LACERA

December 23, 2021

TO: Trustees – Board of Investments

FROM: Real Assets Committee

James Rice, CFA
Principal Investment Officer

FOR: January 12, 2022 Board of Investments Meeting

SUBJECT: **REAL ESTATE STRUCTURE REVIEW**

RECOMMENDATION

Approve the Real Estate Structure Review **(Attachment A)** including initiatives, guidelines, and recommendations throughout the document as well as those summarized on slides 27, 28 and 29. A portion of this presentation concerning the purchase or sale of particular, specific real estate assets was also advanced, in executive session under Government Code Section 54956.81 and the Board's Policy Governing the Use of Open and Closed Sessions to Consider the Purchase or Sale of Particular, Specific Investments. Executive session information is redacted on **Attachment A** on slides 17, 19, 20, 30, 31, 33, and 35. Unredacted copies are provided to the Board for consideration in a separate item to be held in executive session.

BACKGROUND

On December 12, 2021, the Real Assets Committee ("Committee") unanimously approved a recommendation (**Attachment**) that the Board of Investments approve the Real Estate Structure Review. This structure review **(Attachment A)** recommends revamping the Core Real Estate structure to emphasize open-ended fund vehicles to improve asset diversification and reduce operational risk. The Non-Core allocation is intended to grow over the next few years to reach a 4% target. It is recommended that LACERA invest in traditional closed-ended fund structures rather than rely on separate account vehicles to achieve the target allocation.

OPTIONS AVAILABLE TO THE BOARD

The Board may wish to approve, modify, or reject the recommendation.

DELIBERATIONS AND OPINIONS EXPRESSED BY THE COMMITTEE

The Committee raised questions about the following topics that were addressed by staff and the Consultant: the allocation to emerging and developed markets investments, how income from funds would flow to LACERA in contrast to how LACERA receives income from its current separate account properties, staffing on the real estate team, and the proposed size for delegated authority for re-ups to existing commitments.

RISKS OF ACTION AND INACTION

LACERA's core real estate program has existed in its current structure for decades. Its role as a lower risk, return-oriented component of LACERA's total Fund requires consideration of alternatives such as the proposed structure as a way to reduce the concentration and operational risks of the current core portfolio, enhance performance, and emphasize the yield-oriented focus of the core portfolio. The allocation to non-core will be a larger part of LACERA's growth portfolio in the future and the proposed strategy of obtaining real estate returns from closed-end fund structures align LACERA's interests with its General Partners and allows access to talented real estate teams.

The risk of inaction is that the real estate portfolio may continue to have uncompensated risks and may not achieve its objectives.

CONCLUSION

The Committee unanimously approved this recommendation that LACERA adopt the proposed Structure Review.

LACERA's specialty Real Estate consultant, StepStone, reviewed the Structure Review and concurs with its recommendations (**Attachment B)**.

Attachments

Noted and Reviewed:

Jonathan Grabel
Chief Investment Officer

JR:dr

November 23, 2021

TO: Trustees – Real Assets Committee

FROM: James Rice
Principal Investment Officer

FOR: December 8, 2021 Real Assets Committee Meeting

SUBJECT: **REAL ESTATE STRUCTURE REVIEW**

RECOMMENDATION

Advance the Real Estate Structure Review (**Attachment A)** including initiatives, guidelines, and recommendations throughout the document as well as those summarized on pages 27, 28 & 29 to the Board of Investments for approval. A portion of this presentation concerning the purchase or sale of particular, specific real estate assets will be discussed, and action requested, in executive session under Government Code Section 54956.81 and the Board's Policy Governing the Use of Open and Closed Sessions to Consider the Purchase or Sale of Particular, Specific Investments. Executive session information is redacted on Attachment A on Slides 17, 19, 20, 30, 31, 33, and 35. Unredacted copies will be provided to the Board for consideration in executive session.

BACKGROUND

At the September Committee meeting this year, Stepstone, LACERA's recently hired real estate consultant, provided its preliminary observations on LACERA's Real Estate program particularly in reducing investment and operational risk in core real estate and addressing general longer-term underperformance across asset class risk categories. Staff and consultant have considered these findings in the structure review and in its recommendations prepared for this meeting.

The strategic asset allocation analysis completed in May of this year confirmed the Core Real Estate allocation target weight of 6%, and moved Value Added Real Estate to the Growth category where, with Opportunistic Real Estate, they form a combined 4% Non-Core Real Estate target allocation.

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SUMMARY

This structure review recommends revamping the Core Real Estate structure to emphasize open-ended fund vehicles to improve asset diversification and reduce operational risk. The Non-Core allocation is intended to grow over the next few years to reach a 4% target. It is recommended that LACERA invest in traditional closed-ended fund structures rather than rely on separate account vehicles to achieve the target allocation.

The presentation consists of an overview followed by sections on the recommended structural changes and the strategies and guidelines to be employed in implementing the recommendations. The presentation will include materials intended for open session and some materials that are intended to be addressed in closed session that are included under separate cover.

LACERA's consultant Stepstone reviewed the structure review and is in support of the recommendation. The consultant's concurrence memo is included as **Attachment B**.

Attachment

Noted and Reviewed:

Jonathan Grabel
Chief Investment Officer

ATTACHMENT A

Real Assets and Inflation Hedges 2021 Structure Review Part 1 : Real Estate

Real Assets Committee

December 8, 2021

LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION

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Role of Real Assets

Core & Value-Added Real Estate

Natural Resources & Commodities

Infrastructure

TIPS

Income Generation

Returns mainly come from yield generated by Real Estate, Infrastructure, Natural Resources, and TIPS

Inflation Hedge

Provides portfolio protection when inflation increases

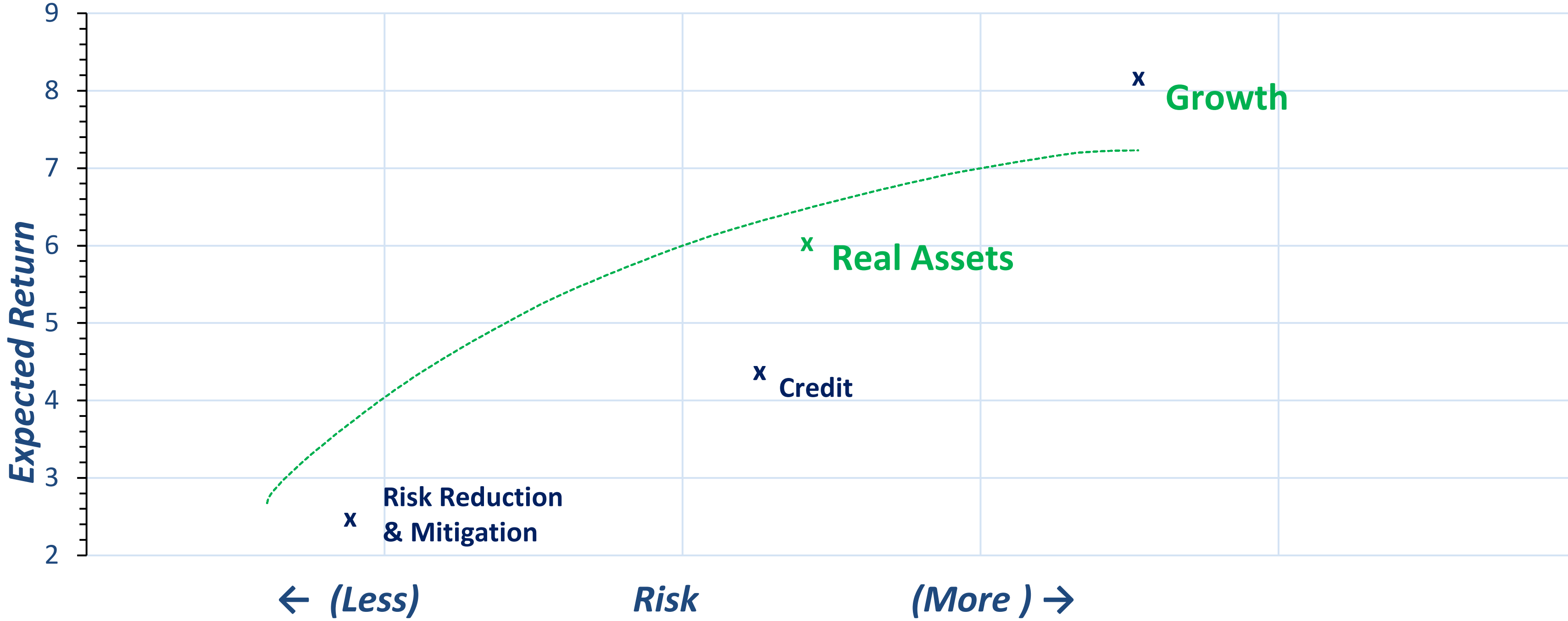
Diversification

Provides returns that are moderately correlated to global equities and GDP growth

Role in LACERA's Implementation

	Real Estate	Real Assets Excluding Real Estate
Real Assets and Inflation Hedges • Provide income • Hedge against inflation • Diversify the Fund due to the assumed low correlation of returns between these assets and other asset classes	✓	✓
Growth • Primary driver of long-term returns for the Fund	✓	

Portfolio Role



- Diversify exposure to growth assets to mitigate portfolio downside risk
- Provide consistent yield for the broader portfolio
- Hedge the risk of inflation with investments in hard or inflation-linked assets

Data from the Board-approved 2021 asset allocation study.

