

# LIVE VIRTUAL COMMITTEE MEETING



TO VIEW VIA WEB



TO PROVIDE PUBLIC COMMENT

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

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

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

## AGENDA

A REGULAR MEETING OF THE EQUITY: PUBLIC/PRIVATE COMMITTEE  
OF THE BOARD OF INVESTMENTS AND BOARD OF INVESTMENTS \*  
LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION  
300 N. LAKE AVENUE, SUITE 810, PASADENA, CALIFORNIA 91101

8:00 A.M., WEDNESDAY, MARCH 9, 2022

*This meeting will be conducted by teleconference under California Government Code Section 54953(e).*

Any person may view the meeting online at  
<https://lacera.com/leadership/board-meetings>

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

### I. CALL TO ORDER

### II. APPROVAL OF MINUTES

A. Approval of the Minutes of the Equity: Public/Private Committee Meeting of May 19, 2021.

### III. PUBLIC COMMENT

(Written Public Comment - You may submit written public comments by email to [PublicComment@lacera.com](mailto:PublicComment@lacera.com). 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.

Verbal Public Comment - You may also request to address the Committee at [PublicComment@lacera.com](mailto:PublicComment@lacera.com) before and during the meeting at any time up to the end of the Public Comment item. We will contact you with information and instructions as to how to access the meeting as a speaker. If you would like to remain anonymous at the meeting without stating your name, please let us know.)

March 9, 2022

Page 2

IV. REPORT

- A. Analysis of Global Equity Activist Managers  
Esmeralda del Bosque, Acting Principal Investment Officer  
Ron Senkandwa, Investment Officer  
Jeff Jia, Senior Investment Analyst  
(Memo dated February 28, 2022)

V. ITEMS FOR STAFF REVIEW

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

VII. EXECUTIVE SESSION

- A. Conference with Staff and Legal Counsel to Consider the Purchase or Sale of Particular, Specific Pension Fund Investments  
(Pursuant to California Government Code Section 54956.81)
  - 1. Global Equity Activist Managers  
Esmeralda del Bosque, Acting Principal Investment Officer  
Ron Senkandwa, Investment Officer  
Jeff Jia, Senior Investment Analyst  
(Memo dated February 28, 2022)

VIII. ADJOURNMENT

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

*Documents subject to public disclosure that relate to an agenda item for an open session of the Board of Investments that are distributed to members of the Board of Investments less than 72 hours prior to the meeting will be available for public inspection at the time they are distributed to a majority of the Board of Investments Members at LACERA's offices at 300 N. Lake Avenue, Suite 820, Pasadena, CA 91101, during normal business hours of 9:00 a.m. to 5:00 p.m. Monday through Friday.*

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

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

LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION

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

8:00 A.M., WEDNESDAY, MAY 19, 2021

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

PRESENT: Herman Santos, Chair  
Shawn Kehoe, Vice Chair  
Patrick Jones  
Elizabeth Greenwood  
David Green, Alternate

MEMBERS AT LARGE:

Alan Bernstein

Joseph Kelly

Gina Sanchez

STAFF, ADVISORS, PARTICIPANTS:

Jonathan Gabel, Chief Investment Officer

Ted Wright, Principal Investment Officer

Chris Wagner, Principal Investment Officer

Ron Senkandwa, Investment Officer

STAFF, ADVISORS, PARTICIPANTS (Continued):

Jeff Jia, Senior Investment Analyst

Calvin Chang, Senior Investment Analyst

Meketa Investment Group  
Tim Filla, Principal  
Alina Yuan, Associate

I. CALL TO ORDER

The meeting was called to order virtually by Chair Santos at 8:00 a.m.

II. APPROVAL OF MINUTES

A. Approval of the Minutes of the Meeting of March 10, 2021.

Mr. Green made a motion, Mr. Santos seconded, to approve the minutes of the regular meeting of March 10, 2021. The motion passed unanimously (roll call) with Messrs. Santos, Jones, and Green voting yes. Mr. Kehoe and Ms. Greenwood were absent for the vote.

III. PUBLIC COMMENT

There were no requests from the public to speak.

IV. NON-CONSENT ITEMS

A. Recommendation as submitted by Chris Wagner, Principal Investment Officer; Calvin Chang, Senior Investment Analyst: That the Committee advance the Private Equity emerging manager program discretionary separate account manager search Request for Proposal minimum qualifications to the Board of Investments for approval.  
(Memo dated May 6, 2021)

Messrs. Wagner and Chang were present and answered questions from the  
Committee.

