

## Los Angeles County Employees Retirement Association (LACERA) Real Assets Emerging Manager Discretionary Separate Account Manager – LACERA Responses to Written Questions

**Question:** Would LACERA consider an emerging listed infrastructure manager?

**Question:** We were wondering if “Manager” is qualified to become your trusted manager for the Real Assets Emerging Manager Program?

**Answer:** Through this RFP, LACERA intends to cover private investments. LACERA cannot comment on the merits of each individual respondent at this stage of the RFP. Respondents should consult the RFP materials and apply if they qualify for an Emerging Manager program designed to invest in private markets.

**Question:** What benchmark does LACERA use for its real estate program?

**Question:** What is LACERA's actuarial assumption for real estate?

**Question:** Are there any geographies, property types or strategies in which LACERA is precluded from investing?

**Question:** Does LACERA's emerging managers real estate and real assets program follow the same guidelines as the overall real assets program with regards to target core/core+ and non-core exposure, and diversification?

**Question:** Does LACERA have allocation targets within the real estate program for core, value-add and opportunistic?

**Question:** Specific to the Real Assets SMA, what are the portfolio's target allocation across sectors, geographies, etc., and/or will any specific restrictions/limitations be in place?

**Question:** Does LACERA have allocation targets for real estate credit strategies?

**Question:** Is there a desired risk profile and/or minimum return requirement?

**Question:** Within the real assets mandate, are there allocation targets for infrastructure, natural resources, and real estate (if included)?

**Question:** Within real estate, is there a preference for commercial vs. residential properties?

**Question:** Are there any geographic restrictions for investments within the real estate and real assets allocations?

**Question:** Are there any limits on fossil fuel investments within the natural resources allocation?

**Question:** Could public investments ever be considered within these mandates?

**Question:** Do you have a target return and risk appetite?

**Question:** Would this mandate cover the full spectrum of real estate and real assets (core through opportunistic)?

**Question:** Do you have a specific hold period or leverage restriction in mind?

**Question:** Would this mandate target exclusively North American managers or have a global focus?

**Answer:** LACERA's Board approved Strategic Asset Allocation and related investment guidelines cover Core and Non-Core investments and are explained in the Investment Policy Statement (“IPS”), accessible at <https://www.lacera.com/accountability/governing-documents>. The IPS outlines the program parameters for Real Estate and Real Assets with target allocations on p. 16, and related benchmarks on p. 17. Note that for LACERA, and for the purposes of this RFP, Real Assets incorporates investments in Infrastructure and Natural Resources.

In addition, the structure reviews for Real Assets & Inflation Hedges, accessible in the Real Assets Committee materials from Dec 2021 and Jan 2022 provide additional details<sup>1</sup> on the implementation program for Real Estate for core and non-core, and Infrastructure and Natural Resources in Real Assets. These materials summarize the investment parameters for Real Estate and Real Assets, which would also encompass the Emerging Manager Program(s) for Real Estate and Real Assets.

The Emerging Manager program is designed to be flexible, hence if there are select opportunities in certain segments that are within the guidelines of the IPS and the Structure Review, program

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<sup>1</sup> All Board of Investments materials are accessible at: <https://www.lacera.com/accountability/boi-and-committees>. Most recent structure review for Real Estate from Dec 2021, approved by the Board in Jan 2022 is accessible at [https://www.lacera.com/sites/default/files/assets/documents/board/2021/BOI/2021-12-08\\_real\\_assets\\_agnd.pdf](https://www.lacera.com/sites/default/files/assets/documents/board/2021/BOI/2021-12-08_real_assets_agnd.pdf) and for Real Assets from Jan 2022, approved by the Board in Feb 2022 is accessible at [https://www.lacera.com/sites/default/files/assets/documents/board/2022/BOI/2022-01-12\\_real\\_assets\\_agnd.pdf](https://www.lacera.com/sites/default/files/assets/documents/board/2022/BOI/2022-01-12_real_assets_agnd.pdf)

managers could potentially invest in such strategies. The investment guidelines for the Emerging Manager program in Real Estate and Real Assets will be designed in consultation with the selected manager(s).

