



# Chief Investment Officer Monthly Report

**Jonathan Grabel – Chief Investment Officer**

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Board of Investments Meeting  
September 13, 2023

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# 01 Market Environment

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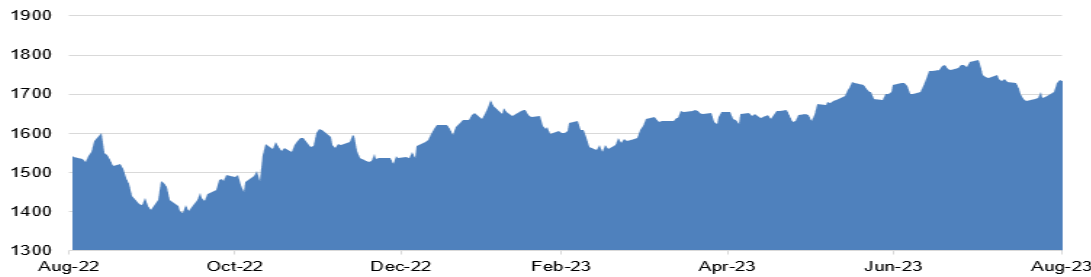
# Global Market Performance as of August 31, 2023



## MSCI ACWI IMI Index (Global Equity Market)\*

Trailing Returns (%)				Annualized Returns (%)			
1-Month	3-Month	FYTD	YTD	1Y	3Y	5Y	10Y
-2.9	6.7	0.8	14.2	13.3	7.3	7.0	8.4

### MSCI ACWI IMI Index 1-Year Performance

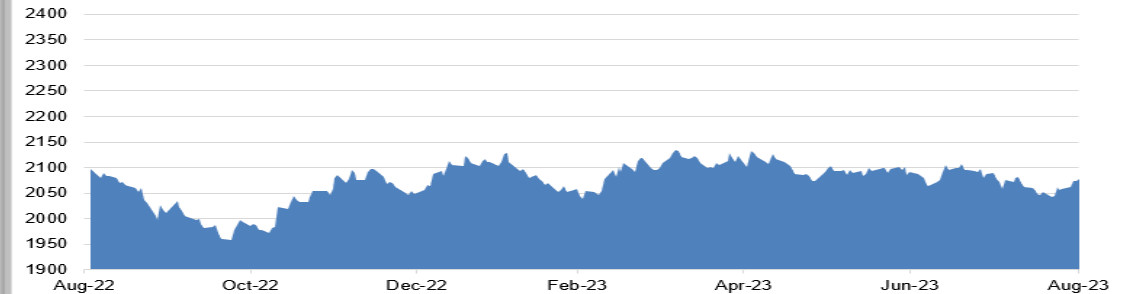


\*Global Equity Policy Benchmark - MSCI ACWI IMI Index

## Bloomberg U.S. Aggregate Bond Index\*\*

Trailing Returns (%)				Annualized Returns (%)			
1-Month	3-Month	FYTD	YTD	1Y	3Y	5Y	10Y
-0.6	-1.1	-0.7	1.4	-1.2	-4.4	0.5	1.5

### Bloomberg U.S. Aggregate Bond Index 1-Year Performance



\*\*Investment Grade Bonds Policy Benchmark - Barclays U.S. Aggregate Bond Index

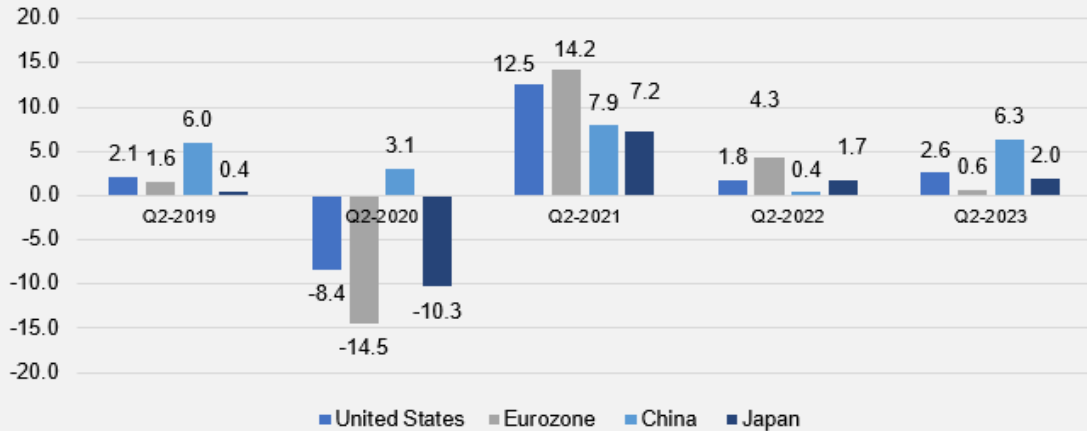
Market	Sub-Category	Index Name	1-Month	3-Month	FYTD	YTD	1 Y	3 Y	5 Y	10 Y
Equity	Global All Cap	MSCI ACWI IMI Total Return	-2.9	6.7	0.8	14.2	13.3	7.3	7.0	8.4
	U.S. All Cap	Russell 3000 Total Return	-1.9	8.5	1.6	18.0	14.8	9.8	10.2	12.2
	U.S. Large Cap	S&P 500 Total Return	-1.6	8.3	1.6	18.7	15.9	10.5	11.1	12.8
	U.S. Small Cap	Russell 2000 Total Return	-5.0	9.0	0.8	9.0	4.7	8.1	3.1	8.0
	Non-U.S. All Cap	MSCI ACWI-ex U.S. IMI Total Return	-4.3	4.1	-0.3	8.8	11.6	4.1	3.3	4.5
	Emerging Markets	MSCI Emerging Markets Total Return	-6.2	3.5	-0.3	4.6	1.3	-1.4	1.0	3.0
Private Equity	Private Equity Buyout	Thomson Reuters PE Buyout Index	-2.8	12.2	2.4	-3.3	0.6	-1.5	3.7	10.6
Fixed Income	U.S. Investment Grade Bonds	Bloomberg U.S. Aggregate Index	-0.6	-1.1	-0.7	1.4	-1.2	-4.4	0.5	1.5
	U.S. Corporate High Yield Bonds	Bloomberg U.S. Corporate High Yield Total Return	0.3	3.4	1.7	7.1	7.2	1.8	3.3	4.5
	Developed Markets Leveraged Loans	Credit Suisse Leveraged Loan Total Return	1.2	4.8	2.5	9.0	9.1	5.8	4.3	4.3
	U.S. Treasury Inflation Protected Securities	Bloomberg U.S. Treasury TIPS Total Return Index	-0.9	-1.1	-0.8	1.1	-3.7	-1.5	2.3	2.1
	U.S. 3 Month Treasury Bill	FTSE 3 Month Treasury Bill	0.5	1.4	0.9	3.3	4.4	1.6	1.7	1.1
Commodity	Commodity Prices Index	Bloomberg Commodity Index Total Return	-0.8	9.7	5.4	-2.8	-8.7	15.2	6.7	-0.9
	Natural Resources	S&P Global LargeMidCap Commodity & Resources Index	-4.1	8.8	2.5	-2.5	2.6	17.7	9.1	5.6
Infrastructure	Global Infrastructure	Dow Jones Brookfield Global Infrastructure Composite Index	-4.4	0.0	-3.1	-0.5	-4.5	5.9	3.5	5.0
Real Estate	U.S. REITs	MSCI U.S. REIT Index	-3.0	4.8	-0.3	5.2	-2.8	7.1	3.7	7.1