#### IV. NON-CONSENT ITEMS (Continued)

Mr. Jones made a motion, Mr. Green seconded, to advance the Private Equity emerging manager program discretionary separate account manager search Request for Proposal minimum qualifications to the Board of Investments for approval. The motion passed unanimously (roll call) with Messrs. Santos, Jones, and Green voting yes. Mr. Kehoe and Ms. Greenwood were absent for the vote.

- B. Recommendation as submitted by Ted Wright, Principal Investment Officer; Ron Senkandwa, Investment Officer; and Jeff Jia, Senior Investment Analyst: That the Committee advance the Global Equity emerging manager search Request for Proposal minimum qualifications to the Board of Investments for approval.  
(Memo dated May 6, 2021)

Messrs. Wright, Senkandwa, and Jia were present and answered questions from the Committee.

Mr. Jones made a motion, Mr. Green seconded, to advance the Global Equity emerging manager search Request for proposal minimum qualifications to the Board of Investments for approval. The motion passed unanimously (roll call) with Messrs. Santos, Jones, and Green voting yes. Mr. Kehoe and Ms. Greenwood were absent for the vote.

#### V. REPORTS

- A. Currency Hedge Program Review  
Ted Wright, Principal Investment Officer  
Jeff Jia, Senior Investment Analyst  
Tim Filla, Meketa Investment Group  
Alina Yuan, Meketa Investment Group  
(Memo dated May 6, 2021)

May 19, 2021

Page 4

V. REPORTS (Continued)

Messrs. Wright, Jia and Mr. Filla and Ms. Yuan of Meketa Investment Group provided a presentation and answered questions from the Committee.

VI. ITEMS FOR STAFF REVIEW

There were no items to report.

VII. GOOD OF THE ORDER

(For information purposes only)

There was nothing to report.


VIII. ADJOURNMENT

There being no further business to come before the Committee, the meeting was adjourned at 9:02 a.m.



February 28, 2022

TO: Trustees - Equity: Public/Private Committee

FROM: Esmeralda del Bosque   
Acting Principal Investment Officer

Ron Senkandwa   
Investment Officer

Jeff Jia, CFA   
Senior Investment Analyst

FOR: March 9, 2022 Equity: Public/Private Committee Meeting

SUBJECT: **ANALYSIS OF GLOBAL EQUITY ACTIVIST MANAGERS**

### **BACKGROUND**

In the biennial Growth structure review presented at the December 2020 Board of Investments meeting, staff mentioned that a series of five global equity discussion topics would be conducted. The topics include: (1) a review of active management, (2) an evaluation of new portfolio management tools, (3) an assessment of the manager search process, (4) a study of the currency hedging program, and (5) an analysis of activist managers. Today's discussion on activist mandates concludes the series.

LACERA's experience with public equity activist managers started in 2006. Global equity's three current activist managers—Cevian Capital, JANA Partners, and Symphony Financial Partners—were hired by the Board of Investments in 2016 as a result of the activist manager search launched in late 2014. As of December 2021, the combined market value of the three managers is approximately \$795 million or 3% of the global equity portfolio.

A review of the activist managers as well as an examination of their fit within the global equity portfolio is detailed in the attached PowerPoint deck (**Attachment 1**). This will be displayed during staff's presentation to guide the Trustees through the review.

Attachment

Noted and Reviewed:



---

Jonathan Grabel  
Chief Investment Officer

**ATTACHMENT 1**

# **Analysis of Global Equity Activist Managers**

**Equity: Public/Private Committee Meeting**

**March 9, 2022**

Esmeralda del Bosque – Acting Principal Investment Officer

Ron Senkandwa – Investment Officer

Jeff Jia, CFA – Senior Investment Analyst



**LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION**

# Table of Contents

---

<b>Title</b>	<i>Slide No.</i>	<b>Title</b>	<i>Slide No.</i>
Objective and Recommendation	3	Portfolio Fit – Performance, Risk, and Volatility	14
Role of Global Equity and Structure	4	Portfolio Fit – Performance, Risk, and Volatility (Continued)	15
Background	5	Portfolio Fit – Performance, Risk, and Volatility (Continued)	16
Activist Managers Defined	6	Summary and Recommendation	17
Global Equity – Active Strategies	7	Appendix	18
History of LACERA’s Activist Managers	8	Appendix 1 – Glossary of Terms	19
Current Activist Managers	9		
Examining Portfolio Fit	10		
Portfolio Fit – Global Equity Portfolio Objectives	11		
Portfolio Fit – Corporate Governance and Total Fund Initiatives	12		
“Activism” Evolution and Heterogeneity	13		