Structure Review - Background

1.0 Real Estate: Historical Structure

1. Fully owned assets
2. Improve sector and regional diversification

2.0 Real Assets: Asset Category Created

Includes
1. Historical Real Estate and Commodities programs
2. New assets for Natural Resources, Infrastructure and TIPS

3.0 Real Assets: Future

Existing initiatives
1. Consideration of changes to Real Estate structure
2. Private program for Infrastructure and Natural Resources

4.0 Real Assets: Next Phase

1. Reduce Real Estate portfolio operational and concentration risk
2. Real Estate focus on open-ended and closed-ended funds rather than separate accounts
3. Real Assets continued implementation. To be covered in January 2022 Structure Review

2018 Strategic Asset Allocation Study and Implementation

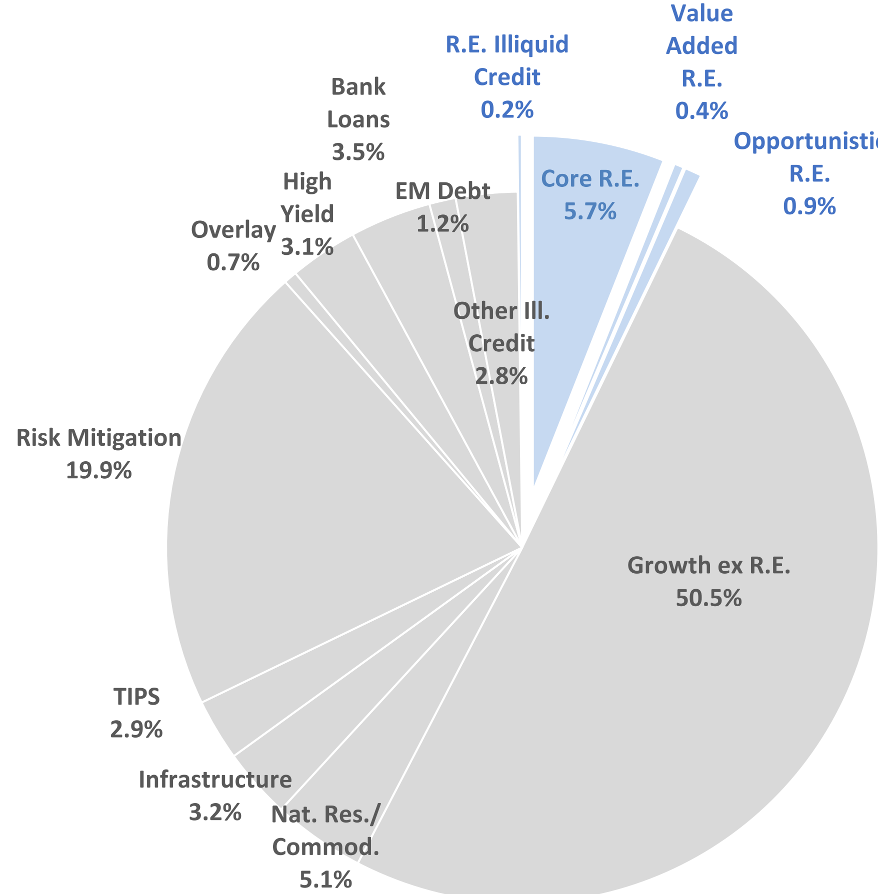
2019 Structure Review and Initiatives

2020 Mid-Cycle & 2021 Structure Reviews

We are here

Real Estate Overview – Objectives and Allocation

	Objective	Allocation	
		Current	Policy
Core Real Estate	Income, Diversification, Inflation Hedge	5.7%	6% of total Fund
Non-Core Real Estate	Higher Return Growth	1.3%	Current Target 3% of total Fund; 4% of total effective mid-2022



Data as of September 30, 2021 (lagged with best available data).

2021 Asset Allocation Changes

- Value-Added Real Estate has moved to Growth functional asset category from Real Assets and Inflation Hedges effective October 2021.
- Core Real Estate remains in Real Assets and Inflation Hedges with an allocation policy of 6% within a range of +/-3%.
- Policy Allocation for Real Estate in the Growth asset category now comprises 4% of the total Fund for the Non-Core categories of Opportunistic and Value-Added Real Estate. The range for Non-Core Real Estate is +/-2% from the policy allocation.

CURRENT

Asset Class	Current Target Weight (%)
Growth	**47.0%**
Global Equity	35.0%
Private Equity	10.0%
Opportunistic Real Estate	2.0%
Real Assets and Inflation Hedges	**17.0%**
Core and Value-Added Real Estate	7.0%
Natural Resources & Commodities	4.0%
Infrastructure	3.0%
Treasury Inflation-Protected Securities	3.0%

NEW

Asset Class	New Target Weight (%)
Growth	**53.0%**
Global Equity	32.0%
Private Equity	17.0%
Non-Core Private Real Estate	4.0%
Real Assets and Inflation Hedges	**17.0%**
Core Private Real Estate	6.0%
Natural Resources & Commodities	3.0%
Infrastructure	5.0%
Treasury Inflation-Protected Securities	3.0%

Chart Source: LACERA SAA Changes-Pension Total Fund

Real Estate – Structural

September 2021
Real Assets Committee Meeting Take-aways

LACERA's Real Estate portfolio has **underperformed** over long-term time periods against custom benchmark and peers

Portfolio risk is high due to asset concentration and asset risk classification

- Tracking error at **4.4%**
- Core portfolio includes Non-Core risk
- High operational risk

Higher risk is uncompensated

- Both risk and underperformance can be reduced

Source: StepStone Real Assets Committee Presentation, September 2021.

Proposed Business Model Refinements

Direct To Diversified

- *Reduce concentration risk in the Core separate account portfolio; make new fund commitments*
- *Conduct a thorough asset- and market-level analysis to determine optimal strategy of direct holdings*

Emphasize Fund Structures

- *Pursue diversification through open-end funds*
- *Emphasize closed-end fund structure with profit participation for higher risk and higher returning investments in Non-Core portfolio*