Source: Bloomberg

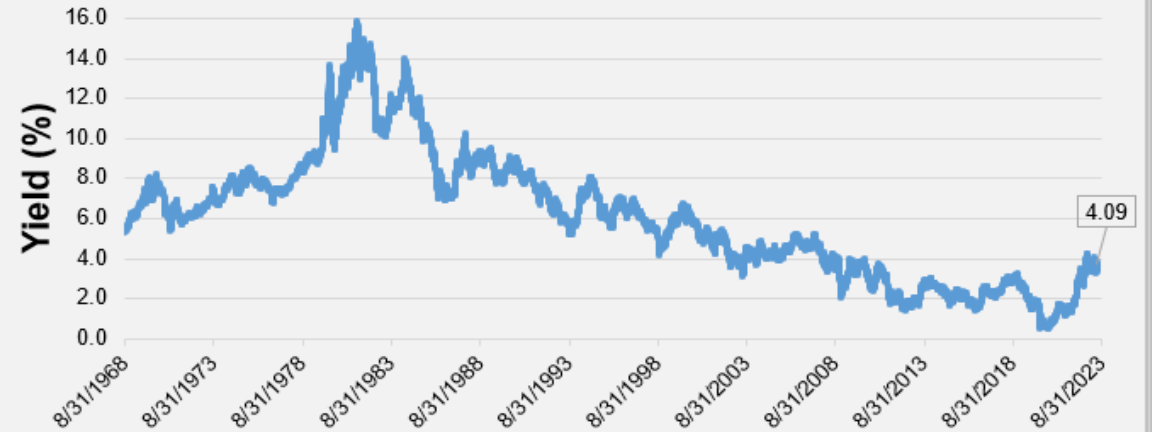
# Key Macro Indicators\*



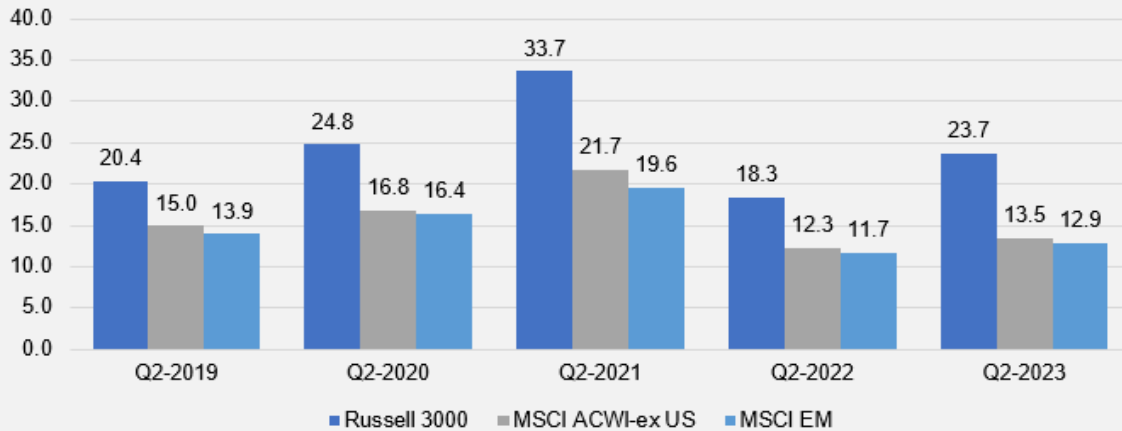
### Real GDP Growth YoY (%) - Last Five Years<sup>1</sup>



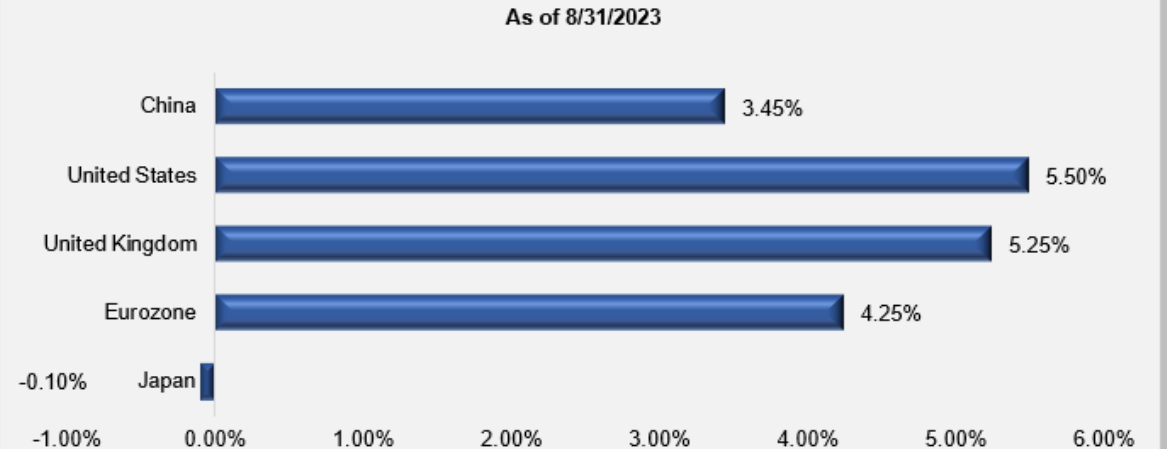
### Historical 10-Year Treasury Yield<sup>2</sup>



### Price-to-Earnings - Last Five Years<sup>3</sup>



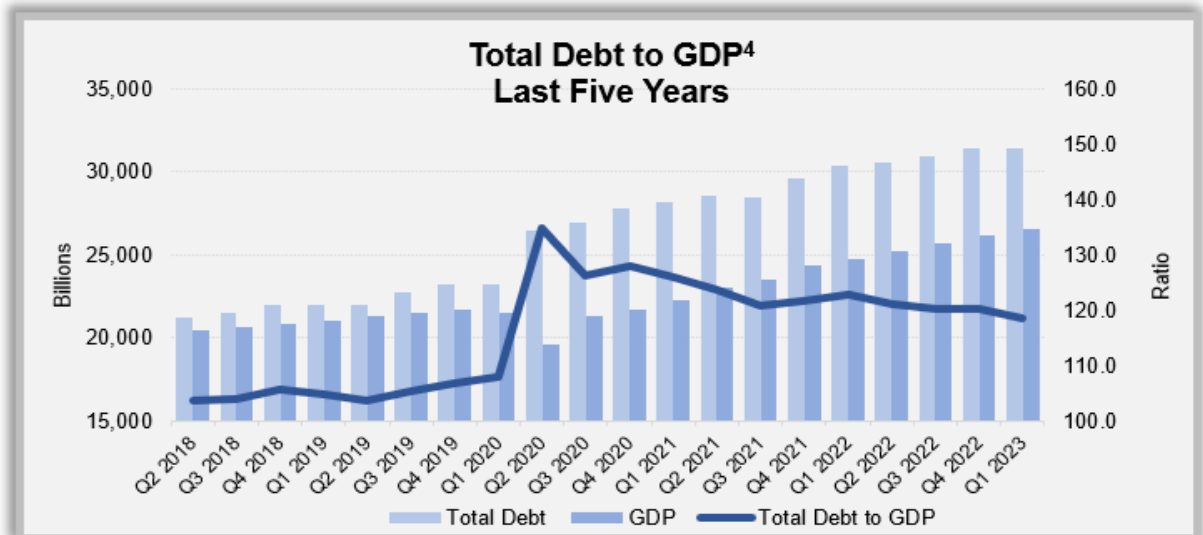
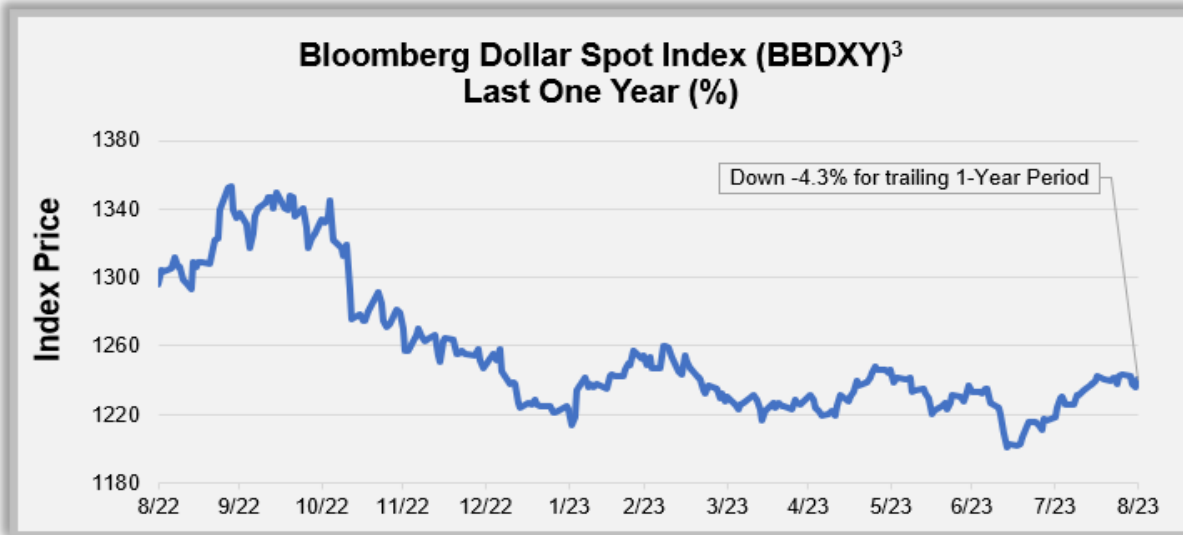
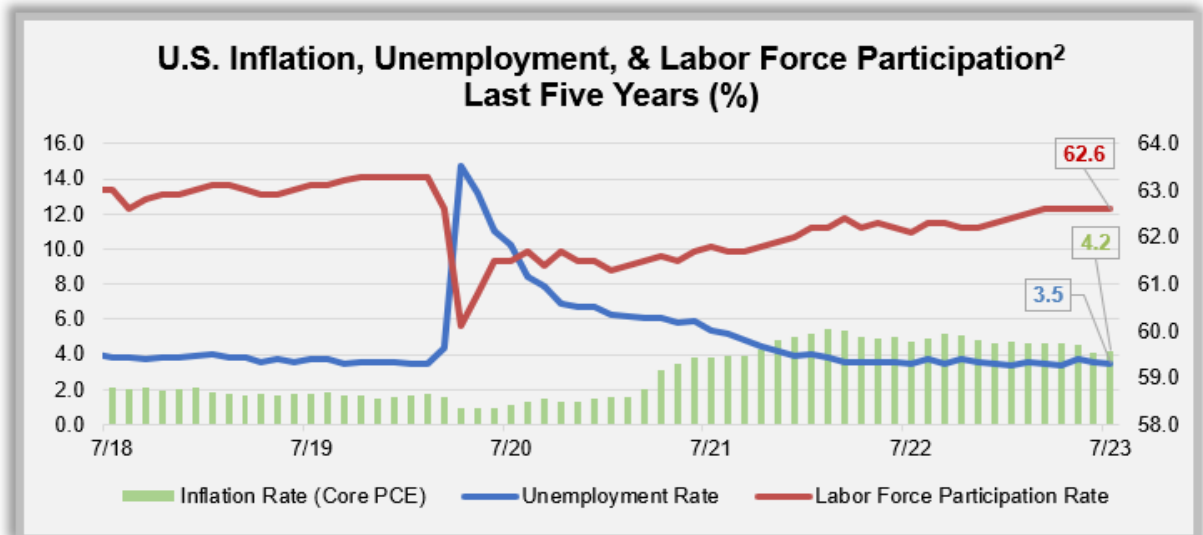
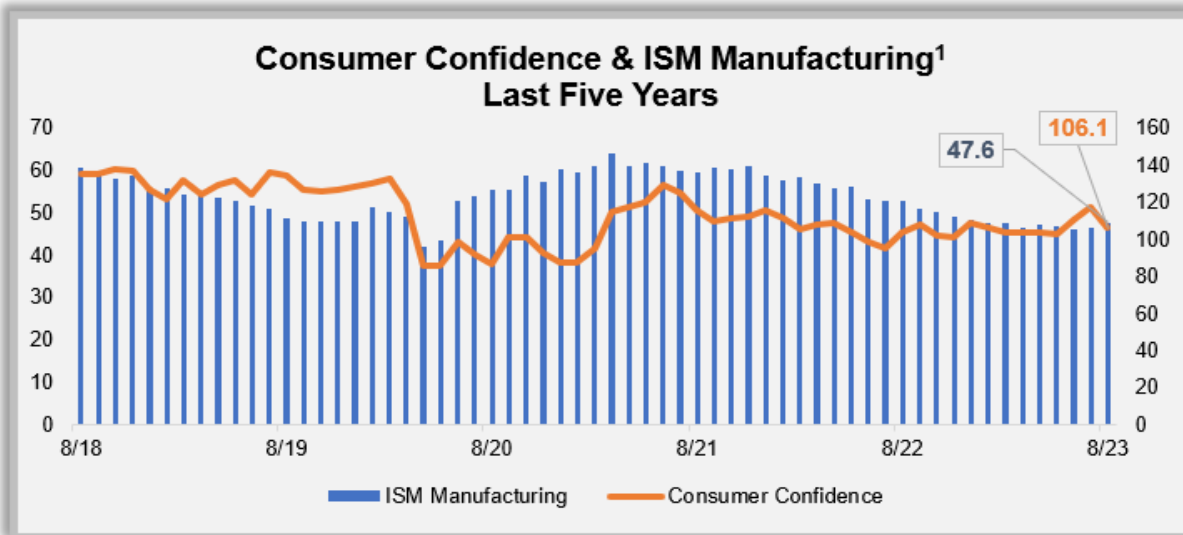
### Central Bank Rates<sup>4</sup>