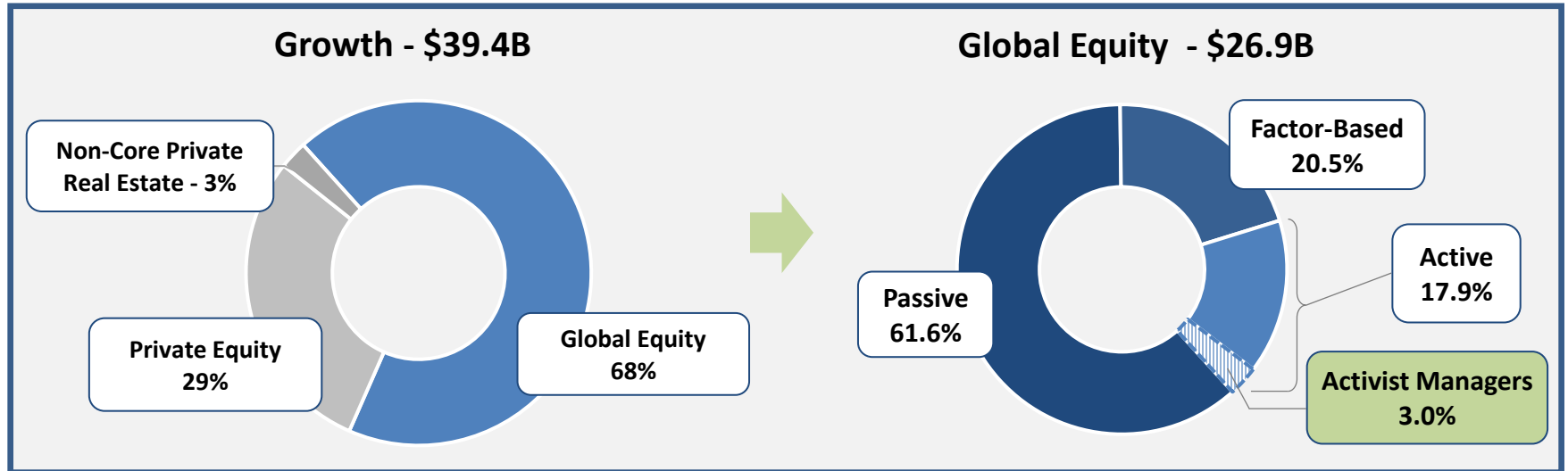
# Objective and Recommendation

---

## Objective

Evaluate the role of activist managers within global equity

# Role of Global Equity and Structure



- **Global equity objective** – To provide global market beta exposure with alpha (excess return) as a secondary consideration:
  1. Obtain equity beta through passive index
  2. Allocate to factor-based mandates for incremental return over passive index with lower risk versus active mandates
  3. Intentional exposure to active strategies in less efficient market segments (small cap, non-U.S., and emerging markets)
- Global equity is 35.7% of the total Fund which is 1.7% overweight its interim strategic asset allocation target of 34.0%

# Background

---

- Biennial structure review conducted at November 2020 Equity: Public/Private Committee Meeting
  - Reaffirmed current structure at the December 2020 Board of Investments Meeting

Subcategory	Policy Range	Allocation as of Dec-2021
Passive	40-80%	61.6%
Factor-Based	0-30%	20.5%
Active	10-40%	17.9%

- Structure review proposed deeper reviews of following program areas:
  - ✓ Assessment of manager search process
  - ✓ Review of implementation of active management
  - ✓ Evaluation of new portfolio management tools
  - ✓ Study of currency hedging program
  - Analysis of the role of activist managers

