

# IN PERSON & VIRTUAL BOARD MEETING

\*The Committee meeting will be held prior to the Board of Investments meeting.



TO VIEW VIA WEB



TO PROVIDE PUBLIC COMMENT

Members of the public may address the Committee orally and in writing. To provide Public Comment, you should visit the above link and complete the request form by selecting whether you will provide oral or written comment from the options located under Options next to the Committee meeting.

**Attention:** If you have any questions, you may email [PublicComment@lacera.com](mailto:PublicComment@lacera.com). If you would like to make a public comment during the committee meeting, review the [Public Comment instructions](#).

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

## AGENDA

### A REGULAR MEETING OF THE CREDIT AND RISK MITIGATION COMMITTEE AND THE BOARD OF INVESTMENTS\*

LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION

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

8:00 A.M., WEDNESDAY, AUGUST 14, 2024

*This meeting will be conducted by the Credit and Risk Mitigation Committee and Board of Investments both in person and by teleconference under California Government Code Section 54953(b),(f).*

*Teleconference Locations for Trustees and the Public under California Government Code Section 54953(b).  
1388 Kapiolani Blvd, Honolulu, HI 96814*

*Any person may view the meeting in person at LACERA's offices or 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.*

#### COMMITTEE TRUSTEES:

Mike Gatto, Chair  
David Ryu, Vice Chair  
Trevor G. Fay, Trustee  
Jason Green, Trustee  
Patrick Jones, Alternate Trustee

- I. CALL TO ORDER
- II. PROCEDURE FOR TELECONFERENCE MEETING ATTENDANCE UNDER AB 2449, California Government Code Section 54953(f)
  - A. Just Cause
  - B. Action on Emergency Circumstance Requests
  - C. Statement of Persons Present at AB 2449 Teleconference Locations

### III. APPROVAL OF MINUTES

- A. Approval of the Minutes of the Regular Credit and Risk Mitigation Committee Meeting of April 10, 2024

### IV. PUBLIC COMMENT

(Members of the public may address the Board orally and in writing. To provide Public Comment, you should visit <https://LACERA.com/leadership/board-meetings> and complete the request form by selecting whether you will provide oral or written comment from the options located under Options next to the Board meeting.

If you select oral comment, we will contact you via email with information and instructions as to how to access the meeting as a speaker. You will have up to 3 minutes to address the Board. Oral comment request will be accepted up to the close of the Public Comment item on the agenda.

If you select written comment, please input your written public comment or documentation on the above link as soon as possible and up to the close of the meeting. Written comment will be made part of the official record of the meeting. If you would like to remain anonymous at the meeting without stating your name, please leave the name field blank in the request form. If you have any questions, you may email [PublicComment@lacera.com](mailto:PublicComment@lacera.com).)

### V. REPORT

#### A. **Credit Performance Review**

Vache Mahseredjian, Principal Investment Officer  
Chad Timko, Senior Investment Officer  
Krista Powell, Investment Officer  
Quoc Nguyen, Investment Officer  
Jason Choi, Senior Investment Analyst  
Josiah Bezet, Senior Investment Analyst  
(Presentation) (Memo dated July 26, 2024)

### VI. ITEMS FOR STAFF REVIEW

(This item summarizes requests and suggestions by individual trustees during the meeting for consideration by staff. These requests and suggestions do not constitute approval or formal action by the Board, which can only be made separately by motion on an agenda item at a future meeting.)

### VII. ITEMS FOR FUTURE AGENDAS

(This item provides an opportunity for trustees to identify items to be included on a future agenda as permitted under the Board's Regulations.)

August 14, 2024

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

IX. 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 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 CREDIT AND RISK  
MITIGATION COMMITTEE AND THE BOARD OF INVESTMENTS  
LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION  
300 N. LAKE AVENUE, SUITE 810, PASADENA, CALIFORNIA 91101

8:00 A.M., WEDNESDAY, April 10, 2024

This meeting was conducted by the Credit and Risk Mitigation Committee and Board of Investments both in person and by teleconference under California Government Code Section 54953 (f).

COMMITTEE TRUSTEES:

PRESENT: David Ryu, Chair (Joined the meeting at 8:05 a.m.)  
Mike Gatto, Vice Chair (Joined the meeting at 8:01 a.m.)  
Trevor G. Fay (Joined the meeting at 8:23 a.m.)  
Patrick Jones, Alternate

ABSENT: Jason Green

OTHER BOARD OF INVESTMENT TRUSTEES:

Elizabeth Ginsberg

Nicole Mi

STAFF, ADVISORS, PARTICIPANTS:

Jonathan Grabel, Chief Investment Officer

Jude Perez, Deputy Chief Investment Officer

Santos Kreimann, Chief Executive Officer

STAFF, ADVISORS, PARTICIPANTS (Continued):

Steven Rice, Chief Legal Counsel

Vache Mahseredjian, Principal Investment Officer

Chad Timko, Senior Investment Officer

Krista Powell, Investment Officer

Quoc Nguyen, Investment Officer

Jason Choi, Senior Investment Analyst

Josiah Bezet, Senior Investment Analyst

Meketa

Timothy Filla, Managing Principal

I. CALL TO ORDER

The meeting was called to order by Board of Investments Chair Jones at 8:00 a.m. in the Board Room of Gateway Plaza.

II. PROCEDURE FOR TELECONFERENCE MEETING ATTENDANCE UNDER AB 2449, California Government Code Section 54953(f) (Trustee Gatto joined the meeting at 8:01 a.m.)

A. Just Cause

B. Action on Emergency Circumstance Requests

C. Statement of Persons Present at AB 2449 Teleconference Locations

There were no requests for Just Cause or Emergency Circumstance.

III. APPROVAL OF MINUTES (This item was held after Item V.)

A. Approval of the Minutes of the Special Credit and Risk Mitigation Committee Meeting of August 9, 2023

III. APPROVAL OF MINUTES (continued)

A motion was made by Trustee Jones, seconded by Trustee Gatto, to approve the Minutes of the Credit and Risk Mitigation Committee meeting of August 9, 2023. The motion passed by the following roll call vote:

Yes: Ryu, Fay, Gatto, Jones

Absent: Green

IV. PUBLIC COMMENT

There were no requests from the public to speak.

V. REPORT (Trustee Ryu joined the meeting at 8:05 a.m. and Trustee Fay joined the meeting at 8:23 a.m.)

A. **Risk Reduction and Mitigation Performance Review**

Vache Mahseredjian, Principal Investment Officer

Chad Timko, Senior Investment Officer

Krista Powell, Investment Officer

Quoc Nguyen, Investment Officer

Jason Choi, Senior Investment Analyst

Josiah Bezet, Senior Investment Analyst

(Presentation) (Memo dated March 29, 2024)

Messrs. Mahseredjian and Timko provided a presentation and answered questions from the Committee and the Board. This item was received and filed.

VI. ITEMS FOR STAFF REVIEW

There were no items for staff review.

VII. ITEMS FOR FUTURE AGENDAS

There was nothing to report.

April 10, 2024

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

There was nothing to report.

IX. ADJOURNMENT

There being no further business to come before the Committee, the meeting was adjourned at approximately 8:30 a.m.



July 26, 2024

TO: Trustees - Credit and Risk Mitigation Committee

FROM: Vache Mahseredjian, CFA, CAIA, FRM, ASA Chad Timko, CFA, CAIA <sup>CT</sup>  
Principal Investment Officer <sup>VM</sup> Senior Investment Officer

Krista Powell <sup>KPP</sup>  
Investment Officer

Quoc Nguyen, CFA <sup>QN</sup>  
Investment Officer

Jason Choi, CFA <sup>JC</sup>  
Senior Investment Analyst

Josiah Bezet, CFA <sup>JB</sup>  
Senior Investment Analyst

FOR: August 14, 2024 Credit and Risk Mitigation Committee Meeting

SUBJECT: **Credit Performance Review**

This Performance Review (**Attachment 1**) addresses the role, objectives, implementation framework, and performance of the Credit functional asset category. The report discusses the entire category followed by sections covering its two sub-categories: Liquid Credit and Illiquid Credit.

As a reminder, the Strategic Asset Allocation selected by the BOI in April increased the Credit allocation from 11% to 13%. In addition, as part of the policy benchmarks review conducted in May, the BOI approved a consolidation of Liquid and Illiquid Credit. The new consolidated framework for Credit took effect July 1, 2024, while the attached performance review considers data as of June 30, 2024.

Attachment

Noted and Reviewed:



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Jonathan Grabel  
Chief Investment Officer

## Credit

## Performance

as of 6/30/2024

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Credit and Risk Mitigation Committee Meeting

August 14, 2024

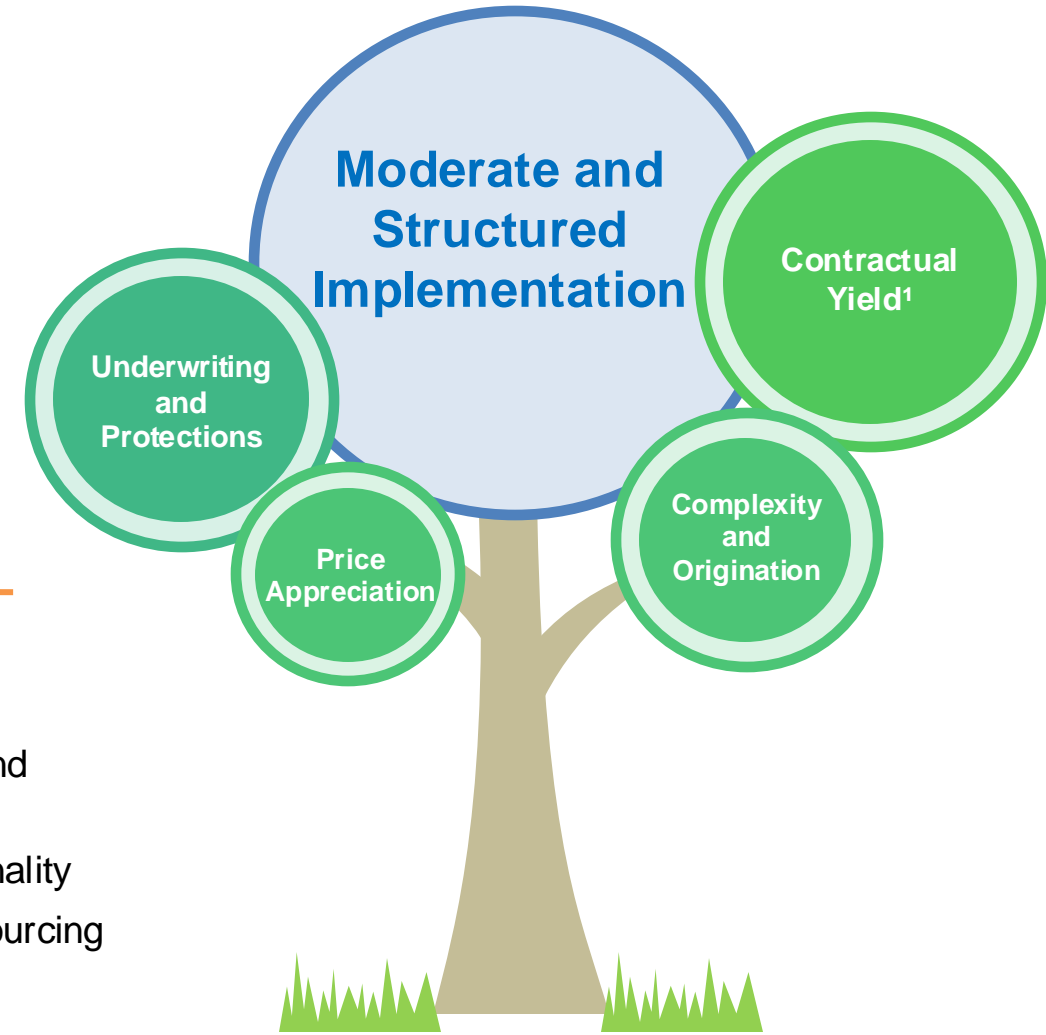
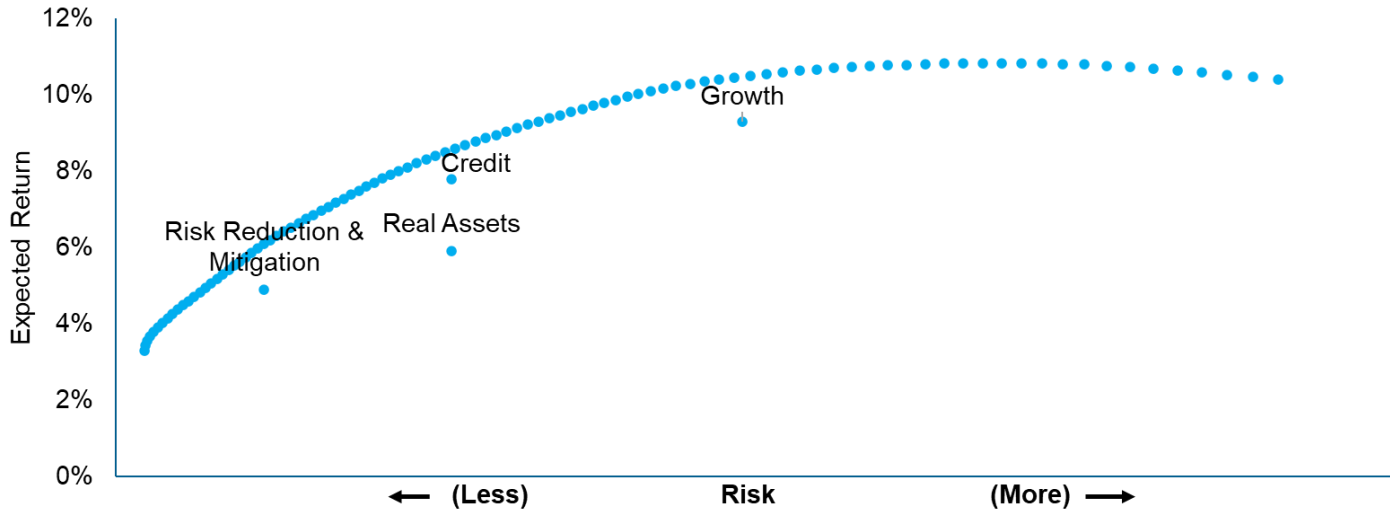
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# Credit – Portfolio Role and Objectives



