



# **Responsible Contractor Policy**

# I. Purpose and Objective

The Los Angeles County Employees Retirement Association's (LACERA) investment philosophy and strategy recognize that careful consideration of financially relevant environmental, social, and governance (ESG) factors in the Fund's investment process may protect and enhance LACERA's risk-adjusted returns, as stated in the Fund's *Investment Policy Statement*. LACERA's *Corporate Governance and Stewardship Principles* (Stewardship Principles) articulate LACERA's position on key corporate governance and broader ESG factors that may impact the financial performance of LACERA's portfolio holdings including, but not limited to:

- Effective legal and regulatory compliance
- Constructive human capital practices
- Inclusive and equitable management of diverse talent
- Robust adherence to human rights standards
- Prudent natural resource stewardship
- Careful mitigation of environmental risks and liabilities

LACERA seeks to steward its assets throughout its investment portfolio in a manner that promotes adherence to its Stewardship Principles in furtherance of its mission, "to produce, protect, and provide the promised benefits." LACERA encourages investment managers who manage capital on its behalf to enact effective and practical measures in their investment processes and portfolio management that exemplify adherence to the principles referenced above.

In furtherance of its Investment Policy Statement and Stewardship Principles, LACERA has adopted this *Responsible Contractor Policy* (Policy) to guide investment managers who manage real estate, infrastructure, and other real assets investments on behalf of LACERA to select construction and operation services contractors that demonstrate practices in line with LACERA's Stewardship Principles. LACERA expects investment managers to ensure effective practices and internal controls are in place to select responsible contractors based upon their demonstrated ability to provide high quality services as evidenced by experience, skill, reputation, responsiveness, fees, dependability, record of compliance with applicable laws, regulations and statutes, and payment of fair compensation and benefits to employees.

By promoting responsible contracting, LACERA seeks to prudently optimize financial performance while mitigating investment risks—including, but not limited to, compliance, legal, operational, and reputational liabilities—that may be presented when business entities fail to meet responsible contracting standards.

# II. Legal Authority and Fiduciary Duty

The LACERA Board of Investments has "the sole and exclusive fiduciary responsibility over the assets of" the system, as provided by the California Constitution (Article XVI, Section 17(a)). LACERA exercises its legal rights in defining responsible contracting provisions in furtherance of its fiduciary duty under Article XVI, Section 17 of the California Constitution, the County Employees Retirement Law of 1937 (CERL), and other governing laws, regulations, and case authority.

The Policy is guided in all aspects by LACERA's fiduciary duties, including loyalty, care, skill, prudence, and diligence, which require evaluation of expected investment returns and risk of loss.

LACERA's assets are diligently and prudently invested and managed in accordance with the Fund's fiduciary duties in the sole interest of plan participants and their beneficiaries, and for the exclusive purpose of providing benefits to its participants and their beneficiaries. LACERA seeks to have its real assets investments managed and operated in a manner that is expected to prudently maximize the rate of return, while minimizing the risk of loss. LACERA's duties, and the duties of its investment managers, to LACERA's participants and their beneficiaries take precedence over any other duty.

### III. Policy Application at Real Assets Investments

LACERA promotes prudent, responsible contracting provisions for construction and operation services throughout its real assets investments. All investment managers who have been selected to manage LACERA's capital in real estate, infrastructure, and natural resources mandates should have in place effective policies, procedures, and internal controls to ensure that contracting practices result in the selection of responsible contractors that reflect the responsible contracting provisions outlined in this Policy.

LACERA recognizes that its control and influence on external investment managers varies by the degree of ownership it maintains in investment funds managed on its behalf by external investment managers. Accordingly, LACERA has defined the application of the terms and provisions of this Policy as follows:

**A. Controlled Investments:** Where LACERA owns more than a 50 percent equity position either directly or indirectly in a real estate, infrastructure, natural resources, or other real assets investment fund or partnership ("Controlled Investments"), LACERA requires the investment manager to use their best efforts to comply with the responsible contractor terms and provisions defined within this Policy when soliciting and selecting contractors and subcontractors for construction and operation services.

At Controlled Investments, LACERA expects investment managers to apply this Policy to all contracts valued at \$100,000 or more. Contract value refers to the total project work to be contracted for, with desegregation by trade or task. Desegregation designed to evade the requirements of this Policy is not permitted.

**B. Non-Controlled Investments:** Where LACERA does not have greater than 50 percent equity ownership and/or control of a real estate, infrastructure, natural resources, or other real assets investment fund or partnership ("Non-Controlled Investments"), LACERA *strongly encourages* its investment managers to comply with the spirit and practice of responsible contracting, including—but not limited to—adhering to the terms of this Policy and defining responsible contracting terms and policies of their own.

For the avoidance of any confusion, while LACERA encourages all real assets firms to practice responsible contracting, the specific terms and requirements of this Policy do not apply to other real assets exposures in LACERA's portfolio, including—but not limited to—publicly-listed REIT's, mezzanine debt, hybrid debt, investments acquired through a secondaries fund acquisition transaction, and indirect, specialty, and mortgage investments lacking equity features, and their respective investment managers.

## IV. Key Provisions of Responsible Contracting

A “Responsible Contractor,” as used in this Policy, is a contractor or subcontractor who: (1) has the appropriate experience, skill, reputation, employee relations, responsiveness, fees, and dependability to perform the required work, and (2) provides workers fair compensation and fair benefits for the required work as evidenced by factors including—but not limited to—payroll and employee records, policies, and practices.