# Activist Managers Defined

Traditional Fundamental/Quantitative Equity Managers	vs	Activist Managers
<ul style="list-style-type: none"><li>• Seek to understand and evaluate a company's business operations and financial structure; invest in the stock when mispriced and generate return from stock price appreciation.</li></ul>		<ul style="list-style-type: none"><li>• Increase shareholder value through active engagement: Influence a company's management/board to adopt structural, financial, and operational improvements that may lead to increased long-term value.</li></ul>

Activist managers utilize a wide range of business improvement recommendations



- Compared to LACERA's active equity managers, activist strategies maintain more concentrated portfolios, experience higher return volatility, and incur higher investment management fees

# Global Equity - Active Strategies

Manager	Benchmark	Inception Date	% of Global Equity	Market Value (\$M)
Global Equity	MSCI ACWI IMI	Apr-19	100.0%	\$26,947
Active Strategies Total			17.9%	\$4,824
Frontier Capital	Russell 2500	Oct-18	1.2%	\$312
CornerCap EMP	Russell 2000	Jun-02	0.3%	\$87
Systematic	Russell 2000	Jul-18	0.8%	\$207
Acadian	MSCI EAFE + Canada	Apr-06	2.5%	\$659
Capital Group	MSCI EAFE + Canada	Oct-87	1.8%	\$475
BlackRock Euro Tilts	MSCI Europe	Apr-06	2.9%	\$764
Global Alpha	MSCI EAFE SC	Apr-06	0.6%	\$163
Genesis	MSCI EM IMI	Jan-07	2.4%	\$637
Lazard	MSCI EM	Oct-16	1.8%	\$475
JANA (Activist)	S&P 500	Oct-16	0.5%	\$124
Cevian (Activist)	MSCI Europe	Oct-16	1.5%	\$413
Symphony (Activist)	MSCI Japan SC	Nov-16	1.0%	\$258

Market value and position holdings as of December 31, 2021.



# History of LACERA's Activist Managers

Allocation to activist strategies is generally less than 5% of the portfolio to mitigate risk

## Initial Phase (2006-2015)

- LACERA's experience with public equity long-only activist managers started in 2006
- At the time, it was believed that activism provided an opportunity to
  - Unlock shareholder value
  - Generate unique returns
  - Benefit passive index holdings
- 2006 – three firms were hired
- 2014 – Last activist manager was dissolved; the other two managers were terminated prior to 2014
  - New activist manager search was launched

## 2nd Phase (2016)

- Prior experience was incorporated in the Activist manager search launched in late 2014
  - Moved to a global perspective
- 2016 – three firms were hired:
  - JANA (U.S.)
  - Cevian (European)
  - Symphony (Japanese)

# Current Activist Managers

Less than 40 names are held across the three activist managers; a review of the program and its fit within the global equity and total Fund structure is warranted

	Cevian Capital	JANA Partners LLC	Symphony Financial Partners
Fund Inception	2003	2001	2003
Inception with LACERA	Oct-2016	Oct-2016	Nov-2016
Market Value <sup>1</sup>	\$413.4M	\$123.5M	\$257.8M
Initial Capital Commitment	\$250M	\$120M	\$100M
Strategy Focus Region	Europe	U.S.	Japan
Strategy Description	Invest in European companies that have profitable businesses and significant improvement potential.	Invest in undervalued public companies located primarily in the U.S., with a potential catalyst for value creation that management has not considered or is not executing.	Invest in profitable Japanese small cap companies where the share prices do not reflect the true value of the underlying business. Manager has a positive reputation built on non-confrontational engagement.
Annualized Fee	560 bps	144 bps	270 bps

<sup>1</sup>Market value and position holdings as of December 31, 2021.

# Examining Portfolio Fit

## Reviewing the activists acknowledging LACERA's strategic initiatives and our goal to move from allocator to investor



### Enhance Operational Effectiveness

- Strengthen risk orientation in a low expected return environment
- Avoid uncompensated complexity
- Comprehensive performance and risk reporting



### Optimize Investment Model

- Risk measurement and monitoring across the portfolio
- Evaluate most advantageous investment structures



### Maximize Stewardship and Ownership Rights

- Improve ESG data availability and reliability
- Total Fund view of climate investment risks and opportunities
- Expanded voting authority across global equities



### Strengthen Influence on Fees and Cost of Capital

- Remain mindful of strategic considerations
- Further measure and reduce costs across portfolio
- Broadly be “term-makers” as opposed to “term takers”