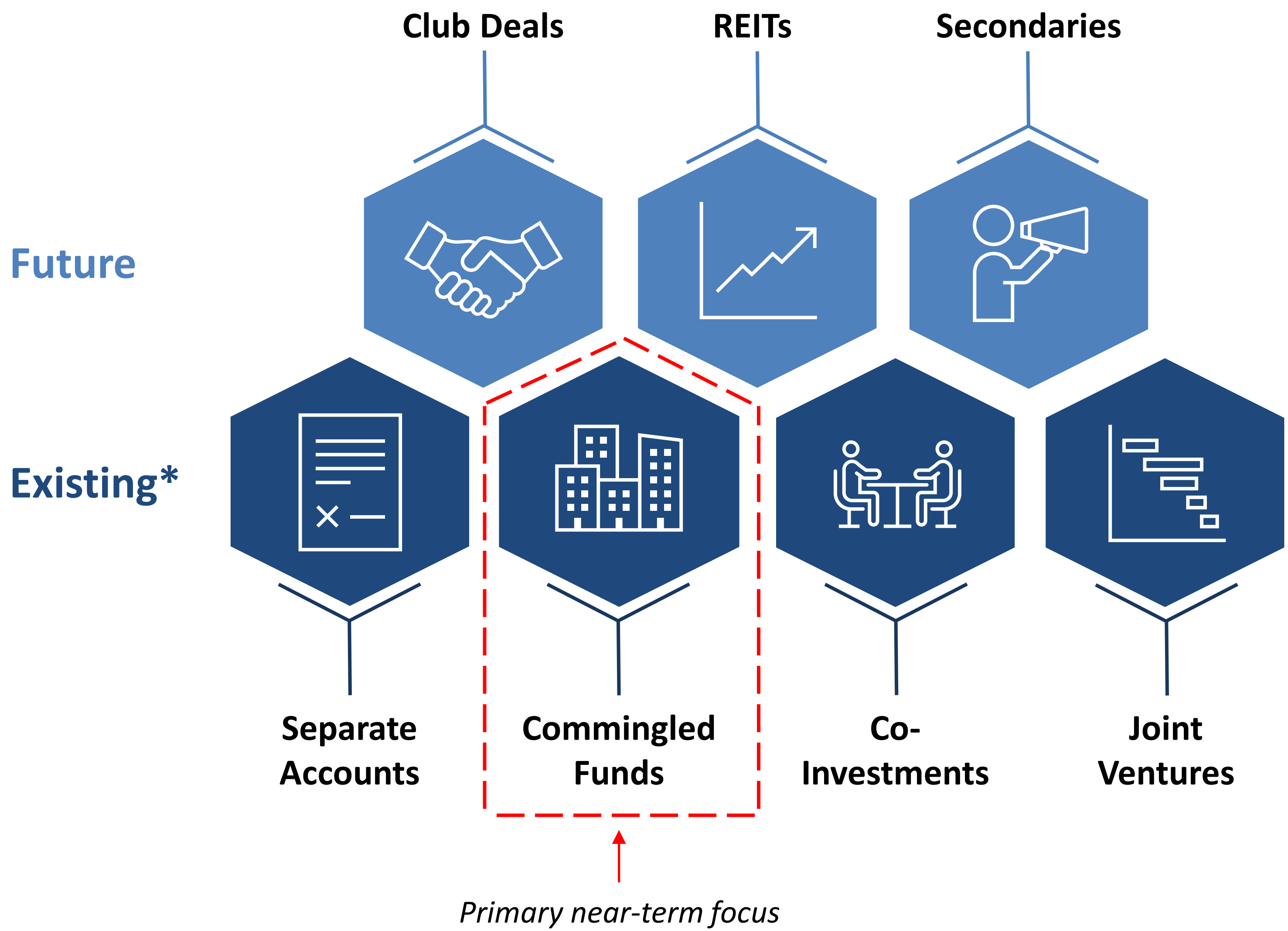
Assess Portfolio

- *Identify an updated hold/sell strategy for each asset based on its characteristics and marketability*
- *More clearly delineate risk via funds*

Reduce Operational Risk

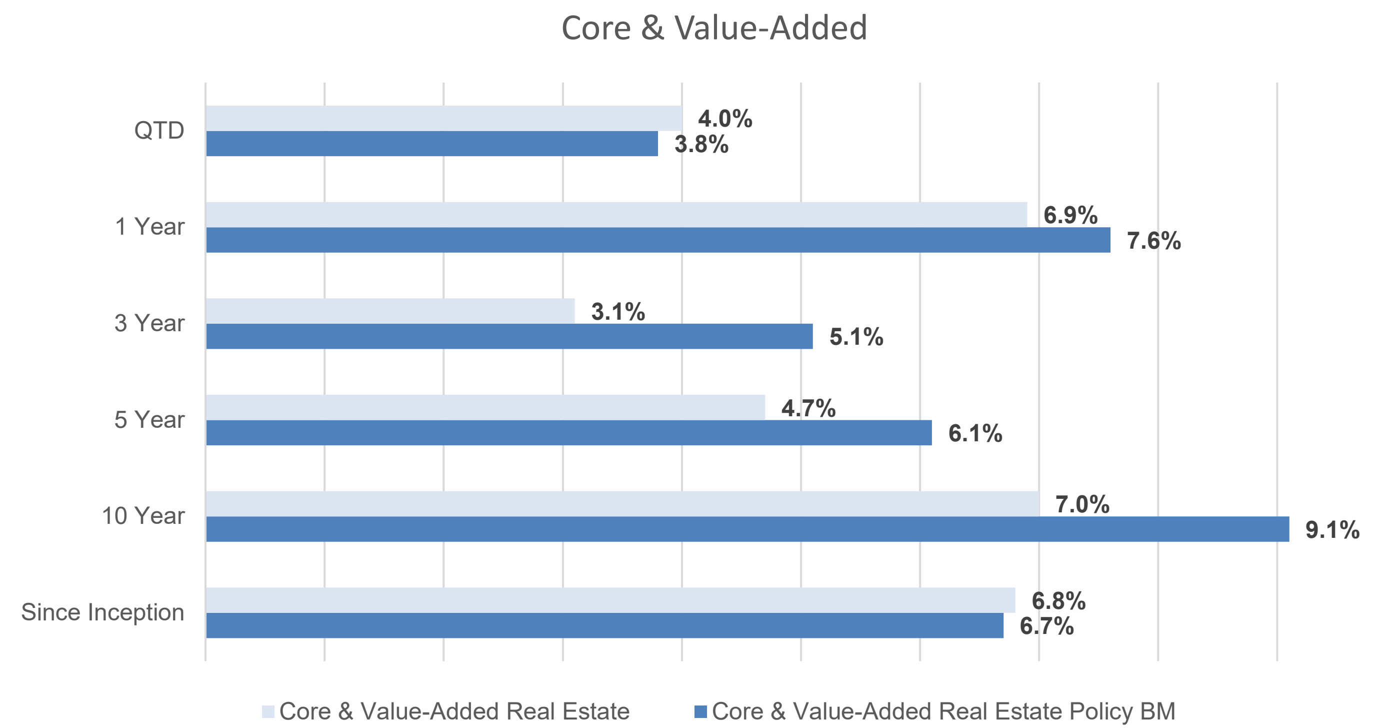
- *Leverage existing separate account managers cash management capabilities during transition to fund structures*

Evolution of Investment Vehicles



**Includes five managers and 78 assets in separate accounts (of which 17 are joint ventures), 20 closed-end and four open-end commingled funds, one co-investment as of September 30, 2021.*

Performance Summary – Core and Value-Added Portfolio

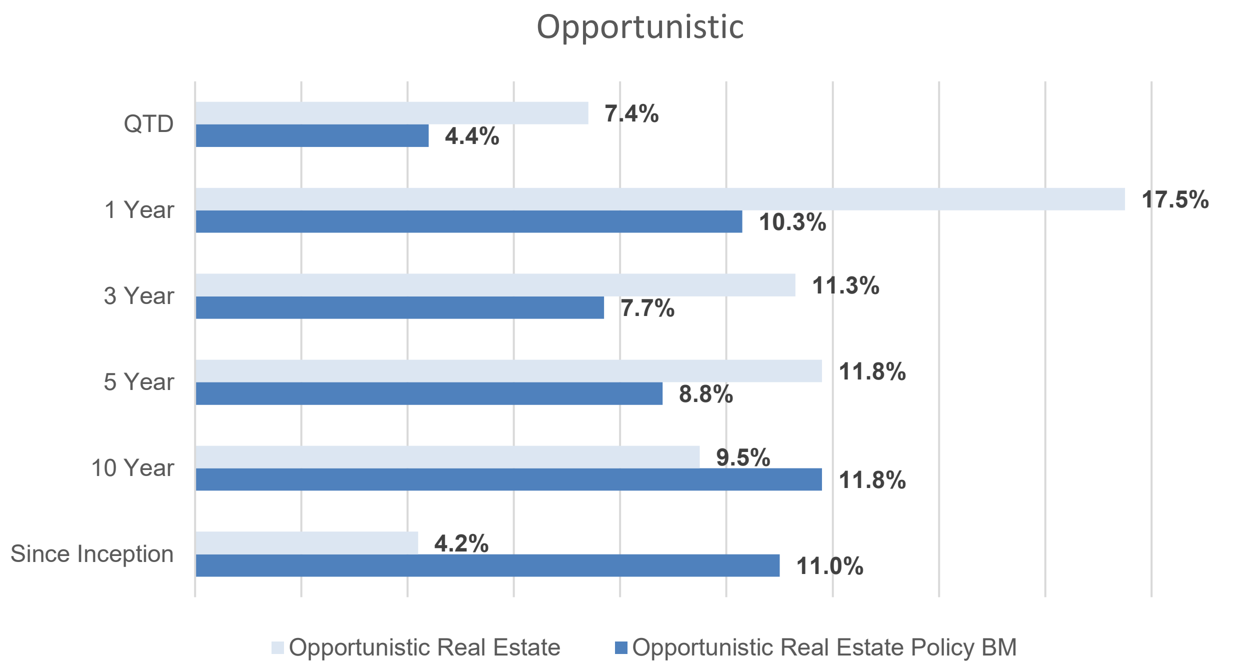


- Core and Value-Add portfolio, representing 6.2% of the total Fund, has under-performed the benchmark in the 1-year, 3-year, 5-year and 10-year periods
- Underperformance was caused by commingled closed end funds, terminated separate account managers, and some current separate account managers

Note: The National Council of Real Estate Investment Fiduciaries (NCREIF) Fund Index – Open End Diversified Core Equity, also known as the NFI-ODCE Index, is utilized as an institutional real estate performance benchmark. The Index is an index of investment returns (gross of fees) of the largest private real estate funds (27) pursuing a core investment strategy which is typically characterized by low risk, low leverage (less than 40%), and stable properties diversified across the U.S. It was established in 1978. Source –NCREIF.org.

Source: Total Fund Board Book – State Street – As of September 30, 2021 (lagged with best available data).

Performance Summary – Opportunistic Portfolio



- The Opportunistic category, currently representing about 0.9% of total Fund, has performed well in the quarter, 1-year, 3-year and 5-year periods but underperformed the 10-year benchmark by 230 bps.
- A favorable tilt into industrial and multi-family assets in the separate accounts helped performance.
- Outperformance is also from funds that have fully distributed.
- Current active funds and separate account portfolios have underperformed, though early year performance of newer funds may not yet be indicative of future performance.