\*The information on the "Key Macro Indicators" charts is the best available data as of 8/31/23 and may not reflect the current market and economic environment

Sources: 1. Bloomberg 2. St. Louis Federal Reserve 3. FactSet 4. FactSet

# Key Macro Indicators\*



\*The information on the "Key Macro Indicators" charts is the best available data as of 8/31/23 and may not reflect the current market and economic environment

Sources: 1. Bloomberg 3. Bloomberg  
2. Bloomberg 4. Office of Management and Budget; St. Louis Federal Reserve



# 02 Portfolio Performance & Risk Updates

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# Market Themes and Notable Items to Watch



## Recent Themes

- Federal Reserve Chair Jerome Powell discussed interest rate levels and the economy while giving a speech at Jackson Hole on August 25th
  - “Although inflation has moved down from its peak — a welcome development — it remains too high”
  - “We are prepared to raise rates further if appropriate, and intend to hold policy at a restrictive level until we are confident that inflation is moving sustainably down toward our objective”
- The U.S. Bureau of Labor Statistics reported an unemployment rate of 3.8% for August, the highest level since February 2022
- The U.S. 10-year Treasury yield ended August at 4.09%, after being 3.88% at the end of 2022, 1.52% at the end of 2021 and 0.93% at the end of 2020
- Global equities (MSCI All Country World Investable Market Index) declined 2.9% in August

## What to Watch

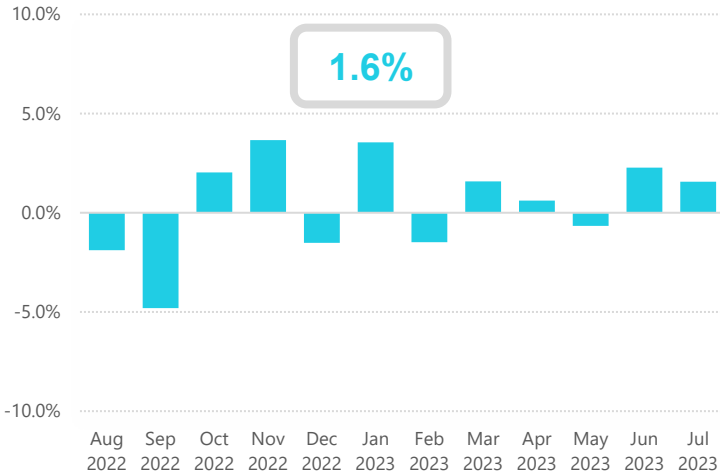
- Interest rates and central bank actions
- Economic data and trends
  - Inflation, supply chains, and labor developments
- Macro conditions and geopolitical risks
- Stewardship and ESG-related developments
  - Securities and Exchange Commission (SEC) approved revisions to rules guiding private funds, including:
    - Transparency including quarterly fund performance and fee reporting
    - Prohibiting General Partners (GPs) from charging funds for compliance expenses without disclosure to Limited Partners (LPs), and requiring GPs to obtain LP consent in certain cases
    - New parameters on side letters
    - LACERA’s SEC comment letter to the initial proposal is available on [lacera.com](https://www.lacera.com), as previously reported
    - LACERA is assessing prospective impacts



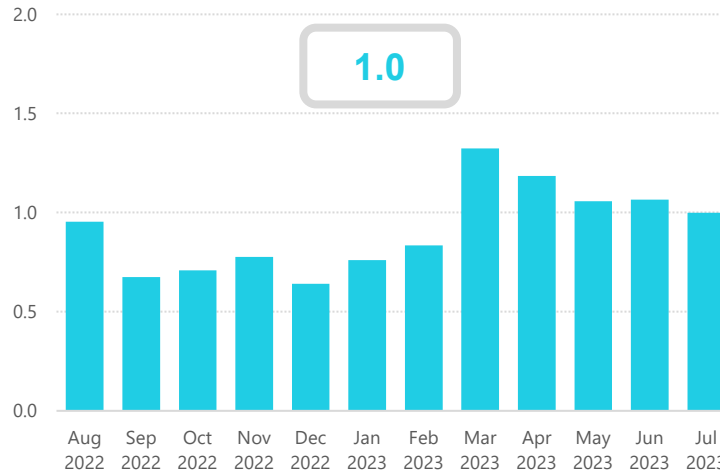
# Total Fund Summary as of July 2023



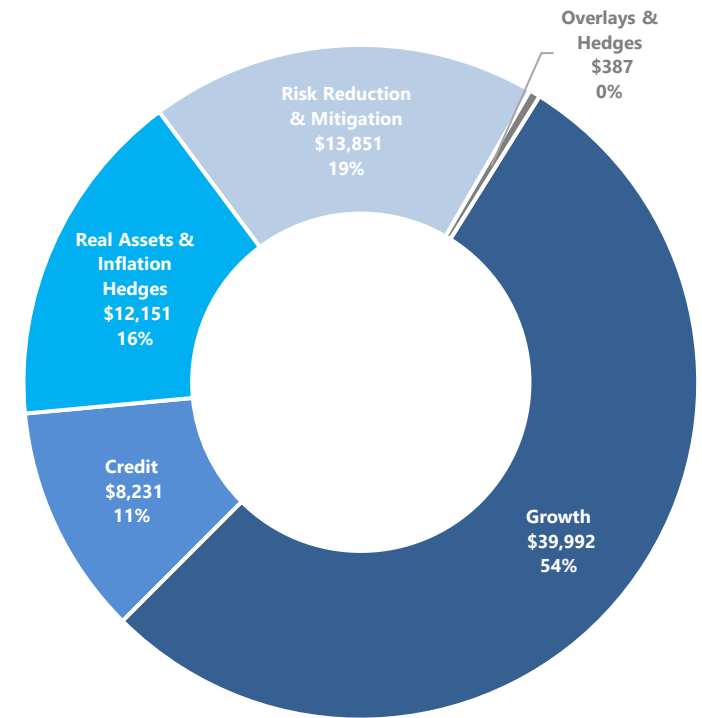
Monthly Return (net)



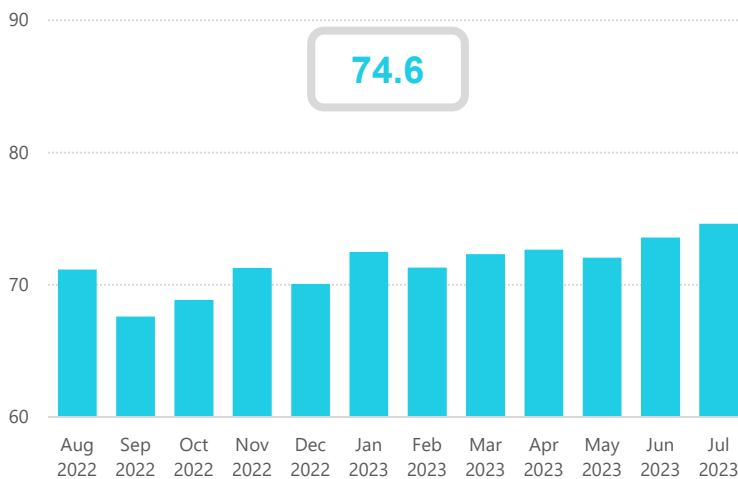
Sharpe Ratio (3-year annualized)



