


December 1, 2023

TO: Each Trustee
Board of Investments

FROM: Jonathan Grabel 
Chief Investment Officer

FOR: December 13, 2023, Board of Investments Meeting

SUBJECT: **ANNUAL UPDATE AND REVIEW OF LACERA TOWARDS INCLUSION,
DIVERSITY, AND EQUITY (LACERA T.I.D.E.)**

The attached presentation (**Attachment**) summarizes recent activities, progress, and anticipated next steps of LACERA's T.I.D.E. initiative for Trustee review at the December 13, 2023, Board of Investments meeting.

Attachment



Annual Review of LACERA T.I.D.E. Towards Inclusion, Diversity, and Equity

Board of Investments Meeting
December 13, 2023

Discussion Outline



1. LACERA T.I.D.E. Background and Objectives of Review
2. Review of Progress in Each Pillar
 - Internal Practices
 - Due Diligence
 - Active Ownership
 - Capital Formation
 - Industry Advocacy
3. Observations

About LACERA T.I.D.E. and Today's Objectives



LACERA believes organizations comprised of diverse backgrounds and managed in an inclusive and equitable manner perform better, as compelled by our fiduciary duty and articulated as an integral component of LACERA's investment philosophy and strategy in our [Investment Policy Statement](#)

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.¹

LACERA consolidated various longstanding DEI initiatives under “LACERA T.I.D.E.” in 2020, as ratified by the Board

LACERA T.I.D.E. incorporates short- and long-term objectives across activities organized under 5 pillars and is a fundamental component of the Investment Division Strategic Work Plan

Annual review of progress against stated goals

Iterative, total team process of continuous improvement

Objectives for today's review include:

- ✓ **Assess progress against stated goals**
- ✓ **Share observations**
- ✓ **Identify opportunities to enhance effectiveness**

¹Investment Policy Statement §I(I), page 9.

Recap of LACERA T.I.D.E.'s Five Pillars



Comprehensive, synergistic strategies to implement Board-approved policies and principles to advance diversity, equity, and inclusion (DEI) in LACERA's investment program and the financial services industry

Multi-pronged initiative to advance mission to enhance and safeguard returns in adherence to fiduciary duty

Pillars range in LACERA's degree of direct influence, from left to right

Internal Practices

Foster an inclusive, diverse, and equitable workplace in LACERA's Investments Division

Due Diligence

Evaluate, influence, and monitor current and prospective investment partners

Active Ownership

Encourage sound DEI practices at portfolio companies by voting proxies and governance engagements

Capital Formation

Facilitate capital formation among firms with diverse ownership, such as emerging managers

Industry Advocacy

Improve LACERA's opportunity set by advancing DEI best practices across the financial services industry



Review of Progress Across Five Pillars

Pillar 1: Internal Practices



Internal Practices

Internal Practices

Strategies to foster an inclusive, diverse, and equitable workplace in LACERA's Investments Division



Stated Objectives

- Increase regularity and expand reach of Investments Division **internship opportunities**, aiming to enhance the familiarity of prospective careers in investments and public service
- Expand equitable and inclusive Investment Division **recruitment channels** by partnering with Human Resources to widen and deepen recruitment channels and cultivate a diverse team
- Enhance a **workplace culture** that is diverse, inclusive, and equitable to further LACERA's strategic objective to move from "Allocator to Best-in-Class Investor", expand staff's leadership skills, and support inclusivity LACERA-wide



Accomplishments

- ✓ Diversified school representation amongst interns and established a new relationship with Girls Who Invest
- ✓ Further cultivated an "Allocator to Best-in-Class Investor" mindset within the team, enhancing team engagement, sharing of best practices, and consistency in internal investment committees
- ✓ Strengthened track record of growing talent from within via internal promotions, inter-divisional transfers, intra-divisional transfers, and new hires



Next Steps

- Continue to formalize the internship program to expand asset class opportunities, host a mix of graduate and undergraduate interns, and introduce mentor relationships
- Advance effective approaches for inclusive workplace practices in a hybrid work environment
- Expand synergies in Investment Division DEI initiatives and agency-wide employee engagement and inclusion
- Widen and deepen the list of recruitment channels for greater reach of talent in prospective hires

Internship Opportunities



Internal Practices

Objective: Increase regularity and expand reach of Investment Division internship opportunities, aiming to enhance the familiarity of prospective careers in investments and public service



- **New High-Water Mark**

Grew the program in 2023 to host 4 interns, building on the prior peak of 3 interns hosted in a single year

- **New Schools**

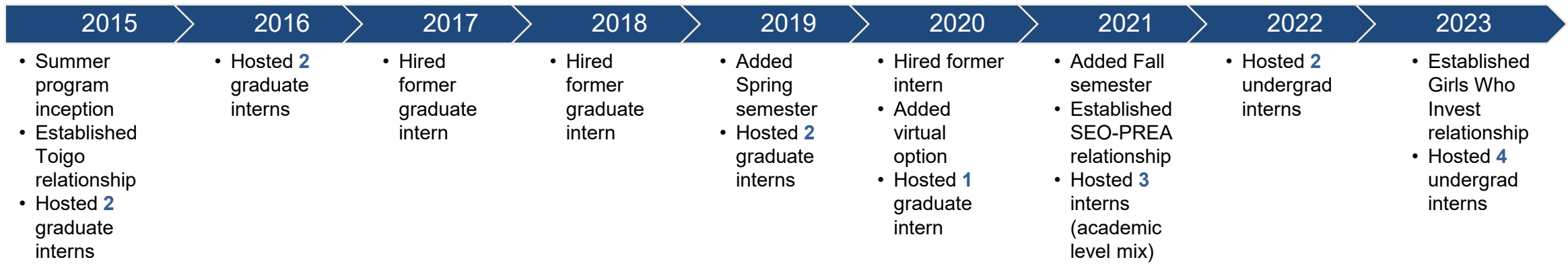
Expanded representation with new local and out-of-state schools

- **New Asset Classes¹**

Offered internship projects in additional asset classes: Real Assets and Credit

- **New Relationship²**

Established a new recruitment-focused relationship with Girls Who Invest to improve gender diversity



¹ Completed internship projects with the following teams: Real Estate, Global Equity, Private Equity, Portfolio Analytics, Real Assets, and Credit

² Intern recruitment includes relationships with Toigo Foundation, SEO-PREA, and Girls Who Invest.

Recruitment Channels



Internal
Practices

Objective: Expand equitable and inclusive Investment Division recruitment channels by partnering with Human Resources to widen and deepen recruitment channels and cultivate a diverse team



- The Investment Division developed a robust list of **recruitment contacts** that is referenced and expanded upon during each Investments job search
- Through **Affinity Groups**, we connect with communities of professionals with a common purpose
- Staff engagement in **Industry and Public Sector** organizations facilitates industry and sector recruitment
- Talent from **Colleges and Universities** ranges from students to alumni and helps identify interns as well as experienced hires
- **Professional Networks** enable wide-sharing of active opportunities within LACERA's networks
- **Next steps** include continued recruitment channel support of Investment Division career opportunities
 - *Current searches:* 2 Senior Investment Officer, 2 Financial Analyst-III, and 1 Financial Analyst-I
 - *Upcoming searches:* 1 Principal Investment Officer, 2 Senior Investment Officer



Objective: Enhance a workplace culture that is diverse, inclusive, and equitable to further LACERA’s strategic objective to move from “Allocator to Best-in-Class Investor”, expand staff’s leadership skills, and support inclusivity LACERA-wide

Cultivate a mindset of “Allocator to Best-in-Class Investor”

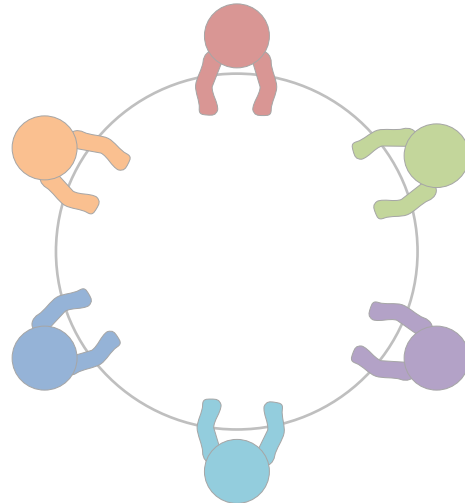
Pursue multiple strategies across asset classes to produce the best possible results

- **Regular cross-functional team projects**
 - ✓ 75% of Board of Investments meetings in 2023 include cross-functional team product (e.g., TIDE report, internal investment committees report, fee analysis report, Investments Beliefs update, Responsible Contractor Policy update, private markets analytics RFP)
- **Internal investment committees**
 - ✓ Subject-matter and functional expertise
 - ✓ Robust analysis
 - ✓ Dialogue and collaboration
 - ✓ Every member has a voice and a vote