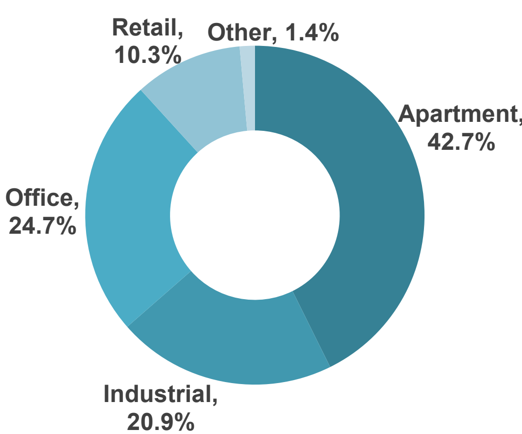
Source: Total Fund Board Book – State Street – As of September 30, 2021 (lagged with best available data).

MSCI Forecast Active Risk – Real Estate*

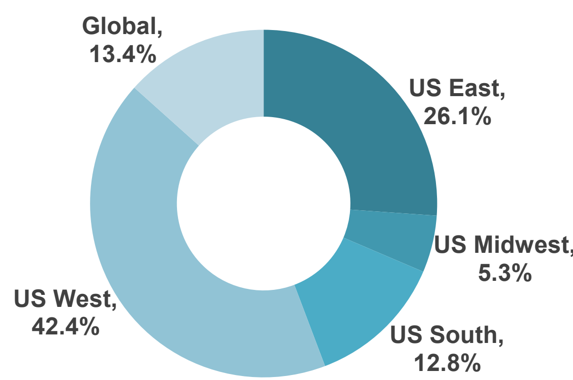
as of September 30, 2021

	Weight%	Benchmark Weight%	Active Weight%	Active Risk Contribution	Allocation Risk Cont.	Selection Risk Cont.	Standalone Active Risk
Total Fund				**1.1%**	**0.1%**	**1.1%**	**1.1%**
Real Estate	7.2%	9.0%	-1.8%	0.2%	0.0%	0.1%	5.5%
Opportunistic Real Estate	0.9%	2.0%	-1.1%	0.1%	0.0%	0.0%	9.9%
Core and Value-Added Real Estate	6.3%	7.0%	-0.7%	0.1%	0.0%	0.1%	5.2%
Ex Real Estate	92.8%	91.0%	1.8%	0.8%	0.0%	0.8%	1.3%

Active Risk by Property Type



Active Risk by Region



*Implementation of the MSCI Risk Platform is ongoing; reconciliation and refinement of the data is progressing and subject to change. Data is as of September 30, 2021 (lagged with best available data). Commingled funds are reported at the property level. %CTR – Percent Contribution to Total Risk.

Source: MSCI BarraOne

Structural Considerations for Investments

	Core	Non-Core
Primary Objective	Diversification, Lower Risk, Reliable Returns, Income orientation	Asset value growth, use of development capital to enhance returns
Proposed Structure	Move from separate accounts to largely **open-ended commingled funds**, eliminate emphasis on separate accounts	Maintain use of **closed-ended commingled funds**, eliminate use of separate accounts
Liquidity	Some liquidity as open-ended fund units are redeemable after lock-up periods or other restrictions are met. Availability of fund liquidity may be impaired based on market conditions.	Liquidity through redemptions is unavailable as fund units are not redeemable for life of vehicle. Some liquidity may be possible via secondary sales, though likely at reduced value.
Risk Classification	Improve diversification, reduce tracking error with use of more diversified open-ended funds, reduced emphasis on tactical positioning	Allow for higher risk opportunities, broader latitude to tilt toward in-favor sectors or geographies within guidelines
Incentive Fees	Likely in Core Plus, Less likely in Core	Likely

Proposed Core Implementation (Confidential)

Underwrite and Invest in portfolio of ODCE funds

- Maintain target allocation of **6%** by timing sales of Core direct holdings with entry into open-ended ODCE funds
- Recommend a bench of ODCE funds to be approved by the BOI
- Invest in **6-8 U.S.-focused ODCE funds at $400-$800 million per fund**

Challenges:

- Manage liquidity from asset sales with possibility of entry queues into open-ended funds

Proposed Non-Core Implementation

Value-Add moved into Growth functional asset class effective 10/1/2021

- Allocations for Value-Add and Opportunistic Real Estate, currently 3%, will be **4% in 2022**
- Target allocations **are 2% in Value-add and 2% in Opportunistic Real Estate**

Underwrite U.S., Non-U.S. and Global Value-Add and Opportunistic funds

- Invest in 4-8 funds annually each at approximately **$125-$250 million sizes***
- Reach 4% target allocation by 2026

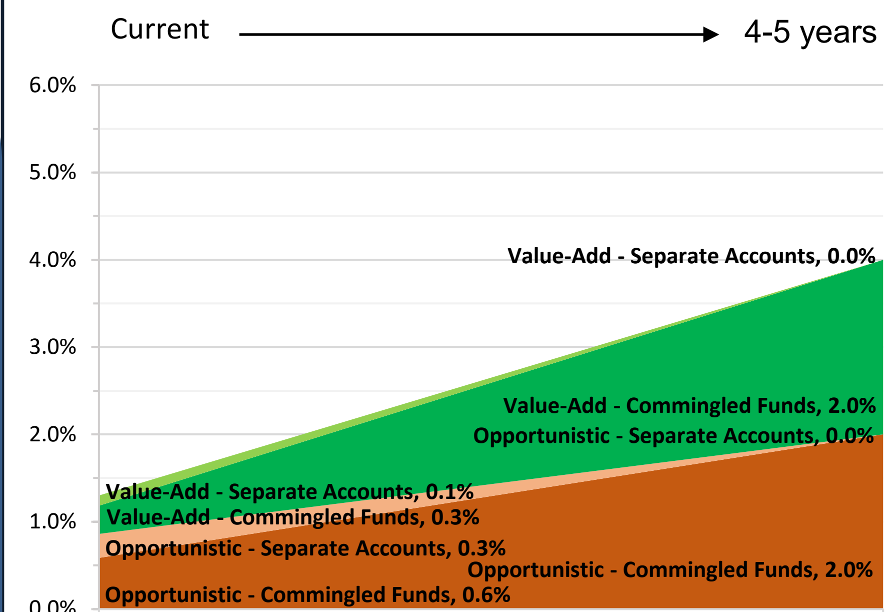
**To be revisited at the next Real Estate Structure Review.*

Investment Structure Changes (Confidential)

Core

[redacted]

Non-Core



- Non-Core Real Estate is currently at 1.3% of total Fund vs 3% target and 4% target in 2022
- Non-Core Real Estate is growing through new allocations to commingled funds. Separate account structures will not be employed
- Targeted allocations of Opportunistic and Value-Add each at 2% of total Fund at end of 4–5-year period

Data as of September 30, 2021 (lagged with best available data).

Third-Party Fiduciary Engagement (Confidential)

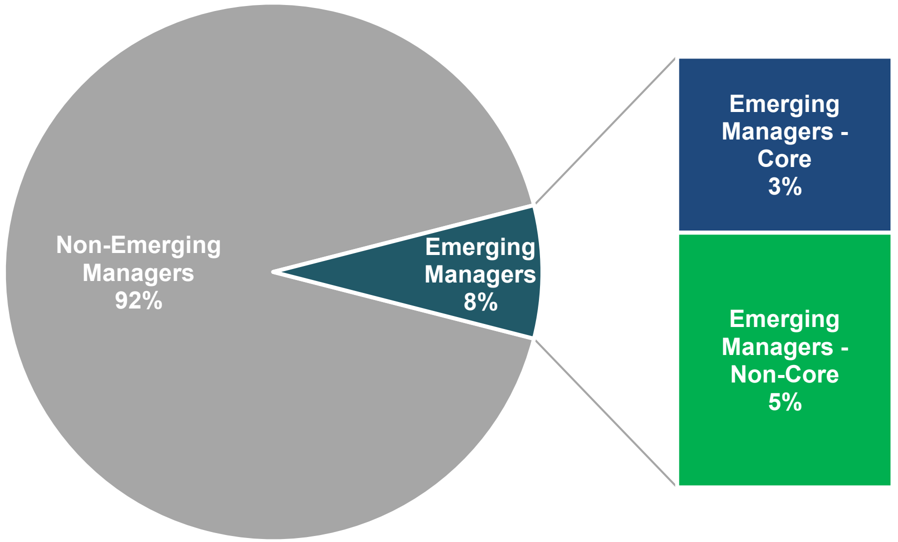
[redacted]

Emerging Manager Program – Overview

- There is currently one emerging manager in the Real Estate program
- LACERA has invested with this manager via separate account and commingled fund investment structures
- 2022 Emerging Manager Plan
  - Structure review proposes moving Real Estate implementation to fund structures
  - Launch RFP in 2022 to retain an Emerging Manager Program advisor
  - Would source and construct a custom portfolio of emerging manager funds largely focusing on Non-Core opportunities
  - Consistent with LACERA's Emerging Manager Policy