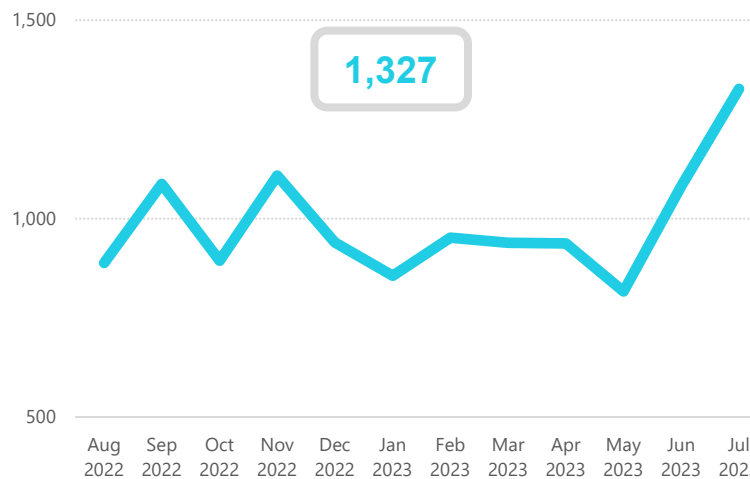
Asset Allocation (\$ millions)



Total Market Value (\$ billions)



Cash (\$ millions)

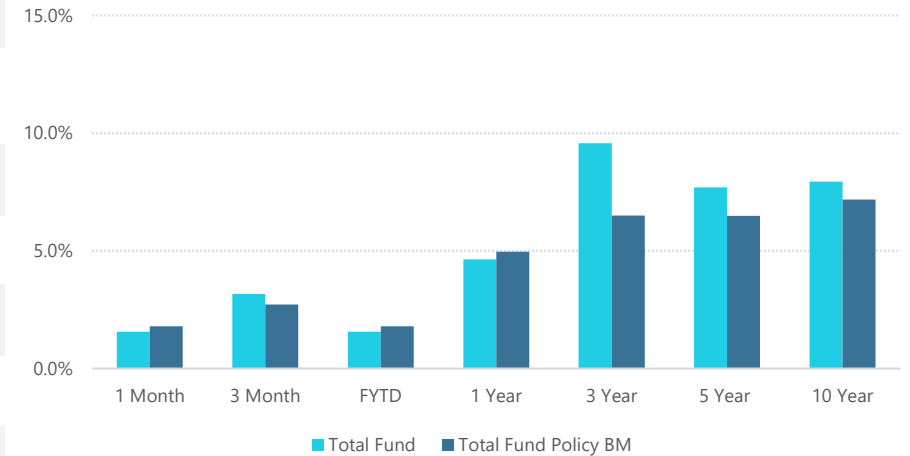


# Historical Net Performance as of July 2023



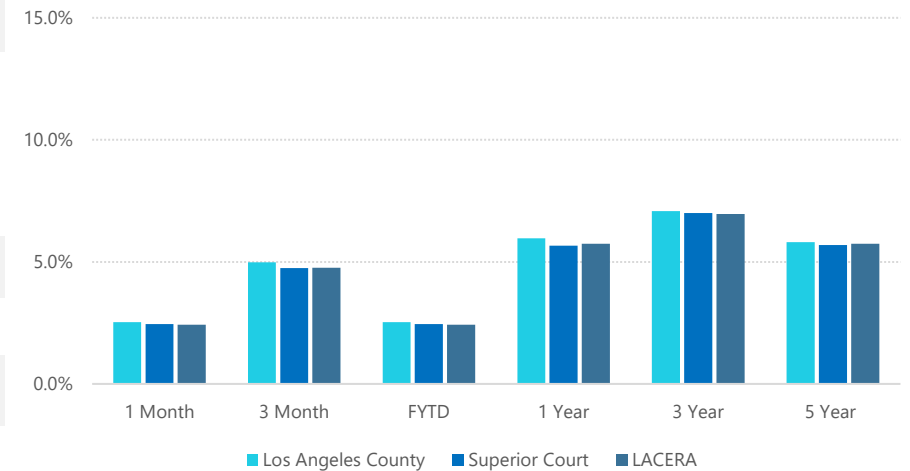
## LACERA Pension Fund

	Market Value (\$ millions)	% of Total Fund	Interim Target	1 Month	3 Month	FYTD	1 Year	3 Year	5 Year	10 Year
<b>Total Fund</b>	<b>74,612</b>	<b>100.0%</b>	<b>100.0%</b>	<b>1.6%</b>	<b>3.2%</b>	<b>1.6%</b>	<b>4.6%</b>	<b>9.6%</b>	<b>7.7%</b>	<b>7.9%</b>
Total Fund Policy BM				1.8%	2.7%	1.8%	5.0%	6.5%	6.5%	7.2%
7% Annual Hurdle Rate				0.6%	1.7%	0.6%	7.0%	7.0%	7.0%	7.0%
<b>Growth</b>	<b>39,992</b>	<b>53.6%</b>	<b>53.0%</b>	<b>2.5%</b>	<b>5.9%</b>	<b>2.5%</b>	<b>8.2%</b>	<b>15.1%</b>		
Growth Policy BM				2.7%	5.4%	2.7%	8.8%	11.3%		
<b>Credit</b>	<b>8,231</b>	<b>11.0%</b>	<b>11.0%</b>	<b>1.4%</b>	<b>3.3%</b>	<b>1.4%</b>	<b>8.2%</b>	<b>6.0%</b>		
Credit Policy BM				1.9%	2.8%	1.9%	9.7%	2.2%		
<b>Real Assets &amp; Inflation Hedges</b>	<b>12,151</b>	<b>16.3%</b>	<b>17.0%</b>	<b>0.9%</b>	<b>-0.9%</b>	<b>0.9%</b>	<b>-1.9%</b>	<b>9.2%</b>		
Real Assets & Inflation Hedges Policy BM				1.4%	-1.1%	1.4%	-2.9%	8.7%		
<b>Risk Reduction &amp; Mitigation</b>	<b>13,851</b>	<b>18.6%</b>	<b>19.0%</b>	<b>-0.3%</b>	<b>-1.6%</b>	<b>-0.3%</b>	<b>-2.1%</b>	<b>-2.4%</b>		
Risk Reduction & Mitigation Policy BM				-0.4%	-1.2%	-0.4%	-2.0%	-3.1%		
<b>Overlays &amp; Hedges</b>	<b>387</b>	<b>0.5%</b>		<b>-0.5%</b>	<b>29.6%</b>	<b>-0.5%</b>	<b>22.0%</b>			



## OPEB Master Trust

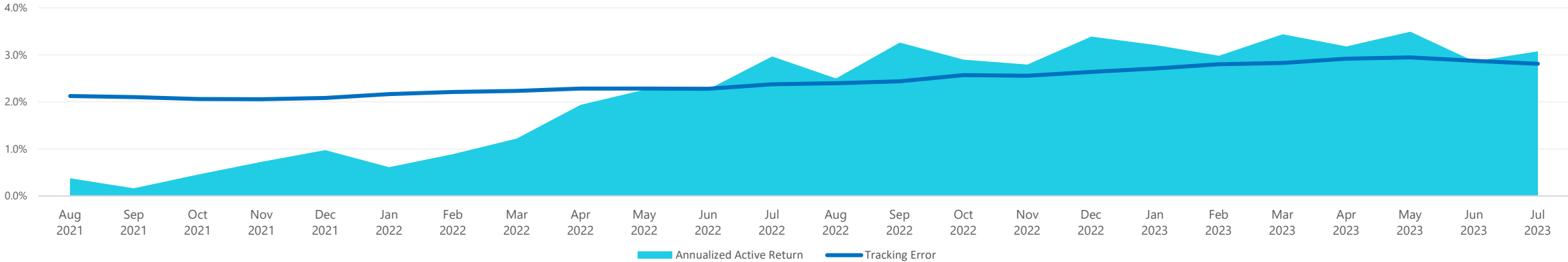
	Market Value (\$ millions)	% of Master Trust	Interim Target	1 Month	3 Month	FYTD	1 Year	3 Year	5 Year
<b>OPEB Master Trust</b>	<b>3,170</b>			<b>2.5%</b>	<b>5.0%</b>	<b>2.5%</b>	<b>6.0%</b>	<b>7.1%</b>	<b>5.8%</b>
Los Angeles County	3,085	97.3%	—	2.5%	5.0%	2.5%	6.0%	7.1%	5.8%
Superior Court	69	2.2%	—	2.5%	4.8%	2.5%	5.7%	7.0%	5.7%
LACERA	16	0.5%	—	2.4%	4.8%	2.4%	5.7%	7.0%	5.7%
<b>LACERA Master OPEB Trust Fund</b>	<b>3,169</b>		<b>100.0%</b>	<b>2.5%</b>	<b>4.9%</b>	<b>2.5%</b>	<b>5.7%</b>	<b>7.0%</b>	<b>5.8%</b>
OPEB Master Trust Policy Benchmark				2.2%	3.9%	2.2%	5.8%	6.6%	5.4%
<b>OPEB Growth</b>	<b>1,443</b>	<b>45.5%</b>	<b>47.5%</b>	<b>3.8%</b>	<b>8.6%</b>	<b>3.8%</b>	<b>12.6%</b>	<b>10.7%</b>	<b>8.1%</b>
OPEB Growth Policy Benchmark				3.6%	8.0%	3.6%	12.0%	10.0%	7.6%
<b>OPEB Credit</b>	<b>566</b>	<b>17.9%</b>	<b>19.0%</b>	<b>1.6%</b>	<b>3.0%</b>	<b>1.6%</b>	<b>8.9%</b>	<b>2.9%</b>	<b>3.0%</b>
OPEB Credit Policy Benchmark				1.6%	3.0%	1.6%	8.0%	2.7%	2.9%
<b>OPEB Real Assets &amp; Inflation Hedges</b>	<b>632</b>	<b>19.9%</b>	<b>20.0%</b>	<b>2.7%</b>	<b>3.0%</b>	<b>2.7%</b>	<b>-6.1%</b>	<b>8.2%</b>	<b>4.6%</b>
OPEB RA & IH Policy Benchmark				1.9%	-0.1%	1.9%	-3.9%	7.9%	4.3%
<b>OPEB Risk Reduction &amp; Mitigation</b>	<b>528</b>	<b>16.6%</b>	<b>13.5%</b>	<b>-0.4%</b>	<b>-1.7%</b>	<b>-0.4%</b>	<b>-2.0%</b>	<b>-3.3%</b>	<b>1.0%</b>
OPEB RR & M Policy Benchmark				-0.6%	-2.0%	-0.6%	-3.9%	-3.9%	0.6%



