ATTACHMENT A

Amended Growth Functional Category Biennial Structure Review

Board of Investments

October 13, 2021

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David Chu – Senior Investment Officer
David Simpson, CFA – Investment Officer

LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION

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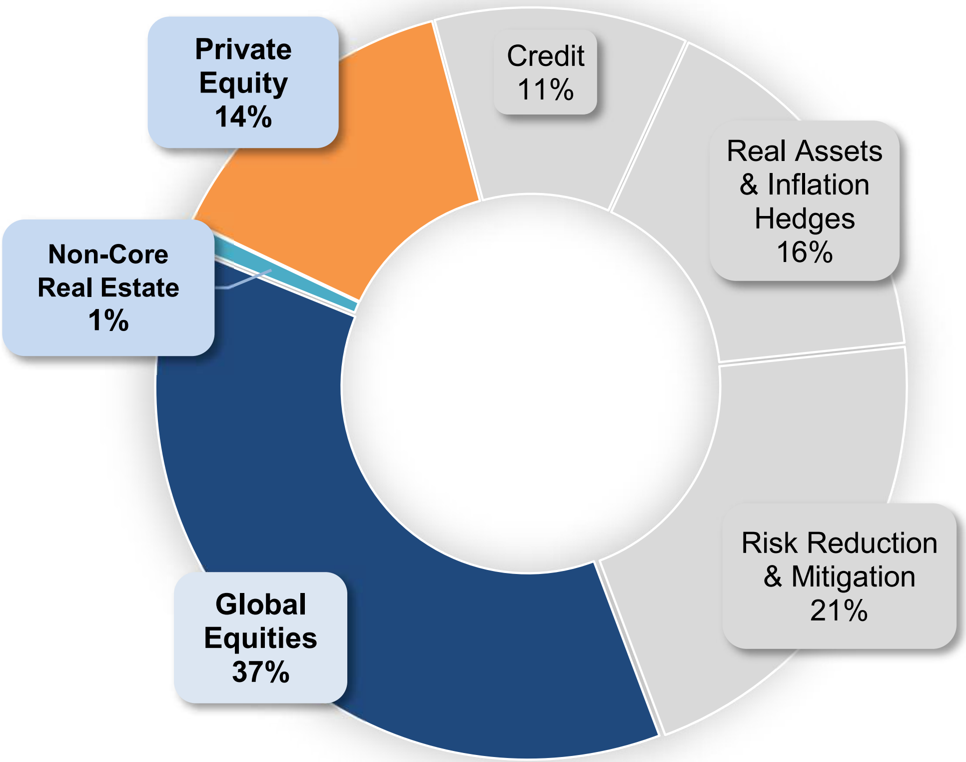
Growth Portfolio Composition



Total Fund Asset Allocation[1] as of July 31, 2021 ($MM)