Responsible contracting practices include, but are not limited to, the following:

- A. Fair Wages and Benefits:** In determining fair wages and fair benefits concerning a specific contract in a specific market, items that may be considered include—but are not limited to—local wage practices, prevailing wages, and labor market conditions. This Policy does not mandate a specific wage level or benefits, but instead recognizes and considers that local market practices may vary across LACERA’s investment exposures. How investment managers and their respective contractors evaluate what constitutes “fair wages” and “fair benefits” should be informed by relevant market factors that include the nature and location of the project, comparable job or trade classifications, and the scope and complexity of services provided. “Fair benefits” may include—but are not limited to—employer-supported family health care coverage, pension benefits, employee safety training, and apprenticeship training programs.
- B. Legal Compliance:** All contractors should demonstrate a compelling track record of compliance with all applicable federal, state, and local laws, regulations, and ordinances, including (but not limited to) those related to insurance, withholding taxes, minimum wage, health and safety, and environmental matters. Responsible Contractors exclude any contractor who has been debarred—or whose principal has been debarred—by a municipal, state, or federal government. Responsible Contractors also respect the right of all workers to freedom of association in the workplace, as protected under local, state, and federal law, and as recognized by the United Nations International Labor Organization (ILO) core labor standards.
- C. Diversity, Equity, and Inclusion:** As outlined in LACERA’s *Investment Policy Statement*, LACERA values diversity, equity, and inclusion, and believes that effectively accessing and managing diverse talent leads to improved outcomes. LACERA considers diversity broadly, inclusive of—but not limited to—professional backgrounds, age, experience, race, sexual orientation, gender, gender identity, disability status, military service, ethnicity, national origin, and culture. LACERA expects real assets investment managers to ensure equal opportunity and non-discrimination in contracting provisions for construction and operation services. Effective assurance of equal opportunity and non-discrimination includes effective policies and practices to prohibit and deter retaliation against any individual or entity who reports incidents of prospective non-compliance.
- D. Competitive Bidding:** Investment managers should ensure that all requests for proposals and invitations to bid applicable contracts covered by this Policy are made in accordance with the terms of this Policy. LACERA encourages adequate advance notice of bidding opportunities to promote competitive bidding, as practical and appropriate. Investment managers and their associated property managers and contractors should use reasonable methods to provide adequate notice to potential contractors of bidding opportunities for contracted services. Adequate notification may include, but is not limited to, maintaining lists of eligible, qualified Responsible Contractors for inclusion in the bidding process.

- E. Neutrality:** Where there is a legitimate attempt by a labor organization to organize workers employed in contracted construction, maintenance, operation, and services, LACERA encourages investment managers, property managers, and contractors to maintain a position of neutrality. To remain “neutral” means not taking any action or making any statement that will directly or indirectly state or imply any support for or opposition to the selection by employees of a collective bargaining agent, or preference or opposition to any particular union as a bargaining agent.

For the avoidance of any confusion, nothing in this Policy obligates or prohibits an investment manager, property or asset manager, or contractor from entering into project labor agreements, labor peace or other lawful agreements with a labor organization seeking to represent or that currently represents workers, or take actions to address violations of applicable law.

It is also not the intent of this Policy to call for any involvement by investment managers, property or asset managers, or contractors in resolving any jurisdiction disputes that may arise between or among building trades and other labor organizations and unions.

## V. Policy Implementation

- A. Notification:** All current and prospective real assets investment managers shall be provided a copy of this Policy (both at Controlled Investments and Non-Controlled Investments).
- B. Contracts and Contract Renewals:** All contracts and contract renewals at Controlled Investments entered into after the effective date of this Policy shall incorporate expectations of adherence to all applicable provisions of this Policy.
- C. Investment Manager Administration and Reporting:** All investment managers of Controlled Investments are expected to communicate the terms and provisions of this Policy to property and asset managers and ensure effective practices are in place to implement them. Investment managers of Controlled Investments are further expected to collect, provide, and retain adequate data documenting their compliance with this Policy on no less than an annual basis in reporting to LACERA in a format acceptable to and approved by LACERA. Effective monitoring and enforcement by investment managers includes reasonable investigation of allegations of non-compliance with the terms and provisions of the Policy, as well as cooperative and timely communication with LACERA regarding the status of any such investigations.

Investment managers of Non-Controlled Investments are encouraged to report to LACERA on the administration, monitoring, and compliance with the responsible contracting provisions and terms stated above and any responsible contracting policies or provisions of their own, as well as to be responsive to any inquiries from LACERA related to the same.

- D. LACERA Monitoring:** LACERA actively monitors all external investment managers, including those managing Controlled Investments and Non-Controlled Investments. All investment managers should demonstrate a compelling track record of adhering to responsible contracting practices. Any investment decisions to renew, increase, or decrease allocations may be informed, in part, by the investment managers track record of adherence to responsible contracting practices.

LACERA's regular review of Controlled Investments includes an assessment of the investment manager's track record in adhering to the terms and provisions of this Policy. LACERA reviews reports from investment managers of Controlled Investments regarding implementation and compliance with the terms and provisions of this Policy and furnishes reports, including an annual publicly-available report on investment manager compliance with the Policy, as part of LACERA's overall compliance reporting practices to the Board of Investments for its oversight.

LACERA's review of all investment managers (both Controlled Investments and Non-Controlled Investments) focuses on the overall pattern of conduct and compliance and not particularly a single incident, depending on the severity and impact of incidents of non-compliance.

**Document History**

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