Support LACERA Agency-wide Inclusive Culture

Contribute to inclusive agency-wide career opportunities and cohesion

- Provide opportunities for cross divisional career advancement
- Support implementation of LACERA LEAD and mentorship program
- Contribute to the success of LACERA’s Employee Council Team



Leadership development for career progression, succession planning

Expose staff to new leadership opportunities and enhance succession planning prospects

- **Open opportunities** to lead or participate in cross-functional team projects
- **Rotation of meeting chair** for
 - ✓ Quarterly internal performance reviews
 - ✓ Monthly divisional all-staff meetings
- **Inclusion of staff** to observe and participate in Investment Division senior management weekly planning meetings
- Track record of **talent development**
 - ✓ 3 internal promotions
 - ✓ 1 inter-divisional transfer
 - ✓ 2 intra-divisional transfers
 - ✓ 3 new hires

Pillar 2: Due Diligence



Due Diligence

Due Diligence

Evaluate, influence, and monitor current and prospective external managers and vendors



Stated Objectives

- **Policies:** 100% of investment partners should have DEI policies (i.e., equal opportunity and anti-harassment)
- **Transparency:** 100% of investment partners should report DEI demographics of leadership and investment teams, where available
- **Contracting:** Incorporate DEI reporting requirements in investment contracts
- **Leading Governance Practices:** Encourage adoption of four practices
 - Board oversight
 - Clawbacks
 - Pay parity assessment
 - Portfolio integration
- **Develop Separate DEI Assessment in Manager Scorecard**



Accomplishments

- ✓ Strong and stable percentage of firms with DEI policies and reporting available DEI demographics
- ✓ LACERA's routinized DEI diligence cultivates candor in manager dialogues
- ✓ Legal Office continued success in securing DEI reporting side letter agreements
- ✓ More managers invite employees to voluntarily self-identify more attributes (LGBTQ, disability)
- ✓ Firm priorities vary: some focus on recruitment channels while others emphasize retention and progression
- ✓ Onboarded new software to facilitate manager DEI diligence and other manager reporting



Next Steps

- Use data set to benchmark practices and provide managers feedback on identified effective practices, including encouraging more asset managers to adopt board oversight, pay parity analyses, clawbacks
- Support efforts to expand DEI reporting, including in non-U.S. markets and constructive strategies to identify broad range of DEI attributes
- Incorporate manager scorecard DEI pillar
- Encourage and incorporate DEI reporting from emerging managers in sub-advised programs

5-Part Upfront DEI Diligence and Monitoring



LACERA evaluates all prospective and current investment partners on DEI policies and practices

- All prospective managers complete LACERA's DEI DDQ
 - ✓ DEI DDQs are reviewed and discussed with the manager
 - ✓ LACERA's evaluation is discussed by LACERA's internal investment committees
- LACERA monitors every contracted manager on DEI policies and practices
 - ✓ Annual DEI update DDQ
 - ✓ Organizational changes and DEI reviewed in routine manager dialogue (i.e., LPACs, quarterly portfolio review monitoring calls, focused DEI discussions)

LACERA's 5-Part DEI Diligence and Sample Questions

1. Clear DEI Policies

- Does the firm have clear equal employment opportunity, anti-discrimination, and anti-harassment policies?
- How wide is policy coverage across global divisions and DEI attributes (i.e., LGBTQ, disability, religion, race, gender)

2. Board Oversight

- Does the firm's board (or executive committee in private markets) oversee DEI policies, compliance, metrics?

3. Track Record

- Available DEI demographics for the investment and leadership teams (respecting applicable laws and privacy)
- Any legal and regulatory actions and history of claims related to discrimination or harassment

4. Practices to Promote Adherence

- Does the firm conduct pay parity analyses, have clawbacks in place in the event of misconduct?
- Does the firm have any objectives or initiatives to encourage inclusive and equitable workplace practices?

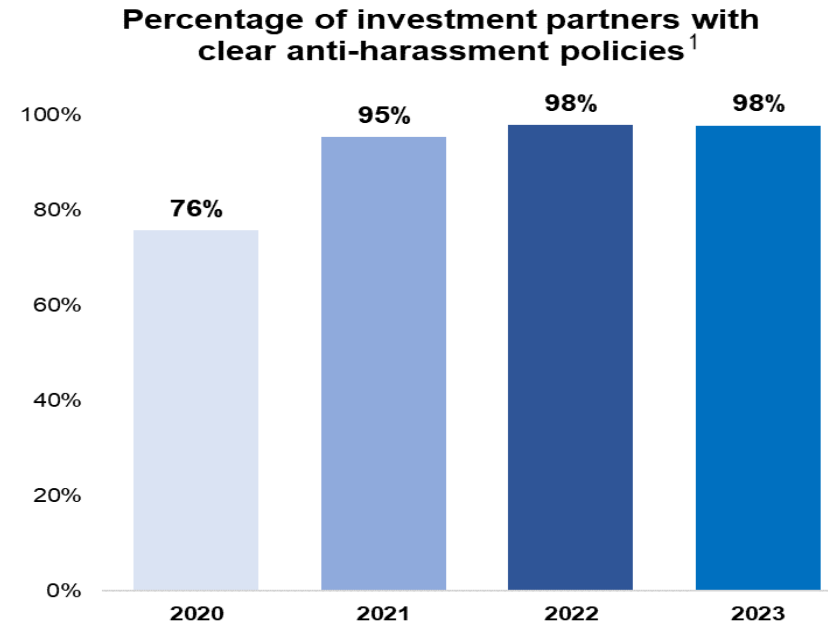
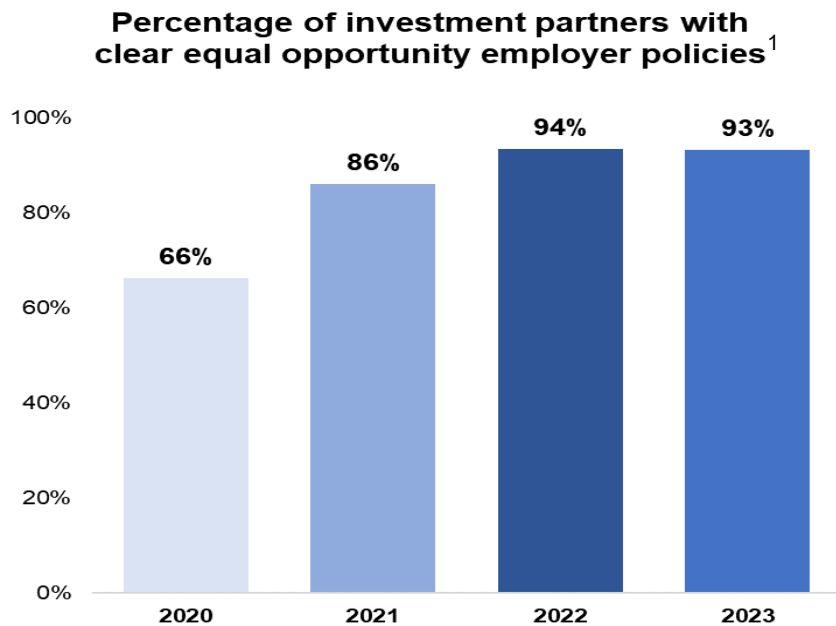
5. Portfolio Integration

- Does the firm consider DEI practices in their management of LACERA's portfolio (i.e., non-discrimination policies and training in real estate, assisting portfolio companies to establish clear EEO policies in private equity)



