

Los Angeles County Employees Retirement Association (LACERA) Real Assets Emerging Manager Discretionary Separate Account Manager – LACERA Responses to Written Questions

INVESTMENT GUIDELINES

Question: In LACERA's IPS, it states under the definition of an Emerging Manager that "specific requirements for AUM and length of track record are tailored for each asset class and updated for each mandate to take into account the composition of the manager universe prevailing at the time a search is conducted". Does LACERA have a specific definition for what qualifies an emerging manager as it relates to the real estate and real assets program? IE fund aum size, number of funds raised, diversity of management or other qualifications that should be considered?

Question: In relation to question 3a from the Questionnaire, what is LACERA's definition of "single asset" and "pre-fund" investments? Is LACERA's mandate solely focused on primary investments or include co-investments?

Question: Is the capital to be deployed globally, or is there a more specific geographic focus, such as just US, or just LA?

Question: Are there any investment restrictions by LACERA, or are these to be agreed later?

Question: Could you briefly describe your risk appetite (e.g. Core, Core+, Value Add, Opportunistic)?

Question: Are there any property sectors that LACERA want the Manager to source investments in, such as Multi-Family Housing or are there any sectors that may not be invested in, or is it at the discretion of the Manager?

Question: Is there a minimum or maximum equity ticket per fund expected, or is this at the discretion of the Manager?

Question: The stated allocation is up to \$400m in each of the categories – what is the minimum allocation that LACERA will make to the real estate programme?

Answer: Given LACERA's global investment mandate, LACERA invests in managers globally. LACERA's Board-approved Strategic Asset Allocation¹ covers Core and Non-Core investments, which are described in LACERA's Investment Policy Statement ("IPS")². LACERA's Emerging Manager Policy can be accessed on LACERA's website³. Additionally, LACERA's asset class specific Emerging Manager Program Investment Guidelines for Real Assets and Real Estate were established and/or updated in January 2024⁴ and March 2024⁵, respectively. These Investment Guidelines include: (i) an Emerging Manager definition of "in general funds I, II, or III or with less than \$1 billion in fund size"; (ii) an Emerging Manager Program allocation target of 10% (with a 0-15% range) of the Real Assets or Real Estate asset class allocation established by LACERA's Strategic Asset Allocation plan⁶; (iii) asset class specific allocation targets by sector, geography, and core and non-core risk profiles; and (iv) investment size ranges of \$10 million minimum to \$100 million maximum with an average of \$50 million per emerging manager investment. Additional investment guidelines for the Emerging Manager Program in Real Estate and Real Assets will be designed in consultation with the selected manager(s). In addition to understanding RFP respondents' capabilities of investing in Emerging Manager funds, LACERA is interested in learning of respondents' capabilities of investing in secondaries, co-investments, acquisition of stake in emerging fund managers, and direct investments (such as single asset and pre-fund investments that might be considered earlier stage to a traditional emerging manager fund). We are open to considering different approaches on implementation.

ACCOUNT STRUCTURE

Question: Under I. background information, the RFP states the search will be jointly conducted for Real Estate and Real Assets and further that staff believe the potential for a single manager warrants a joint search. Does LACERA have a preference for a single manager?

Question: Is the account intended to be discretionary or non-discretionary? The search is for a 'discretionary separate account manager', but the rfp mentions providing recommendations.

¹ <https://www.lacera.com/sites/default/files/assets/documents/board/2024/BOI/2024-04-10-boi-agenda.pdf>

² https://www.lacera.com/sites/default/files/assets/documents/board/Governing%20Documents/BOI%20Policies/invest_policy_stmt.pdf

³ https://www.lacera.com/sites/default/files/assets/documents/board/Governing%20Documents/BOI%20Policies/emerging_mgr_policy.pdf

⁴ https://www.lacera.com/sites/default/files/assets/documents/board/2024/BOI/2024-01-10_boi_agnd.pdf

⁵ <https://www.lacera.com/sites/default/files/assets/documents/board/2024/BOI/2024-03-13-boi-agenda.pdf>

⁶ <https://www.lacera.com/sites/default/files/assets/documents/board/2024/BOI/2024-04-10-boi-agenda.pdf>

Answer: As outlined in LACERA's IPS, Core Real Estate plus Real Assets constitute the Real Assets and Inflation Hedges category, with Non-Core Real Estate as part of the Growth category. Real Assets under this asset category encompasses Infrastructure and Natural Resources. Though LACERA does not have a preference, managers can apply jointly for Real Assets and Real Estate combined, or separately for either category, and LACERA could select a single manager for both categories, or separate managers for each category. The Emerging Manager Program account is intended to be discretionary though inclusive of a collaborative approach between LACERA and the selected manager(s).

DEI and ESG

Question: Does LACERA have any diversity, equity, and inclusion benchmarks that the real estate and real assets program is evaluated against?