## Credit Role:

The Credit portfolio aims for balanced outcomes over medium to longer term periods, seeking moderate levels of:

- Current Income
- Long-term total returns
- Risk
- Liquidity

## Credit Objectives:

- Collect contractual yield\*
- Emphasize fundamental underwriting and creditor protections
- Profit from complexity and upside optionality
- Be compensated for selective private sourcing or direct origination
- Limited price appreciation expectations

LACERA's Credit Role and Objectives

\* Contractual yield represents interest payments that lenders collect from borrowers through fixed income securities, corporate loans, or other instruments. Interest rates related to contractual yield may be fixed until maturity or floating, adjusting periodically.

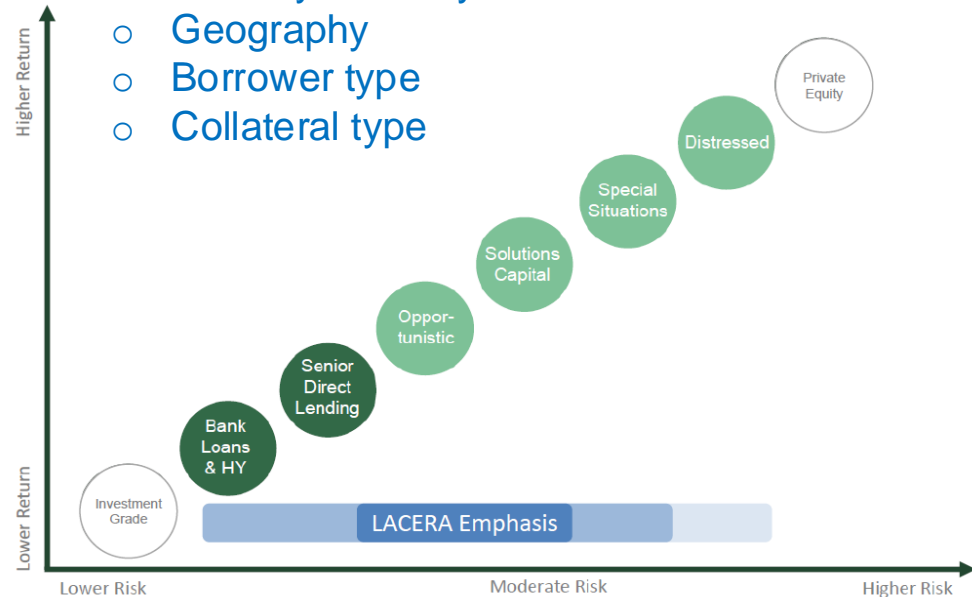
# Credit – Implementation Principles



## Moderate and Broad Implementation

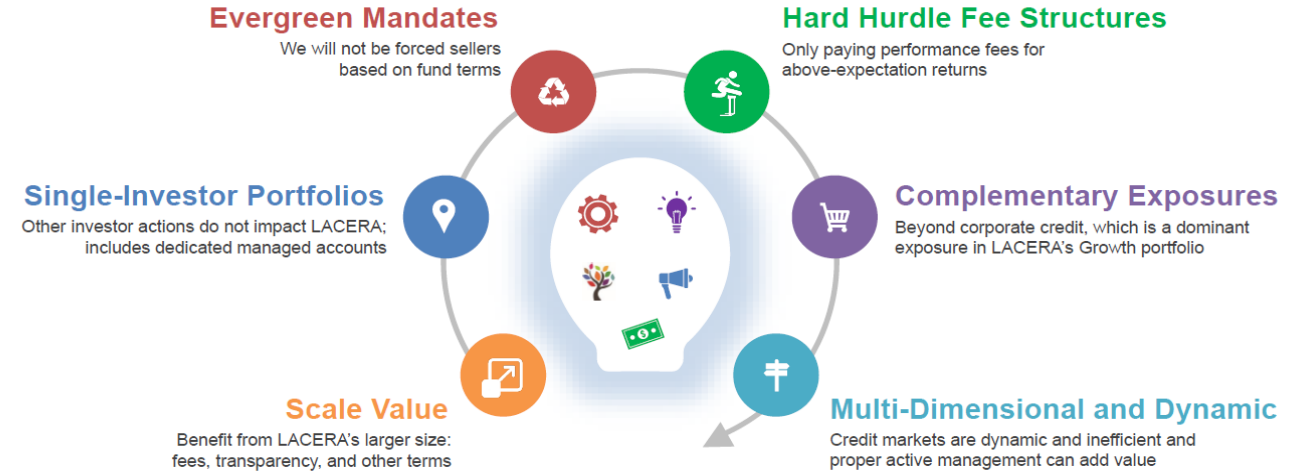
LACERA's credit portfolio implementation should:

- Exhibit **moderate risk** and **moderate return**
- **Emphasize yield-generating strategies**
- Have considerable **breadth** across types of credit assets and strategies
- **Opportunistically invest** across risk spectrums
  - Security seniority
  - Geography
  - Borrower type
  - Collateral type



HY is an abbreviation for High Yield bonds. Return and risk levels are imprecise and shown for illustration purposes. Categories of credit shown are examples and may not be comprehensive or adhere to other listings of credit categories.

## Implementation Attributes



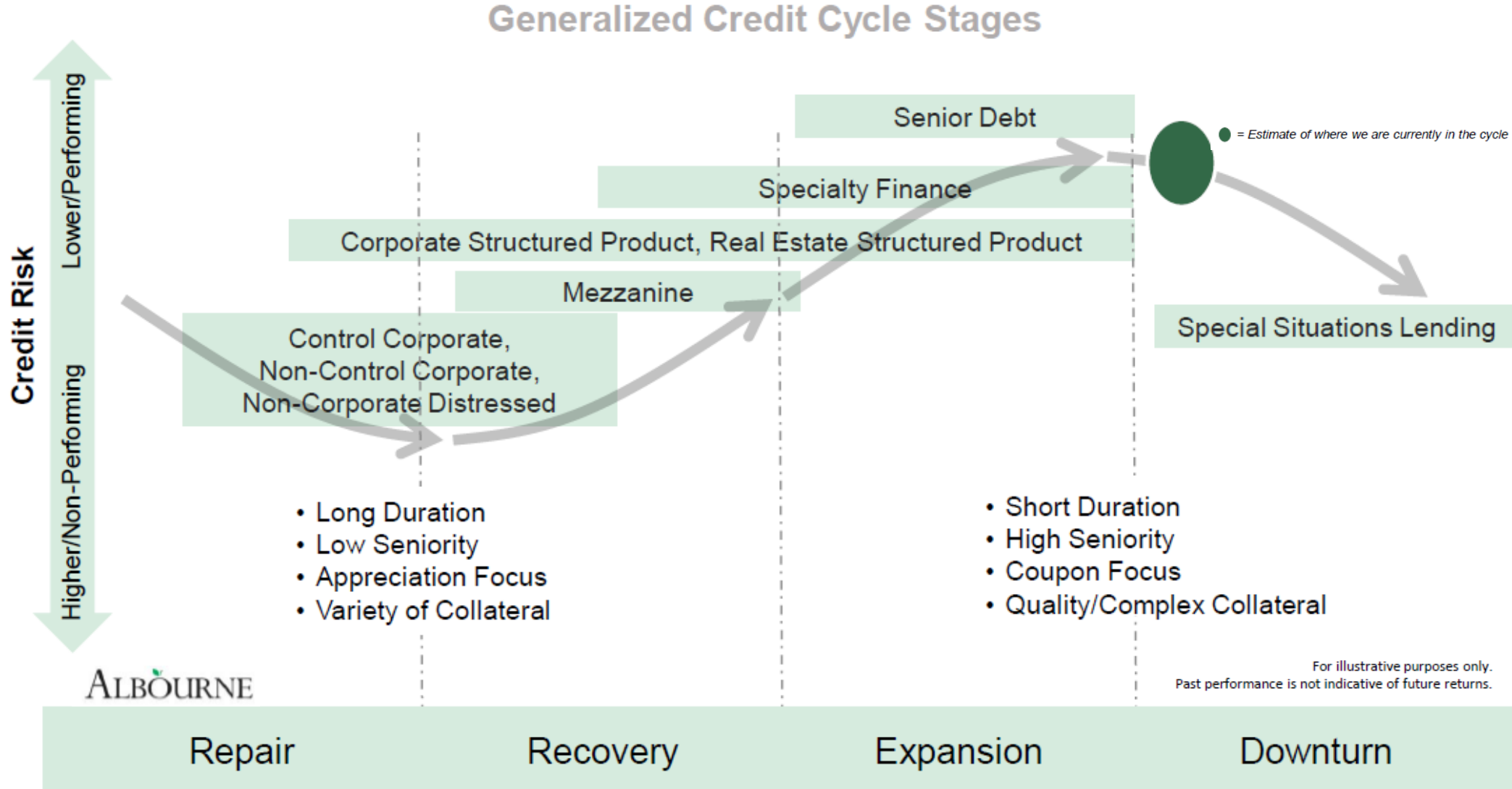
To execute a moderate and broad implementation, LACERA's credit portfolio construction focuses on:

- Identifying **complementary exposures**
- Sourcing **multi-dimensional** and **dynamic** strategies
- Structuring **evergreen mandates**

# Credit: Multi Dimensional and Dynamic



- Credit markets are dynamic
- Best relative value for new investments changes over time
- Different expertise may shine at different times
- Credit investors can benefit from flexible and adaptive implementations



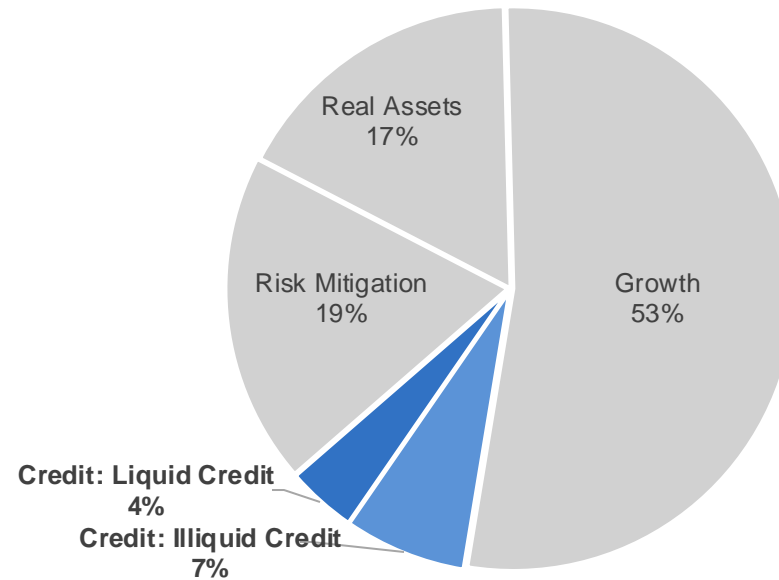
# Credit: Allocation Targets



- Prior to the Board's adoption of a new Strategic Asset Allocation (SAA) in 2024, the Credit portfolio was comprised of two subcategories:
  - Liquid credit target 4%
  - Illiquid credit target 7%
- In the current SAA effective July 1, 2024, Credit was consolidated and the target allocation increased to 13% with a range of 9-17%
  - The characteristics of public or "liquid" credit and illiquid credit markets have been converging given shifting market dynamics
  - Having liquid and illiquid credit investments within a single credit mandate can provide flexibility and the ability to achieve higher risk adjusted returns