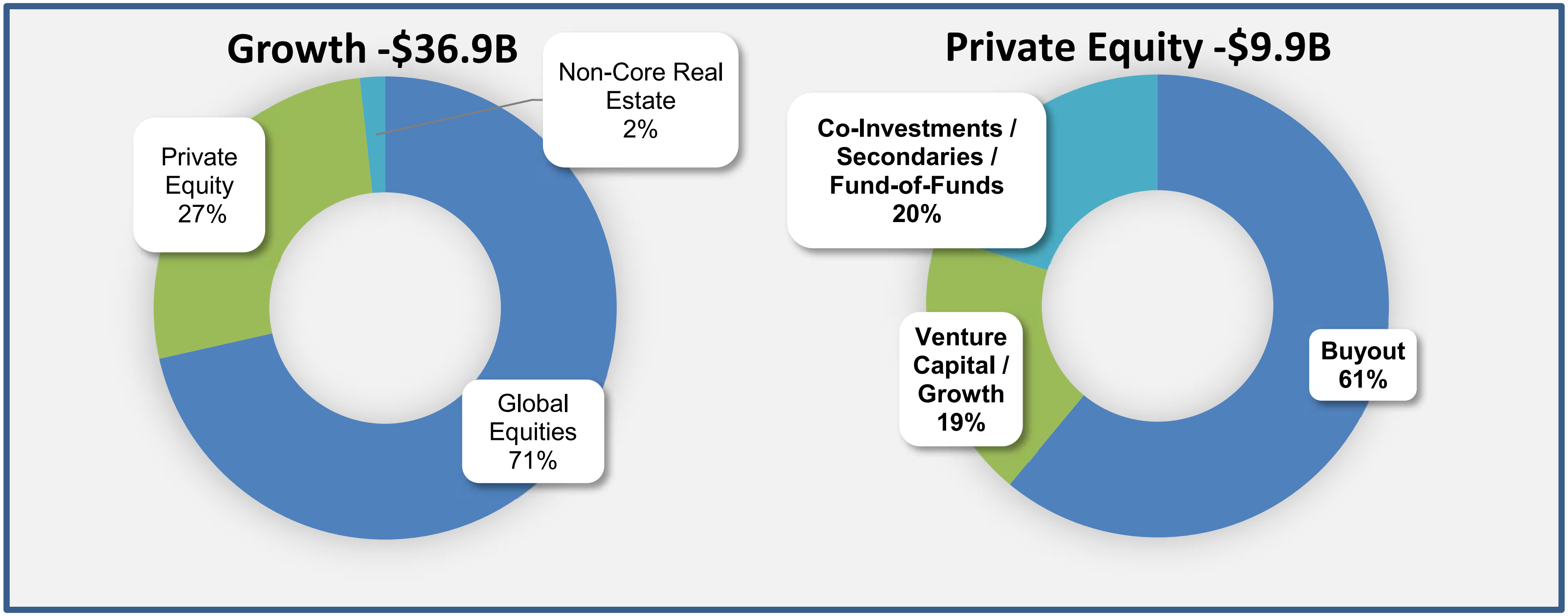
	% of Total	Final Target	Target Ranges	vs Target (%)	vs Target ($)
Total Growth	**51.2%**	**53.0%**	**+/- 8%**	**-1.8%**	**-$1,297**
Global Equity	36.6%	32.0%	+/- 7%	4.6%	$3,314
Private Equity	13.7%	17.0%	+3/- 5%	-3.3%	-$2,378
Non-Core Real Estate	0.9%	4.0%	+/-2%	-3.1%	-$2,233

- Growth is under weight by 180 bps
- Largest overweight component is Global Equity by 460 bps or $3,314 million
- Private Equity is under weight by 330 bps or $2,378 million

[1]Asset weights are as of July 31, 2021; Private Equity market values reflect latest available and are adjusted for cash flows. Global Equity values as of July 31, 2021. Real Estate market values reflect a three-month lag and best available values for the quarter are in the total fund.

Role and Objectives of Private Equity

(as of 7/31/21[1])	Market Value (in $ billion)	% of Growth	% of total Fund
Private Equity	$9.9	26.8%	13.7%



- Growth investments are the primary driver of long-term total Fund returns
- Within the Growth category, Private Equity is expected to generate the highest performance at an acceptable level of risk
- The target return for Private Equity is 200 basis points over the MSCI ACWI IMI[2], net of all fees

[1] Private Equity market values reflect latest available and are adjusted for cash flows. Global Equity values as of July 31, 2021. Real Estate market values reflect a 3-month lag and best available values for the quarter are in the total fund.

[2] Morgan Stanley Capital International, All Country World Index, Investable Market Index.

(as of 7/31/21[1])	Market Value (in $ billion)	% of Growth	% of total Fund
Private Equity	$9.9	26.8%	13.7%

Private Equity Capital Allocation Request for 2021 and 2022

LACERA'S Plan Level Target Allocation Status As of July 31, 2021 ($MM)	
Total Fund Value	$72,047
Net Asset Value (PE)	$9,875
Allocation %	13.7%
Target Allocation	17.0%
Target Allocation Range	14%-20%

Recommendation

Adopt the following proposed new commitment targets:

- 2021: $2,150 million (+/- 20%)
- 2022: $2,450 million (+/-20%)

StepStone Pacing Model: 2021-2026 Projections[2] ($MM)

Calendar Year	New Commitments	PE Draw-downs	PE Distributions	PE Market Value	Total Portfolio Value[3]	PE Allocation
2021	$2,150	$1,744	$2,309	$9,161	$68,739	13.3%
2022	$2,450	$2,058	$2,252	$9,898	$72,316	13.7%
2023	$2,725	$2,380	$2,392	$10,918	$76,110	14.3%
2024	$3,000	$2,639	$2,591	$12,127	$80,056	15.1%
2025	$3,275	$2,895	$2,882	$13,447	$84,178	16.0%
2026	$3,575	$3,149	$3,241	$14,814	$88,464	16.7%

Target Allocation Model Commentary

- New commitment targets assume a +/- 20% range, based on opportunities available in the marketplace
- Model projects allocations over the next six years

[1] Private Equity market values reflect latest available and are adjusted for cash flows. Global Equity values as of July 31, 2021. Real Estate market values reflect a three-month lag and best available values for the quarter are in the total fund.