**Question:** Should the portfolio target primary investments only or is LACERA interested in including secondaries and direct investments as part of this program?

**Question:** In addition to primary fund investments, is LACERA open to the inclusion of other types of investments for the emerging managers real estate program, i.e., Secondaries and/or Co-Investments?

**Question:** Has LACERA determined a specific allocation range in either mandate for co-investments and/or secondaries?

**Question:** How will you approach co-investing alongside these managers?

**Question:** Are you open to minority stakes in emerging managers in addition to committing LP capital?

**Answer:** LACERA is interested in learning of respondent's capabilities investing in secondaries, co-investments, acquisition of stake in emerging fund managers, and direct investments, in addition to fund investments for the Emerging Manager program. We are open to considering different approaches on implementation.

**Question:** Your mandate states you are looking for a manager-of-managers structure to invest in Emerging Manager funds. Does this mean that LACERA is only considering a fund-of-funds model for its EM mandate?

**Question:** Does LACERA have a preference between a separately managed account or a fund of one structure?

**Question:** Would the team(s) be open to a single investor fund (SIF) structure?

**Question:** If the fund-of-funds model is preferred, how would the manager of the EM platform "manage the managers"? Fund of funds generally make passive investments in other funds, which means that the "manager of managers" would not have any control or discretion over how the funds are invested and managed.

**Question:** Is LACERA open to a separately managed account / fund of one structure?

**Question:** "Fund Manager" makes direct investments in real estate rather than allocating capital to other sponsors. Will you please confirm if direct investment via private partnerships will be considered for the real assets allocation or if you are specifically only seeking a separate account manager to oversee allocation of funds to third party sponsors?

**Question:** Has LACERA considered an EM platform that focuses on exclusive joint ventures with Emerging Managers instead of a fund-of-funds model? The joint venture structure enables the "manager of managers" to take a more active approach in how capital is invested and managed.

**Question:** How many emerging managers does LACERA envision investing with through the platform? Many EM platforms are working with 30-50 Emerging Managers, which provides broad "index fund" exposure to Emerging Manager firms. However, no individual Emerging Manager receives customized guidance and support to scale their strategies. Other EM platforms seek to make fewer but larger commitments to Emerging Managers (e.g., 5-8 firms). In this scenario, each EM receives more meaningful support and guidance.

**Question:** Is LACERA expecting this program to only make primary fund investments or can other investment structures such as joint ventures with emerging managers can be targeted?

**Question:** Does LACERA prefer a GP commitment?

**Answer:** LACERA's Board of Investments has approved a separately managed account or a fund of funds structure, which could encompass a fund of one structure. We invite respondents to consult LACERA's Emerging Manager Policy<sup>2</sup>, and if the program objectives can be achieved through a direct investment program, LACERA would evaluate the merits of various account structures during the RFP evaluation process.

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<sup>2</sup> Accessible at

[https://www.lacera.com/sites/default/files/assets/documents/board/Governing%20Documents/BOI%20Policies/emerging\\_mgr\\_policy.pdf](https://www.lacera.com/sites/default/files/assets/documents/board/Governing%20Documents/BOI%20Policies/emerging_mgr_policy.pdf)

**Question:** Does LACERA have a preference for the headquarters location of the manager of the EM platform? Is LACERA targeting a firm local to Los Angeles or California, where many of its constituents are based?

**Question:** Under I. background information, the RFP states the search will be jointly conducted for Real Estate and Real Assets and further that staff believe the potential for a single manager warrants a joint search. Does LACERA have a preference for a single manager?

**Question:** Could LACERA please confirm the asset classes included in each mandate. For example, is real estate also included in the real assets mandate.