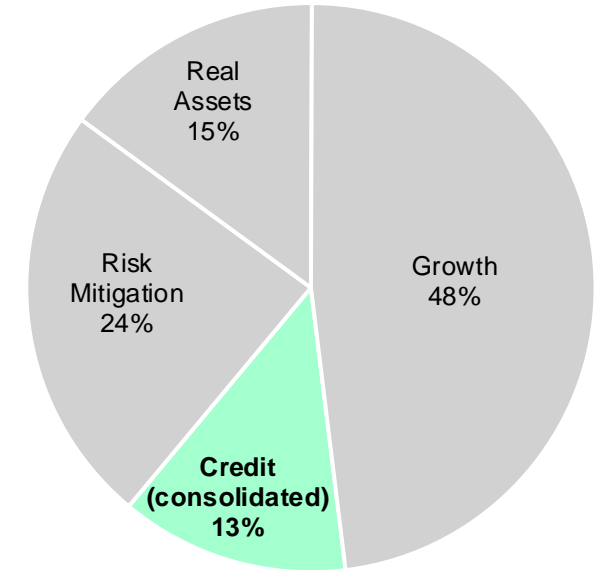
## Previous Target Allocations

*Effective through June 30, 2024*



## Current Target Allocations

*Effective as of July 1, 2024*



Benchmark	Target Allocation
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	Liquid Credit	Illiquid Credit	Liquid Credit	Illiquid Credit
<b>Previous</b>	40% Bloomberg U.S. Corporate High Yield; 40% Credit Suisse Leveraged Loans; 10% JP Morgan EMBI GD; 5% JP Morgan GBI-EM GD; 5% JP Morgan CEMBI BD	Custom Liquid Credit Benchmark + 150 bps (1-Month lagged)	7% +/- 3%	4% +/- 3%

	Credit (consolidated)	Credit (consolidated)
<b>Current</b>	70% Credit Suisse Leveraged Loans; 30% Bloomberg U.S. Corporate High Yield + 100 bps (1-month lagged)	13% +/- 4%



# Credit

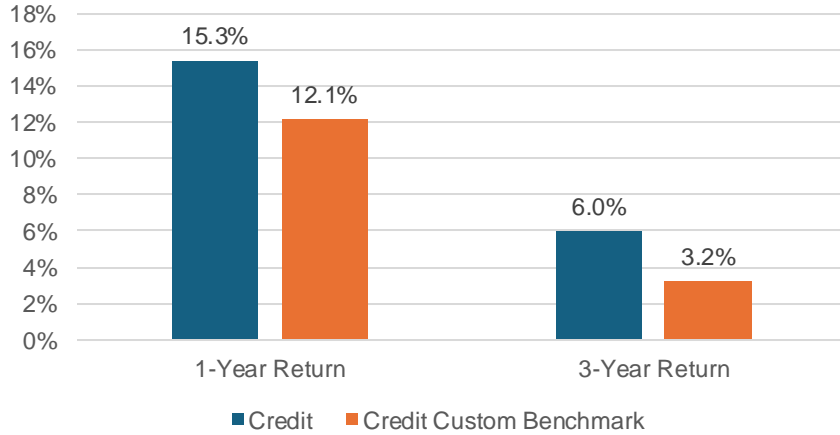
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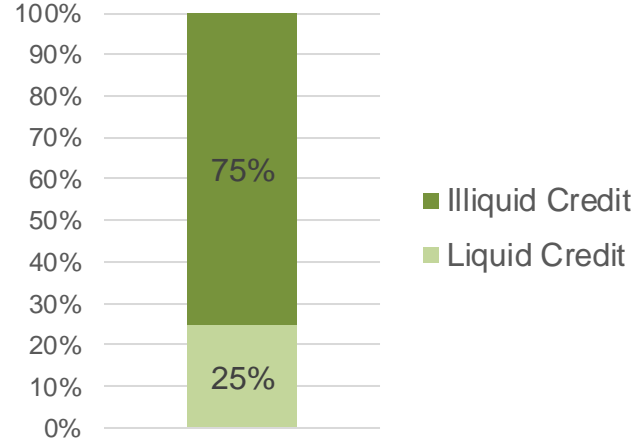
# Credit: Performance



### Credit Composite

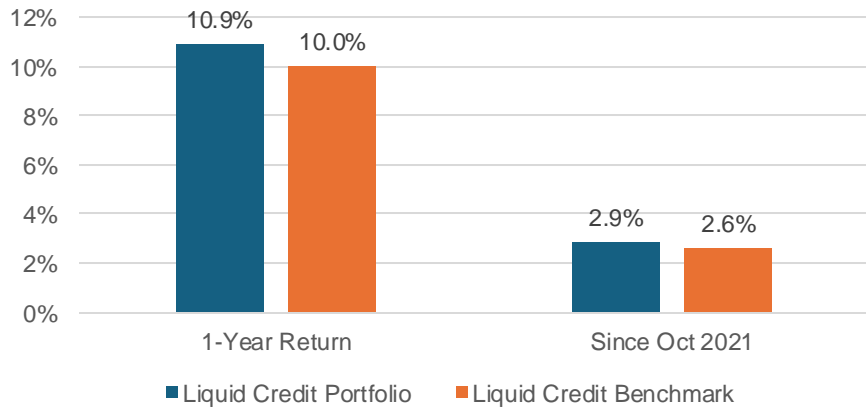


### Credit Composite Breakdown

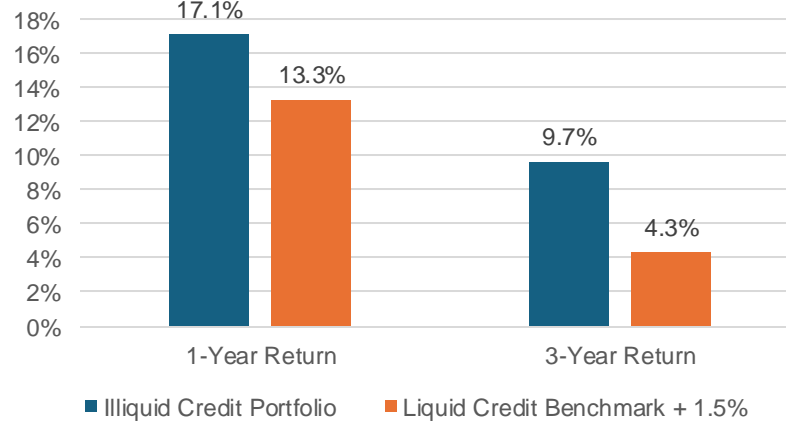


- The credit composite outperformed its benchmark over the past 1- and 3-year periods
- Composite outperformance was driven primarily by illiquid credit results
- The illiquid credit portfolio has grown in recent years and is now larger than the liquid credit sub-category

### Liquid Credit



### Illiquid Credit



- The liquid credit portfolio has slightly outperformed its benchmark over the 1-year and since inception periods
- The illiquid credit portfolio outperformed its 1- and 3-year benchmark returns by 3.8% and 5.4% annualized, respectively

Data is from State Street as of June 30, 2024 and is net of fees. Illiquid Credit returns and its benchmark returns are reported on a 1-month lag. Returns beyond 1-year are annualized.



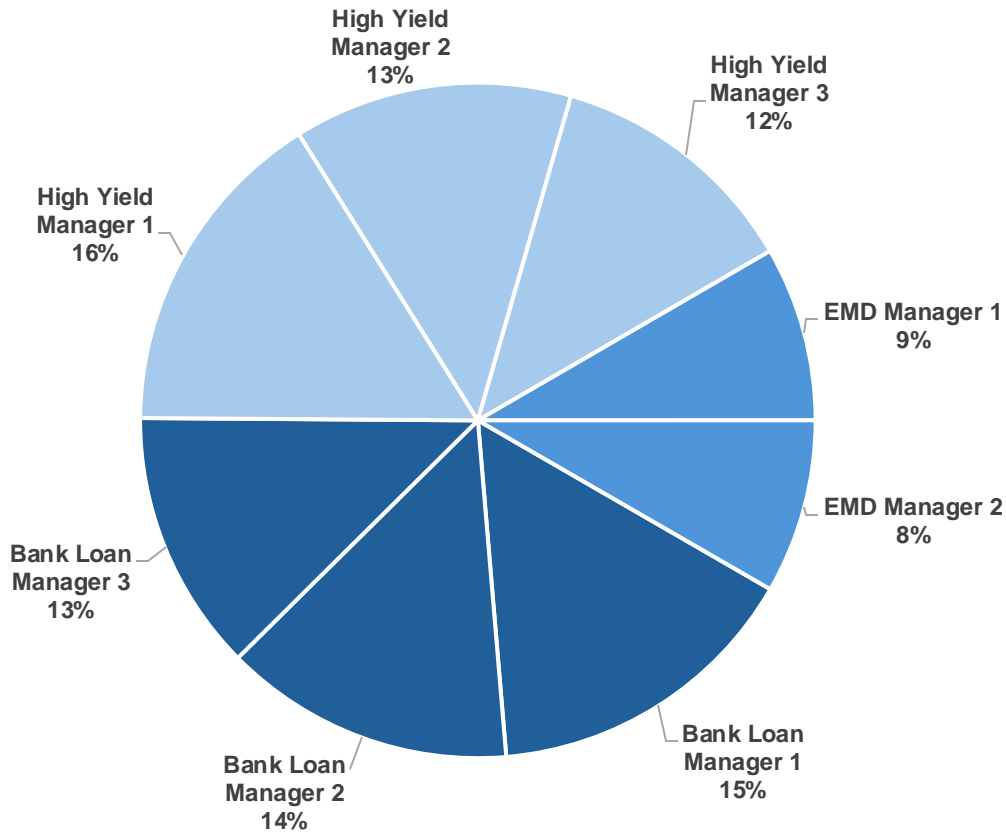
# Liquid Credit

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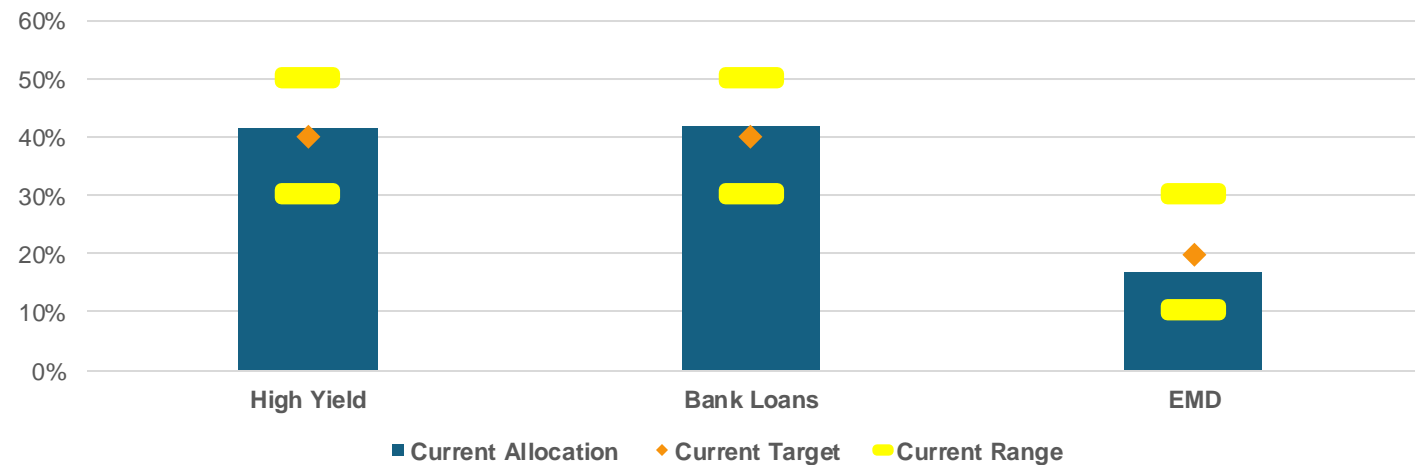
# Liquid Credit: Portfolio Structure