# Portfolio Fit – Global Equity Portfolio Objectives

## Prior to 2019

### Portfolio Level

- Public equity was managed from U.S. and Non-U.S. perspectives
- Passive exposure in commingled funds
- Invested in activist managers with alternative-like structures:
  - Lock-up periods and reduced liquidity
  - Higher fees
  - Lack of portfolio transparency and limitations on total Fund investment risk analytics initiatives
  - No proxy voting rights

## 2019 – Present<sup>1</sup>

- Global equity perspective by combining U.S. and Non-U.S. composites
- Merged regional passive index funds into a single global **separate account** passive index
  - Preference for separately managed accounts to increase proxy voting authority
- Shift of focus from active returns to market beta
- Strategies are grouped by Passive, Factor-based, and Active
  - **Intentional** Active equity exposures
- Deliberate **reduction of fees** via consolidation of overlapping strategies
  - Global equity fees broadly reduced
  - Activist strategies account for nearly 40% of global equity investment fees

<sup>1</sup> Based on prior Board-approved structure reviews.

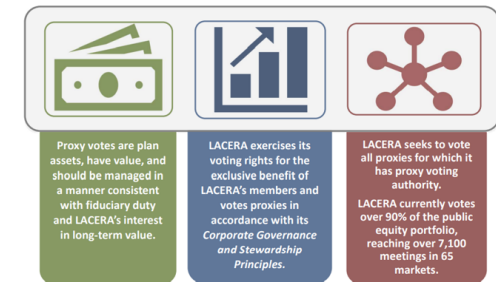
# Portfolio Fit – Corporate Governance and Total Fund Initiatives

## Corporate governance

LACERA has made significant strides to enhance stewardship efforts

- Focus on beneficial ownership rights
  - LACERA now controls 90% voting authority on global equity accounts
  - LACERA lacks voting rights for activist accounts
- A consistent approach to applying LACERA *Corporate Governance and Stewardship Principles* across the total Fund
  - Activist engagement agendas may be less oriented towards long-term value creation and incongruent with LACERA's Principles
  - Activists may vote differently from LACERA