Established and Clear DEI Policies in Place

Objective: 100% of investment partners should have clear DEI policies



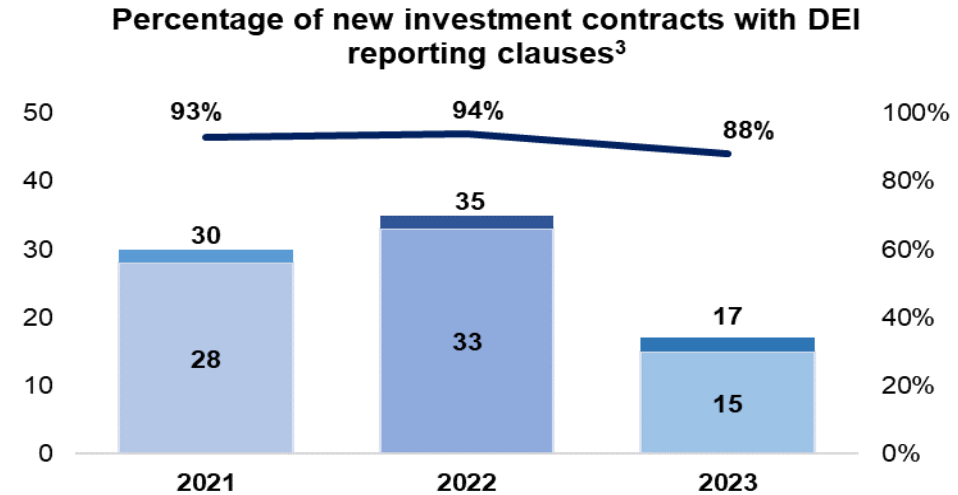
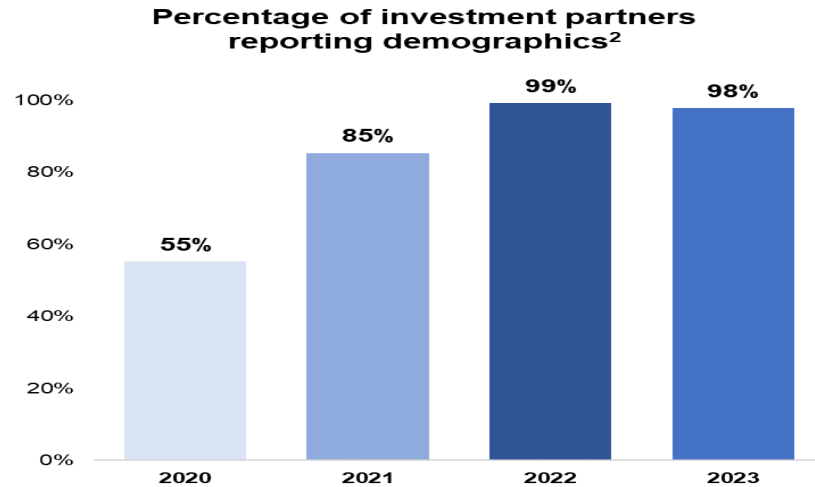
Observations

- Continued high proportion of firms with DEI-related policies
- Increase in firms over time with policies driven by firms adopting policies and more attentive manager reporting
- Firms lacking policies continue to be concentrated among non-US firms, smaller firms, and legacy funds where LACERA has not re-upped

¹ Number of firms assessed: 107 in 2020, 107 in 2021, 130 in 2022, 136 in 2023 (includes U.S. and non-U.S based investment managers; excludes co-investments, liquidating mandates, secondaries, terminated firms, and all asset classes subadvisors' emerging managers who will be assessed in FY2024).



Objective: 100% of investment partners should report available investment team and firm leadership demographics¹



Observations

- Continued high levels of reporting from nearly all mandates
- Data quality and consistency improving but challenges remain for clarity and cross-border comparability
- Nearly all executed contracts continue to include clauses and terms to promote DEI reporting³
- Diversity attributes remain limited in scope
 - EEO-1 reporting requirements facilitate gender and race disclosures among US firms
 - Reported demographics at some non-US firms limited to gender demographics
 - All firms invited to report additional attributes on self-identified, voluntary basis
 - Some firms invite employees to self-report additional attributes (e.g., LGBTQ, disability status) although challenges to aggregate remain

¹ As permissible according to local market laws, regulations, and privacy concerns.

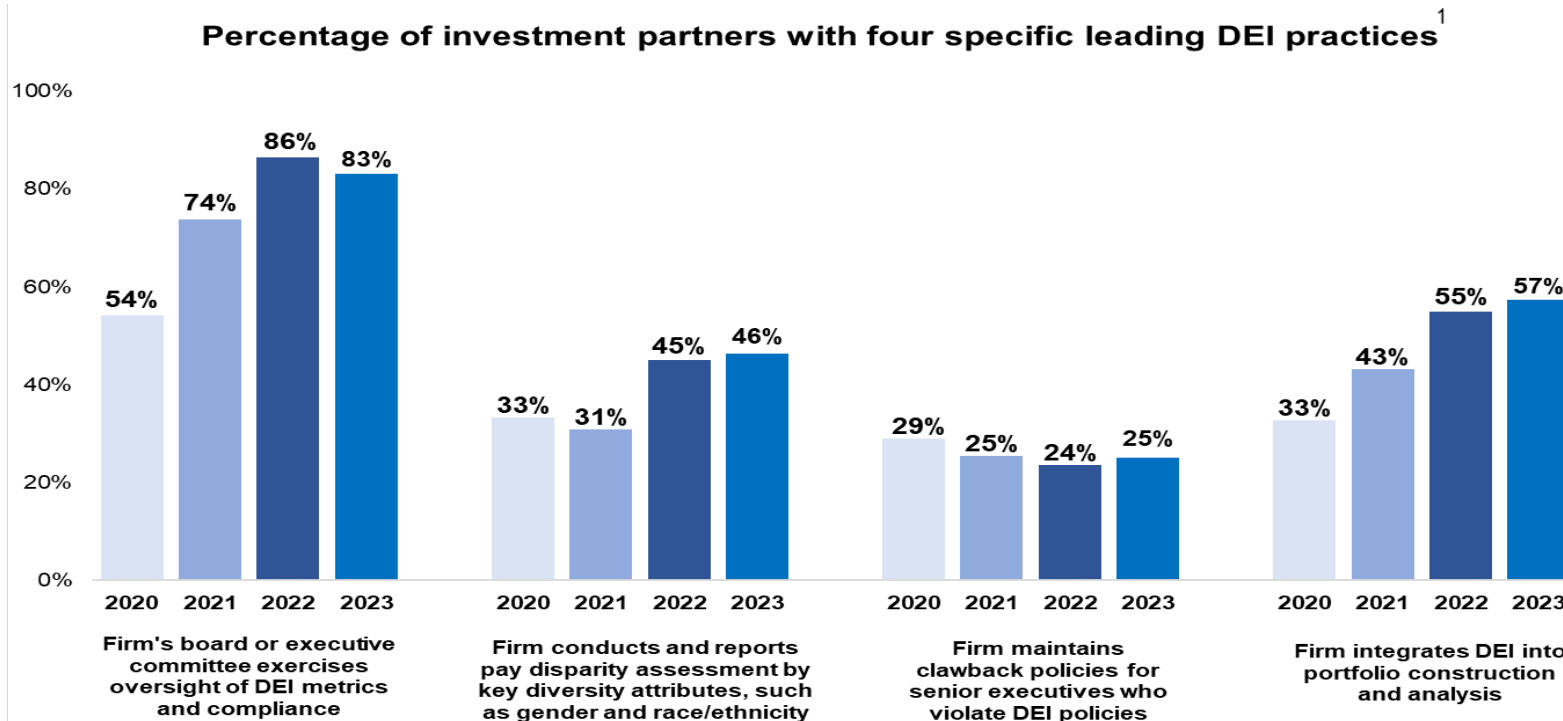
² Number of firms assessed: 107 in 2020, 107 in 2021, 130 in 2022, 136 in 2023. FY2022 one firm (Montefiore) did not provide any demographic information. In FY2023, three firms did not provide any demographic information (Hudson Bay, Montefiore, and Novacap) and one firm (Onex) provides some demographic information but not in comparable format (includes U.S. and non-U.S based investment managers; excludes co-investments, liquidating mandates, secondaries, terminated firms, and all asset classes subadvisors' emerging managers who will be assessed in FY2024).

³ Stacked bars represent number of contracts with DEI clauses out of total contracts completed during each fiscal year and line is percentage representation.



Promote Leading DEI Governance Practices

Objective: Encourage adoption of four practices encouraging adherence to firms' DEI commitments



Observations

- Board oversight of DEI practices is prevalent and has trended upwards over the past four years
- Slight increase in percentage of firms with pay disparity analysis, clawback provisions, and portfolio integration
- Robustness and formality of reported practices vary

¹ Number of firms assessed: 107 in 2020, 107 in 2021, 130 in 2022, 136 in 2023 (includes U.S. and non-U.S based investment managers; excludes co-investments, liquidating mandates, secondaries, terminated firms, and all asset-classes subadvisors' emerging managers who will be assessed in FY2024).