## Portfolio as of 6/30/24



Portfolio Guidelines (Target Allocation 4% +/- 3% of Total Fund)			
<b>Benchmark</b>	40% Bloomberg Barclays U.S. Corporate High Yield	40% Credit Suisse Leveraged Loans	10% JP Morgan EMBI GD; 5% JP Morgan GBI-EM GD; 5% JP Morgan CEMBI BD
<b>Target Allocation Range</b>	<b>High Yield</b> 40% Target +/- 10%	<b>Bank Loans</b> 40% Target +/- 10%	<b>Emerging Market Debt</b> 20% Target +/- 10%
<b>Sectors</b>	Benchmark weight +/- 10%		
<b>Geography</b>	Maximum of 40% non-US exposure		
<b>Currency</b>	Maximum of 7.5% non-U.S. dollar exposure		
<b>Risk Target</b>	Target tracking error of 2% over 5 years		
<b>Credit Quality</b>	Benchmark weight +/- 10%		

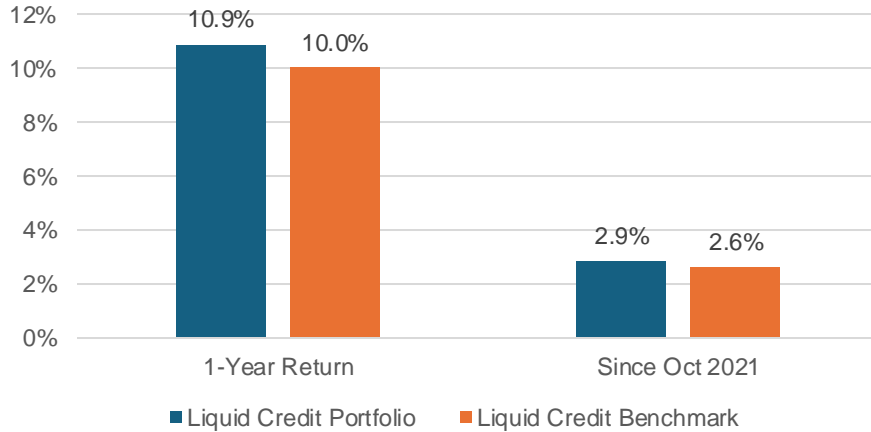


- The current portfolio complies with the Liquid Credit program guidelines

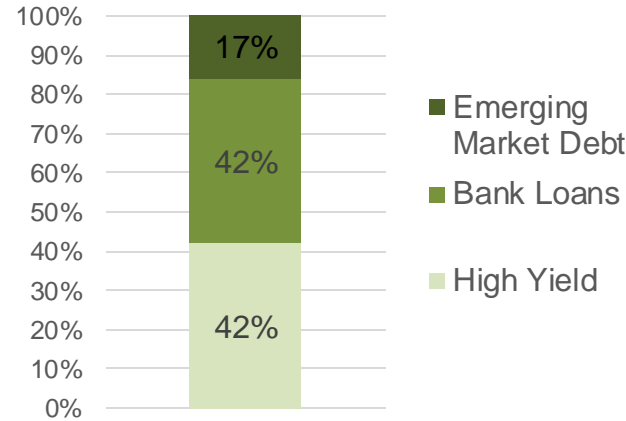
# Liquid Credit: Performance



### Liquid Credit

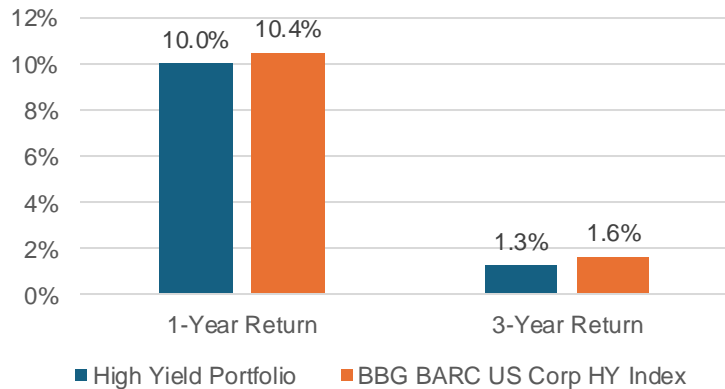


### Liquid Credit Composite Breakdown

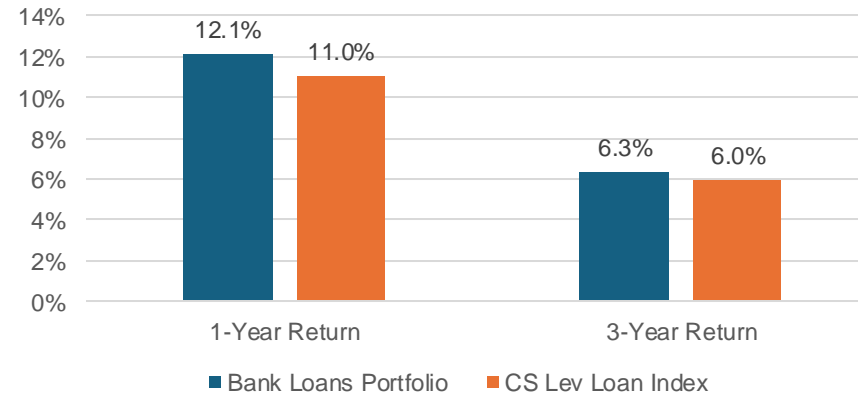


- The high yield portfolio has underperformed its benchmark over the trailing 1 and 3-year periods with positive returns
- The bank loan portfolio has outperformed its benchmark over the trailing 1 and 3-year periods with positive returns
- Emerging Market Debt has positive performance relative to the benchmark in the recent trailing 1-year period but has underperformed over longer term periods

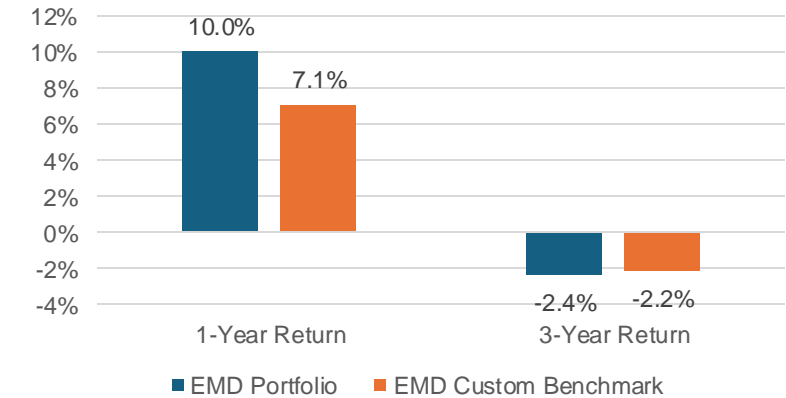
### High Yield



### Bank Loans



### Emerging Market Debt



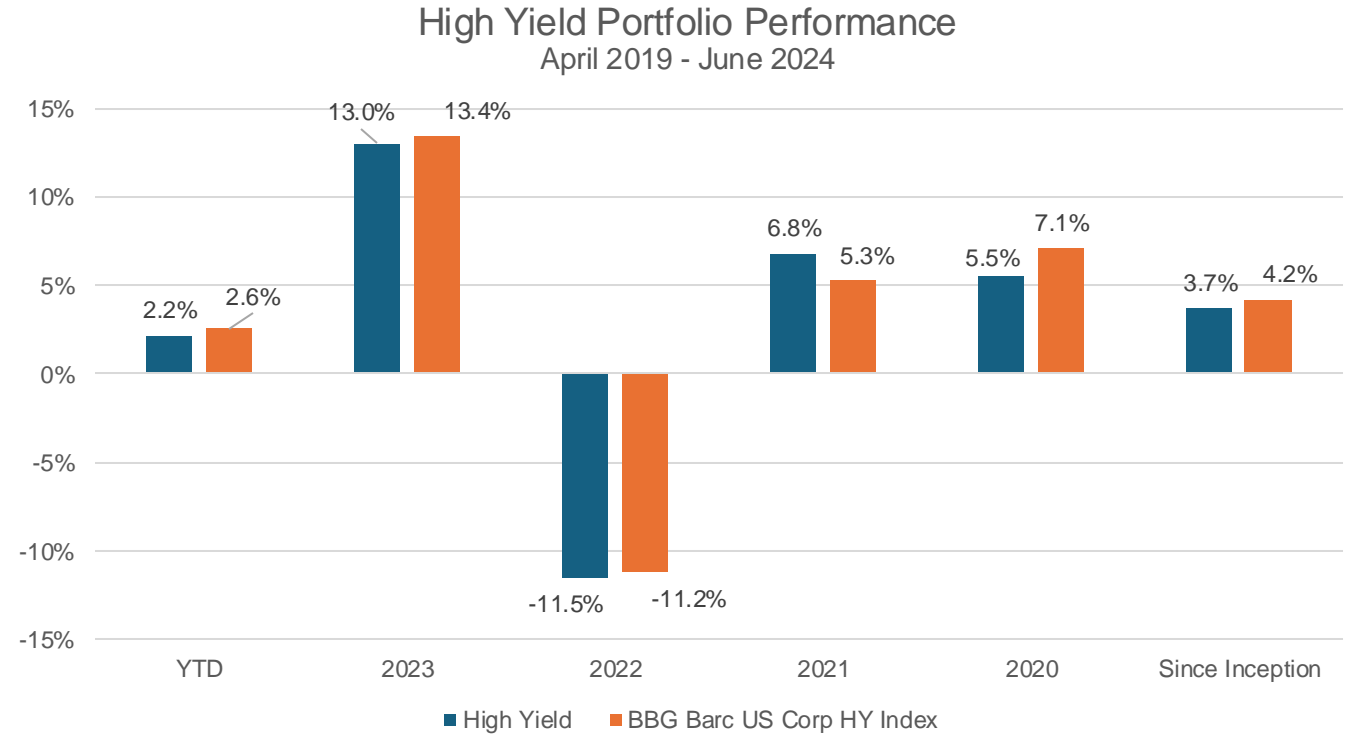
Data is from State Street as of June 30, 2024 and is net of fees. Returns beyond 1-year are annualized.

# Liquid Credit – High Yield: Performance & Risk



Effective Duration (years)	Yield to Worst (%)
2.9	9.3

- The high yield portfolio is actively managed and provides exposure to fixed rate corporate bonds with below investment grade credit ratings
- The portfolio has broadly demonstrated performance and risk in line with the benchmark, with annualized underperformance of 0.5% since inception



Portfolio Metrics Since Inception (April 2019 - June 2024)	Annualized Return (%)	Standard Deviation (%)	Tracking Error (%)	Beta	Maximum Drawdown (%)	Sharpe Ratio
High Yield Portfolio	3.7	9.2	1.39	1.0	-14.4	0.2
BBG Barc US Corp High Yield Index	4.2	9.1	N/A	N/A	-14.7	0.2

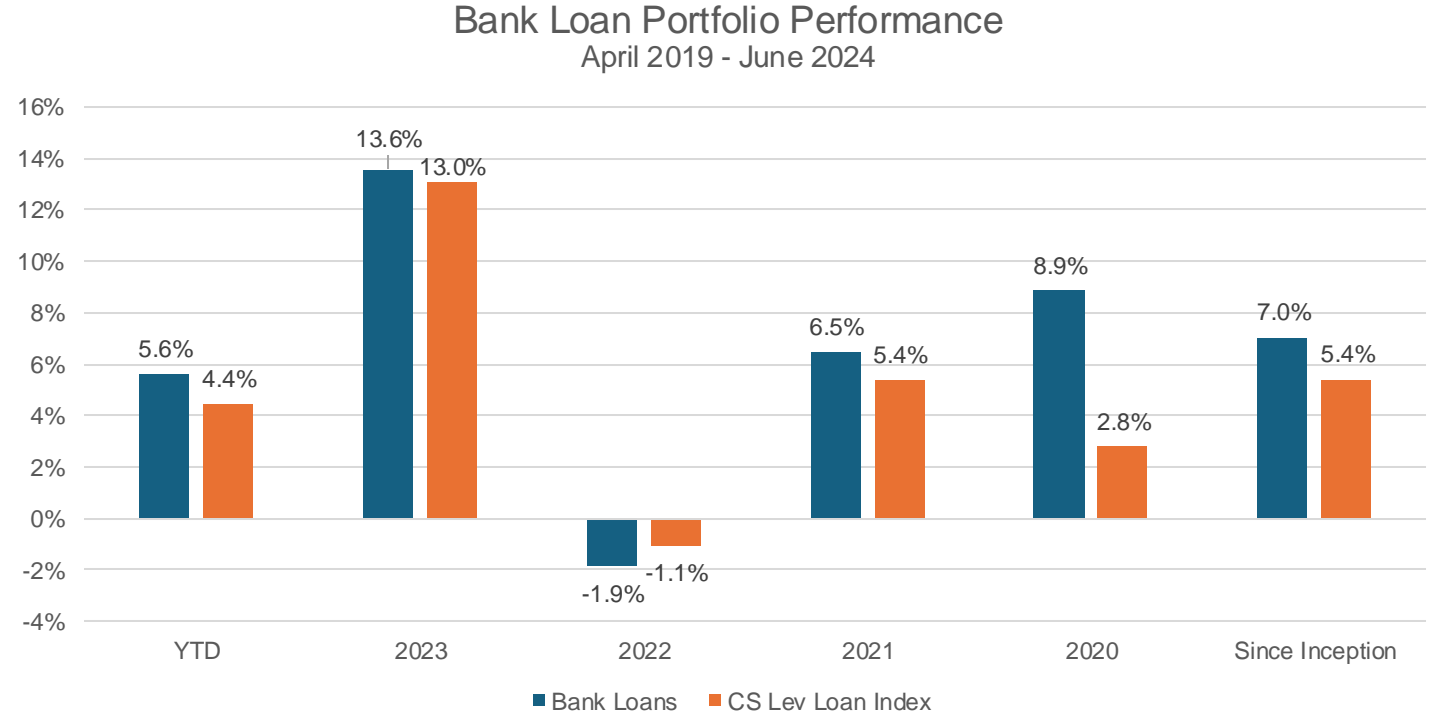
LACERA High Yield Composite and benchmark returns data are from State Street and are net of fees. All other index returns data is from Zephyr and/or the index itself. Return metrics calculations are from Zephyr. Duration and yield metrics are from MSCI Barra One as of May 31, 2024. HY is an abbreviation for High Yield bonds.

