

## Los Angeles County Employees Retirement Association (LACERA) OPEB Master Trust Private Markets Investments Program Separate Account Manager – LACERA Responses to Written Questions

**Question:** Is the recent RFP for one manager, investing approximately 20% of the trust's assets in private markets (~\$525mm) across equity, credit, real estate, and infrastructure?

Or will the mandate include awards to multiple managers, (e.g., one manager focused on diversified private equity, another on infrastructure, etc.)?

**Question:** Can a manager submit for private equity only or a subset of the requested strategies?

**Question:** Can a manager submit for the Real Estate and Credit strategies only?

**Answer:** LACERA will evaluate and could select multiple proposals from all proposals received. If individual managers choose to submit a proposal as a consortium by teaming up with other managers to combine private equity, infrastructure, real estate, and credit capabilities, LACERA would consider such a proposal from a consortium. LACERA would prefer to not award separate mandates across private equity, credit, real estate, and infrastructure unless presented as part of a consortium.

**Question:** Does a manager that would create a multi asset class solution utilizing exclusively its own closed architecture/proprietary private market funds qualify for this RFP?

**Question:** Would LACERA consider a portfolio solution designed to build diversified exposure to a single or multiple asset classes through a manager's own direct fund offerings? While not multi-manager in nature, we can work with clients to replicate such exposure in various strategies in a diversified manner through our various platforms, while providing a more cost-effective solution / by eliminating the Fund-of-Fund / advisory level management fee and / or carry. This can also be combined with a focused on multi-manager PE option for Primaries / Funds, Secondary and Co-Investment.

**Question:** 2. Does LACERA have an optimal blend between direct and open-architecture strategies in mind, or will LACERA leave this to the discretion of the awarded service provider?

**Answer:** A manager can propose a program utilizing its own closed architecture / proprietary private market fund program or its own direct fund offering. For a closed program, the manager would have to demonstrate a well performing, consistent track record that is best in class when ranked against other open multi-manager solutions.

**Question:** Does submitting a reply to the OPEB Trust RFP prohibit other individuals across our firm from soliciting additional fund investments from the retirement plan. In

other words, is our entire organization in a no contact period with the retirement plan if we submit a response to the OPEB RFP?

**Answer:** The quiet period which applies to all managers who have submitted a separate account manager proposal, restricts managers from contacting LACERA about the RFP proposal. Managers can respond to other LACERA RFPs during this period, and managers can continue any other regular discussions with LACERA Investments staff as part of regular activities, that are not related to the RFP proposal.

**Question:** With regard to minimum qualification #4. Does the 5 years' experience of building multi asset class solutions qualification have to be exclusively in private markets or would a manager that has history managing hybrid portfolios that are a mix of private and public market investments qualify for this RFP?

**Answer:** The minimum qualification for at least five (5) years of experience building global, multi-asset class private markets solutions could cover hybrid portfolios that are a mix of private and public market investments. The experience should demonstrate that the manager has relevant experience to successfully execute the proposed OPEB Private Markets mandate.

**Question:** With regard to minimum qualification #4. Does the 5 years' experience of building multi asset class solutions strictly mean every underlying sub sleeve would have to be in the portfolio for the past 5 years? In other words if you added private equity to a multi asset solution in the last year, but had the other 3 asset classes (illiquid credit, RE, infra) for 5 years, would that qualify for this RFP?

**Answer:** The minimum qualification for at least five (5) years of experience building global, multi-asset class private markets solutions may not include every sub-segment of private equity, real estate, infrastructure, and credit. The experience should demonstrate that manager can manage across all sub-segments to successfully execute the proposed OPEB Private Markets mandate.

**Question:** With regard to minimum qualification #6. Is there any flexibility on exclusively US tax exempt investors and market value of greater of \$300MM per each account. [Manager] manages multi asset class mandates for multiple investors globally, however none are in excess of \$300MM individually.

**Answer:** The minimum qualifications were approved by the Board of Investments; potential respondents must meet and attest to the minimum qualifications to be considered (Attachment D).