### Role of Proxy Voting

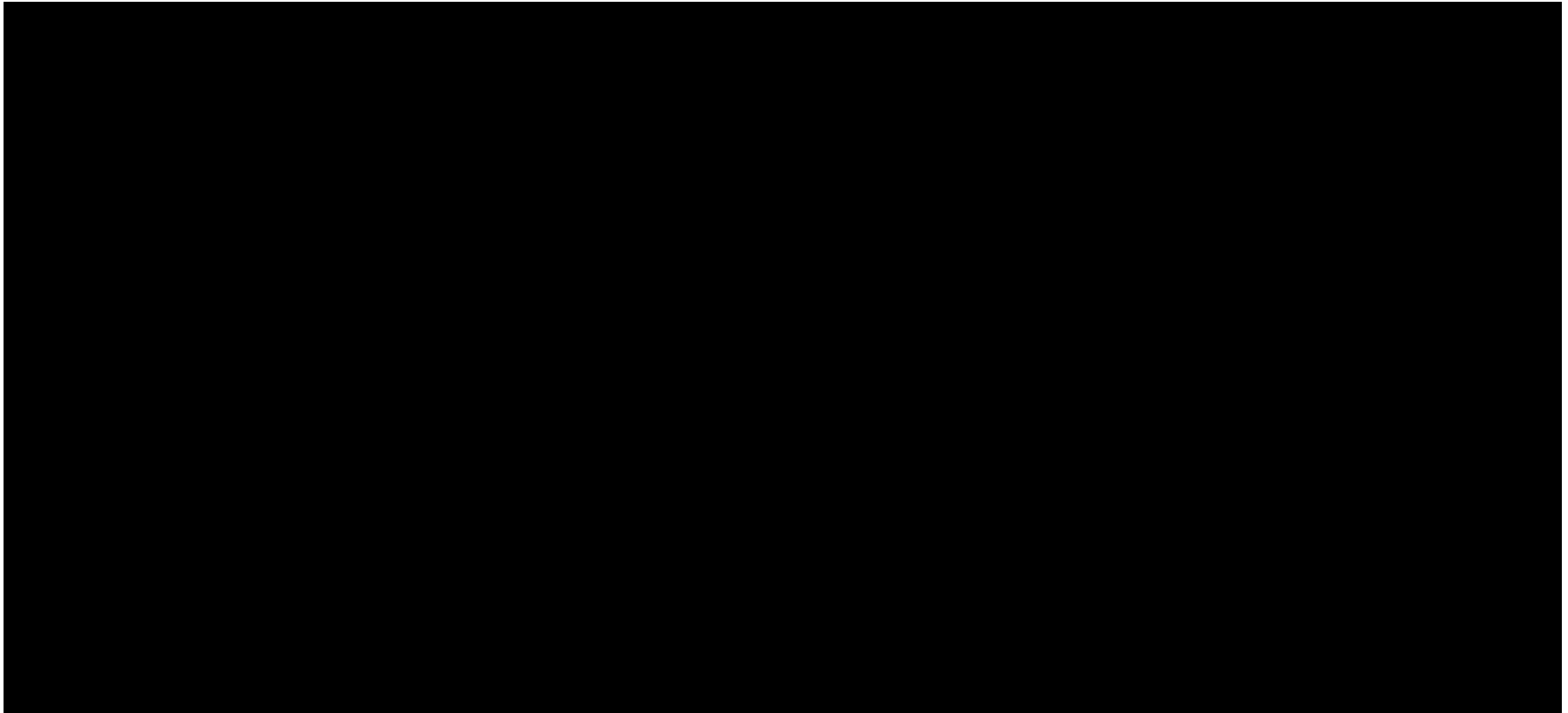


# “Activism” Evolution and Heterogeneity

---

**Activism strategies are not monolithic; Funds may pursue a range of strategies to “unlock” value during their limited ownership periods in securities**

- Some activist strategies utilize financial engineering at portfolio companies to deliver short-term returns
- Other strategies may encourage operational changes to increase efficiencies and generate value
- Some strategies may be inconsistent to LACERA’s longer-term economic exposures to the same portfolio companies



# Portfolio Fit – Performance, Risk, and Volatility

## Performance Summary of Activist Managers as of December 2021<sup>2</sup>

Manager	Return	Excess Return	Standard Deviation	Tracking Error	Sharpe Ratio	Up Capture	Down Capture
JANA (Net) <sup>1</sup>	20.4	2.0	24.9	21.2	0.77	86.0	70.0
Benchmark: S&P 500	18.4		15.0		1.19	100.0	100.0
Cevian Capital (Net) <sup>1</sup>	10.0	0.5	16.5	8.9	0.55	81.1	83.3
Benchmark: MSCI Europe	9.5		16.3		0.61	100.00	100.00
Symphony (Net) <sup>1</sup>	17.4	11.8	22.3	18.8	0.72	136.1	80.0
Benchmark: MSCI Japan Small Cap	5.6		13.2		0.42	100.0	100.0

<sup>1</sup> Since inception date for JANA and Cevian is October 2016 and Symphony is November 2016.

<sup>2</sup> Refer to **Appendix 1 – Glossary of Terms**.