# Liquid Credit – Bank Loan: Performance & Risk



Effective Duration (years)	Yield to Worst (%)
0.7	8.0

- The bank loan portfolio is actively managed and provides exposure to floating rate loans in below investment grade corporate credit
- 2020 outperformance is impacted by the funding of a new mandate that occurred after the Q1 2020 market drawdown
- Beyond 2020, the bank loan portfolio appropriately tracks the benchmark with 1.6% of annualized outperformance since inception



Portfolio Metrics Since Inception (April 2019 - June 2024)	Annualized Return (%)	Standard Deviation (%)	Tracking Error (%)	Beta	Maximum Drawdown (%)	Sharpe Ratio
Bank Loan Portfolio	7.1	4.0	4.2	0.5	-5.1	1.2
Credit Suisse Leveraged Loan Index	5.4	7.0	N/A	N/A	-13.7	0.5

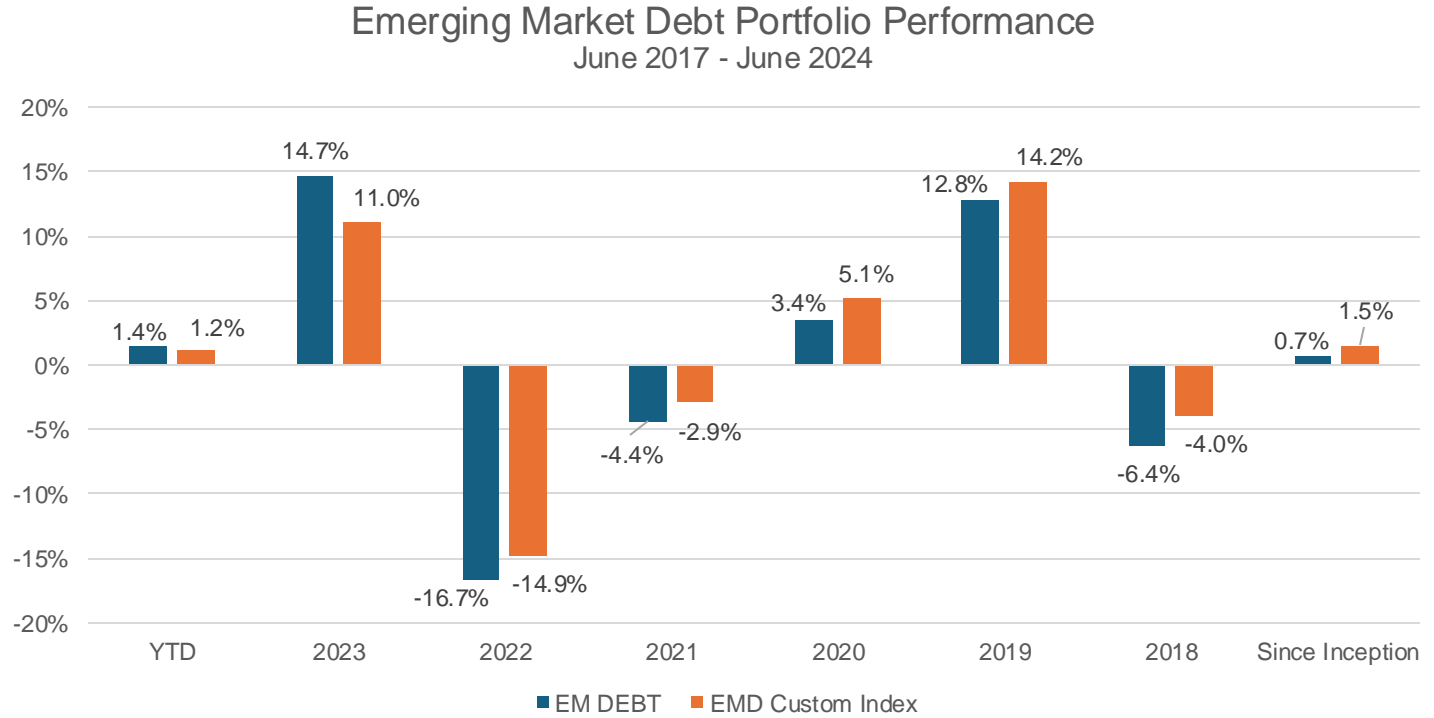
LACERA Bank Loan Composite and benchmark returns data are from State Street and are net of fees. All other index returns data is from Zephyr and/or the index itself. Return metrics calculations are from Zephyr. Duration and yield metrics are from MSCI Barra One as of May 31, 2024. BL is an abbreviation for Bank Loans.

# Liquid Credit – EMD: Performance & Risk



Effective Duration (years)	Yield to Worst (%)
5.1	8.8

- The emerging market debt portfolio provides fixed income exposure to developing countries
- 0.8% annualized underperformance since inception of June 2017
- Risk and return profiles of the EMD portfolio and benchmark, as implemented, are not consistent with the moderate risk and return objectives of Credit



Portfolio Metrics Since Inception (June 2017 - June 2024)	Annualized Return (%)	Standard Deviation (%)	Tracking Error (%)	Beta	Maximum Drawdown (%)	Sharpe Ratio
Emerging Market Debt Portfolio	0.7	11.5	3.1	1.2	-27.6	-0.1
EMD Custom Benchmark	1.5	9.2	N/A	N/A	-23.6	-0.1

LACERA Emerging Market Composite and Benchmark returns data are from State Street and are net of fees. All other index returns data is from Zephyr and/or the index itself. Return metrics calculations are from Zephyr. Duration and yield metrics are from MSCI Barra One as of May 31, 2024. EMD is an abbreviation for Emerging Market Debt.



# Illiquid Credit

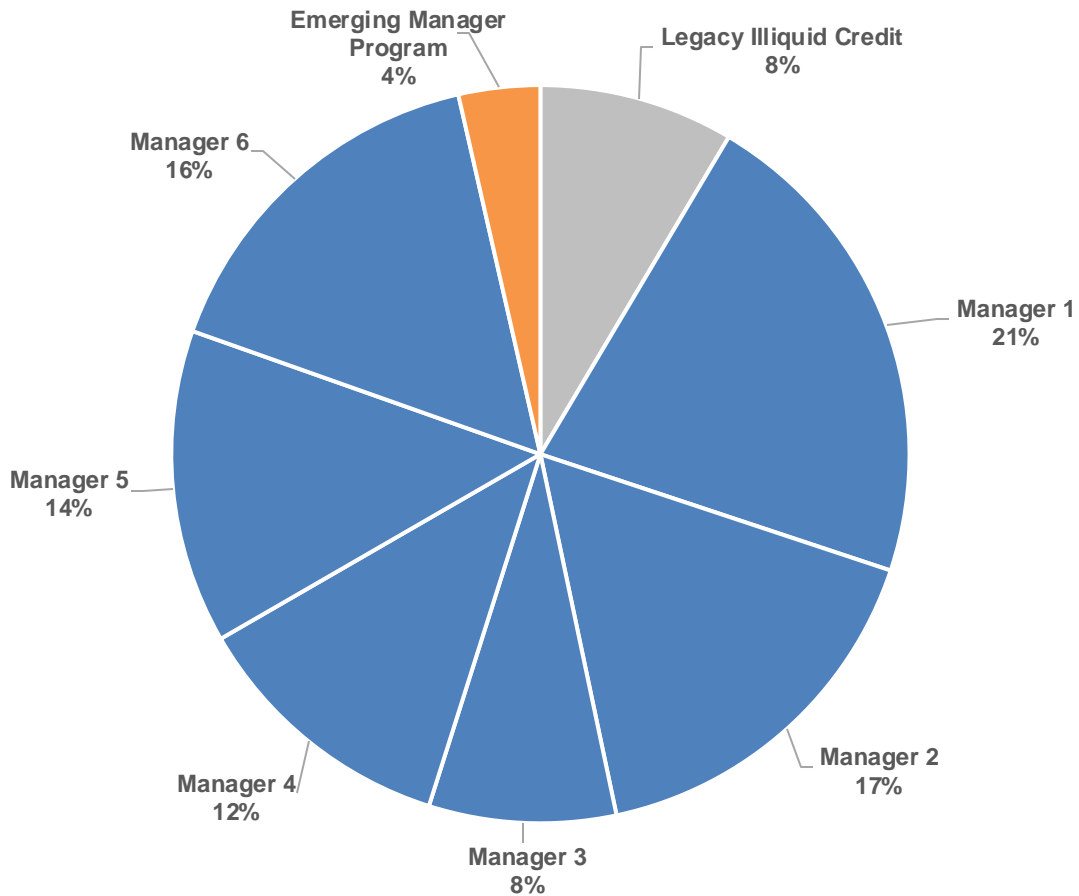
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# Illiquid Credit: Portfolio Structure



## Portfolio as of 6/30/24



- The current portfolio complies with the Illiquid Credit program guidelines

Portfolio Guidelines	
<b>Benchmark</b>	Custom Liquid Credit Benchmark + 150 bps (1-Month lagged)
<b>Target Allocation Range</b>	7% Target (+/- 3%)
<b>Performance Objective / Target Return</b>	Greater than liquid credit markets; more than compensating for incremental risk
<b>Geography</b>	Minimum of 50% invested in the US market; Maximum of 15% invested in non-developed markets
<b>Currency</b>	Minimum of 90% invested in assets that are denominated in or hedged to the U.S. dollar
<b>Manager Diversification</b>	~ 10 direct portfolio and ~ 10 emerging manager portfolio

### Initiatives Underway

- Continue utilizing the Board-approved Dedicated Management Account (“DMA”) platform. Recent new mandates were structured in a DMA designed to increase transparency, benefit expense management, prevent forced selling, and enhance oversight
- Recent new mandates have been implemented with LACERA's hard hurdle fee structure to better align interests and not pay performance fees for average outcomes
- Continue building out the pipeline of prospective mandates that have complementary exposures to the portfolio and that align with LACERA's strategic initiatives

# Illiquid Credit: Portfolio Structure



The Illiquid Credit portfolio includes 6 mandates across different strategies with a broad range of underlying asset exposures, including privately originated loans, solutions capital, real estate debt and opportunistically including tradeable securities. The portfolio is designed to be flexible across credit cycles with the primary risk exposure being credit risk while mitigating interest rate risk.