Current Real Estate Emerging Manager Program Assets

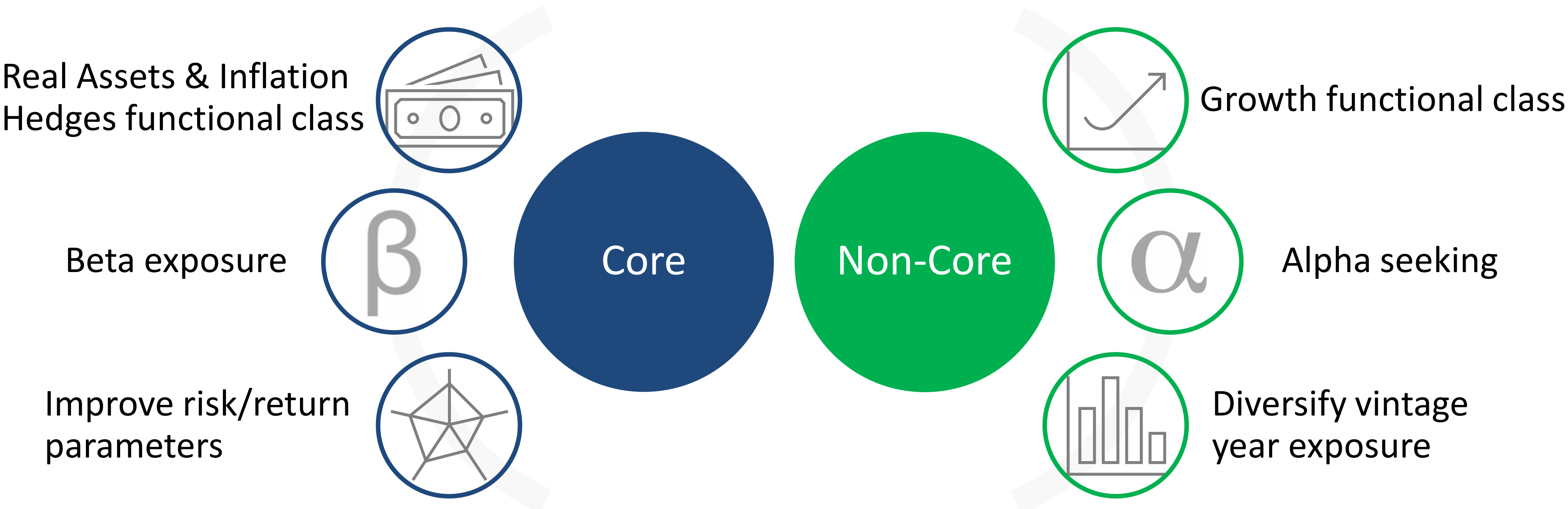
As of 9/30/2021



Data as of September 30, 2021 (lagged with best available data).

Real Estate – Strategy

Investment Strategy

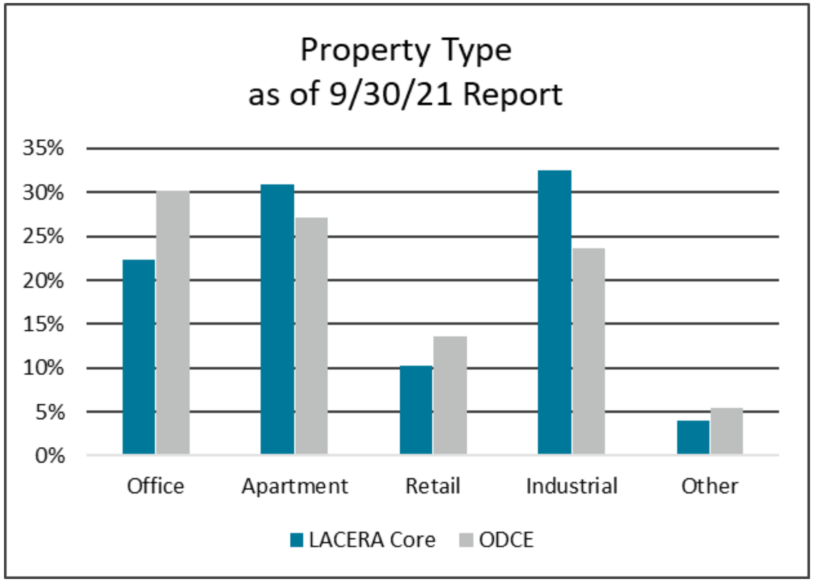


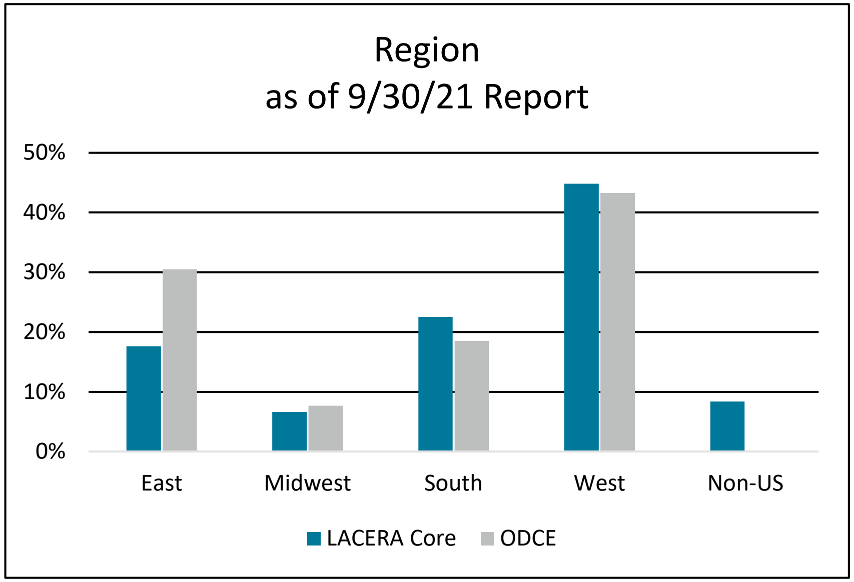
- Objective is to help produce income as well as hedge against inflation while diversifying the Fund
- Use Core commingled funds for “beta exposure” to the benchmark with positive tilt in Industrial, Multifamily, and niche sectors including Life Science/R&D and Storage.
- Greater diversification of assets via new commingled fund investments to help provide more consistent return against core benchmark.

- Objective is to be the primary driver of long-term returns for the Fund
- Use Non-Core commingled funds for “alpha seeking” returns (+200 bps from Value-Add and +300 from Opportunistic) globally, with potential to invest in more dedicated niche sector funds
- Accelerate pace of new investments
- Diversify vintage year exposure, which has been irregular in recent years

Diversification – Core

Current Portfolio Characteristics





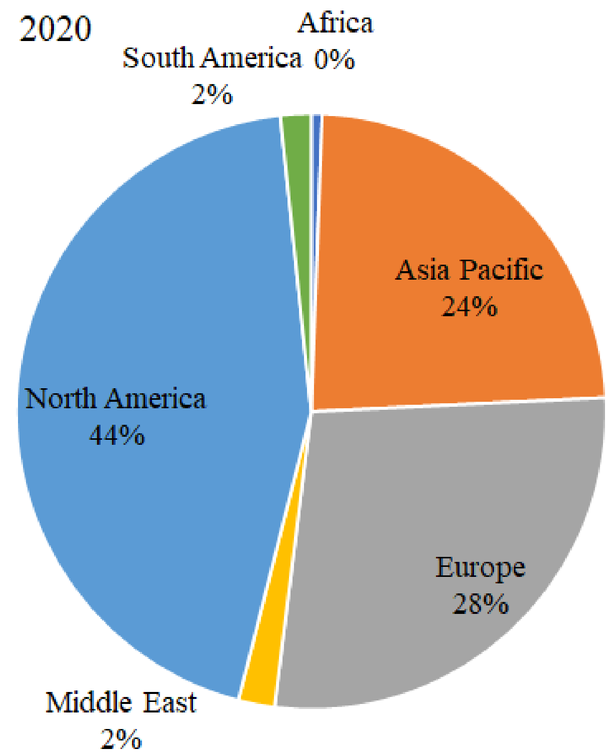
- Maintain overweight to industrial
- Consider reduction of apartments to move closer to ODCE
- Maintain underweight to office and retail

- Consider maintaining tilts to West and South
- Rebalance East exposure to be underweight but within guidelines
- Maintain modest position for Non-U.S. (not in ODCE benchmark)

Data as of September 30, 2021 (lagged with best available data).