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

**Question:** Does LACERA have a preferred implementation method for the private portfolio? (e.g., primary fund investing through manager selection, secondaries and direct and / or co-investments)

**Question:** Will LACERA provide targets / guidelines regarding the split between Primaries and Secondaries and Co-Investments? If so, will Meketa be advising LACERA on these targets / guidelines?

**Answer:** LACERA is interested in learning of respondent's capabilities investing in secondaries and direct investments, in addition to fund investments. We are open to considering different approaches on implementation.

**Question:** Does LACERA have any targets with regards to the geographic breakdown of this portfolio?

**Question:** In OPEB Master Trust's guideline, is there a target geography allocation of U.S. vs. non-U.S.? If there are non-US investments, will they need to be currency hedged?

**Answer:** The geographic diversification of the portfolio should reflect the geographic diversification of the portfolio benchmarks. For currency hedging for non-US investments, LACERA would discuss the pros and cons with the manager, if adopted.

**Question:** Can you clarify target allocations within this program to private equity, private credit, real estate, infrastructure and natural resources?

**Answer:** The target allocations for the overall OPEB Trust are presented in Appendix A of the Investment Policy Statement on page 17.

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

**Question:** Could LACERA provide additional clarity on the structure it is seeking for the SMA. Is the account meant to be held on the balance sheet of OPEB /LACERA, where the manager is making / monitoring investments, or would it be a separate FOO that OPEB would invest in that is managed by the manager. Additionally, would LACERA consider both structures?

**Question:** Will a fund of one/separate account structure be acceptable for any or all parts of this mandate or is an IMA structure for the entire mandate required?

**Question:** Given the longer investment horizon, would LACERA consider an evergreen fund structure vs traditional closed-end fund structure?

**Answer:** LACERA's Board of Investments has approved a separately managed account or a fund of fund structure, which could encompass a fund of one structure. The merits of various account structures will be considered during the RFP evaluation process.

**Question:** Can I please get clarification on whether you need hard copies? In the RFP document it does not mention a hard copy submission or address in Section III. But on the LACERA website it mentions a hard copy submission - but doesn't provide a mailing address. If you do need a hard copy, I'm assuming it will get sent to both LACERA and Meketa?

**Question:** The website states under Submission Requirements "...your completed proposal (email and hard copies)...", but the documents do not mention hard copies. Please clarify whether hard copies are desired, and if so, please provide instructions for submitting them.

**Answer:** Neither LACERA nor Meketa are requesting hard copies for this RFP.

**Question:** Are there any specific areas within each asset class that should be covered or excluded from the program?

**Question:** Are there any investment restrictions or special side letter requests?

**Answer:** The investment guidelines on areas within each asset class will be developed with the selected manager(s) and will comply with the OPEB's Investment Policy Statement. The side letters from LACERA are customized and directly negotiated with the selected manager.

**Question:** Can you please provide information on type of discretion LACERA would want over Investment Selection?

**Answer:** The selected manager will have discretion over individual investments in the program, with input from LACERA staff on investments that may deviate from LACERA or OPEB Trust guidelines, or not fully align with the spirit of the mandate. The manager will regularly communicate with LACERA staff on account activities, including pipeline, diligence, and other matters.

**Question:** Is there a certain commitment size initially that LACERA is looking to allocate to each asset class or overall?

**Question:** Does LACERA have an intended deployment timeline/goal for the private portfolio?

**Question:** General. What is the anticipated AUM growth of OPEB Master Trust, and anticipated deployment schedule for the private markets portfolio?

**Answer:** Appendix A of the Investment Policy Statement for OPEB Trust, on page 17, presents the target asset allocation for private markets and the ramp up from October 2021 to July 2023. LACERA expects to allocate these amounts over time, balancing marketplace dynamics with portfolio construction objectives. LACERA's deployment schedule will be somewhat dependent on the selected solutions and will be discussed with the selected manager(s). LACERA's primary implementation goal is to comply with the IPS and to provide some vintage year exposure as it moves into private markets.