[2] StepStone model assumptions are in Appendix A.

[3] Total Portfolio Value is projected using an assumed 7.0% annual growth with estimated contributions/distributions as provided by Meketa.

CIO Authority for Follow-on Private Equity Funds

Recommendation

- Incorporate the Board-approved CIO Authority for Follow-on Funds into the Private Equity Investment Guidelines

	Description
CIO Authority for Follow-on Funds (no changes are being proposed)	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 private equity consultant concurs with the investment The Board will receive written notification of all such actions from staff

Private Equity Co-Investment & Secondary Program Update

Program Timeline

- **The Equity Committee and BOI approved the co-investment program in Q4 2018**
- **First co-investment and re-activation of secondary investments occurred in Q3 2019**

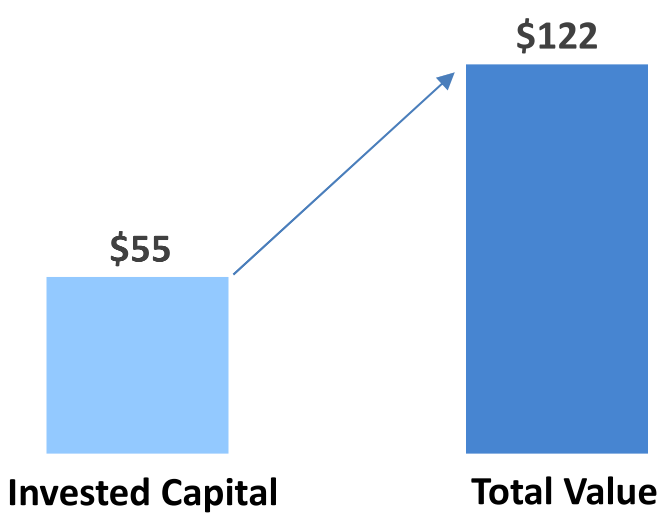
A	Staff evaluated feasibility of developing an internal co-investment program
B	BOI approved staff’s recommendation to establish an internal co-investment program
C	Staff developed the program’s investment criteria, due diligence processes, and sourcing strategies
D	Launched co-investment program
E	Executed first co-investment, Re-activated dormant secondaries investment program
F	Executed first stapled co-investment transaction and First growth capital co-investment
G	Executed first European co-investment, Received first full realization of a secondary investment
H	Committed $640 million across co-investments and secondaries since the program’s inception

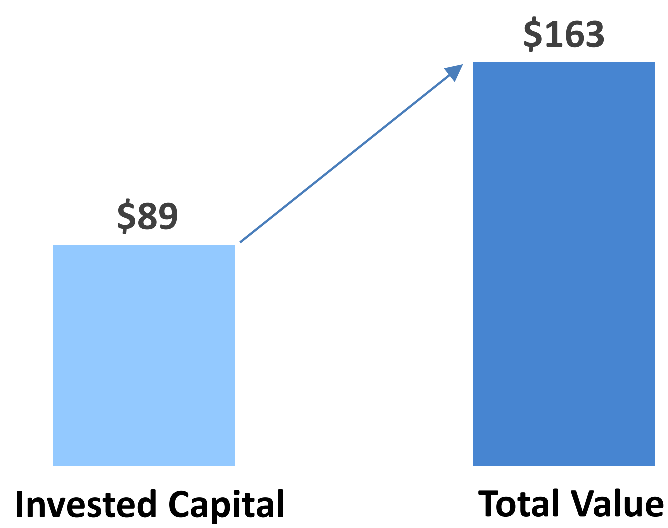
Program Performance (1/2)

- **Promising early results for investments over a year old with multiple realizations and zero losses**

($ in millions) **As of June 30, 2021**

Performance – Investments Over A Year Old					
Co-Investments			Secondaries		
87.1% Net IRR	2.2x Net TVPI	0.2x Net DPI	47.4% Net IRR	1.9x Net TVPI	0.4x Net DPI[1]