Sample of Progress from Investment Partners

Discussions and diligence with investment partners indicate several themes and advances in efforts towards inclusion, such as:

- ✓ New software tools are facilitating employees to self-identify and report wider range of DEI attributes
- ✓ Increasing focus on inclusion in senior ranks, investment committee composition, and developing promotion pathways
- ✓ Wider practice of proactively assessing pay parity in more markets

A Global equity manager will expand pay parity analysis from US and UK markets to conduct global analysis for gender equity in 2024

Credit manager expanded 2023 intern class to 67 interns (largest class yet) sourced from 45 colleges and universities to promote exposure to alternative assets management

Global equity firm started conducting pay parity analyses and adopted a new clawback provision

Global equity firm adopted a new clawback policy

Several Private Equity managers started reporting portfolio company board diversity through ILPA ESG Data Convergence Initiative

Private equity firm expanded firm-wide DEI efforts, increasing diverse representation, widening recruitment funnels, and focusing on inclusivity within its portfolio company board of directors

Several large firms have adopted HR software to enable employees to voluntarily report self-identified DEI attributes including LGBTQ, disability, and ethnicity or national origin in various global markets

Global equity firm has focused on mid-level investment career progression and retention through coaching and mentorship



Manager Scorecard DEI Assessments

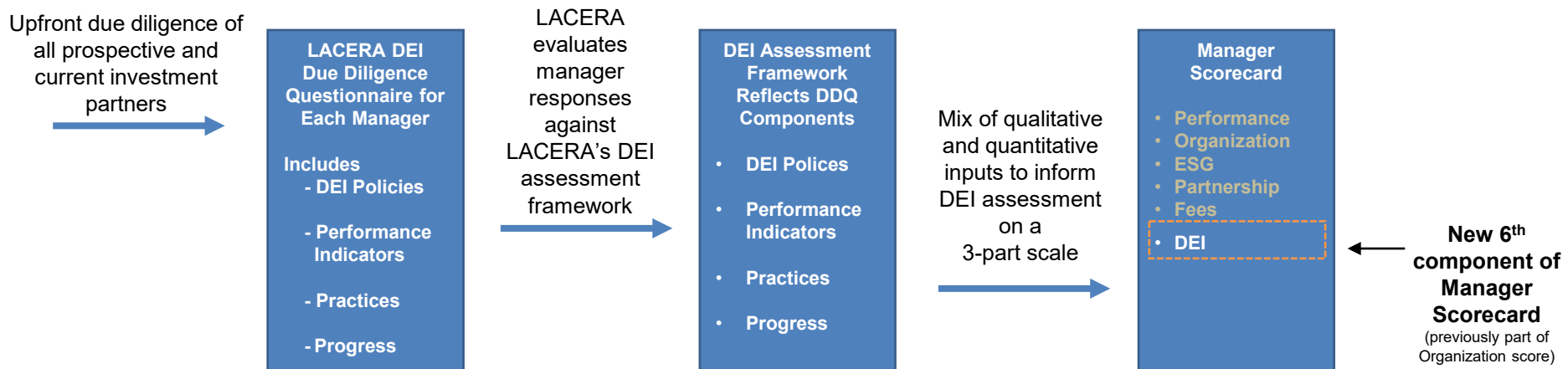
Objective: Develop separate DEI assessment in Manager Scorecard

Recent Activity

- LACERA’s Manager Scorecard covers 5 pillars: organizational strength (includes DEI), fees, performance, ESG, relationship quality
- LACERA developed a DEI assessment framework in 2020 which is aligned with LACERA’s DEI DDQ first launched in 2018
 - All investment mandates assessed and updated across portfolio
 - Each analyst in all asset classes assesses managers’ DEI policies and practices consistent with the same LACERA assessment framework
 - DEI assessment conducted as part of upfront due diligence and then continued through annual DEI update DDQ and manager discussions
 - DEI policies, performance, and progress assessed with both qualitative and quantitative metrics

Next Steps

- LACERA will separate the DEI score from the Organizational Strength pillar and report DEI assessments in performance monitoring reports in 2024



Pillar 3: Active Ownership



Active
Ownership



Stated Objectives

- Vote proxies to advance effective DEI policies and disclosures at portfolio companies
- Advance focused engagement initiative on corporate board quality at portfolio companies, inclusive of (and not limited to) diverse gender, race, and LGBTQ community
- Increase DEI focus in private asset class portfolio companies



Accomplishments

- ✓ Proxy voting and investor focus driving increased DEI disclosures and focus on best practices
- ✓ Over 380 directors of diverse backgrounds appointed at 300 engaged companies in past 5 years
- ✓ Engaged strategic private equity partners on portfolio company board recruitment and DEI practices
- ✓ Reviewed real estate managers on DEI practices within responsible contracting practices



Next Steps

- Continue voting for sensible DEI practices, including disclosure and current market focus on pay parity analysis, clawbacks, equity audits
- Continue board engagement project with California partner funds, including 52 more companies this year
- Integrate takeaways from private equity portfolio boards DEI review into fund underwriting and monitoring

**Active
Ownership**

Encourage sound
DEI practices at
portfolio
companies by
voting proxies and
governance
engagements



Objective: Encourage inclusive board recruitment and workplace practices at portfolio companies through our proxy voting, as outlined in LACERA’s Corporate Governance and Stewardship Principles

Corporate Board Quality and Diversity

Effective Workplace Practices

LACERA Principles Positions

- ✓ Quality boards include diverse backgrounds with the requisite skill mix to oversee strategy and risk on investors’ behalf
- ✓ Diversity is broadly defined, including gender, race, ethnicity, gender identities, sexual orientation, and disability status

- ✓ Effective human capital management helps create firm value
- ✓ Equal opportunity and workplaces free of harassment are key

Notable Voting Updates

- ✓ LACERA opposed 9% of director nominees across markets who serve as Nominating Committee chairs or members in FY2023 for lacking a credible track record of inclusion, based on available board DEI disclosures¹

- LACERA support effective DEI-related shareholder proposals:
- ✓ Pay equity proposals
 - ✓ Civil rights/racial equity audits to assess disparate impacts of business services or products
 - ✓ Assess effectiveness of DEI policies

Market Trendlines

- ✓ All large U.S. firms now have some gender and racial representation
- ✓ Emerging research on LGBTQ inclusion: 3% of Russell 3000 directors²
- ✓ Race/ethnicity representation is uneven among broad U.S. index³
 - ❖ 8% disclosed as Black/African American
 - ❖ 7% disclosed as Asian
 - ❖ 4% disclosed as Hispanic/Latin American
- ✓ Some non-U.S. markets have very low gender inclusion
 - ❖ Highest percentage of firms with no women on boards: Saudia Arabia (73%), Indonesia (44%), Mexico (27%), Taiwan (27%), China (25%), and South Korea (21%)⁴

- ✓ Inaugural civil rights assessments issued by several U.S. financial firms in 2023, including BlackRock and State Street
- ✓ More focus on pay equity analyses
 - ❖ 32% of larger firms disclose gender equity analysis⁵
 - ❖ 24% of larger firms disclose race/ethnicity pay analysis⁵
- ✓ More focus on DEI initiatives
 - ❖ 26% of larger firms disclose initiatives to increase diversity and equal opportunity through hiring, workforce composition, promotion, or retention⁵

¹ Analysis by LACERA and ISS covers FY2023 proxy votes.

² The Conference Board, “How Board Diversity Can Contribute to Board Effectiveness”, <https://www.conference-board.org/pdfdownload.cfm?masterProductID=49284>.

³ ISS Corporate Solutions, “Russell 3000 Boards Becoming More Diverse”, <https://insights.issgovernance.com/posts/russell-3000-boards-becoming-more-diverse/>.

⁴ MSCI ESG Research LLC, “Women On Boards: 2022 Progress Report”, https://www.msci.com/documents/10199/36771346/Women_on_Boards_Progress_Report_2022.pdf.

⁵ Just Capital, “The Corporate Guide to Human Capital Disclosure”, <https://justcapital.com/reports/corporate-guide-to-human-capital-disclosure/>.