# Active and Excess Return as of July 2023



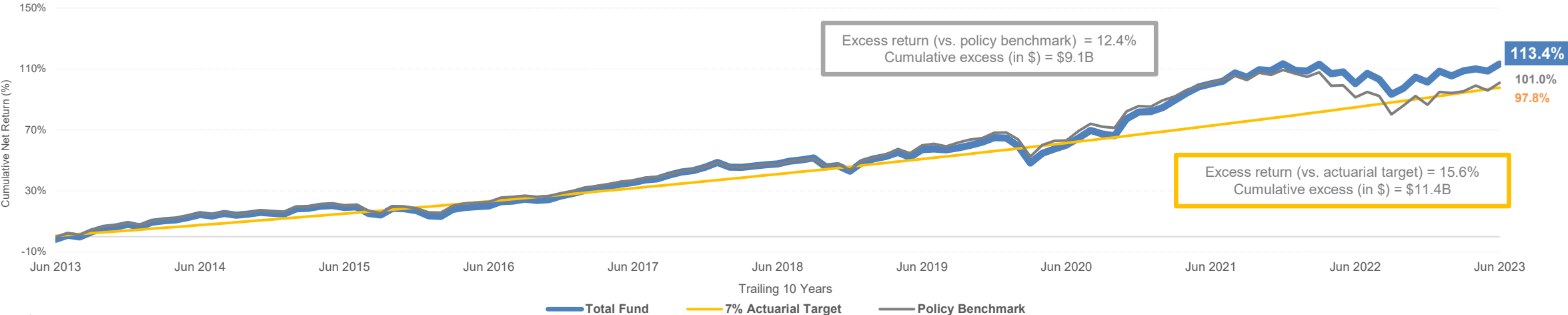
## Active Return vs. Tracking Error<sup>1,2,3</sup>



Period Ending	Annualized Return	Annualized Benchmark Return	Annualized Active Return	Tracking Error
July 2023	9.6%	6.5%	3.1%	2.8%

<sup>1</sup> Rolling 36 months.  
<sup>2</sup> Active return equals the difference in return between a portfolio and its benchmark.  
<sup>3</sup> Tracking error (or active risk) measures the volatility of active returns.

## Excess Return<sup>1</sup>



<sup>1</sup> Not an actuarial analysis.

# Total Fund Forecast Risk as of July 2023\*



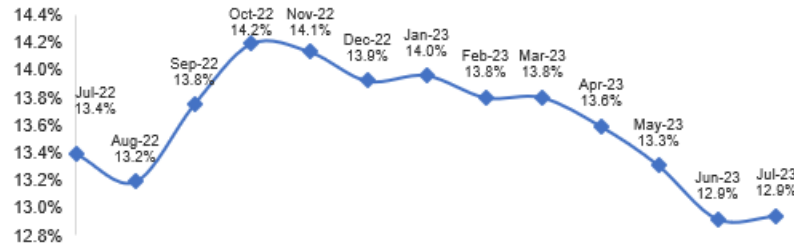
**TOTAL FUND RISK**

**12.9%**

**BENCHMARK RISK**

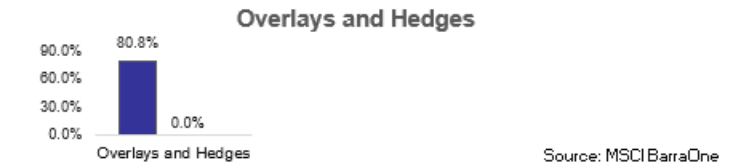
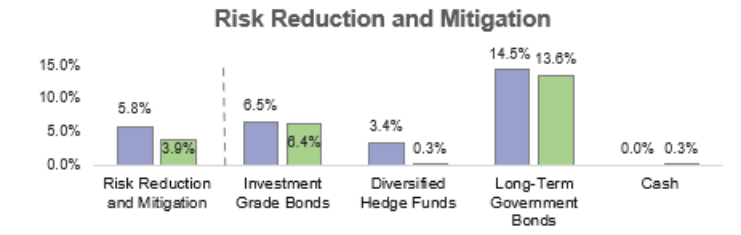
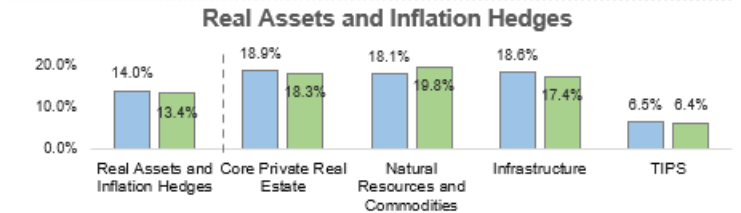
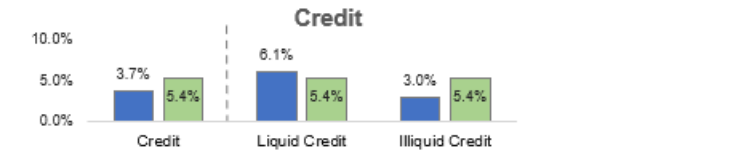
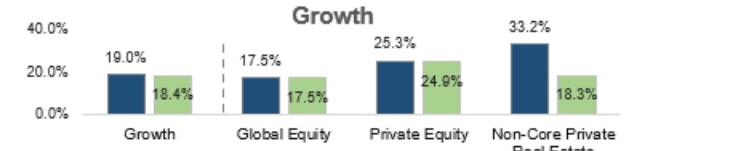
**12.3%**

## Forecasted Total Fund Risk Trend



## Subcategory Risk<sup>1</sup>

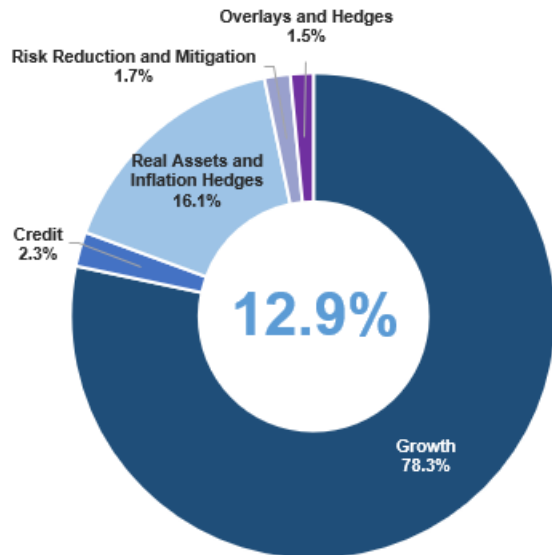
<sup>1</sup> Subcategory risk is on the left bar and benchmark risk is on the right bar.



Source: MSCI BarraOne

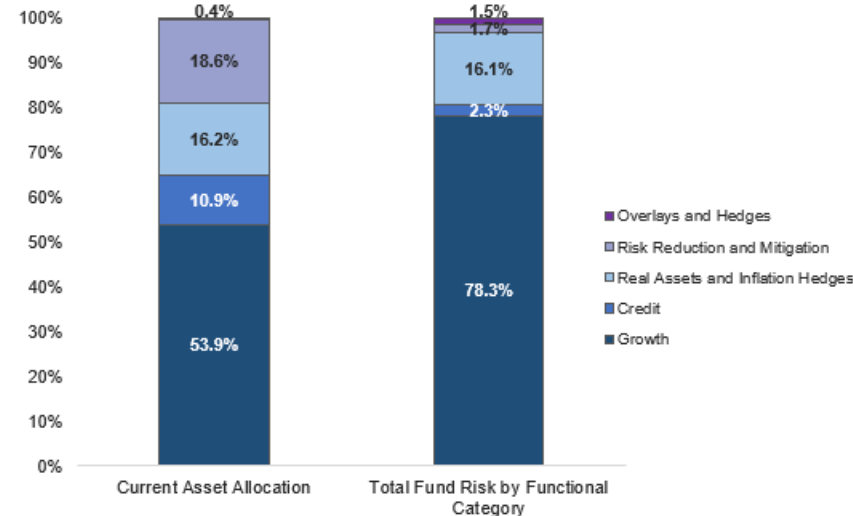
\* Real estate and private equity data is based on best available cash flow adjusted market values.