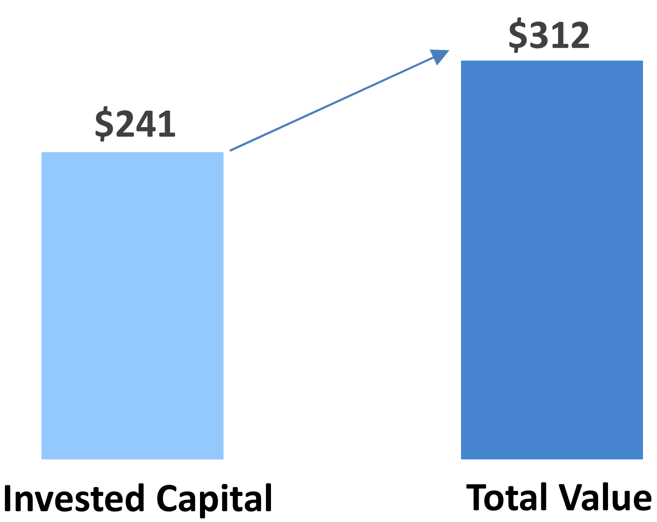
[1] Secondaries' net DPI is pro forma for distributions received in September 2021.

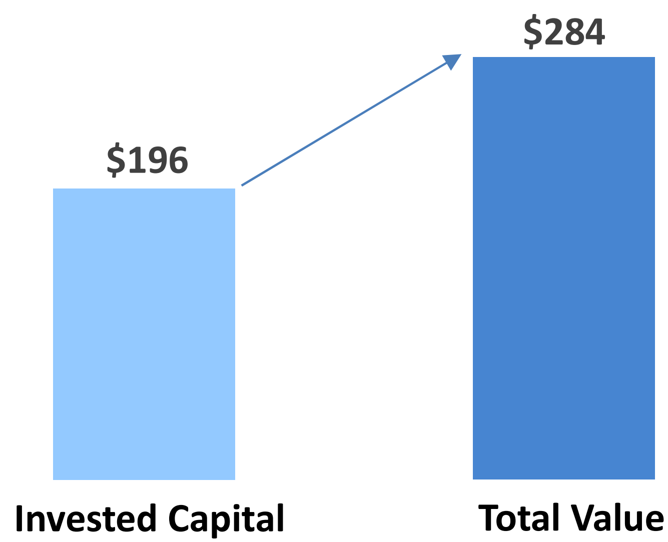
Program Performance (2/2)

- **Overall portfolio off to a solid start**

($ in millions) **As of June 30, 2021**

Performance – All Investments Since Program Inception					
Co-Investments			**Secondaries**		
59.6% Net IRR	**1.3x** Net TVPI	**0.04x** Net DPI	**42.7%** Net IRR	**1.5x** Net TVPI	**0.25x** Net DPI[1]





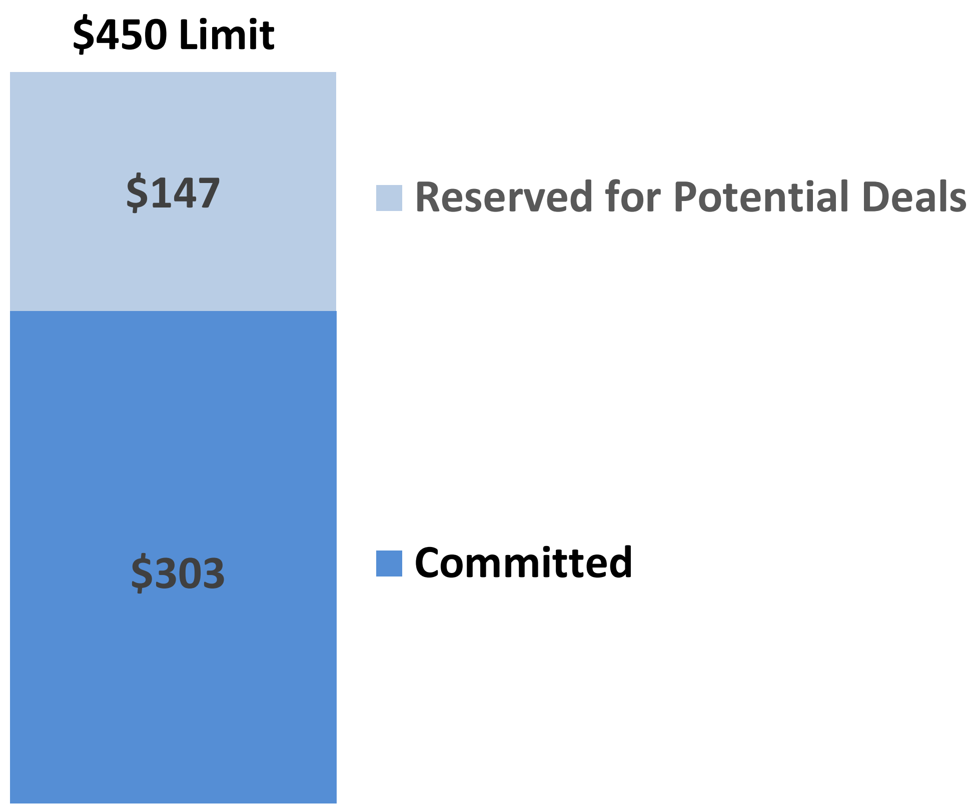
[1] Secondaries' net DPI is pro forma for distributions received in September 2021.