Global Investable Universe

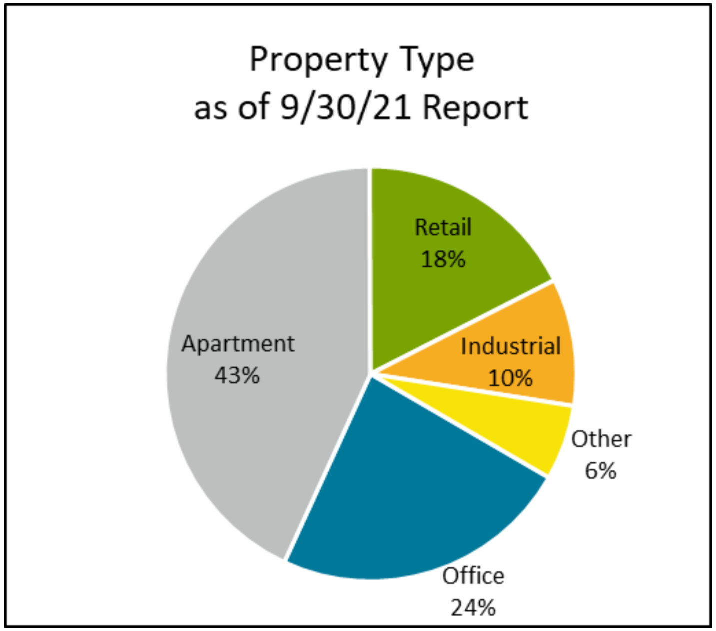
- Majority of investable universe of institutional Real Estate resides outside North America
- Growth in Non-Core allocation, using fund structures, allows for expansion of Non-US exposures when attractive opportunities arise
- LACERA Non-Core Real Estate portfolio does not fully reflect the global opportunity set

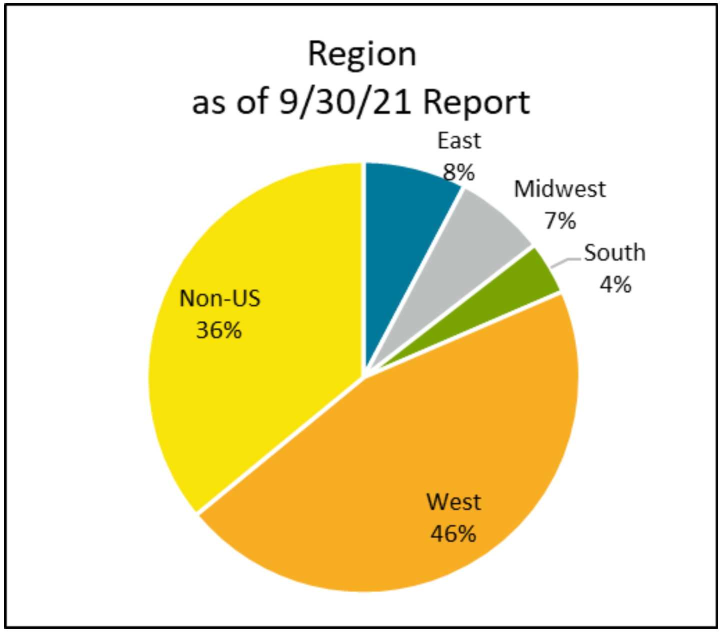


Source: CBRE as of August 2021. Investable total universe 2020 was $34.05 trillion

Diversification – Non-Core

Current Portfolio Characteristics





- Non-Core will progressively become a larger portion of the overall Real Estate allocation
- Non-Core focus will be on increasing share of Non-U.S. investments consistent with the broader opportunity set
- Invest in closed-ended funds which can provide geographic and sector diversification while still targeting the most attractive opportunities
- Evaluation of niche strategies as part of opportunity set in growing Non-Core exposure

Data as of September 30, 2021 (lagged with best available data).

Proposed Guidelines by Functional Asset Class

	Real Assets & Inflation Hedges/Core (current)	Real Assets & Inflation Hedges/Core (proposed)
Asset Allocation	7%	6% (+/-3%)
Property Type	Within a +/- 10% variance of ODCE Apartment, Industrial, Office, Retail, Other	Within a +/- 15% variance of ODCE Apartment, Industrial, Office Within +/- 10% variance of ODCE Retail and Other
U.S. Geographic	Within a +/- 10% variance of ODCE	U.S. 85%-100% Within a +/- 10% variance of ODCE
Non-U.S. Geographic	20% Limit	Europe 0%-10% Asia 0%-10% Emerging Markets 0%-5%
Leverage	50% Limit	50% Portfolio Limit
Manager Diversification	35% Limit	35% Limit
Fund Concentration	N/A	30% Limit
Active Risk (Tracking Error)	N/A	Long term Target: Less than 1%

Note: The table above depicts the targets and ranges for the various portfolio segments over the long-term. From time to time, the actual allocations of the portfolio may fall outside the recommended ranges.

Proposed Guidelines by Functional Asset Class

	Growth/Non-Core (Current)	Growth/Non-Core (Proposed)
Asset Allocation	2%	4% (+/-2%) Interim Target 3%
Property Type	N/A	Apartment 10%-45% Industrial 10%-40% Office 10%-40% Retail 10-25% Other 0%-20%
U.S. Geographic	N/A	U.S. 35%-60%
Non-U.S. Geographic	N/A	Europe 15%-45% Asia 5-35% Other Emerging Markets 0-15%
Leverage	Opportunistic 80% Limit	Value-Add 65% Limit Opportunistic 80% Limit
Manager Diversification	N/A	20% Limit
Fund Concentration	N/A	30% Limit

Note: The table above depicts the targets and ranges for the various portfolio segments over the long-term. From time to time, the actual allocations of the portfolio may fall outside the recommended ranges.

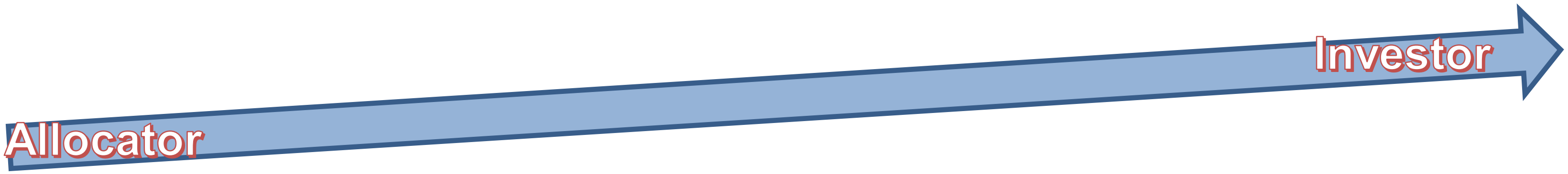
Proposed New CIO Authority for Follow-on Real Estate Funds

Recommendation

- Incorporate CIO Authority for Follow-on Funds into the Real Estate Investment Guidelines

	Description
CIO Authority for Follow-on Funds	The CIO is authorized to approve capital commitments in follow-on-funds up to $250 million per fund or up to a 25% fund ownership increase compared to LACERA's ownership percentage in the predecessor fund, provided: i. LACERA's prior investments in each predecessor fund greater than three years old (based on the fund's inception or commencement of operations date) exceeds the benchmark net IRR and net MOIC median returns for the fund's sub-asset class strategy, and ii. There have been no material changes in the investment strategy or key persons, and iii. LACERA's Real Estate consultant concurs with the investment The Board will receive written notification of all such actions from staff

Initiatives (Confidential)



Completed

- Terminated four under-performing separate account managers in 2018
- Invested in open-end funds
  - IDR ODCE Index fund
  - RREEF Core Plus Industrial Fund
  - Prologis European Logistics Fund
  - Invesco Core Asia Fund
- Hired an Appraisal Management Service Provider
- Created a formal quarterly reconciliation process
- Onboarded Administrator
- Onboarded new Consultant
- Transitioned performance book of record

In process

- Underwrite re-up opportunities with high conviction managers in value-add and opportunistic funds
- Cull portfolio of under-performing assets
- Review optimal structure
- Formalize desktop procedures
- Incorporate operational due diligence process
- Review of Responsible Contractor Policy
- Annual GRESB review