Question: Under II. Scope of Services, section B. Investment Monitoring. We understand respondents are to provide DEI metrics to assess the general partner's commitment to DEI. Does LACERA utilize specific metrics for assessment (if so please provide these) or is LACERA amenable to any expansion or deviation of the current LACERA approach and how/if these amendments would be evaluated?

Question: Under II. Scope of Services, does LACERA currently have a utilized definition of diversity, equity, and inclusion as part of its TIDE or other initiatives that should be considered by respondents?

Question: How does LACERA intend to assess a GP's commitment to DEI? Is there a framework to be provided by LACERA, or by the chosen Manager?

Question: How does LACERA intend to assess a GP's ESG policy? Is there a framework to be provided by LACERA, or by the chosen Manager?

Answer: LACERA values diversity, equity, and inclusion, ("DEI") and believes that effectively accessing and managing diverse talent leads to improved outcomes. LACERA's approach to DEI in the investment process is explained in the Investment Policy Statement referenced above. Similarly, LACERA's approach to integration of Environmental, Social, and Governance Factors is detailed in the IPS. The most recent review of LACERA's Towards, Inclusion, Diversity, and Equity program can be accessed on LACERA's website.⁷ Respondents can also reference a UN PRI article on LACERA's approach to DEI in the investment process.⁸

PERFORMANCE

Question: Performance objective "is an annualized return of respective benchmarks for each asset category over a 10-year time frame". Please confirm which benchmark(s)/target that will be used for assessing the performance of the real estate portfolio?

Question: In addition to the stated performance objective, is there an absolute return target?

Answer: The IPS outlines the program parameters for Real Estate and Real Assets with related benchmarks. Note that for LACERA, and for the purposes of this RFP, Real Assets incorporates investments in Infrastructure and Natural Resources while Real Estate covers Non-Core and Core Real Estate.

The Emerging Manager program is designed to be flexible, hence if there are select opportunities in certain segments that are within the guidelines of the IPS and the Investment Guidelines, program managers could potentially invest in such strategies. Additional investment guidelines (such as absolute return targets) for the Emerging Manager program in Real Estate and Real Assets will be designed in consultation with the selected manager(s).

ATTACHMENT D

Question: Attachment D, Table I: For the "AUM of individual emerging RE/RA managers", would LACERA like to receive the total AUM within the EM RE/RA mandates/portfolios managed by our firm, or the assets invested with the 3rd party emerging RE/RA managers we have selected, excluding dry powder allocated, but not yet committed?

⁷ https://www.lacera.com/sites/default/files/assets/documents/financials/2023_TIDE_Annual_Review.pdf

⁸ https://www.unpri.org/human-rights-case-studies/lacera-integrating-diversity-equity-and-inclusion-throughout-the-investment-process/8842_article

Question: Attachment D, Table I: In the lower table, is the "number of emerging managers" attempting to determine the count of the types of clients for whom we manage EM programs/mandates? We thought this could alternatively be asking us to provide the number of 3rd party emerging fund managers allocated to each portfolio, categorized by our client's investor type.

Question: Attachment D, Table 1: can LACERA please confirm what part of the table that your footnote 3 corresponds with?

Question: Attachment D, Table IV: can LACERA please provide definitions for how the calculations of TVPI and MOIC should be performed? We have seen them used interchangeably.

Question: Attachment D, Table IV: regarding the note that IRRs and MOICs should be shown on a net basis, can LACERA please confirm if these be shown net of the underlying manager's fees, but gross of the fees proposed by our firm for this program? If not, should net figures be shown pro-forma (i.e., net of the fees proposed by our firm for LACERA's EM program)? If it is the latter, given the deal-by-deal request from LACERA, this option would require apportionment of fees, promote, and expenses on a pro rata basis. As a result, it will not reflect the actual experience of any client's investment with our firm.

Answer: Table I, "AUM of individual emerging RE/RA managers" refers to the total AUM within the EM mandates/portfolios managed by your firm. Please note Table IV allows for a distinction to be made of invested vs committed. Table I, "Number of emerging managers" attempts to determine the number of 3rd party emerging fund managers allocated to each portfolio, categorized by your client's investor type. Table I, footnote 3 applies to Table I in its entirety. For emerging manager exposure, LACERA is interested in knowing how many emerging managers the respondents have invested in across clients, and what different types of clients the respondents manage.

Table IV, TVPI is calculated as $[(\text{Paid-out} + \text{NAV}) / \text{Paid-in}]$, while MOIC is calculated as $[(\text{Paid-out} + \text{NAV}) / \text{Commitment}]$. Net figures should be shown net of the underlying managers' fees *and* fees charged by your firm to your firm's clients, accompanied by a description/disclosure of your firm's fees. LACERA will evaluate RFP proposals based on proposed fee structures, and final fee structures for each program will be negotiated between LACERA and selected manager(s).

OTHER

Question: Could you please clarify if there will be a consultant associated with this search? If so, would this fall under the general or the real assets consultant's scope?

Answer: There will not be a consultant associated with this search.