2021 Deployment Summary

- **Staff has reached the 2021 annual deployment limit**

($ in millions) **As of October 1, 2021**

2021 Calendar Year



Proposed Program Parameter Changes

Term[1]	Current Parameters	Proposed 2021/2022 Parameters
Investment Size	Co-Investment: Maximum $70 million Secondary: Maximum $130 million	**Co-Investment and Secondary: Maximum $130 million**
Annual Deployment	$450 million across co-investments and secondaries	**Up to 30% of annual private equity target allocation:** • **2021: $645 million across co-investments and secondaries** ($2,150 million annual target x 30%) • **2022: $735 million across co-investments and secondaries** ($2,450 million annual target x 30%)
Geography	Co-investment: Global with EX-U.S. investments subject to a maximum of: i) $40 million investment size ii) $150 million annual deployment Secondary: Global with EX-U.S. investments subject to $150 million annual deployment	**Co-Investment and Secondary: Global with EX-U.S. investments subject to:** • **Maximum $130 million investment size (same globally)** • **Total PE portfolio international exposure target allocation range of 20-45% applies (includes primary funds, co-investments and secondaries)**

[1] Existing 2021 parameters for co-investments and secondaries are in Appendix B. Any parameters not mentioned above are proposed to remain unchanged for 2021/2022.

Recommendation

- **Staff recommends Board approval of the following**

Growth	• Increase the proposed private equity commitment amount to \$2.15 billion (+/- 20%) for 2021 • Approve the proposed private equity commitment amount of \$2.45 billion (+/- 20%) for 2022 • Incorporate the Board-approved CIO Authority for Follow-on Funds into the Private Equity Investment Guidelines • Adopt proposed parameter changes to the Private Equity co-investment and secondary program

Appendices

Appendix A – Allocation Model Assumptions

- StepStone pacing model driven by five independent variables[1]:
  - Rate of contributions
  - Rate of distributions
  - Annual growth or return by sub-sector
  - Life of fund in years
  - Annual commitments by sub-sector
- StepStone's preliminary pacing model utilizes the following assumptions for LACERA's portfolio:
  - Total Portfolio Value: ~$65 billion[2]
  - Actuarial Rate of Return (net): 7.0%[3]
  - Target Private Equity (% of Total FMV): 17% (range of 12% - 20%)
- StepStone modeled three scenarios based on the PE Weighted Average Return[4]:
  - Low Case Net IRR of 8.0%
  - Base Case Net IRR of 10.9%
  - High Case Net IRR of 13.8%
- Blended 10-year sub-sector exposures on new commitments[5] :
  - Buyout: 50%
  - VC/Growth: 20%
  - Co-investments: 15%
  - Secondaries: 15%

(1) Any return contained herein is hypothetical and is not a guarantee of future performance. The returns set forth herein do not constitute a forecast; rather they are indicative of the internal transaction analysis regarding outcome potentials. Any returns set forth herein are based on StepStone's belief about the returns that may be achievable on investments that the Partnership intends to pursue. Such returns are based on current view in relation to future events and financial performance of potential investments and various models, estimations and "base case" assumptions made, including estimations and assumptions about events that have not occurred. Actual events and conditions may differ materially from the assumptions used to establish returns and there is no guarantee that the assumptions will be applicable to the Partnership's investments

(2) Total Portfolio Value for Q4 2020 of US$65.4 billion as provided by LACERA

(3) The Actuarial Assumed Rate of Return as adopted by the LACERA Board of Investments

(4) Low Case Net IRR reflects Meketa's assumption for 10-Yr Composite PE returns. High Case Net IRR reflects StepStone's blended return assumptions by sub-sector. Base Case Net IRR reflects the Midpoint of Meketa and StepStone.