Upcoming

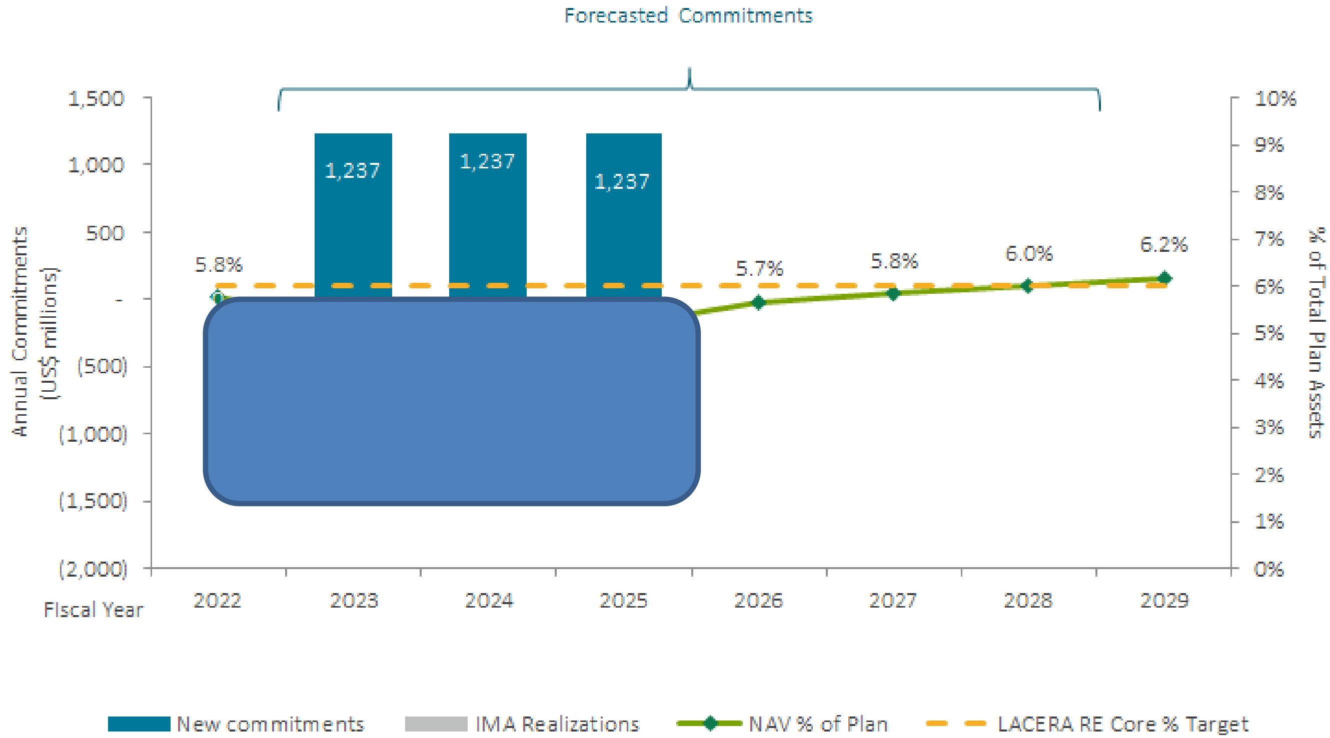
- Underwrite new ODCE funds
- Continue improving risk profile of core assets
- Ramp up pacing for underwriting Value-add and Opportunistic funds
- Launch Emerging Manager RFP
- Fill open positions

Recommendation Summary (Confidential)

Underwrite ODCE funds	Invest in Non-Core funds	Revised Guidelines
• Underwrite and commit to **6-8** ODCE funds	• Underwrite and commit to **$125-$250MM** fund allocations to closed-ended funds targeting a **4%** Non-Core allocation in **4-5** years.	• Adopt revised guidelines on slides **27, 28, and 29**

Appendix

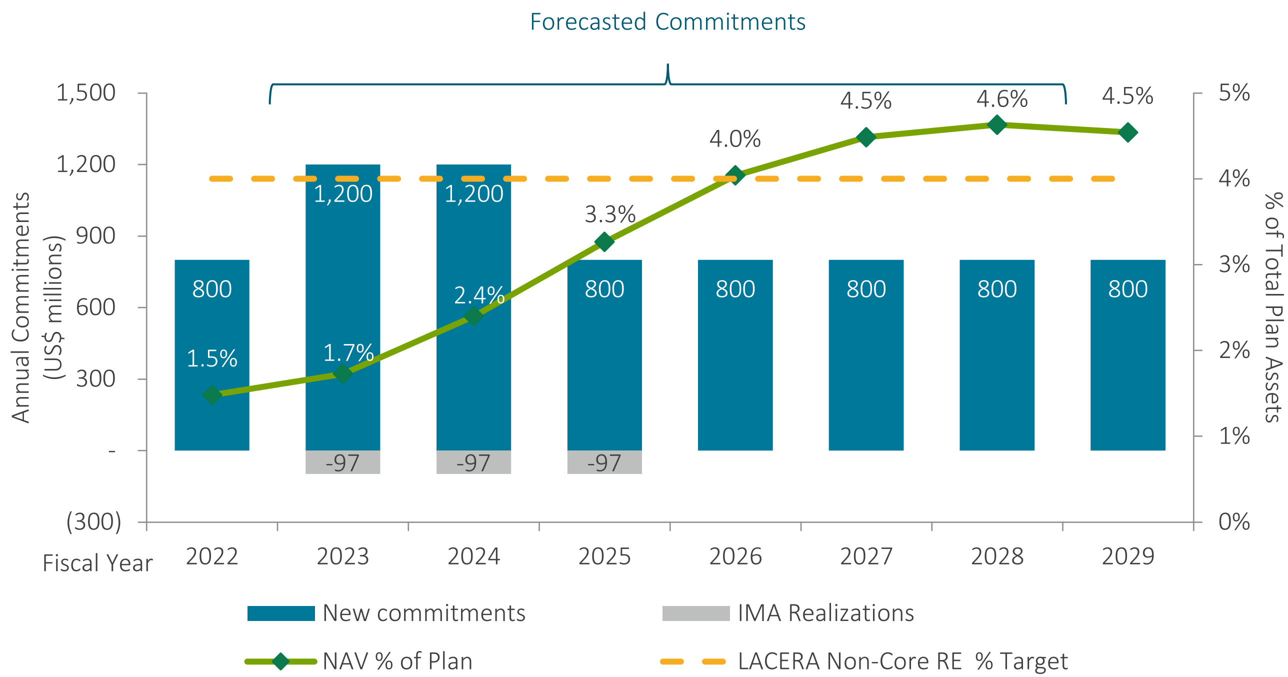
Pacing Model for Core Portfolio (Confidential)



	2023	2024	2025
Annual Commitments (in millions)	$1,200	$1,200	$1,300

The annual commitments are at $1.2 billion in 2023, 2024 and 2025. The plan asset growth rate is assumed at 5.5% annually with a Real Estate target of 6% for Core.

Pacing Model for Non-Core Portfolio



	2022	2023	2024
Annual Commitments (in millions)	$800	$1,200	$1,200

Source: StepStone. Pacing Model is assuming that about $800 million of annual commitments in 2022, and then $1.2 billion in 2023 and 2024. The plan asset growth rate is assumed at 5.5% annually with a Real Estate target of 4% for Non-Core.

Pacing Model Assumptions (Confidential)

- Overall Assumptions:
  - Plan asset start date as of fiscal year end 2021
  - Net plan asset growth rate of 5.5% (7% growth with 1.5% cash outflow)
  - [redacted]
- Core/Core-Plus Assumptions:
  - 6% target allocation of plan assets
  - All commitments are from Core/Core-Plus IMAs dispositions/transfers
  - Commitments are split equally between Core and Core-Plus open-ended funds
  - Core target net IRR: 5.7%
  - Core-Plus target net IRR: 11.3%
- Non-Core Assumptions:
  - 4% target allocation of plan assets
  - Commitments are split equally between Value-Add and Opportunistic closed-ended funds
  - Value-Add target net IRR: 11.3%
  - Opportunistic target net IRR: 12.0%
  - Target allocation by 2026

Source: StepStone. The opinions expressed herein reflect the current opinions of StepStone as of the date appearing in this material only. There can be no assurance that views and opinions expressed in this document will come to pass. No representation or warranty is made as to the returns which may be experienced by investors. No representation or warranty is made as to the returns which may be experienced by investors.

Core, Core Plus, Value-Add and Opportunistic

Return

Core

- Lowest risk and return
- Occupancy 80%+
- Leverage up to 50%
- No development
- Income return generator

Core Plus

- Low to moderate risk
- Occupancy 65%+
- Leverage between 45-60%
- Light renovations/repositioning
- Less predictable cash flow than core