Manager	Strategy	Borrower / Collateral Type	Geography
Manager 1	Solutions Capital, Regulatory Capital, Structured Credit	Corporate / Consumer / Commercial	North America / Europe
Manager 2	Special Situations, Structured Credit, Real Estate Debt	Corporate / Consumer / Commercial	US / Europe
Manager 3	Middle Market Direct Lending	Corporate	US
Manager 4	Solutions Capital, Structured Credit	Commercial / Consumer / Corporate	US / Europe
Manager 5	Asset Based Lending, Real Estate Debt, Corporate Lending	Commercial / Consumer / Corporate / Real Estate / Real Assets	North America / Europe / Asia
Manager 6	ABS, CRE, Mortgage / Home Loans, Small Business Loans	Commercial / Consumer / Corporate / Real Estate	US / Europe

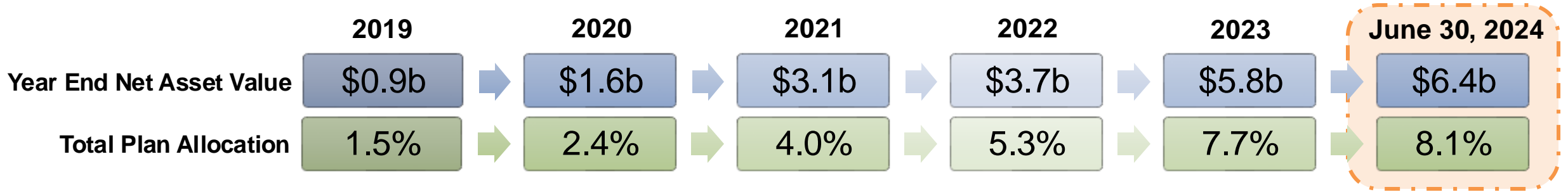
Implementation by mandate is meaningfully nuanced, leading to even more broad and diversified sub-strategies across the portfolio. This aligns with the multi-dimensional and dynamic framework objectives of the Credit portfolio.

*ABS stands for Asset Backed Securities. CRE stands for Commercial Real Estate. See Glossary for term definitions.*

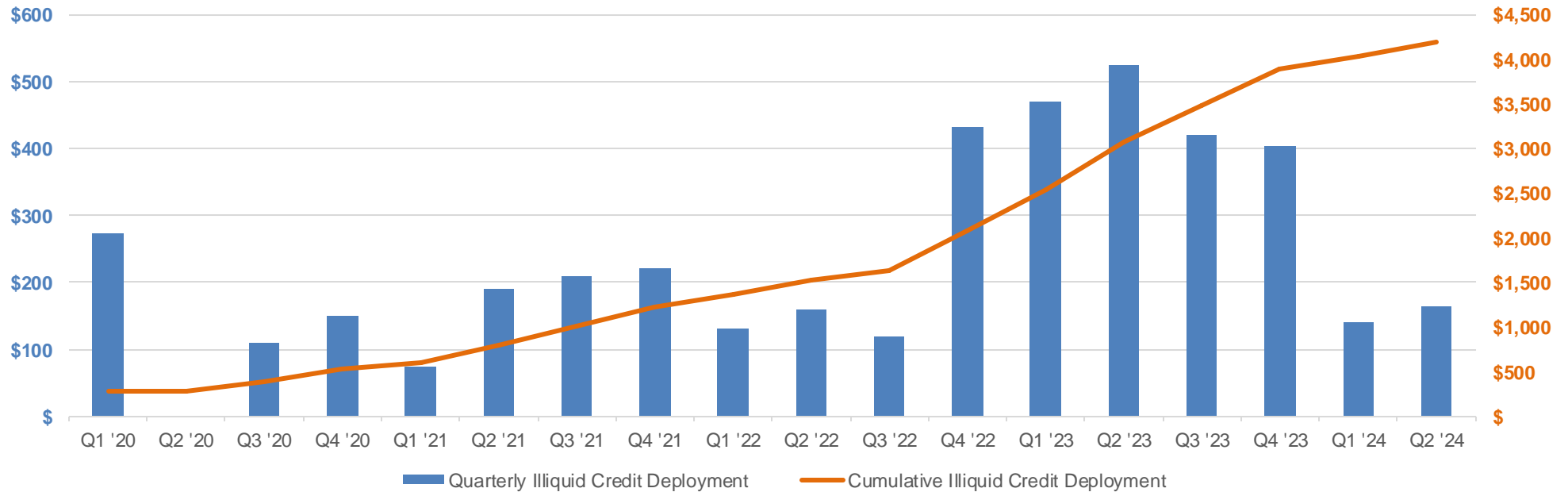
# Illiquid Credit: Capital Deployment



The Illiquid Credit Portfolio has grown meaningfully since 2019, deploying capital over time in a prudent manner



Quarterly Illiquid Credit Deployment since Q1 2020

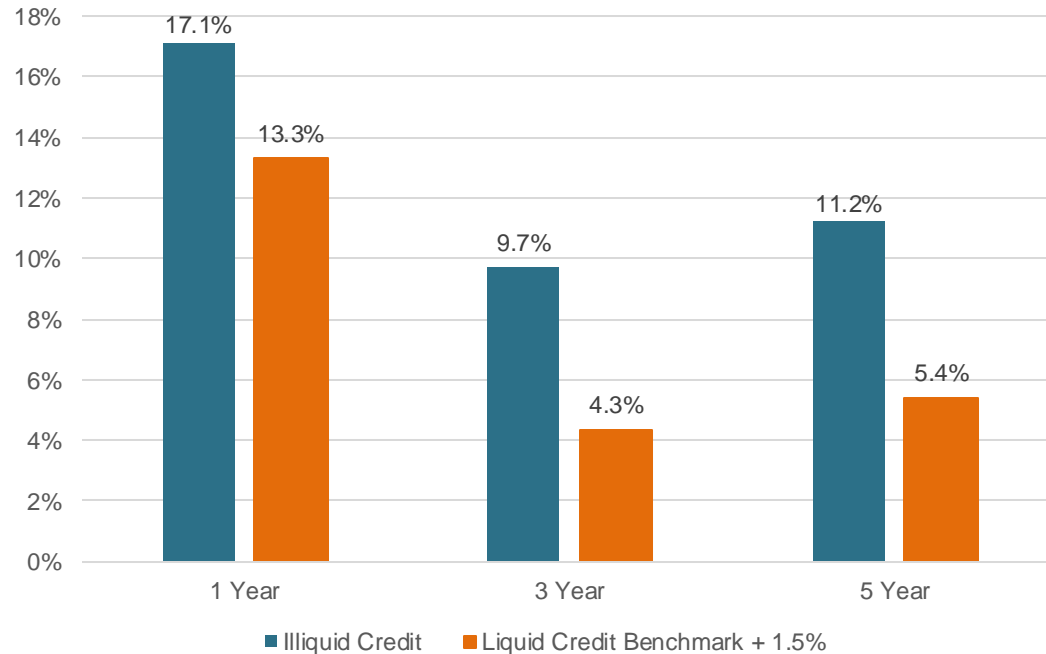


\$ in millions  
Data is from State Street as of June 30, 2024.

# Illiquid Credit: Performance



## Trailing 1-year, 3-year and 5-year returns as of 6/30/2024



- Outperformance over the 1, 3 and 5-year periods
- The broad and dynamic Illiquid Credit mandates in the portfolio have maneuvered well over recent years and in 2022, which was a challenging year for the broad public credit and growth markets
- LACERA's Board-approved Dedicated Managed Account evergreen structures and tailored economic terms have benefited performance
- Considering LACERA's Illiquid Credit mandates and terms:
  - \$60 - \$90 million of estimated annual gains from fee efficiency compared to conventional fund structures and fee terms\*

Data is from State Street as of June 30, 2024 and is net of fees. Illiquid Credit returns and its benchmark returns are reported on a 1-month lag. Returns beyond 1-year are annualized.

\* The annual fee efficiency estimate represents 1.2% to 1.6% of incremental net return. The annual fee efficiency estimate considers fund expenses, management fees, and performance fees applicable to the five most recently established mandates in LACERA's illiquid credit portfolio compared to commingled fund alternatives in a year with a 9% gross return. The low end of the savings range compares LACERA to commingled direct lending funds with a 1.1% management fee and a 13.1% performance fee, as compiled from a survey of 49 firms conducted by Cliffwater in 2022. This universe of direct lending funds may have lower complexity than LACERA's subject mandates. The high end of the savings range compares LACERA to commingled funds with a 1.5% management fee and a 15% performance fee. Additional savings from co-investments are not considered. Indirect or non-economic benefits of the Dedicated Managed Account structure such as increased transparency and influence on reimbursable expenses are not quantified in the fee efficiency estimate.

# Illiquid Credit Co-investment: Performance



## Summary of Illiquid Credit Co-investment Program as of May 31, 2024

Number of Co-investments	6
Net Asset Value	\$74 million
BOI Approved Investment	\$175 million
Co-investment Portfolio Inception	2022 (approved by BOI in 2021 as a sleeve of an illiquid credit investment)
Inception to Date Return*	17.8%
Fees on Co-investments	None

### Key takeaways:

- The Illiquid Credit co-investment framework has worked well, specifically with regard to performance, execution timing, guideline adherence, reducing overall fees, and LACERA's strategic objectives
- LACERA will seek additional co-investment opportunities in a framework consistent with the Board-approved 2023 Credit Structure Review and as described in the Appendix

\* Returns data is net of fees and from Citco Fund Services with an inception date of September 1, 2022, the independent administrator of the subject illiquid credit investment account.

# Illiquid Credit: Emerging Manager Program Update



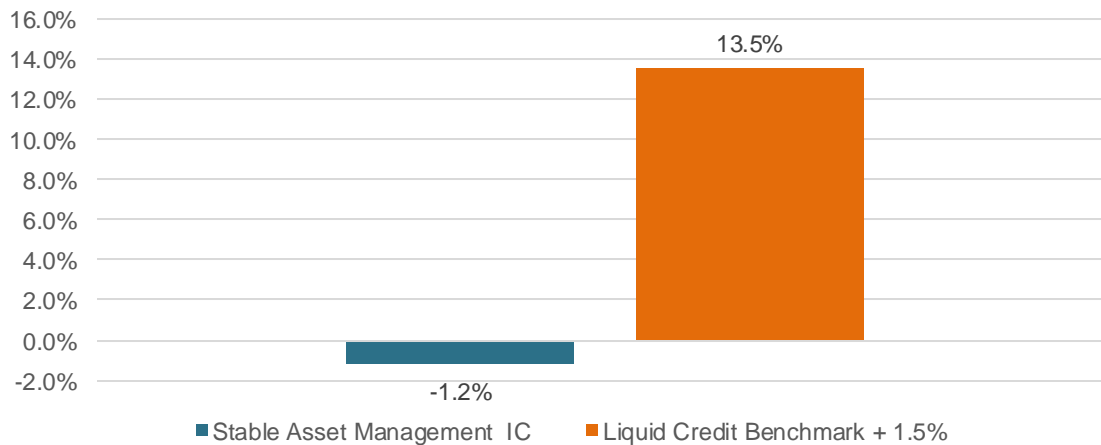
## Snapshot of Program as of June 30, 2024

Separate Account Manager	Stable Asset Management
Portfolio Net Asset Value	\$228 million
Portfolio Inception	2022
Emerging Managers	4
Revenue Sharing Accounts	3

## Key Takeaways:

- The Program launched in November 2022 and has made 4 investments/commitments
- The Program has underperformed its benchmark since inception
  - Given the early stage and closed-end fund structure of the first investment, fees and fund expenses have overshadowed gains and losses (a concept in private fund investing that is referred to as the J-curve effect)
  - During the subject period, public credit markets that are the foundation of the benchmark returns exceeded long run expectations
- The Program is expected to continue to grow over the next several years, as newer and smaller firms are identified to have a compelling approach to credit investing
- Revenue sharing is a component in several of the mandates, where LACERA would share in the success of the emerging manager firms

Illiquid Credit Emerging Manager Program  
Since Inception (November 2022 - June 2024)



Data is from State Street as of June 30, 2024 and is net of fees. Illiquid Credit EMP returns and its benchmark returns are reported on a 1-month lag..