**Question:** Does LACERA have any economic impact objectives associated with either of these mandates?

**Answer:** Please note reference to LACERA's Emerging Manager Policy above. Given LACERA's global investment mandate, LACERA invests in managers globally. Note as explained above that Core Real Estate plus Real Assets constitute the Real Assets and Inflation Hedges category, with Non-Core Real Estate as part of the Growth category under LACERA's IPS. Real Assets under this asset category encompasses Infrastructure and Natural Resources. Managers can apply jointly for Real Assets and Real Estate combined, or separately for each category, and LACERA could select a single manager for both categories, or separate managers for each category.

**Question:** How does LACERA view diversity in representation regarding the investment manager of the EM mandate and the underlying EMs?

**Question:** How does LACERA view diversity in the ownership of the investment manager's firm?

**Question:** Under II. Scope of Services, section B. Investment Monitoring. We understand respondents are to provide DEI metrics to assess the general partner's commitment to DEI. Does LACERA utilize specific metrics for assessment (if so please provide these) or is LACERA amenable to any expansion or deviation of the current LACERA approach and how/if these amendments would be evaluated?

**Question:** Under II. Scope of Services, does LACERA currently have a utilized definition of diversity, equity, and inclusion as part of its TIDE or other initiatives that should be considered by respondents?

**Question:** Can LACERA please define the DEI metrics that you prefer when assessing the general partner's commitment to diversity, equity, and inclusion ("DEI")?

**Question:** Does LACERA have any DEI and ESG allocation targets within the real estate program?

**Question:** Does LACERA have any diversity, equity, and inclusion benchmarks that the real estate and real assets program is evaluated against?

**Answer:** LACERA values diversity, equity, and inclusion, ("DEI") and believes that effectively accessing and managing diverse talent leads to improved outcomes. LACERA's approach to DEI in the investment process is explained in the Investment Policy Statement referenced above. Similarly, LACERA's approach to integration of Environmental, Social, and Governance Factors is detailed in the IPS. The most recent review of LACERA's Towards, Inclusion, Diversity, and Equity program can be accessed on LACERA's website<sup>3</sup>. Respondents can also reference a UN PRI article on LACERA's approach to DEI in the investment process<sup>4</sup>.

**Question:** Can you provide clarification on LACERA's definition of "Emerging Manager" in the context of real estate and real assets? What are your thresholds for size and tenure of the managers?

**Question:** In LACERA's IPS, it states under the definition of an Emerging Manager that "specific requirements for AUM and length of track record are tailored for each asset class and updated for each mandate to take into account the composition of the manager universe prevailing at the time a search is conducted". Does LACERA have a specific definition for what qualifies an emerging manager as it relates to the real estate and real assets program? IE fund aum size, number of funds raised, diversity of management or other qualifications that should be considered?

**Question:** LACERA defines emerging managers as first, second or third institutional funds with capital commitments of up to \$1 billion. To clarify, should commitments across the funds total \$1 billion or less, in aggregate? Or rather, should none of the funds should exceed \$1 billion in size, individually?

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<sup>3</sup> [https://www.lacera.com/sites/default/files/assets/documents/financials/2022\\_TIDE\\_Annual\\_Review.pdf](https://www.lacera.com/sites/default/files/assets/documents/financials/2022_TIDE_Annual_Review.pdf)

<sup>4</sup> UN PRI article on LACERA's DEI approach is accessible at <https://www.unpri.org/human-rights-case-studies/lacera-integrating-diversity-equity-and-inclusion-throughout-the-investment-process/8842.article>

**Question:** Is there flexibility regarding the outlined definition of 'emerging managers' (ex. First through third institutional fund, AUM up to \$1 billion, employee ownership of at least 66%)?

**Question:** Do you envision managers graduating from the emerging manager program and establishing a direct relationship with you as they grow?

**Answer:** LACERA's policy on Emerging Managers can be accessed on LACERA's website<sup>5</sup>. LACERA has proposed a definition of Real Assets Emerging Managers in the RFP materials<sup>6</sup>, and since this would be the inception of LACERA's Emerging Manager program in Real Assets, LACERA is also receptive to modifications to the definition if the marketplace for Emerging Managers in Real Assets does not fall neatly within the proposed definition. LACERA's goal through the Emerging Managers program is reaching the largest number of potential Emerging Manager(s), and having these newer managers graduate from the program to develop a long-term relationship with LACERA. Managers should indicate their definition of an emerging manager if it differs from the LACERA proposal.