Value-Add

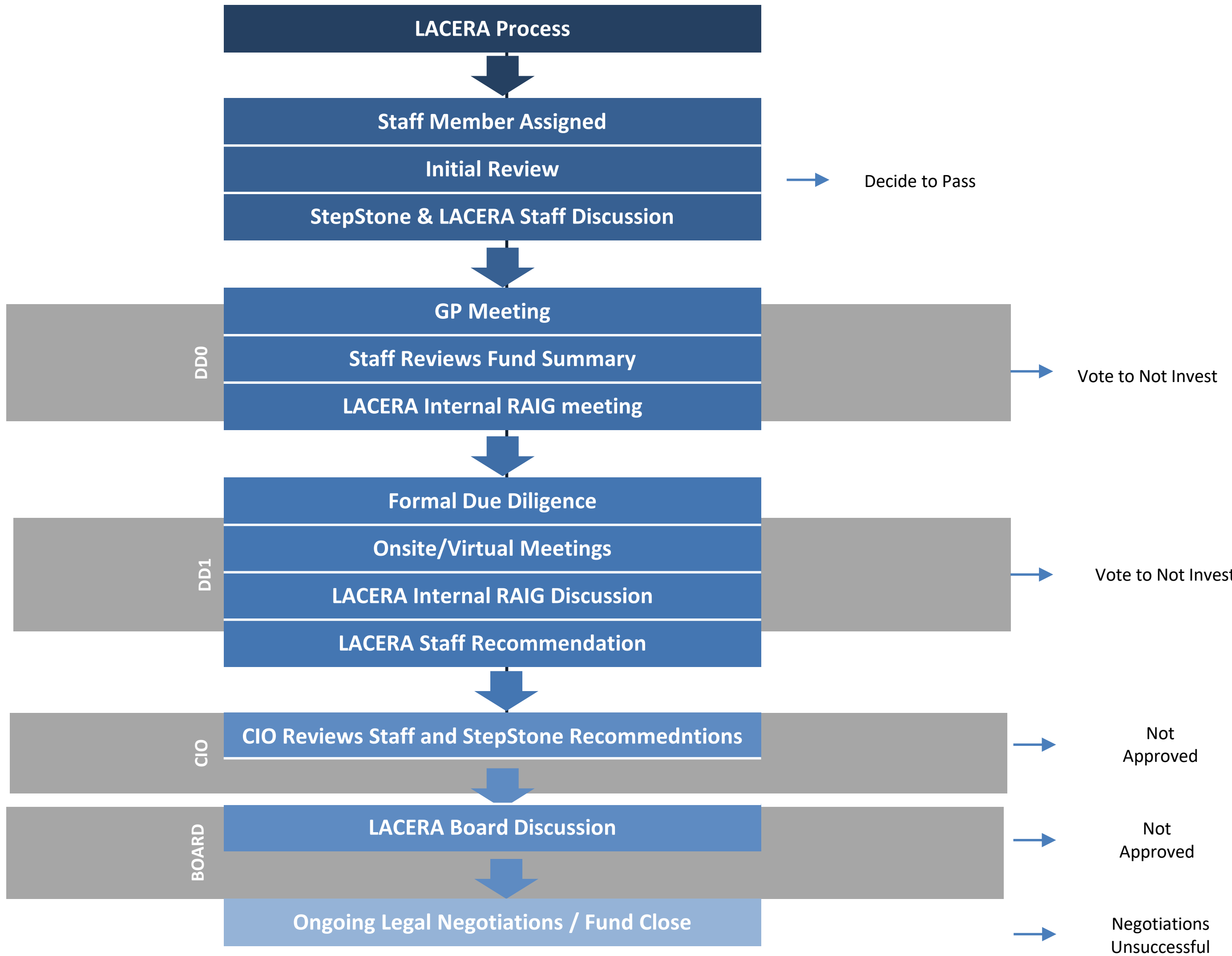
- Moderate risk
- Renovations
- Repositioning
- Primary/Secondary Markets
- Leverage up to 60%

Opportunistic

- New construction
- Redevelopment
- Major releasing
- Leverage up to 80%
- Emerging Markets

Risk

Investment Process

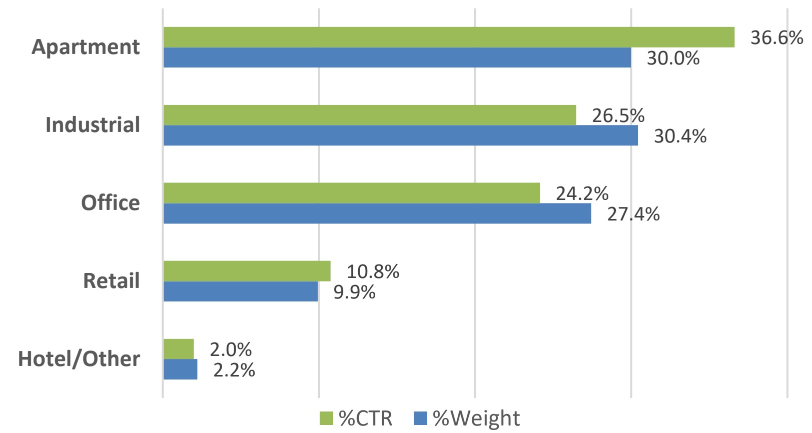


MSCI Forecast Total Risk – Real Estate*

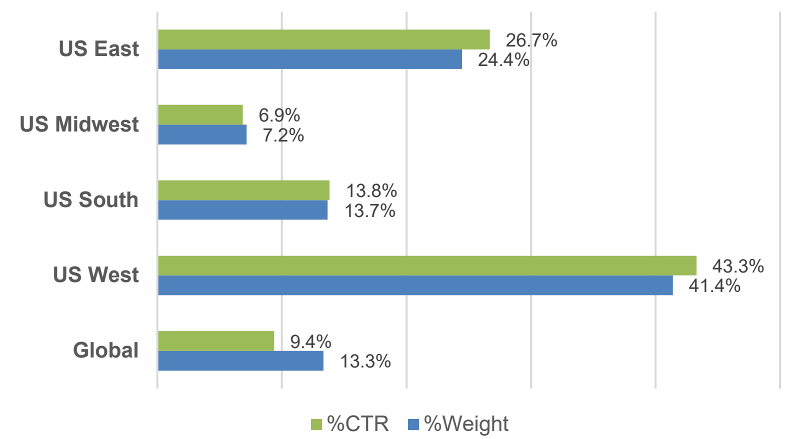
as of September 30, 2021

	%Weight	% Cont. to Total Risk	Standalone Total Risk	Standalone BMK Risk**
Total Fund			**11.8**	**11.1**
Growth	**51.1%**	**80.5%**	**18.7**	**18.5**
Global Equity	36.0%	54.0%	18.2	18.3
Private Equity	14.2%	25.2%	24.2	25.0
Opportunistic Real Estate	0.9%	1.3%	23.3	18.8
Credit	**10.9%**	**3.6%**	**4.8**	**4.3**
High Yield Bonds	3.1%	1.3%	6.0	4.9
Bank Loans	3.5%	0.9%	4.9	6.4
Illiquid Credit	3.0%	0.7%	4.5	3.4
Emerging Market Debt	1.2%	0.7%	9.4	7.7
Real Assets & Inflation Hedges	**17.4%**	**18.0%**	**13.5**	**13.8**
Core & Value-Added Real Estate	6.2%	7.8%	21.2	18.8
Natural Resources & Commodities	5.1%	5.0%	13.6	19.8
Infrastructure	3.2%	4.8%	19.3	19.5
TIPS	2.9%	0.4%	4.7	4.7
Risk Reduction and Mitigation	**19.9%**	**0.3%**	**3.0**	**2.7**
Investment Grade Bonds	15.1%	0.0%	3.6	3.4
Diversified Hedge Funds	3.5%	0.3%	4.5	0.1
Cash	1.3%	0.0%	-	-
Overlay	**0.7%**	**-2.4%**	-	-

Total Risk by Property Type



Total Risk by Region



Implementation of the MSCI Risk Platform is ongoing; reconciliation and refinement of the data is progressing and subject to change. Data is as of September 30, 2021 (lagged with best available data). Commingled funds are reported at the property level. %CTR – Percent Contribution to Total Risk.

Source: MSCI BarraOne

ATTACHMENT B

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November 30, 2021

Board of Investments
Los Angeles County Employees Retirement Association ("LACERA")
300 N Lake Avenue, Suite 850
Pasadena, CA 91101-6130

Re: 2021-2022 Structure Review – Private Real Estate

Dear Board Members,

StepStone commenced its advisory contract with LACERA effective April 1, 2021. StepStone and staff have collaborated on LACERA's 2021-2022 Structure Review to be presented to the Board of Investments on December 8, 2021.

We believe the themes and initiatives identified in the 2021-2022 Structure Review are pertinent to the current market environment and are consistent with the longterm goals of LACERA's Private Real Estate portfolio. Therefore, in consultation with staff, we recommend that LACERA establishes annual non-core real estate commitment target pacing with the goal of achieving LACERA's target Private Real Estate non-core allocation of 4% of total plan assets by fiscal year-end 2026.. In addition, StepStone recommends the repositioning of its Private Real Estate core asset holdings with the goal of improving execution, diversification, and overall performance, and recommends engaging a third-party fiduciary advisor to evaluate strategic alternatives for repositioning, including disposition of certain assets. Also, in consultation with staff, StepStone recommends implementation of all other strategic and tactical recommendations in the 2021-2022 Structure Review.

In collaborating with staff on the Structure Review, we recognized the importance of maintaining flexible investment pacing to invest more or less according to market conditions and opportunities. While a consistent annual investment pace is important to maintain proper vintage year diversification, LACERA should not feel forced to invest a specific amount every year if enough high quality opportunities are not available and should have the flexibility to invest more if there are more high quality opportunities in a given year than could be accommodated with a fixed allocation target.

StepStone will review this recommendation each year as well as when market conditions warrant to ensure it continues to align with LACERA's overall investment goals.

StepStone Group LP

To the knowledge of StepStone, (i) this recommendation does not take into account the interest of StepStone or any StepStone Entity (as defined in the Advisory Services Agreement between LACERA and StepStone), (ii) neither StepStone nor any StepStone Entity will receive any benefit from this recommendation other than compensation paid by LACERA to StepStone pursuant to the Advisory Services Agreement, and (iii) there are no conflicts of interest among StepStone and its affiliates in connection with the recommendation herein.