Corporate Board Diversity Engagement Initiative



368 directors appointed at
291 engaged companies over
5 years

Objective : Encourage board quality by casting a wide net for director talent, inclusive of diverse backgrounds i.e., gender, race/ethnicity, LGBTQ

Initiative: 5th year of collaborative engagement with peer California funds (CalPERS, CalSTRS, and San Francisco ERS)

- Identify and engage portfolio companies lagging in board diversity based on available disclosures
- Letters and dialogues with corporate directors to encourage robust board self-evaluation to identify requisite skills and wide recruitment

Progress Report

- **36 directors** appointed at 28 of 60 at engaged US firms last year
 - ✓ 26 women and 22 directors of color, of whom 12 women of color
- **368 directors appointed over past four years** at 219 boards of the 291 total engaged companies
 - ✓ Includes both women and people of color
 - ✓ 4 firms disclosed LGBTQ board representation
 - ✓ All disclosures on voluntary, self-identified basis

Next Steps: Current FY2024 Engagement Cycle

- LACERA and partner funds are currently engaging 52 additional firms

Expand DEI Engagements in Private Market Portfolio Companies



Active
Ownership

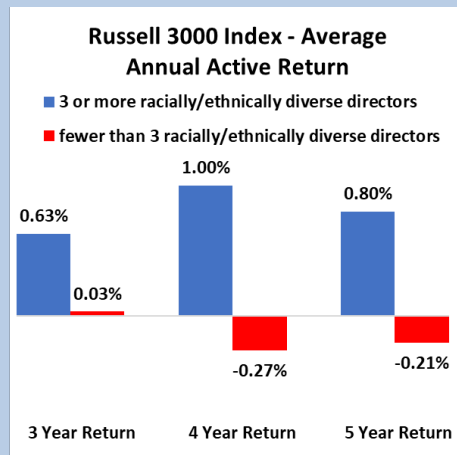
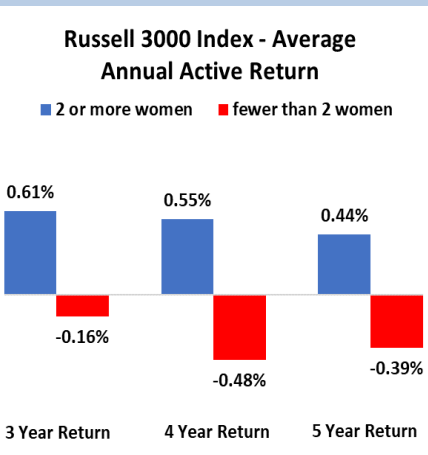
Objective: Advance portfolio company board diversity across range of attributes and constructive DEI practices in private markets to encourage firms to cast wide net for talent

Initiatives

- Launched project to engage a representative sample of nine private equity firms to discuss their strategies to ensure diverse perspectives and backgrounds on portfolio company boards to oversee business strategy and growth
 - All firms engaged recently started tracking diversity statistics of portfolio companies and utilize outside directors on portfolio company boards
 - All firms engaged emphasize diversity as a consideration in ensuring board quality
 - Outside board directors are typically sought out for specific skills or experience outside of deal team expertise
 - Some firms utilize formal value creation plans to guide director search, but most rely on more informal processes
- Restated Responsible Contractor Policy (RCP) in 2022, incorporating DEI expectations of real assets managers (*Reported at Nov 2023 BOI meeting*)

Next Steps

- Incorporate questions into LACERA's standard private markets due diligence questionnaire on how general partners compose portfolio company boards
- Request portfolio company board and workforce DEI data from general partners, when available



- Empirical evidence continues to show board diversity correlates with outperformance¹
- However, private equity portfolio company boards indicate low inclusion profiles across the industry:²
 - 32% have no women³
 - 16% of directors are women
 - 4% are women of color
 - 20% are men of color

¹ Institutional Shareholder Services, "The Content of Their Character: How Diversity & Inclusion Continue to Drive Change", <https://insights.issgovernance.com/posts/the-content-of-their-character/>.

² Him for Her & Crunchbase, "2022 Study Of Gender Diversity On Private Company Boards", <https://news.crunchbase.com/diversity/2022-gender-study-private-boards/>.

³ Data covering corporate board diversity at private companies not widely available; study analyzed 667 companies of which 213 had no women serving on their boards.

Pillar 4: Capital Formation

Capital Formation

Strategies to facilitate capital formation among firms with diverse ownership, such as emerging managers



Stated Objectives

- Systematically track firm ownership attributes across Fund, as available
- Take holistic view of capital formation by tracking allocations by firm demographics
- Ensure robust emerging manager opportunities across Fund
- Identify opportunities to widen sourcing funnel



Accomplishments

- ✓ Expanded systematic reporting on firm ownership demographics
- ✓ Increased emerging manager program opportunities
 - Launched search for Real Assets emerging manager separate account manager
- ✓ Continued annual review of the diversity practices of all LACERA's investment consultants
- ✓ Implemented new centralized routing for incoming opportunities via newopportunities@lacera.com



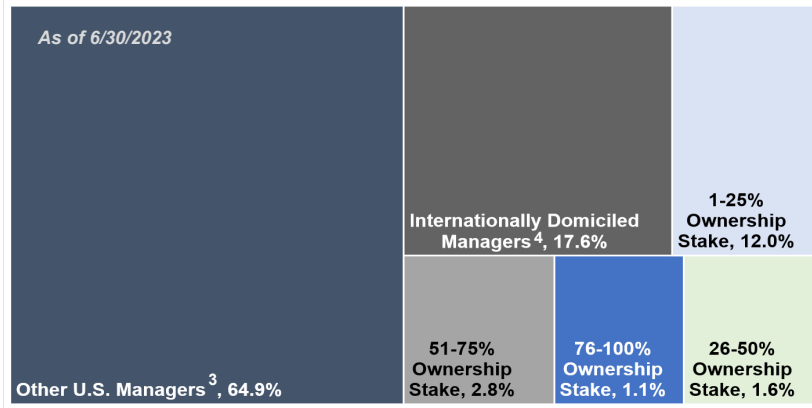
Next Steps

- Continue to enhance insights on firm ownership demographics, where available
- Continuously widen sourcing funnel for managers who embrace diverse teams to improve portfolio results
- Further expand emerging manager opportunities with funding of Real Assets emerging manager program
- Provide the Board statistics on investment managers' utilization of diverse brokerage programs in future presentations

Investment Partners by Firm Ownership

Objective: Systematically track demographics of investment partners' ownership across all mandates (to the extent they are available and reported) to monitor reach of inclusion of LACERA's capital commitments

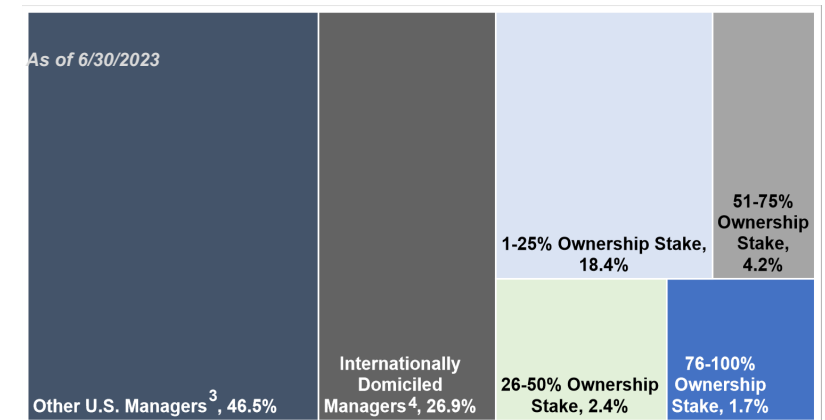
Total Fund AUM by Firm Ownership¹



- An aggregate of 17.5% of total Fund AUM is managed by U.S.-based firms with a portion of firm ownership held by women or people of color²
- This increased from 14.6% in 2022 and 6.9% in 2021 in part due to enhanced reporting. In absolute terms, assets managed by U.S.-based diverse firms equaled US\$12.9 billion compared to \$US\$10.1 billion in 2022, and US\$5.0 billion in 2021
- 1.9% of total Fund AUM (\$1.4 billion) are managed by U.S.-based firms with diverse ownership in LACERA's emerging manager programs, relatively even from 1.8% from last year, compared to 1.3% (\$910.4 million) in 2021 and 1.2% (\$582.6 million) in 2020

Active AUM by Firm Ownership¹

- 26.7% of assets (\$12.9 billion) in actively-managed mandates (i.e., excluding passive index strategies) are managed by U.S.-based firms with diverse ownership, increased from 22.2% in 2022 and up from 10.6% in 2021
- 2.9% (\$1.4 billion) of actively managed strategies are managed by U.S.-based firms with diverse ownership that are in LACERA's emerging manager programs, relatively unchanged from 2.8% from last year, and increased from 1.5% in 2021



¹ Firm ownership profiles assessed for 59 U.S.-based firms where ownership data was disclosed (includes private equity emerging managers but excludes other asset subadvisors' emerging managers who will be assessed in FY2024).

² Diverse ownership indicates firms that report a portion of equity ownership by women and/or people of color based on EEO-1 classifications. Firms were invited to report additional DEI attributes. Additional DEI attributes were not uniformly reported in a manner that could be incorporated into analysis nor had a material impact on the calculations reported in the charts. LACERA will continue to endeavor to incorporate additional reporting in the future.