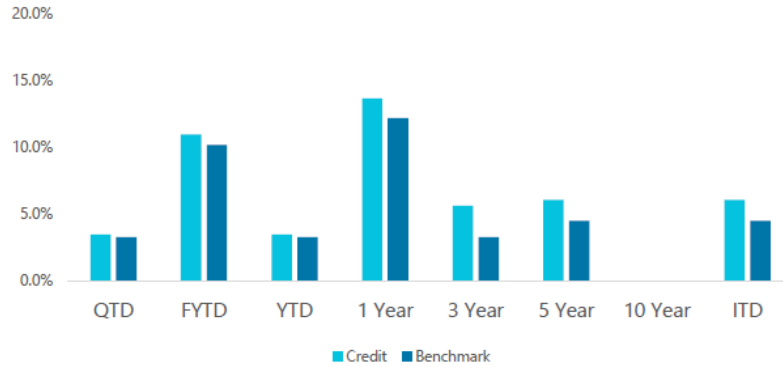
# Appendix

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# Credit: Performance Detail

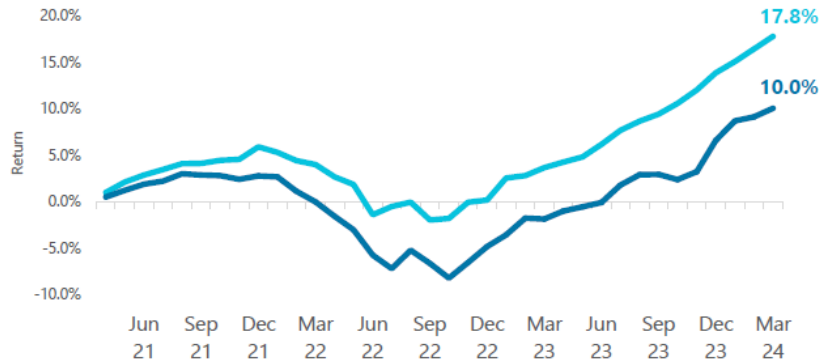


## Performance (net)



	QTD	FYTD	YTD	1 Year	3 Year	5 Year	10 Year	ITD
<b>Credit</b>	<b>3.4%</b>	<b>10.9%</b>	<b>3.4%</b>	<b>13.6%</b>	<b>5.6%</b>	<b>6.0%</b>	--	<b>6.0%</b>
Benchmark	3.3%	10.2%	3.3%	12.1%	3.2%	4.5%	--	4.5%
Excess	0.2%	0.8%	0.2%	1.5%	2.4%	1.6%	--	1.6%

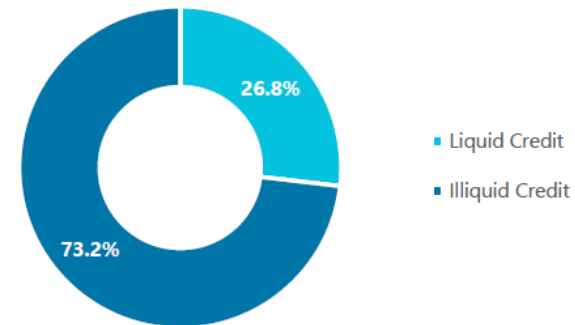
## Cumulative Return



## Functional Category

	QTD	FYTD	YTD	1 Year	3 Year
<b>Liquid Credit</b>	<b>2.1%</b>	<b>9.6%</b>	<b>2.1%</b>	<b>12.7%</b>	--
Liquid Credit Policy Benchmark	1.8%	8.7%	1.8%	11.3%	--
Excess	0.3%	0.9%	0.3%	1.4%	--
<b>Illiquid Credit</b>	<b>4.0%</b>	<b>11.6%</b>	<b>4.0%</b>	<b>13.9%</b>	<b>9.1%</b>
Illiquid Credit Policy Benchmark	4.1%	10.9%	4.1%	12.6%	3.8%
Excess	0.0%	0.7%	0.0%	1.3%	5.3%

## Exposure



Data is from State Street as of March 31, 2024. Graphic provided is from the Total Fund 1Q24 Performance Report presented at the BOI in June 2024.



# Credit: Performance Detail



## Annualized Net Returns

	% of Composite	Ending Market Value (mm)	Prior Quarter Ending MV (mm)	QTD	FYTD	YTD	1 Year	3 Year	5 Year	10 Year	ITD	Inception Date
<b>Credit</b>	<b>100.0%</b>	<b>8,332</b>	<b>8,883</b>	<b>3.4%</b>	<b>10.9%</b>	<b>3.4%</b>	<b>13.6%</b>	<b>5.6%</b>	<b>6.0%</b>	--	<b>6.0%</b>	<b>Apr-2019</b>
Credit Policy Benchmark				3.3%	10.2%	3.3%	12.1%	3.2%	4.5%	--	4.5%	Apr-2019
<b>Liquid Credit</b>	<b>26.8%</b>	<b>2,236</b>	<b>3,019</b>	<b>2.1%</b>	<b>9.6%</b>	<b>2.1%</b>	<b>12.7%</b>	--	--	--	<b>2.6%</b>	<b>Oct-2021</b>
Liquid Credit Policy Benchmark				1.8%	8.7%	1.8%	11.3%	--	--	--	2.4%	
abrdn	2.1%	174	263	2.2%	9.4%	2.2%	14.6%	-0.2%	1.3%	--	1.6%	Jul-2017
Ashmore Investment Management	2.1%	173	281	0.7%	10.6%	0.7%	12.3%	-1.6%	-0.8%	--	0.1%	Jun-2017
Bain Capital	3.4%	284	420	2.2%	9.0%	2.2%	12.6%	6.4%	5.9%	--	4.7%	Jun-2014
Beach Point	3.1%	261	320	2.1%	8.9%	2.1%	12.1%	2.1%	4.1%	4.9%	4.9%	Mar-2014
Brigade Cap Mgmt	5.0%	414	495	1.0%	8.6%	1.0%	10.8%	2.2%	4.2%	4.0%	6.1%	Jul-2010
Crescent Capital	4.8%	400	435	4.7%	10.5%	4.7%	14.2%	5.1%	6.0%	--	4.4%	May-2014
Pinebridge Investments	3.3%	275	487	1.1%	9.5%	1.1%	11.4%	--	--	--	1.2%	Sep-2021
UBS Bank Loans	3.1%	255	318	3.0%	9.6%	3.0%	13.1%	6.4%	--	--	8.5%	Apr-2020
<b>Illiquid Credit</b>	<b>73.2%</b>	<b>6,096</b>	<b>5,864</b>	<b>4.0%</b>	<b>11.6%</b>	<b>4.0%</b>	<b>13.9%</b>	<b>9.1%</b>	<b>10.5%</b>	--	<b>10.5%</b>	<b>Apr-2019</b>
Illiquid Credit Policy Benchmark				4.1%	10.9%	4.1%	12.6%	3.8%	5.9%	--	5.9%	
Beach Point - Fund II	0.1%	11	11	--	--	--	--	--	--	--	--	Jun-2014
Beach Point - Fund III	1.1%	95	107	2.8%	8.8%	2.8%	1.6%	7.8%	8.7%	--	9.0%	Jun-2017
BlackRock/Tennenbaum	6.9%	572	588	2.9%	8.7%	2.9%	11.4%	8.4%	7.7%	--	7.6%	Nov-2014
Grosvenor OPCRD 2 HFOF	0.2%	18	20	--	--	--	--	--	--	--	--	Mar-2016
Magnetar	14.9%	1,240	1,144	4.3%	17.0%	4.3%	20.1%	7.8%	--	--	18.3%	Aug-2020
Napier Park	12.8%	1,067	1,017	4.9%	16.1%	4.9%	17.0%	8.9%	--	--	16.5%	Apr-2020
PIMCO Tac Opps	2.4%	199	253	-0.9%	10.2%	-0.9%	14.8%	5.5%	7.1%	--	6.7%	Nov-2018
Private Equity - Credit	2.1%	179	205	7.4%	10.0%	7.4%	14.8%	24.1%	16.6%	--	14.8%	Jan-2019
Real Estate - Credit	0.7%	62	62	1.6%	6.7%	1.6%	12.1%	10.9%	10.1%	9.1%	9.2%	Oct-2011
Silver Rock	8.8%	733	674	4.8%	10.3%	4.8%	13.0%	--	--	--	7.3%	Apr-2022
Varde	9.8%	813	790	3.0%	6.8%	3.0%	10.2%	--	--	--	8.5%	Nov-2022
Waterfall	11.8%	985	887	5.2%	10.2%	5.2%	11.4%	--	--	--	9.5%	Jan-2023
IC EM Program	1.5%	122	106	-0.3%	0.4%	-0.3%	0.0%	--	--	--	0.2%	Nov-2022
Stable Asset Management – IC	1.5%	122	106	-0.3%	0.4%	-0.3%	0.0%	--	--	--	0.2%	Nov-2022
HarbourView	1.0%	86	86	0.0%	1.1%	0.0%	0.7%	--	--	--	0.8%	Nov-2022
Phoenix Credit Partners	0.4%	36	20	-1.7%	--	-1.7%	--	--	--	--	-1.7%	Dec-2023

Data is from State Street as of March 31, 2024.



## Realized (Ex-Post) Risks

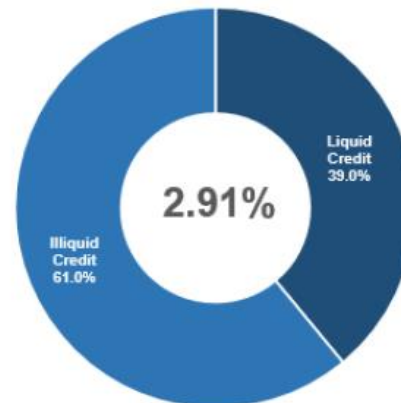
<b>\$8.3B</b>	<b>CREDIT</b> 1Y Realized Return <b>13.6%</b>
<b>CREDIT</b> Monte Carlo VaR	<b>BENCHMARK</b> Monte Carlo VaR
<b>5.0%</b>	<b>7.6%</b>



## Projected (Ex-Ante) Risks

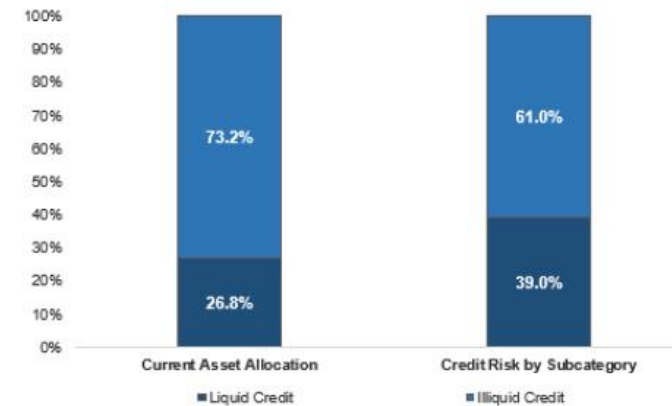
<b>Credit Forecast Volatility</b> <b>2.91%</b>	<b>Benchmark Forecast Volatility</b> <b>4.70%</b>
<b>Credit Forecast Tracking Error</b> <b>2.75%</b>	Portfolio Beta 0.52
Liquid Credit TE <b>1.02%</b>	Effective Duration 1.28
Illiquid Credit TE <b>3.90%</b>	Yield to Worst 8.41%
	OAS to Swap 4.11%
	Credit Spread Duration 2.65

## Subcategory Contributions to Credit Risk



## Credit Asset Allocation

Capital-based versus Risk-based

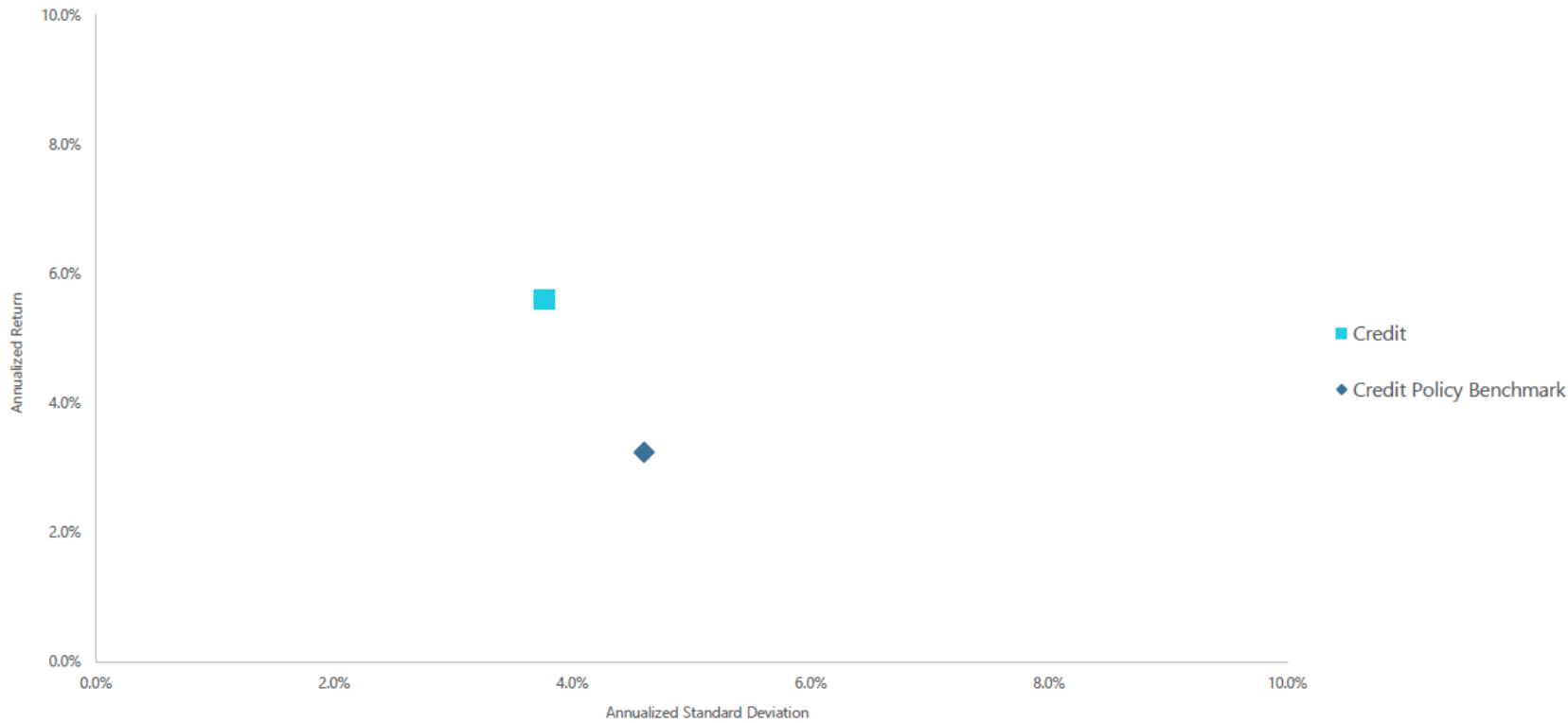


Data is from State Street as of March 31, 2024. Graphic provided is from the Total Fund 1Q24 Performance Report presented to the BOI in June 2024.