## Functional Category Contributions to Total Fund Risk

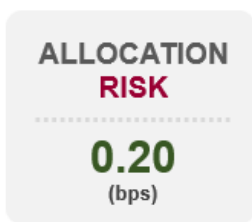
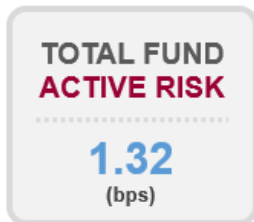


## Total Fund Asset Allocation

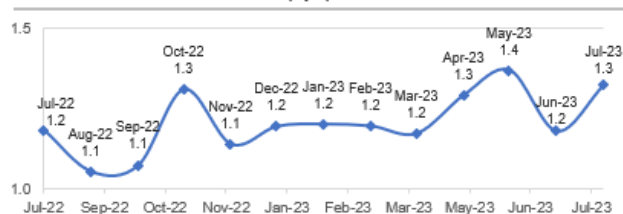
Capital-based versus Risk-based



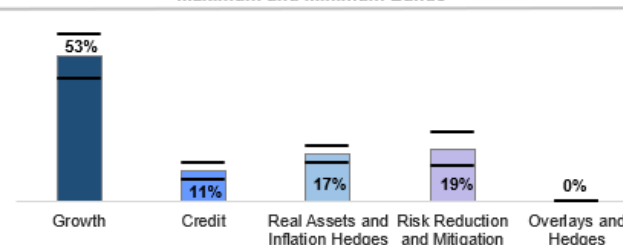
# Total Fund Forecast Active Risk as of July 2023\*



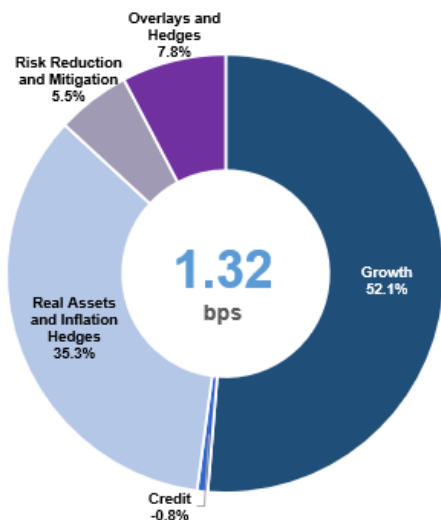
**Forecasted Active Risk Trend**  
(bps)



**Policy Target Weight for each Functional Category**  
Maximum and Minimum Bands



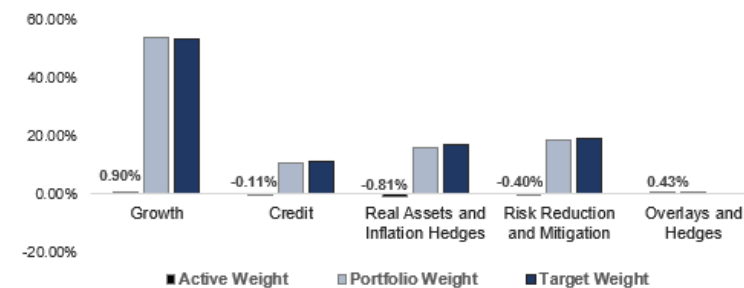
**Functional Category Contributions to Active Risk**



**Active Risk Attribution**  
(bps)



**Active Weights for each Functional Category**



**Subcategory Active Risk**  
(bps)

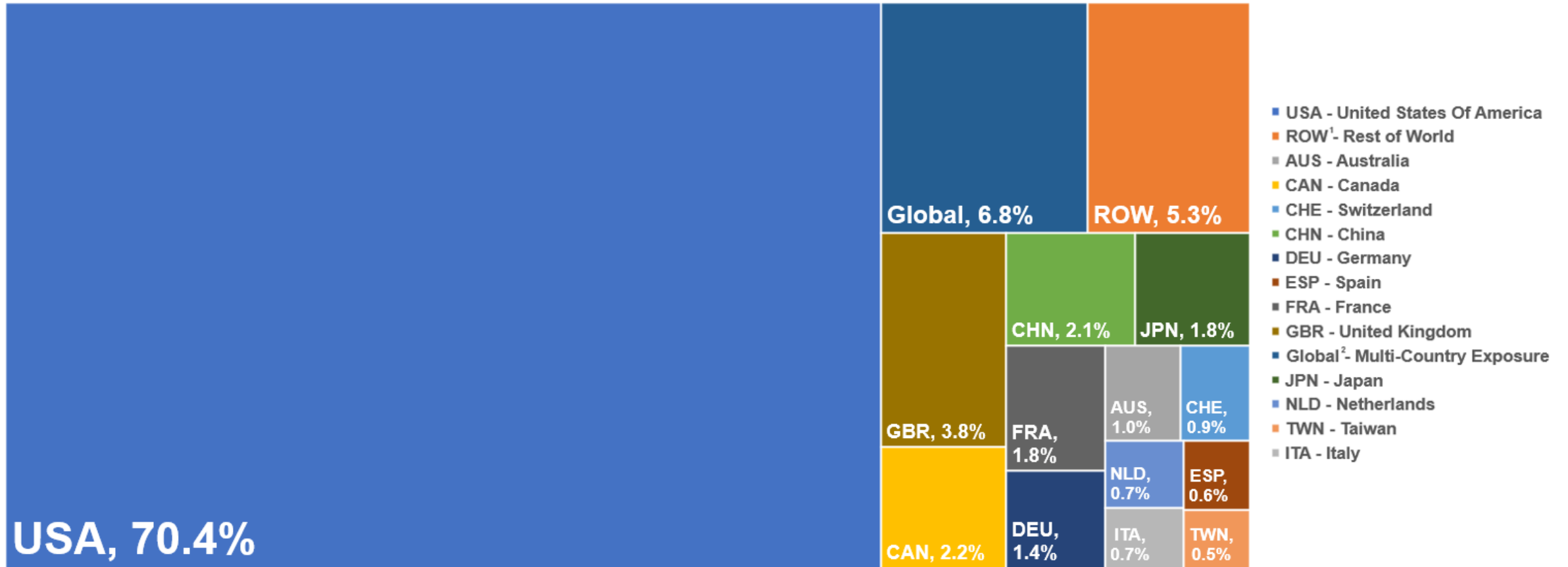
Total Fund	Global				Credit		Real Assets and Inflation Hedges					Risk Reduction and Mitigation					Overlays and Hedges	
1.32	1.40	0.39	3.37	16.52	2.50	0.92	4.33	3.46	4.24	4.44	7.90	0.16	1.08	0.21	3.37	0.93	0.27	80.77
Total Fund	Growth	Global Equity	Private Equity	Non-Core Private Real Estate	Credit	Liquid Credit	Illiquid Credit	Real Assets and Inflation Hedges	Core Private Real Estate	Natural Resources and Commodities	Infrastructure	TIPS	Risk Reduction and Mitigation	Investment Grade Bonds	Diversified Hedge Funds	Long-Term Government Bonds	Cash	Overlays and Hedges

Source: MSCI BarraOne

\* Real estate and private equity data is based on best available cash flow adjusted market values.

# Geographic Exposures by AUM

Total Fund as of July 2023\* Ex-Overlays and Hedges



AUM = Assets under management.

Geographic exposure is based on the domicile country of a given security/asset.

\* Implementation of the MSCI Risk Platform is ongoing; reconciliation and refinement of the data is progressing and subject to change. Real Estate and Private Equity data is based on best available cash flow adjusted market values.

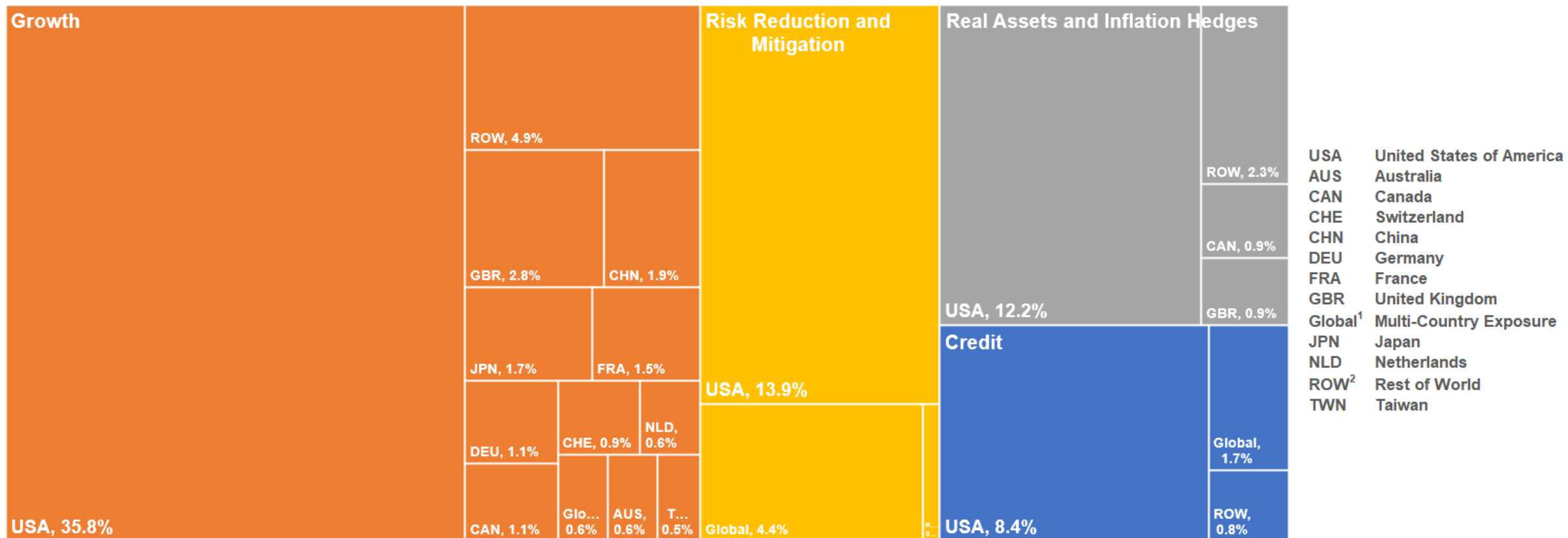
<sup>1</sup> "ROW - Rest of World" is sum of countries with weights below 0.5%.