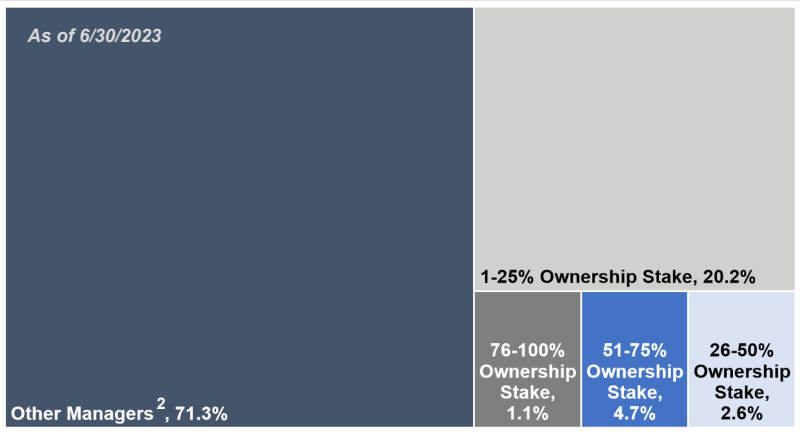
³ "Other US Managers" includes publicly traded companies (individual ownership data not available), co-investments, liquidating mandates, secondaries, terminated firms and US-based managers with no reported equity ownership by women or people of color.

⁴ "Internationally Domiciled Managers" category represents assets managed by non-U.S. firms, regardless of ownership DEI attributes.

Fee Analysis by Firm Ownership

Objective: Monitor fee distribution by reported investment partners' ownership across all mandates (to the extent they are available and reported) to monitor equity and inclusion of LACERA's capital commitments

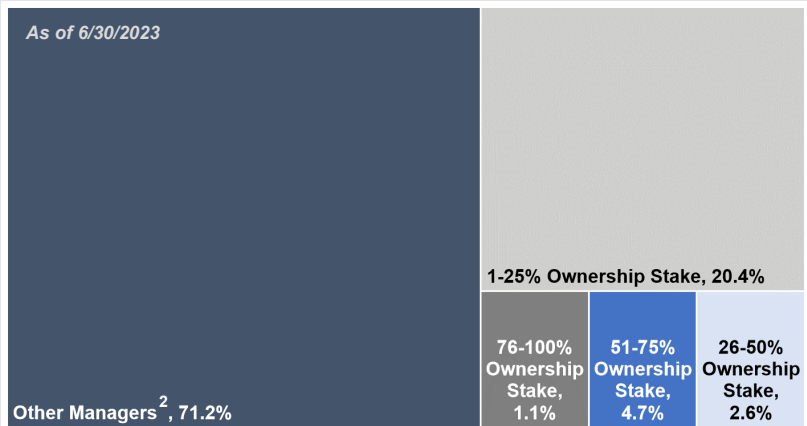
Total Fund Fees Paid by Ownership¹



- Aggregate fees paid to U.S.-based firms with diverse ownership increased to 28.7% of total Fund fees paid, compared to 25.4% in 2022 and 12.7% in 2021
- Fees paid to emerging managers with diverse ownership represent approximately 4.7% of total Fund fees paid. This is modestly increased from 4.1% from previous year and 2.8% from 2021³

Active Fees Paid by Ownership¹

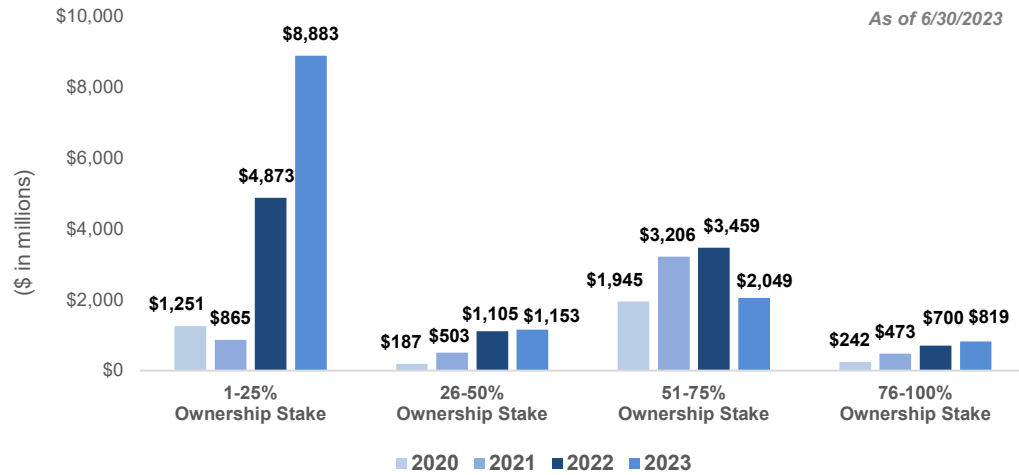
- Fees paid to U.S.-based firms with diverse ownership in actively-managed investment mandates rose to 28.8% of total active fees paid, relative to 25.6% last year and 12.8% in 2021
- Emerging managers with diverse ownership represent approximately 4.7% of fees for actively managed mandates, modestly increased from 4.1% in 2022 and 2.8% in 2021



¹ Firm ownership profiles assessed for 59 U.S.-based firms where ownership data was disclosed (includes private equity emerging managers but excludes other asset subadvisors' emerging managers who will be assessed in FY2024).
² "Other Managers" includes publicly traded companies that do not disclose broad employee ownership, U.S.-based managers with no diverse ownership, and internationally domiciled managers.
³ LACERA's Emerging Manager Policy defines emerging managers as independent firms that have less substantial assets under management and may be composed of diverse-owned firms and non-diverse-owned firms.

Investment Partners Trend Analysis

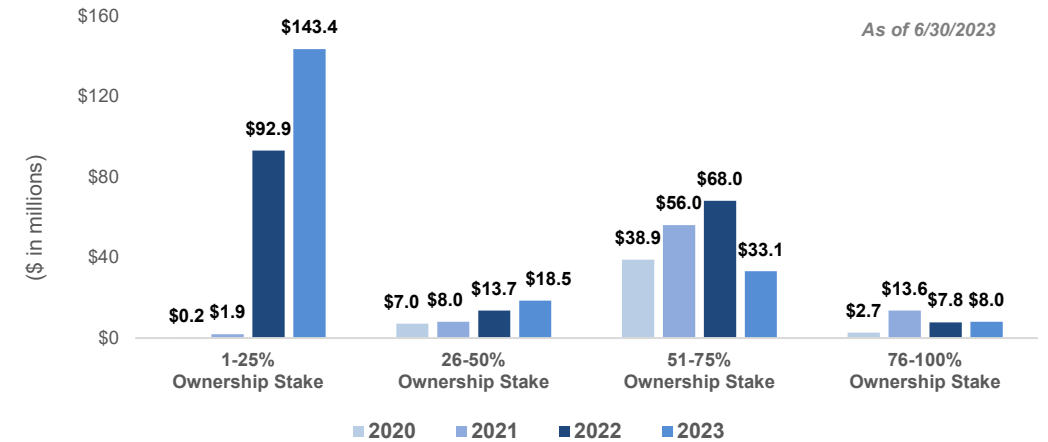
US AUM by Ownership¹



- Increased representation of firms with diverse ownership largely driven by LACERA more deliberately inviting all firms to provide available demographics of their equity owners
- In absolute dollar terms, total AUM managed by firms with diverse ownership equaled \$12.9 billion. This increase is due to more firms reporting demographics of their equity owners and similar to last year, resulted in a substantial rise in the 1-25% diverse ownership category
- After normalizing changes in reporting firms for the year-over-year data, the percentage of assets managed by firms with diverse ownership remained relatively unchanged from prior year

US Fees Paid By Ownership¹

- In absolute dollar terms, total fees paid to managers with diverse ownership rose to \$202.9 million. This gain is mostly due to an increase in number of firms reporting equity ownership demographics
- After normalizing the year-over-year manager data and comparing it to year-over-year AUM, fees paid to managers with diverse ownership remained flat
- LACERA consistently structures each mandate with the best possible terms available across the total Fund to enhance future outcomes

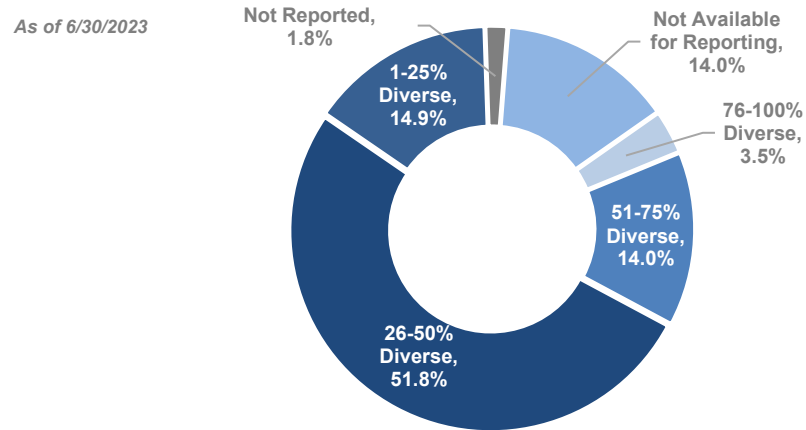


¹ Firm ownership profiles assessed for 59 U.S.-based firms where ownership data was disclosed (includes private equity emerging managers but excludes other asset subadvisors' emerging managers who will be assessed in FY2024).