(5) As provided by LACERA

Appendix B – Private Equity Investment Guidelines

Limit	Minimum	Maximum	Notes
Investment Size	$5 Million	10% of LACERA's MV plus undrawn commitments	
Single Partnership		50% of total commitments from all LPs	Does not apply to separate accounts
General Partner		10% of Private Equity portfolio MV plus unfunded commitments	Applies to aggregate across multiple funds

	Parameter	Target Allocation Ranges[1]
Sub-Asset Class	Buyouts	50 – 85%
	Venture Capital/Growth Equity	15 – 30%
	Co-Inv/FoF/Sec	10 – 25%
Geography	Non-United States	20 – 45%
	Emerging Markets	0 – 15% maximum

	Report[2]	Responsible Parties	Audience	Frequency
1	Portfolio Performance	Staff	Board	Semi-annually
2	Status of Current Investments	Staff & PEA	Board	No less than annually
3	Portfolio Performance and Investment Analysis	PEA or other service provider	Staff	Annually & quarterly

[1] LACERA allows staff and the PEA(s) some latitude outside of the ranges. In the short term, LACERA does not wish to have staff or its PEA(s) constrained by the designated ranges; i.e., fulfilling target allocations will not drive the investment recommendation process. LACERA will invest consistently over time to gain the proper exposures.

[2] Reports shall include information on general market environment and expected opportunities, portfolio composition, performance summary, and recent activity.

Appendix B – Private Equity Investment Guidelines (Cont.)

	Co-Investment Parameters	Secondary Parameters
Sourcing	• Co-investments offered by Board-approved managers so long as the manager is currently managing capital on behalf of LACERA[1]; or • Co-investments alongside a Board-approved discretionary PE manager, PE consultant, or their approved managers [1]Includes funds approved by the CIO through LACERA's private equity fund re-up procedure	• A private equity fund in which LACERA is an existing investor; or • A private equity fund or vehicle that is managed by a manager of the same institutional quality as those LACERA has previously committed to
Investment Size	$70 million maximum	$130 million maximum*
Geography	Global with non-U.S. investments subject to a maximum of (i) $40 million investment size and (ii) $150 million annual deployment	Maximum $150 million outside United States
Deal Types	Buyout and growth capital[2] transactions only [2]Growth capital includes high growth pre-EBITDA companies with a liquidity event expected in the next two years	
Annual Capital Deployment	$450 million across co-investments and secondaries*	
Advisory Confirmation	Third party confirms LACERA's due diligence was satisfactorily followed	Third party secondary advisor confirms valuation

*In a typical continuation vehicle secondary transaction, one or more assets of a primary fund are acquired by the continuation vehicle which is managed by the same sponsor as the primary fund. If LACERA is an existing limited partner in the primary fund, LACERA may be presented with the option to either (a) cash-out or (b) "roll over" and reinvest any proceeds it would have realized on the transaction into the continuation vehicle. The amounts "rolled over" by LACERA are not included in the dollar limits set forth in these parameters for secondary transactions.

Appendix B – Private Equity Investment Guidelines (Cont.)

Prohibited Investment Type	Description	Notes
Hostile Takeovers	LACERA avoids investment strategies that primarily involve hostile takeovers, defined as acquisitions opposed by the board of directors of the target company.	
Privatization	LACERA does not aim to promote privatization of public jobs through its private equity investment program. It is highly unlikely that LACERA would invest in private equity investments that are dependent on privatization strategies. When performing due diligence prior to making the initial investment in a domestic partnership, staff and/or PEA, as applicable, will use reasonable efforts to ascertain the following: 1. Whether the partnership's current investment strategy includes the privatization of jobs held by LACERA members, and 2. Whether previous partnerships operated by the general partners, if any, have invested in companies dependent upon privatization of jobs held by LACERA members	Staff and/or PEA will seek guidance from the Board before investing in a domestic partnership if the due diligence establishes privatization.