<sup>2</sup> Global represents investments made in regions where specific country allocations are not available.

SOURCE: MSCI BarraOne

# Geographic Exposures by AUM

## Functional Categories as of July 2023\* Ex-Overlays and Hedges

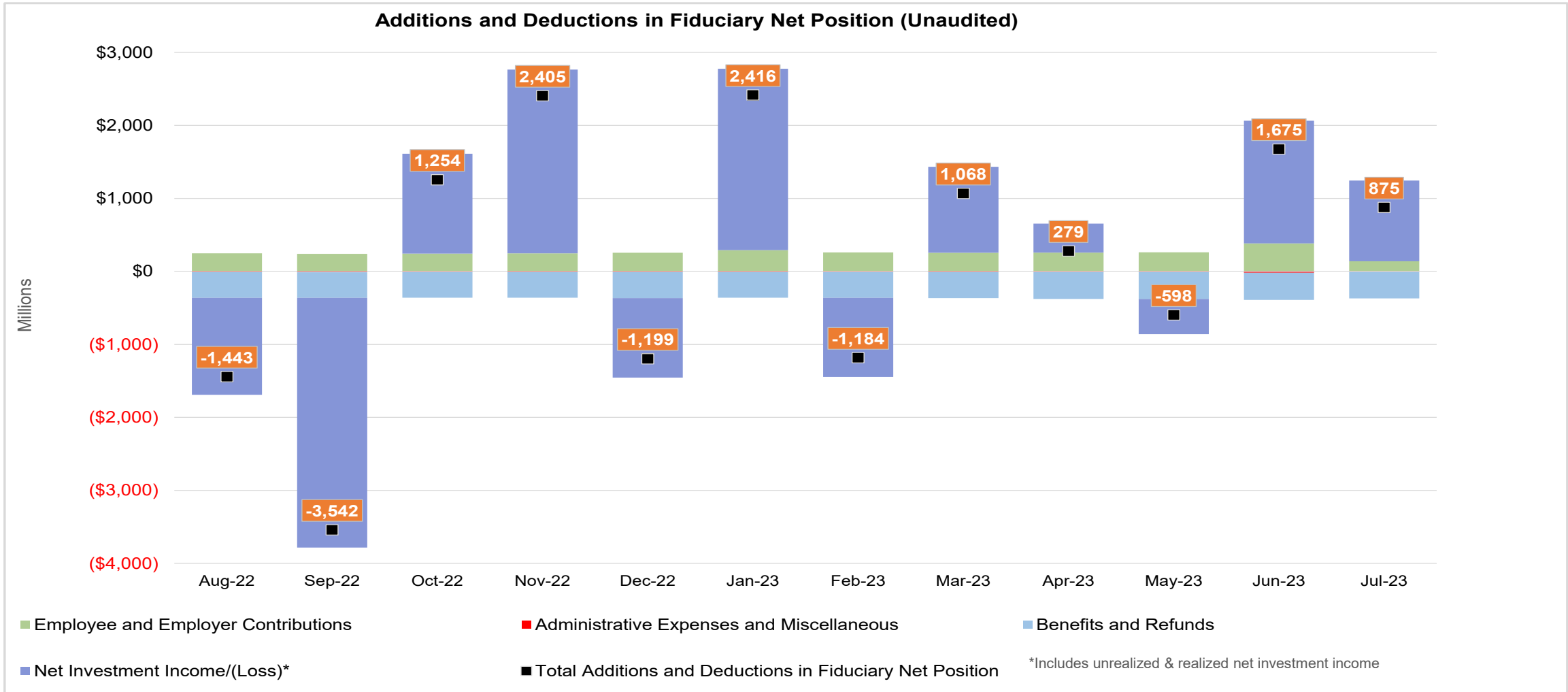


- USA United States of America
- AUS Australia
- CAN Canada
- CHE Switzerland
- CHN China
- DEU Germany
- FRA France
- GBR United Kingdom
- Global<sup>1</sup> Multi-Country Exposure
- JPN Japan
- NLD Netherlands
- ROW<sup>2</sup> Rest of World
- TWN Taiwan

AUM = Assets under management.  
 Geographic exposure is based on the domicile country of a given security/asset.  
 \* Implementation of the MSCI Risk Platform is ongoing; reconciliation and refinement of the data is progressing and subject to change. Real Estate and Private Equity data is based on best available cash flow adjusted market values.  
<sup>1</sup> Global represents investments made in regions where specific country allocations are not available.  
<sup>2</sup> "ROW - Rest of World" is sum of countries with weights below 0.5%.

SOURCE: MSCI BarraOne

# Change In Fiduciary Net Position



Fiscal Year	Negative Months	Positive Months	Total Net Position Change \$
FY-22	7	5	(\$2.5 billion)
FY-23	5	7	\$3.3 billion
FY-24	0	1	\$0.9 billion





# 03 Portfolio Structural Updates

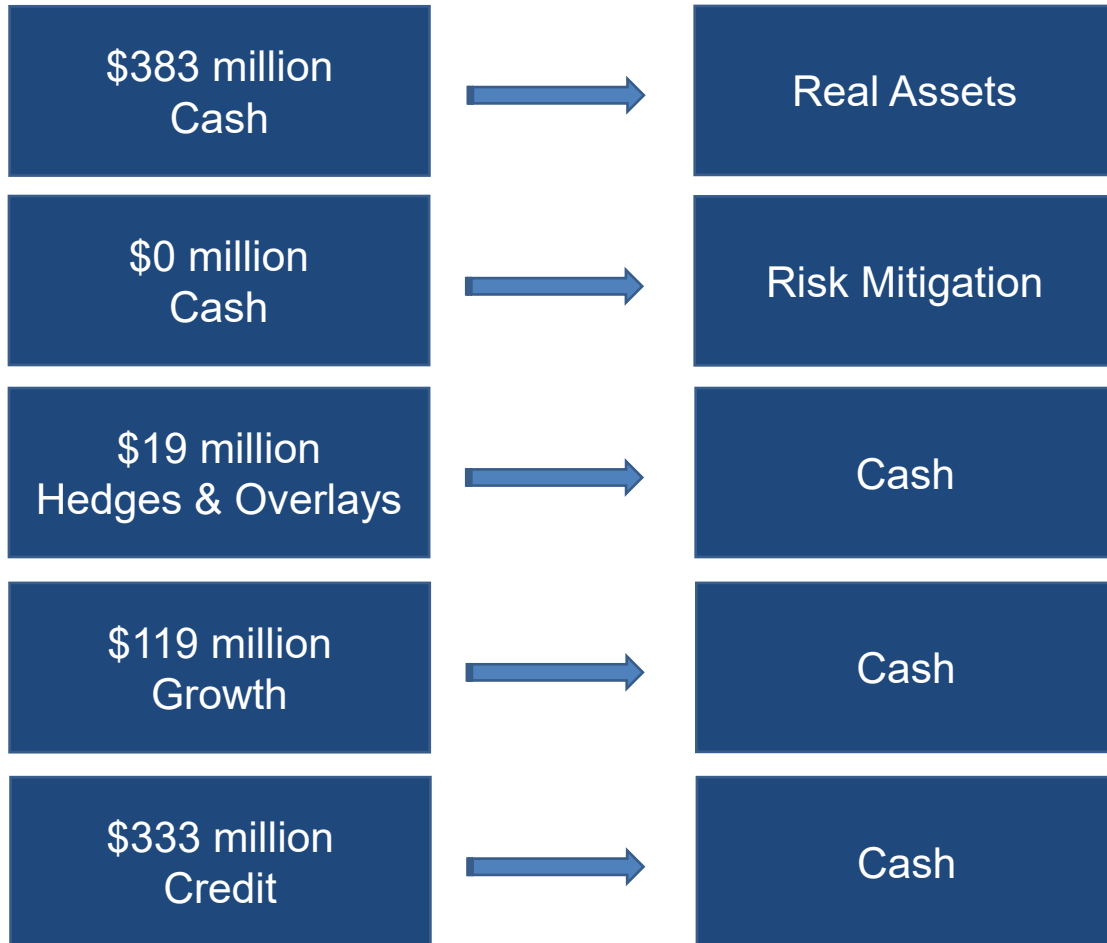
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# Portfolio Structural Updates



## Portfolio Movements

### Rebalancing Activity



## Hedges & Overlays

### Monthly Activity

Program	July Return	July Gain/(Loss)	Inception <sup>1</sup> Gain/(Loss)
Currency Hedge <sup>2</sup>	-0.6%	\$18.9 Million	\$1.4 Billion
Cash/Rebalance Overlay <sup>3</sup>	2.4%	\$42.4 Million	\$389.5 Million

<sup>1</sup> Currency and overlay program inception dates are 8/2010 & 7/2019, respectively.