Investment Partners Demographic Attributes

Objective: Monitor capital commitments by demographics of investment partners' investment and leadership teams as new firms may be founded by professionals from established firms

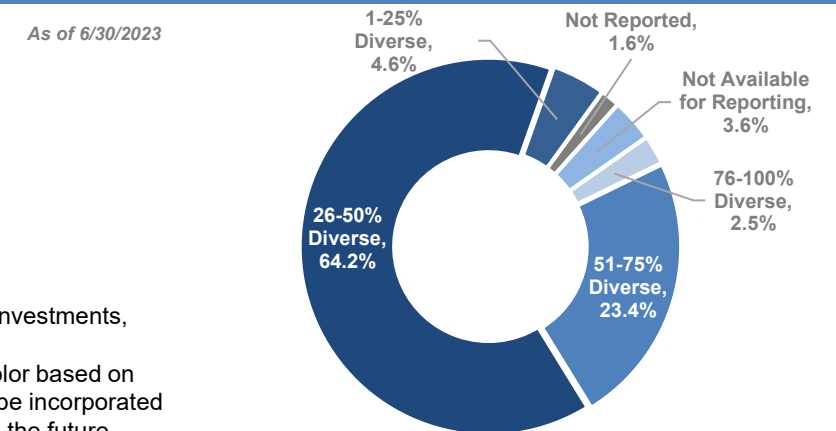
Breakdown of U.S. Managers by Investment and Leadership Team Demographics¹



- The U.S. manager distribution by reported demographics shows the percent composition of investment and leadership teams that are women and/or people of color, based on firm-provided demographic information²
- For example, 17.5% of investment partners have investment and leadership teams comprised of over 50% women and/or people of color

Total LACERA AUM by U.S. Demographic Composition¹

- The chart on the right shows the distribution of LACERA's assets managed by U.S.-based managers divided by quartile of their combined investment and leadership team demographics that include women and/or people of color
- For example, over 25% of LACERA assets are managed by teams with greater than 50% of their combined investment and leadership comprised of women and/or people of color. Team demographics remained relatively unchanged across the various categories



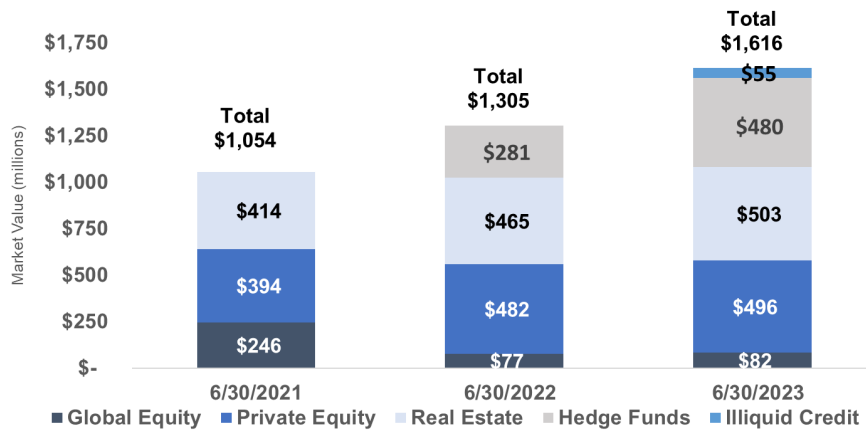
¹ Firm demographic profiles available for 98 U.S.-based firms where demographic data was disclosed. "Not Available for Reporting" category includes co-investments, liquidating mandates, secondaries, terminated firms, and subadvisors' emerging managers; latter will be assessed in FY2024.

² Diverse investment and leadership team demographics reflect firms' composition of their investment and leadership teams by women and/or people of color based on EEO-1 classifications. Firms were invited to report additional DEI attributes. Additional DEI attributes were not uniformly reported in a manner that could be incorporated into analysis nor had a material impact on the calculations reported in the charts. LACERA will continue to endeavor to incorporate additional reporting in the future.

Broadening Inclusion through Emerging Manager Programs

Objective: Evaluate newer firms that may generate attractive returns, stemming from flexibility provided by smaller asset bases and more nimble investment approaches

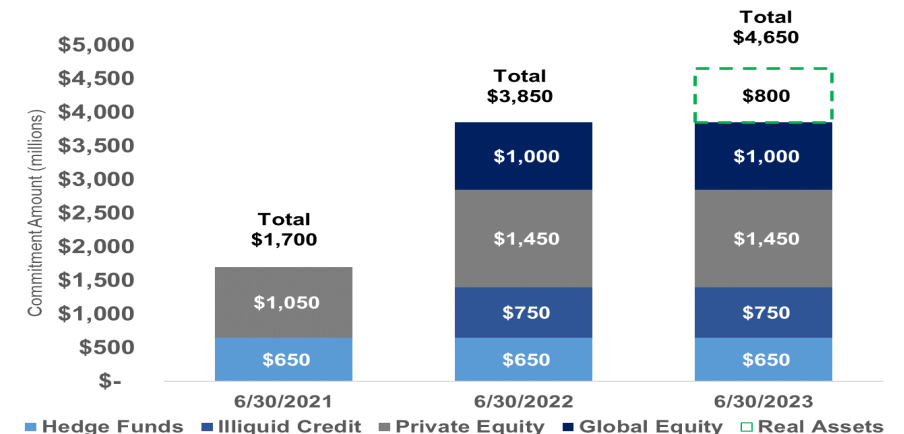
LACERA Emerging Manager Market Value



- LACERA's emerging manager market value increased to \$1.6 billion in June 2023, compared to \$1.3 billion in June 2022 and \$1.0 billion in June 2021 mainly due to increased investments to emerging managers
- LACERA deployed \$255 million to new emerging manager mandates during fiscal year (\$200 million to hedge funds and \$55 million to illiquid credit)
- Majority of new allocations to emerging managers are in drawdown vehicles and may take longer for LACERA to deploy capital
- Two global equity emerging manager separate account manager mandates being finalized

Expanding Allocation Opportunities to Emerging Manager Asset Categories

- LACERA increased its emerging manager target allocations by \$800 million from prior year, and almost by \$3.0 billion from June 2021
 - Illiquid Credit emerging manager program approved for 15% target allocation in October 2021
 - Private equity initiated its 5th emerging manager program with a \$400 million allocation in February 2022
 - Board increased global equity emerging manager program target range by 5% (~\$1 billion) in October 2022
 - Real Assets emerging manager program launched with a \$800 million allocation in January 2023 (\$400 million to Real Estate and \$400 million to Infrastructure and Natural Resources)

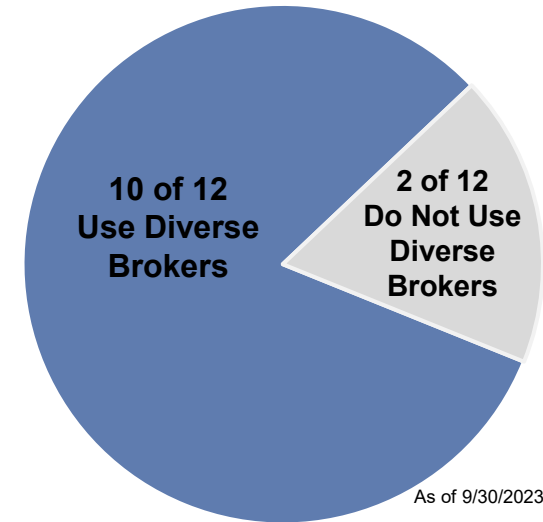


Investment Partners and Diverse Brokers

Objective: Assess and monitor how investment partners access brokerage services, including firms with diverse ownership, to highlight effective practices that deliver optimal outcomes for LACERA’s investments and consider best practices in manager due diligence and monitoring

Update: During 2023, LACERA assessed all investment partners managing public equities mandates for LACERA to understand the reach, opportunities, and constraints of accessing and using brokerage services that have diverse ownership

- Notably, the majority of investment managers (10 of 12) use diverse brokers¹
- Firms’ usage of diverse brokerage providers varies by trade volume depending on the opportunity set available for the specific mandate, the strategy type, and the geographic market (i.e., U.S. versus Europe)
- All of LACERA's investment partners have established programs to evaluate available brokerage firms as part of their efforts to deliver best execution consistent with regulatory requirements
- Four of LACERA’s largest investment partners have dedicated programs to actively seek and engage brokerages with diverse ownership



Next Steps:

- Expand LACERA’s assessment and measurement of investment partners to all asset classes utilizing brokerage services
- Conduct deeper analysis of opportunities and considerations for future presentation and discussion with the Board

¹ Note that firms analyzed define diversity differently, often citing various federal program guidelines and eligibility requirements, and included reference to businesses that are majority-owned by individuals based on attributes such as gender, race/ethnicity, veteran status, physical abilities/disability, and LGBTQ status.