LACERA estimates that ~20% of OPEB Trust assets or ~\$500 million will be targeted for investments in private markets by July 2023. LACERA does not have certainty on the anticipated asset base growth of the OPEB Trust as this can depend on market environment and contribution rate of the sub-trust participants.

**Question:** The supplemental questionnaire spreadsheet requests performance data through December 2021. With approximately 60% of reported data currently available, preliminary estimates may materially over- or under-state final results (assuming roll-forward estimates would be used in lieu of reported results). Is LACERA willing to accept this estimation error or should we provide results through 9/30/21 instead?

**Answer:** RFP respondents can supply both dates if their December 2021 data is incomplete, however, December 2021 best available data must be submitted.

**Question:** Regarding question 85 of the questionnaire, please define "PS".

**Answer:** Proposed Service.

**Question:** Based on the provided OPEB Trust asset allocation, which functional asset category includes Real Estate, if any?

**Answer:** Real Estate for OPEB Trust is included under the Real Assets and Inflation Hedges category as outlined in Appendix A of the Investment Policy Statement for OPEB Trust, on page 17.

**Question:** Given the timeline for this mandate, can we provide the redacted version of our submission after the deadline?

**Answer:** No. Both the redacted and non-redacted version are due at the same time.

**Question:** Are the investment objectives of the private portfolio aligned with that of the overall portfolio? (e.g., based on the IPS, it appears the objectives include total return, current income, and inflation protection)

**Question:** Are there any additional portfolio objectives you would highlight?

**Question:** How would you rank the importance of these objectives within the private portfolio? (Or are all "equal weight" / asset class-dependent for the purposes of this portfolio?)

**Answer:** The Investment Policy Statement for OPEB Trust sets the objectives for the overall portfolio, which is inclusive of the private markets portfolio. The objectives guide the portfolio composition and the balance of different asset classes within the portfolio, while all striving for a mix of the same portfolio objectives, may have varying emphasis by objective given the nature of the asset class and the role it may play within overall asset allocation. For example, real assets may provide higher current income compared to private equity.

**Question:** What is LACERA's target rate of return for the private portfolio?

**Question:** What is the target rate of return for the whole portfolio?

**Answer:** The OPEB Trust target rate of return is guided by the asset class benchmarks for each asset class outlined on page 18 of the Investment Policy Statement. The actuarial rate of return of the OPEB Trust portfolio is 6%.

**Question:** Does LACERA have other objectives we should consider (e.g., diversification from market beta, sustainable or social and / or environmental impact objectives)?

**Answer:** The Investment Beliefs outlined in the OPEB Master Trust's Investment Policy Statement, along with our objectives guide the portfolio investments.

**Question:** What level of current income does LACERA seek from the private portfolio and how does it measure this income (i.e., income from underlying assets vs. distribution income from the portfolio including investment realizations)?

**Answer:** There is no specified level of current income for the broader Trust portfolio or the subset of private markets portfolio within the broader Trust portfolio. Different asset classes can play a different role in generating current income and meeting this objective.

**Question:** Per the "Risk Management" section of the IPS, what are LACERA's expectations for active return earned per unit of active risk taken for this portfolio?

**Answer:** The risk return profile of the private markets portfolio is guided by the asset class benchmarks for each asset class outlined on page 18 of the Investment Policy Statement.

**Question:** What is LACERA's anticipated investment horizon for the private portfolio?

**Answer:** The investment horizon for the OPEB trust is long term, and private markets is longer dated by nature compared to public markets. The time horizon could also vary across asset categories of private equity, credit, infrastructure, and real estate.

**Question:** Does LACERA have appetite for investments that may not neatly fit one of their existing asset class labels? (e.g., investments like music royalties, other intellectual property, insurance-linked securities, etc.)

**Answer:** LACERA would be receptive to different fund segments if these are seen as meeting the benchmark objectives specified in the Investment Policy Statement and OPEB guidelines.