<sup>2</sup> LACERA's currency hedge program's 1-month return is calculated monthly whereas the monthly gain/loss amount for the same period is the net realized dollar amount at contract settlement over three monthly tranches.

<sup>3</sup> LACERA's overlay program's 1-month return includes interest earned on the cash that supports the futures contracts.

## Current Search Activity

### Status of Active Searches – Subject to Change

Name	RFP Issued	Due Diligence	BOI Review
Real Assets Emerging Manager Program Search	✓	✓	Anticipated Q3 2023
Commercial Real Estate Brokers Search	✓	✓	Anticipated Q3 2023
Private Market Analytics Platform Search	✓	✓	Anticipated Q4 2023



# 04 Key Initiatives & Operational Updates

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# Notable Initiatives and Operational Updates



## Key Initiative Updates

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- The 2024 Strategic Asset Allocation study is underway
- The Investment Division is adhering to the 2023 Work Plan and Strategic Initiatives approved at the January 2023 BOI

## Operational Updates

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- Annual contract compliance and LACERA T.I.D.E. initiatives are in progress

## Manager/Consultant Updates

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DIF Capital Partners – Real Assets – European private equity manager CVC is acquiring a 60% stake in DIF Capital Partners, mainly through the sale of two of the three DIF co-founders. LACERA is invested in two of DIF's private infrastructure funds and five of CVC's private equity funds.

## Team Searches and Vacancies

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- Principal Investment Officer
  - 1 completed
- 2 – Senior Investment Officer
  - 1 working with an outside recruiter
- 2 – Financial Analyst-III
  - 1 working with an outside recruiter
- Financial Analyst-II
  - 1 search in progress
  - 4 completed



# 05 **Commentary**

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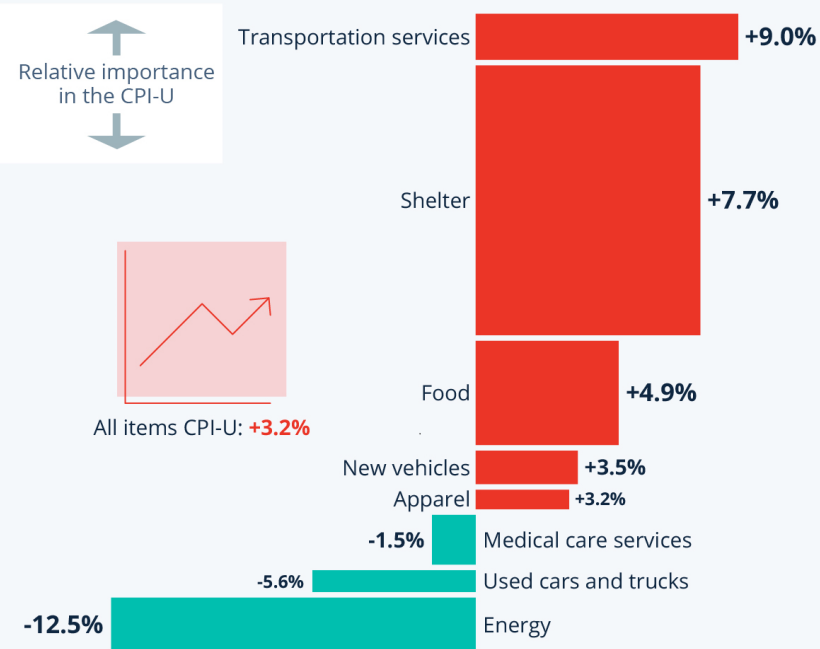
# Staff Chart of the Month

## Year-over-Year Change in CPI for All Urban Consumers (CPI-U)



### What's Driving (or Cooling) Inflation?

Year-over-year change in the Consumer Price Index (CPI-U) in July 2023, selected major expenditure categories\*



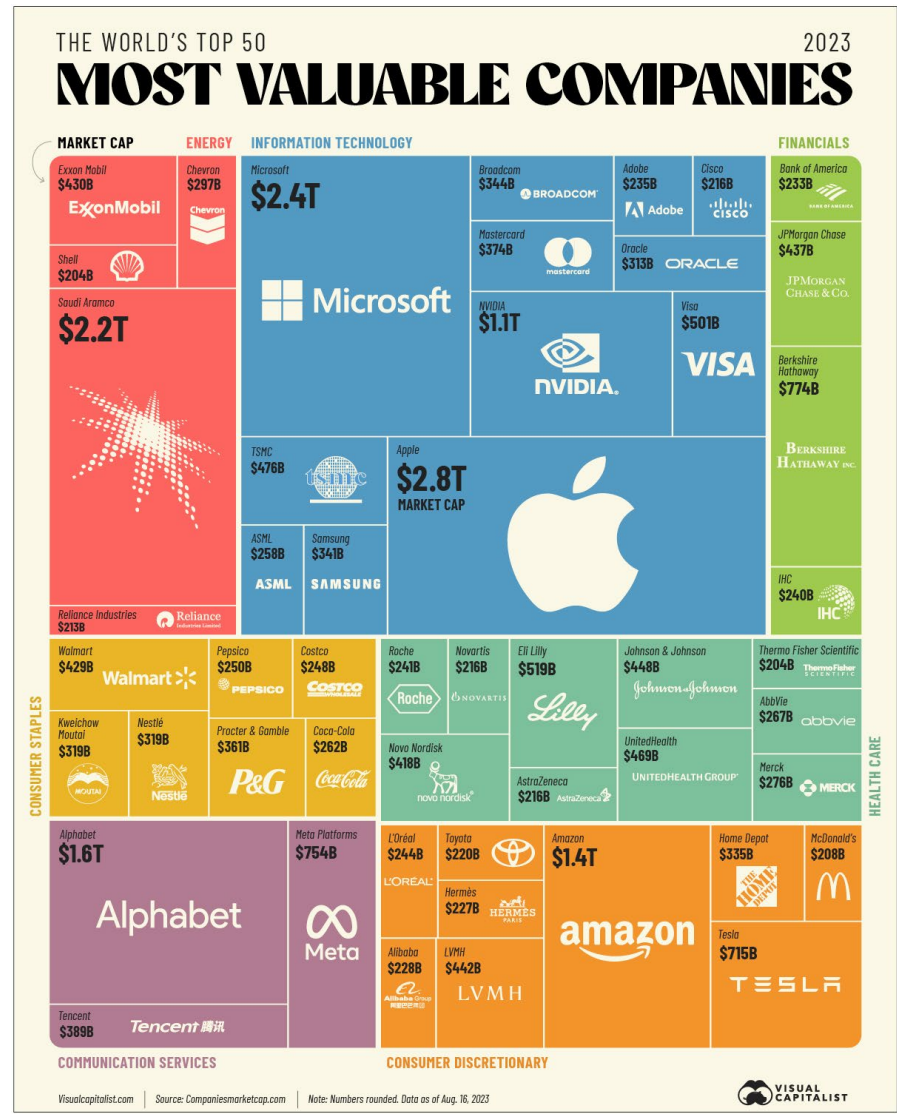
\* The shown categories accounted for 76.9 percent of the CPI-U in June 2023, with other commodities and services accounting for the remaining 11.8 and 11.3 percent, respectively.

Source: U.S. Bureau of Labor Statistics



# Staff Chart of the Month

## The World's Top 50 Most Valuable Companies





# 06 Appendix

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# Quiet Period for Search Respondents



## Real Assets Emerging Manager Program Discretionary Separate Account Manager Search

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- ✓ BlackRock Investments, LLC
- ✓ ACRES Capital
- ✓ Aether Investment Partners
- ✓ Cloverlay
- ✓ ORG Portfolio Management
- ✓ Barings
- ✓ Belay Investment Group
- ✓ Encore Enterprises, Inc.
- ✓ Stable
- ✓ Cambridge Associates
- ✓ GCM Grosvenor
- ✓ The Townsend Group
- ✓ Cypress Creek Partners
- ✓ Hamilton Lane Advisors
- ✓ Neuberger Berman Group
- ✓ Wafra Inc.
- ✓ Artemis Real Estate Partners
- ✓ Hawkeye Partners, LP
- ✓ Astarte Capital Partners
- ✓ Bentall Green Oak
- ✓ Clear Sky Advisers
- ✓ Clear Investment Group
- ✓ Poverni Sheikh Group
- ✓ Trilogy
- ✓ Stepstone
- ✓ Oak Street
- ✓ White Deer

## Commercial Real Estate Brokers Search

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- ✓ CBRE
- ✓ Cushman & Wakefield
- ✓ Eastdil
- ✓ JLL
- ✓ Newmark

## Private Market Analytics Platform Search

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- ✓ BlackRock
- ✓ Burgiss
- ✓ CEPRES
- ✓ Clearwater
- ✓ Dynamo
- ✓ Hamilton Lane
- ✓ Nasdaq