# Portfolio Fit – Performance, Risk, and Volatility (Continued)

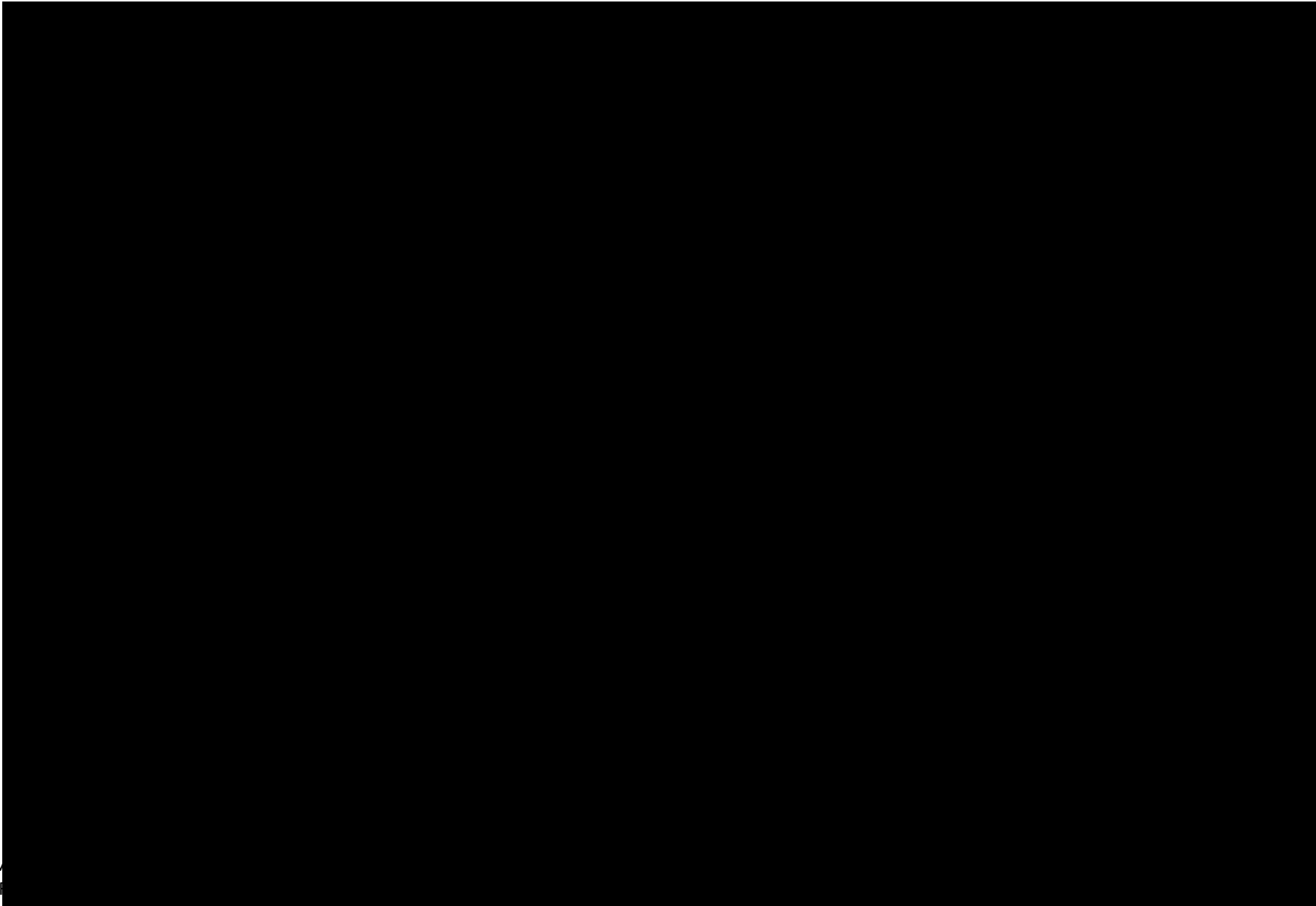
Manager	% of Global Equity
Global Equity	100.0%
Active Strategies	17.9%
Frontier Capital	1.2%
CornerCap EMP	0.3%
Systematic	0.8%
Acadian	2.5%
Capital Group	1.8%
BlackRock Euro Tilts	2.9%
Global Alpha	0.6%
Genesis	2.4%
Lazard	1.8%
JANA	0.5%
Cevian	1.5%
Symphony	1.0%

“---” = Less than 5 years of performance history.

<sup>1</sup>Refer to **Appendix 1 – Glossary of Terms**.