**Question:** How often does LACERA rebalance their whole portfolio?

**Answer:** LACERA aims to manage OPEB Trust's asset allocation within the specified ranges outlined in Table 1 of Appendix A of the Investment Policy Statement. LACERA can rebalance the portfolio on a quarterly or more frequent basis as needed to stay within policy on the Asset Allocation ranges.

**Question:** Are there particular scenarios that LACERA is concerned about that should be reflected in designing the strategic asset allocation, such as Russia/Ukraine intensification or COVID-19 selloff?

**Question:** Is LACERA concerned about achieving inflation-adjusted return targets in a potentially higher rates/inflation regime, and have appetite for explicit or implicit inflation-linked assets?

**Answer:** Managers should provide LACERA with different risk scenarios to be evaluated and hypothetically stress tested against, over a long time horizon. While Russia / Ukraine and COVID-19 selloff are recent themes, LACERA would be interested in the impact of major risk events over the last few decades.

**Question:** What is LACERA's risk tolerance for the private market portfolio in terms of short-term economic vs long-term mark-to-market risk and drawdown?

**Answer:** LACERA is a long-term investor in private markets in its Fund portfolio. LACERA has long-term experience with private markets, and experience with the benefits and challenges of private markets investments.

**Question:** Would LACERA be open to equitization strategies as part of the private portfolio (i.e., day 1 fully funded portfolio with liquid strategies being used alongside private markets prior to private markets being funded)?

**Answer:** This topic is open for discussion as the search progresses.

**Question:** The IPS states that the OPEB Master Trust's long-term performance objective is to generate risk-adjusted returns that meet or exceed its defined actuarial target as well as its policy benchmark, net-of-fees, over the OPEB Trust designated investment time horizon. Can you provide some context on OPEB Trust's historical actuarial rate of return as well as its defined actuarial target?

**Answer:** As of Dec 2021, the OPEB Trust's five-year rate of return was 11.3%, and the target actuarial rate was 6%.

**Question:** Is there any specific liquidity constraint for the private market portfolio?

**Answer:** LACERA at present does not envision any liquidity constraints for the private markets portfolio. LACERA would expect liquidity features for the OPEB Trust Private Markets portfolio similar to general private markets investments.

**Question:** Are Natural Resources in scope for this mandate, in addition to 5% in Private Equity, 5% in Illiquid Credit, 8% in Real Estate, and 2% in Infrastructure?

**Answer:** LACERA is not seeking a distinct allocation to private natural resources within the OPEB Trusts private markets program, while some private equity and infrastructure funds may provide such exposure.

**Question:** At this stage in the process, what expectations do you have for respondents with regard to the IMA included along with the questionnaire and appendices?

**Answer:** The Investment Management Agreement provided with the RFP documents is meant to serve as an example for potential managers, and LACERA will negotiate and tailor the agreement with the selected manager for this specific mandate.

**Question:** As LACERA is not subject to ERISA, what, if any, conflict of interest rules are LACERA subject to that would apply to the service provider it selects?

**Answer:** Even though LACERA is not subject to ERISA, we believe that ERISA provides helpful guidelines for conflicts of interest and encourage our service providers to follow it. In addition, we follow the conflicts of interest rules set forth in the Political Reform Act of 1974, as highlighted in our Investment Policy statement under Conflicts of Interest, part of Legal Authority, and our Code of Ethical Conduct ([https://www.lacera.com/sites/default/files/assets/documents/general/ethical\\_conduct\\_2021.pdf](https://www.lacera.com/sites/default/files/assets/documents/general/ethical_conduct_2021.pdf)).

**Question:** As LACERA is not subject to ERISA, the prohibited transaction rules of ERISA do not apply to LACERA. Is the language in the draft IMA intended to require that the service provider apply ERISA prohibited transaction rules to this mandate?

**Answer:** Page 12 of the Investment Policy statement addresses prohibited transactions.