# Credit: Risk vs. Return



## 3 Year (Annualized)



	Annualized Return	Standard Deviation	Sharpe Ratio	Information Ratio	Beta	Tracking Error
<b>Credit</b>	<b>5.6%</b>	<b>3.8%</b>	<b>0.79</b>	<b>0.69</b>	<b>0.55</b>	<b>3.3%</b>
Credit Policy Benchmark	3.2%	4.6%				

Data is from State Street as of March 31, 2024. Graphic provided is from the Total Fund 1Q24 Performance Report presented to the BOI in June 2024.

# Credit: Manager Scorecards



Los Angeles County Employees Retirement Association

## PUBLIC MARKETS MANAGER SCORECARD

1st Quarter 2024

			Performance 1 to 5 (with 5 the best)	Organization & Operations S+, S, or S- (with S+ the best)	ESG 1 to 5 (with 5 the best)	Partnership A, B, or C (with A the best)	Fees & Terms 1 to 5 (with 5 the best)
			SCORE	SCORE	SCORE	SCORE	SCORE
Manager	Market Value (in \$ millions)	% of Total Fund					
<b>HIGH YIELD</b>							
Beach Point	260.6	0.3%	5	S	3	A	3
Brigade Cap Mgmt	414.5	0.5%	2	S	3	B	3
Pinebridge Investments	275.5	0.4%	3	S	3	B	3
<b>BANK LOANS</b>							
Bain Capital Credit	284.2	0.4%	4	S	3	B	1
Credit Suisse Bank Loans	255.1	0.3%	3	S-	3	B	5
Crescent Capital	399.5	0.5%	4	S-	3	B	3
<b>EMERGING MARKET DEBT</b>							
Aberdeen Asset Management	173.6	0.2%	4	S	3	B	3
Ashmore Investment Management	173.4	0.2%	1	S	3	B	3



Los Angeles County Employees Retirement Association

## PRIVATE MARKETS MANAGER SCORECARD

1st Quarter 2024

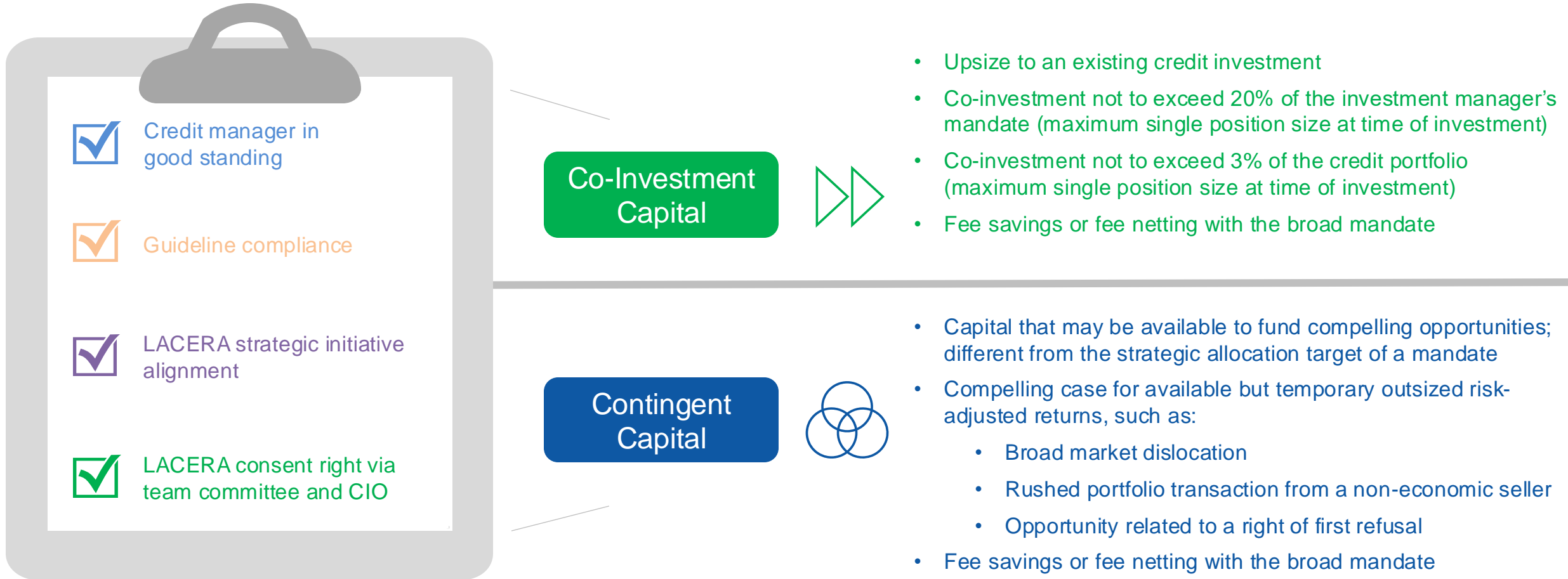
			Performance 1 to 5 (with 5 the best)	Organization & Operations S+, S, or S- (with S+ the best)	ESG 1 to 5 (with 5 the best)	Partnership A, B, or C (with A the best)	Fees & Terms 1 to 5 (with 5 the best)
			SCORE	SCORE	SCORE	SCORE	SCORE
Manager	Market Value (in \$ millions)	% of Total Fund					
<b>ILLIQUID CREDIT</b>							
Barings	39.1	0.1%	1	S-	3	C	4
Beach Point	366.0	0.5%	3	S	3	B	3
BlackRock/Tennenbaum	572.0	0.7%	4	S-	3	C	4
Glendon	112.9	0.1%	5	S	2	B	2
Magnetar	1,240.3	1.6%	2	S	3	A	3
Napier Park	1,066.8	1.4%	4	S	3	A	4
Oaktree	66.2	0.1%	5	S	2	B	2
PIMCO Tac Opps	199.0	0.3%	2	S-	1	C	3
Quadrant	23.1	0.0%	1	S	2	B	4
Silver Rock	733.2	0.9%	*	S	2	A	4
Stable - IC	106.3	0.1%	*	S+	2	A	4
Varde	813.0	1.0%	*	S	3	A	4
Waterfall	985.1	1.3%	*	S	3	A	4

Graphic provided is from the Total Fund 1Q24 Performance Report presented at the BOI in June 2024.

# Illiquid Credit: Co-Investment & Contingent Capital



With the backdrop of LACERA's strategic initiatives, dynamic credit markets, the benefits of adaptive flexibility, and short-lived market dislocations, co-investment and contingent capital strategies can add value. Below is a framework to add both co-investment and contingent capital options for a manager in good standing.



- The co-investment and contingent capital framework was approved by the Board of Investments as part of the Credit Structure Review in September 2023 and is applicable to managers in good standing at the time of the co-investment or contingent capital investment opportunity

# Attachment 1 – Glossary of Terms



Term	Definition
<b>Active Risk</b>	A measure of the difference relative to a benchmark. For example, if a portfolio's return is 5%, and the benchmark's return is 3%, then the portfolio's active return is 2%. A portfolio's active risk is the risk associated with the volatility of active returns.
<b>Asset Based Lending</b>	A type of business financing that utilizes collateral to secure a loan or a line of credit.
<b>Asset Backed Security (ABS)</b>	A type of financial security that is collateralized by a pool of income-generating assets, such as loans or receivables.
<b>Beta</b>	A measure of the sensitivity of an asset to movements in the market or other benchmark; thus, a measure of its non-diversifiable or systematic risk. A beta of one 1.0 indicates that, on average, the asset is expected to move in tandem with the market or benchmark.
<b>Bloomberg US Corporate High Yield Index</b>	A commonly used benchmark for U.S. Dollar denominated fixed-rate bonds issued by companies rated below investment grade.
<b>Bps or bps</b>	An acronym for basis points where one bps equals one hundredth of one percent or 0.01%.
<b>Composite</b>	An aggregation of one or more portfolios managed according to a similar investment mandate, strategy, or objective.
<b>Correlation</b>	A statistical measure of the extent of the linear relationship between two data series.
<b>Credit Suisse Leveraged Loan Index</b>	A commonly used benchmark for U.S. Dollar denominated floating-rate loans issued by companies rated below investment grade.
<b>Dedicated Managed Account Platform</b>	A DMA platform allows an investor such as LACERA to invest in a single-investor structure where assets within the account are held in custody for the sole benefit of the investor. Benefits include the potential for: increased options for control of assets, reduction of investment and non-investment related costs, and increased transparency. A DMA platform manager, such as Innocap for LACERA, acts as a fiduciary, has oversight responsibilities, and administers day-to-day functions of the account.

# Attachment 1 – Glossary of Terms (continued)



<b>Term</b>	<b>Definition</b>
<b>Duration (or Effective Duration)</b>	A measure of the price sensitivity of bonds to a change in interest rates.
<b>Fixed Rate Instruments</b>	A financial debt instrument that has a fixed coupon rate.
<b>Floating rate instruments</b>	A financial debt instrument that has a variable coupon rate.
<b>Hard Currency Debt</b>	Debt issued by a government or corporation from an emerging market country that is denominated in a developed market currency such as the U.S. dollar, Euro, the British Pound, or the Japanese Yen.
<b>Hard Hurdle Performance Fee Structure</b>	A fee structure where performance fees are paid to the manager only on a percentage of the profits that exceed a negotiated hurdle rate.
<b>J.P. Morgan CEMBI BD</b>	J.P. Morgan Corporate Emerging Market Bond Index Broad Diversified is an index of emerging market corporate bonds issued in U.S. dollars.
<b>J.P. Morgan EMBI GD</b>	J.P. Morgan EMBI Emerging Market Bond Index is an index of emerging market sovereign debt issued in U.S. dollars.
<b>J.P. Morgan GBI-EM GD</b>	J.P. Morgan Government Bond Index-Emerging Markets Global Diversified is an index of emerging market government bonds issued in their home currencies.
<b>J-Curve</b>	Used to describe the shape of a fund's anticipated performance, as plotted on a graph, from inception through to exit. This shape represents low expected returns at the start, followed by a gradual expected increase and recovery to a point that is higher than at the start.
<b>Local Currency Debt</b>	Debt issued by governments or corporations from developing countries denominated in their local currency (contrast with Hard Currency Debt).
<b>Maximum Drawdown</b>	The maximum loss from peak to trough of an investment.
<b>MSCI ACWI IMI Index</b>	A global equity market index that reflects the performance of large, mid, and small cap companies in developed and emerging market countries.

# Attachment 1 – Glossary of Terms (continued)



<b>Term</b>	<b>Definition</b>
<b>Sharpe Ratio</b>	Measures risk-adjusted performance of an investment compared to a risk-free asset.
<b>Solutions Capital</b>	A type of credit market financing that connects investors with borrowers who are unable to access traditional credit markets.
<b>Standard Deviation</b>	Volatility of monthly returns that measures the average deviation from the mean.
<b>Structured Credit</b>	A type of financial instrument that involves pooling cash flows from various sources into marketable securities.
<b>Total Risk</b>	The standard deviation of an asset's total return distribution, expressed in percent. The total risk of an asset depends on the asset's exposures to risk factors.
<b>Tracking Error</b>	Tracking error is the standard deviation of the difference in performance between a portfolio and its corresponding benchmark
<b>Yield to Worst</b>	The lowest yield that a bondholder could receive, corresponding to a bond being called at the most inopportune time.