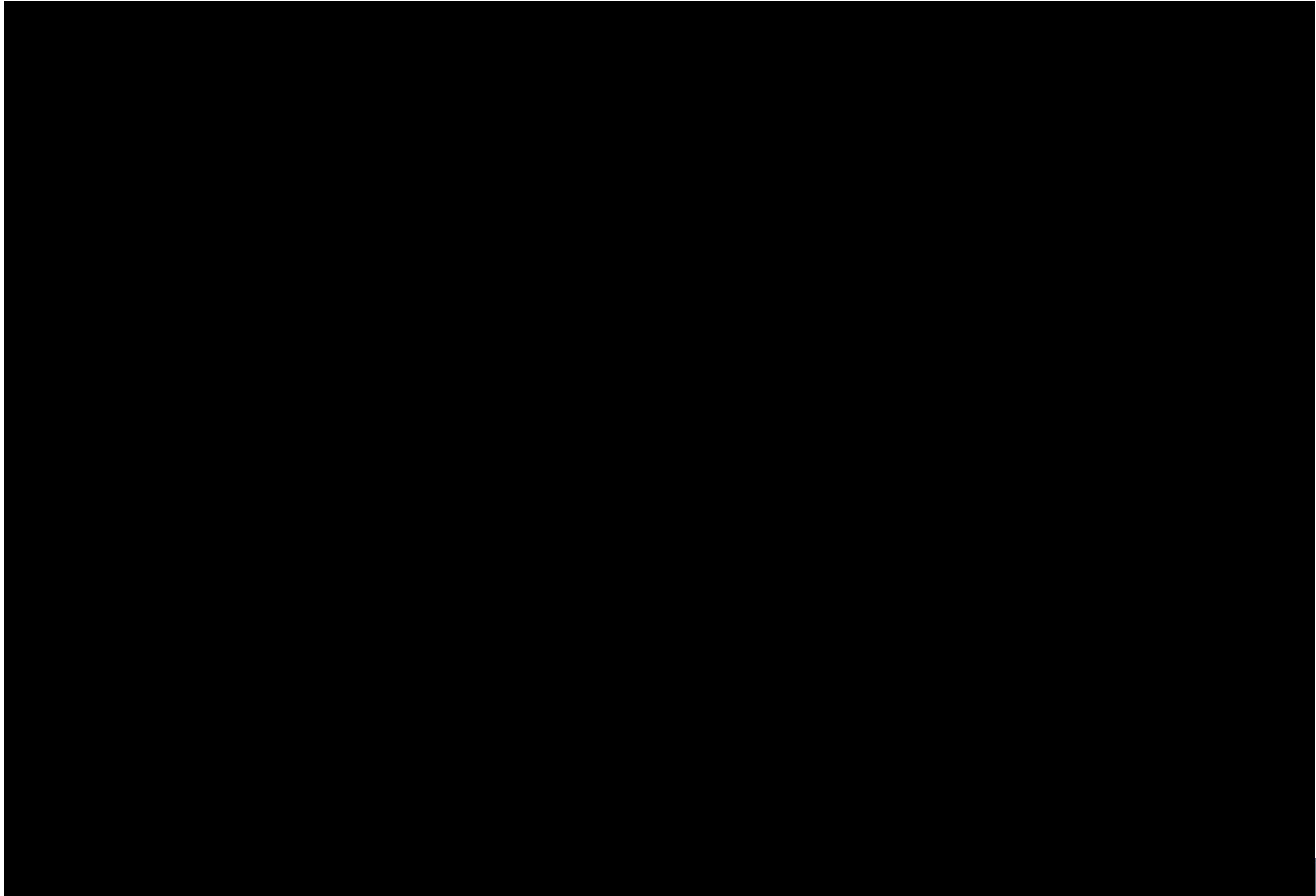


# Portfolio Fit – Performance, Risk, and Volatility (Continued)



# Summary and Recommendation

---



# Appendix



# Appendix 1 – Glossary of Terms

Term	Definition
<b>Active Risk</b>	The expected standard deviation of the differential return between the portfolio and the benchmark. Active total risk arises from active management, and it is the result of active weights (deviations from the benchmark at the asset level) and therefore active exposures; for passively managed portfolios, it is referred to as “total tracking error.”
<b>Active Risk Contribution</b>	Percent contribution to active total risk (or tracking error). The percent of active total risk that an individual asset or risk source contributes. For example, a % CR to Active Total Risk of 10% indicates that 10% of the portfolio’s active total risk is arising from the active position in that particular asset.
<b>Correlation</b>	Correlation measures how closely related the variances of two return series are.
<b>Downside Capture</b>	Measure of an investment’s performance during down markets, calculated as the strategy’s returns divided by the returns of the benchmark index during the down market. A lower down market capture ratio means an investment was less negatively impacted during market downturns.
<b>Information Ratio</b>	Measures excess return versus a benchmark divided by tracking error.
<b>Sharpe Ratio</b>	Measures risk-adjusted performance of an investment compared to a risk-free asset.
<b>Standard Deviation</b>	Volatility of monthly returns that measures the average deviation from the mean.
<b>Tracking Error</b>	Tracking error is the volatility of a manager’s excess return. It is measured by subtracting the benchmark return from the manager’s return and calculating the standard deviation.
<b>Upside Capture</b>	Measure of an investment’s performance during up markets, calculated as returns divided by the returns of the benchmark index during the up market. A high up capture ratio means an investment outperformed the index during up markets.



---

**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**