Pillar 5: Industry Advocacy

**Industry
Advocacy**

Strategies to improve LACERA's opportunity set by advancing DEI best practices across the financial services industry



Stated Objectives

- Expand industry influence through active engagement initiatives
- Collaborate with peers to identify and disseminate effective practices and increase reporting reliability
- Sponsor events on diversity, equity and inclusion with increasing reach
- Become a recognized leader in advocating for DEI in investment management industry



Accomplishments

- ✓ Trustees and staff participated at over 75 events since launch of LACERA T.I.D.E.
- ✓ Continued collaboration and outreach with affinity groups, industry organizations and business partners to increase visibility of LACERA's advocacy efforts
- ✓ Board of Investments approval to become a signatory to the CFA Institute DEI Code
- ✓ Co-created a series of nine Southern California investors' roundtable discussions and led two virtual DEI conferences in collaboration with the CFA Society of Los Angeles



Next Steps

- Continue outreach to organizations to broaden advocacy of LACERA T.I.D.E.
- Seek to influence trade organizations, consultants and other business partners to improve quality of DEI data and disclosures and to disseminate best practices
- Support efforts to develop effective DEI disclosures in non-U.S. markets, such as CFA DEI Code market-based codes in development in Australia and more forthcoming markets
- Explore strategies to consolidate data collection and dissemination across the investment management industry

Expand Industry Influence



Objective: Expand industry influence through active engagement initiatives

Update: Trustees and staff participated at over 75 events since launch of LACERA T.I.D.E.

Select Events and Partnerships Since Launching T.I.D.E.

AAAIM Conference
Accelerate Investors West Coast Forum
Bloomberg Women's Network
CALAPRS Trustees Roundtable
Catalyst: California's Diverse Investment Manager Forum
Council of Institutional Investors
Girls Who Invest
Hispanic Heritage Foundation Investors Forum
ILPA Diversity in Action Roundtable
Investment Diversity Advisory Council
LACERA and CFALA annual DEI Conference
LACERA/CFALA Diversity Roundtables
LAVCA - The Association for Private Investments in LatAm
NAIC Diverse Manager Roadshow
NASP SoCal
Nossaman DEI Roundtable
Prequin Women in Alternatives
RFK Compass Winter Investors Conference
Southern California Institutional Forum
Women In Institutional Management
Women Investment Leaders Summit

Highlighted Events Attended within the Past Year



Featured speaker at the Association of Asian American Investment Managers' Elevate Conference



LACERA co-launched an annual diversity, equity, and inclusion conference as well as a series of DEI roundtable discussions throughout the year



Participant in the panel discussion during the Girls Who Invest Orientation of the Summer Intensive Program



Featured speaker at the 10th Annual Hispanic Heritage Foundation Investors Forum



Featured speaker at the IDAC Global Summit, a forum for investment organizations to share best practices and document progress on DEI

Collaborate to Advance Best Practices

Objective: Collaborate with peers to identify and disseminate effective practices

Update: Ongoing outreach with industry organizations, asset managers, consultants and other public pension plans



LACERA actively collaborates with industry groups to advance effective practices within the investment management industry. Highlights include:

Enhance DEI and Human Capital Disclosures

- Chaired Council of Institutional Investors through Spring 2023, including support for DEI educational programming, diverse speaker recruitment, and advocacy for DEI reporting at regulatory and standard setting agencies
- ILPA DEI Committee member and continuous collaboration on ILPA DEI metrics template and DDQ
- Support IFRS sustainability reporting framework including human capital and DEI corporate reporting, including June 2023 launch of global baseline ESG corporate reporting guidance
- PRI committee member and collaboration on PRI DEI DDQ template launched in 2022

Increased Dialogue with Emerging Managers

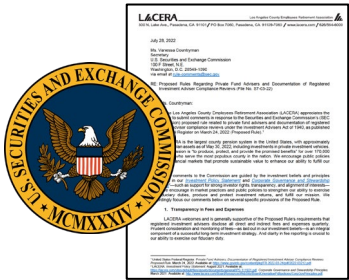
- Emerging manager conversations through AAAIM, NAA, NAIC, and NASP
- NASP SoCal Trustee Conference

Identify and Disseminate Effective Practices



Objective: Collaborate with peers to identify and disseminate effective practices

Update: Continue to make strides through various avenues to promote increased availability, transparency and quality of DEI data



LACERA Engages the SEC on Diversity and Side Letter Matters

- LACERA comment letter and continued advocacy to encourage the Securities and Exchange Commission (SEC) to require public companies to disclose human capital metrics, including workforce composition, such as DEI information
- LACERA SEC comment letter to discourage proposed restrictions on side letter agreements with private fund managers, by which LACERA has successfully prompted routine reporting on manager DEI policies and track records



Board of Investments Approves Becoming a Signatory to the CFA Institute DEI Code

- LACERA became signatory to the CFA Institute's DEI Code in April 2023, committing to the Code's six Principles to drive DEI progress in talent pipeline, staff acquisition, promotion and retention, leadership, influence, and measurement
- Trustee's approval of LACERA's participation allows for potential benefits such as i) further advancement of TIDE advocacy, ii) ability to drive further adoption of the DEI Code, iii) the ability to further standardize disclosures surrounding DEI demographics, including in non-U.S. markets where DEI reporting is currently limited



LACERA supports CII in Advocating for Increased Diversity in Capital Markets

- Moderated conference panel on strategies for asset owners to diligence investment partners
- Support of CII advocacy, including NASDAQ listing requirement for companies to include board directors of diverse racial, gender, and LGBTQ backgrounds or explain why they do not, as well as legislative proposals for board diversity disclosures

Increasing Reach Through Event Sponsorship



Objective: Sponsor events on diversity, equity, and inclusion with increasing reach

Update: LACERA, in partnership with the CFA Society of Los Angeles, has launched nine DEI roundtables and two annual conferences surrounding diversity, equity, and inclusion with local industry participants

LACERA and CFALA Roundtables

- Roundtable discussions include 10 to 40 participants across Southern California asset owners, investment managers, and investment consultants to facilitate intimate DEI discussions
- Topics address advancing DEI within the investment management industry, i.e. establishing diversity policies, expanding recruiting practices, employee retention, and implementing key performance indicators to effectuate change
- Conversations are intimate and genuine to delve into the benefits of increased DEI representations as well as strategies to overcome potential obstacles

CFALA and LACERA Virtual DEI Conference

- Virtual conferences feature fireside chats with senior leaders from Southern California asset managers and owners to discuss DEI progress and implementation
- Guest speakers attend DEI to provide expert insight on topical DEI events and regulation
- Broader platform to disseminate best practices gleaned from the preceding roundtable discussion
- Deliberately virtual to allow for broader participation across geographies and time zones



Observations



1. Increased industry focus on DEI

- Multi-year trendlines indicate more firms with DEI policies, formal practices, and focused initiatives
- DEI recognized as integral to organizational diligence, with almost all firms reporting policies and available demographics
- Uneven advances (i.e., board diversity expansion shows asymmetric advances in inclusion)

2. LACERA's active, routine engagement pays dividends across asset categories

- Upfront due diligence and side letters help set expectations for routine diligence and reporting
- Follow-up and routine reporting cultivate candor and accountability
- Reporting extends across public and private firms, across regions, across firm sizes

3. Information and insights are more available, but still face challenges

- New industry DEI templates have facilitated reporting (new AIMA, PRI, CFA Institute, ILPA templates) and include nascent efforts to facilitate reporting in non-U.S. markets with regulatory restrictions on employee information
- LACERA onboarded diligence software to facilitate reporting and tracking of all investment partners
- Spectrum of reported DEI attributes remains limited, although leading firms increasingly enable employee self-reporting

4. Broadening focus beyond representation to inclusion and equity

- Expanding strategies to proactively assess equitable access and treatment (i.e., pay parity analyses, civil rights equity audits)
- Some industry efforts to assess hard-to-measure dimensions (i.e., diversity of thought)
- Internal efforts include focus on inclusive internal investment committees and workplace practices

5. Wider insight into manager quality helps inform LACERA's investment process

- DEI diligence provides insight into managers' talent management (i.e., recruitment, pipeline, attrition, succession planning)
- More insight strengthens LACERA's diligence to make informed investment decisions