**Question:** What is the typical fee structure/arrangement for similar mandates between LACERA and third party managers?

**Answer:** LACERA evaluates RFP proposals based on proposed fee structures, and final fee structures for each program are negotiated between LACERA and selected manager(s).

**Question:** Does 1 electronic copy and 1 redacted electronic copy (with no printed hard copies) suffice?

**Question:** Could you please confirm that email (or electronic-only) is acceptable for the full final response on March 3<sup>rd</sup>?

**Answer:** We are requesting electronic versions only for this RFP, which should include a final version and a redacted version of the RFP response.

**Question:** Regarding the Emerging Manager track record request in **Question 6a. of Attachment C**, the instructions on Table IV ask to '*include 1-, 3-, 5-, 7-, 10-year, and since inception values rounded to two decimal places*'. Our performance reporting personnel are hoping LACERA can please provide additional detail on the track record format. Can LACERA please confirm if the values in Table IV should represent either of the following:

- a. investments made during those time periods (i.e., 1-year = investments in 2022, 3-year = investments since 2019, 5- year = investments since 2017, etc....) or
- b. a point-to-point performance analysis during those time periods (i.e., 1-year = performance changes from Q3 2021-Q3 2022, 3-year = performance changes from Q3 2019 - Q3 2022, etc...)?

**Question:** If our emerging manager portfolio includes multiple investors of the same type with different exposures (ex. ERISA pension A has exposure to 6 managers while ERISA pension B has exposure to 4 managers), how should we approach providing the number of emerging Real Estate and Real Assets managers by investor type in the Excel file?

**Answer:** The track record format should represent a point-to-point performance analysis of the portfolio during each of the time periods (1-, 3-, 5-, 7-, 10-year, and since inception). Please note vintage year performance may be reviewed later in the RFP search process. At this stage, LACERA is interested in understanding portfolio performance over various time periods.

For emerging manager exposure, LACERA is interested in knowing how many emerging managers the respondents have invested in across clients, and what different type of clients the respondents manage. In the example above, LACERA can conclude that the potential respondent has invested in 10 emerging managers and manages two ERISA clients.

**Question:** Regarding **Attachment E – Sample IMA**, based on our review of the document, this agreement appears to contain language resembling a public markets investment program. Is LACERA able to please provide a sample investment agreement with more of a private market investment focus?

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<sup>5</sup>[https://www.lacera.com/sites/default/files/assets/documents/board/Governing%20Documents/BOI%20Policies/emerging\\_mgr\\_policy.pdf](https://www.lacera.com/sites/default/files/assets/documents/board/Governing%20Documents/BOI%20Policies/emerging_mgr_policy.pdf)

<sup>6</sup> First, second or third institutional funds with capital commitments of up to \$1 billion.

**Answer:** The Sample Investment Management Agreement covers most of the terms relevant in an investment management agreement with LACERA, that would be applicable across public and private markets.

**Question:** Regarding **Question 1h of Attachment C**, we're asked if our firm or any of its affiliates hold any equity stakes in investment managers. Can LACERA please confirm if this question is referring to our firm having stakes in other investment management companies, or is LACERA referring to taking GP stake investments through other SMAs or commingled fund products we manage?

**Answer:** Yes, this question is referring to the responding firm having "stakes in other investment management companies," and not GP stakes that are part of the manager's investment process through SMAs or commingled funds.

**Question:** Are firm audited financials required or are audited financials for relevant funds sufficient?

**Answer:** By "firm" LACERA is referring to the firm of the potential manager that will be responding. For purposes of this RFP, firm audited financials are required.

**Question:** "Fund Manager" is exempt from registration with the SEC because we are making direct investments in real estate through partnerships. A number of the questions on the RFP reference SEC registration; will it be acceptable to answer N/A as appropriate?

**Answer:** Yes, managers can respond "N/A" as they see fit.