendment No. 1 as provided in Paragraph 2, LACERA shall, within thirty (30) days of receipt of written notice and confirmation of Kreimann's death, pay to Kreimann's beneficiaries as designated in writing by Kreimann and delivered to LACERA in advance of his death, a death benefit in the lump sum of \$200,000. This payment does not affect the rights of Kreimann's

PROPOSED

beneficiaries to the other benefits, if any, to which they are eligible and entitled under the terms of LACERA's defined benefit pension program. This payment supersedes and replaces LACERA's obligation to provide Split-Dollar Insurance under the terms of Exhibit B to the Agreement.

2. TERMINATION. This Amendment No. 1 shall terminate, and Kreimann and his beneficiaries will have no rights hereunder, upon the earliest of:

- a. LACERA's purchase and delivery to Kreimann of Split-Dollar Insurance under the Agreement subject to the other terms of the Split-Dollar Insurance program as provided to "L" items at the time the insurance is purchased, or term life insurance, other form of life insurance, or other third-party financial product in LACERA's sole and absolute discretion, providing a death benefit to Kreimann's beneficiaries in the amount of \$200,000. Kreimann shall cooperate in LACERA's efforts to acquire such insurance or financial product, including promptly and timely attending all required medical exams and providing all other underwriting information when and as requested by LACERA during the term of this Amendment No. 1, no less frequently than twice every calendar year;
- b. Submission of written notice by Kreimann to LACERA that he declines all right to the benefits of this Amendment No. 1, including Split-Dollar Insurance under the Agreement;
- c. Termination of Kreimann's employment with LACERA prior to November 16, 2022 for any reason other than Kreimann's death or disability; or
- d. Termination of Kreimann's employment by LACERA at any time.

3. DISCLAIMER. The death benefit under this Amendment No. 1 shall be subject to applicable federal, state, and local withholding and deductions as may be required under applicable law. It is specifically intended that payments under this Amendment No. 1 shall not be subject to Section 409A of the Internal Revenue Code, and the terms of this Amendment No. 1 and the Agreement shall be interpreted in accordance with such intent. LACERA makes no representations or warranties as to the tax consequences of any insurance, financial product, or payment that may be provided or made under this Amendment No. 1. All taxes and other costs associated with any insurance, financial product, or payment are the responsibility of Kreimann and his beneficiaries. Kreimann and his beneficiaries are advised to seek their own tax, legal, and accounting advice.

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PROPOSED

4. OTHER TERMS AND CONDITIONS. This Amendment No. 1 is subject to all other terms and conditions of the Agreement, which continue in full force and effect.

IN WITNESS WHEREOF, LACERA's Boards of Retirement and Investments each have authorized and caused this Agreement to be signed by the Chair of each Board, and Kreimann has signed this Agreement as of the date first stated above.

LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION

By: _____
Chair of the Board of Retirement

Dated: _____

By: _____
Chair of the Board of Investments

Dated: _____

Santos H. Kreimann
Dated: _____



Documents not attached are exempt from disclosure under the California Public Records Act and other legal authority.

**For further information, contact:
LACERA
Attention: Public Records Act Requests
300 N. Lake Ave., Suite 620
Pasadena, CA 91101**



Documents not attached are exempt from disclosure under the California Public Records Act and other legal authority.

**For further information, contact:
LACERA
Attention: Public Records Act Requests
300 N. Lake Ave., Suite 620
Pasadena, CA 91101**