

LIVE VIRTUAL COMMITTEE MEETING



TO VIEW VIA WEB



TO PROVIDE PUBLIC COMMENT

You may submit a request to speak during Public Comment or provide a written comment by emailing PublicComment@lacera.com. If you would like to remain anonymous at the meeting without stating your name, please let us know.

Attention: Public comment requests must be submitted via email to PublicComment@lacera.com.

LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION
300 N. LAKE AVENUE, SUITE 650, PASADENA, CA

AGENDA

A REGULAR MEETING OF THE REAL ASSETS COMMITTEE OF THE
BOARD OF INVESTMENTS AND BOARD OF INVESTMENTS *
LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION
300 N. LAKE AVENUE, SUITE 810, PASADENA, CALIFORNIA 91101

8:00 A.M., WEDNESDAY, JUNE 8, 2022

This meeting will be conducted by teleconference under California Government Code Section 54953(e).

Any person may view the meeting online at
<https://lacera.com/leadership/board-meetings>

The Committee may take action on any item on the agenda, and agenda items may be taken out of order.

I. CALL TO ORDER

II. APPROVAL OF MINUTES

- A. Approval of the Minutes of the Real Assets Committee Meeting of January 12, 2022.

III. PUBLIC COMMENT

(Written Public Comment - You may submit written public comments by email to PublicComment@lacera.com. Correspondence will be made part of the official record of the meeting. Please submit your written public comments or documentation as soon as possible and up to the close of the meeting.

Verbal Public Comment - You may also request to address the Committee. A request to speak must be submitted via email to PublicComment@lacera.com. We will contact you with information and instructions as to how to access the meeting as a speaker. If you would like to remain anonymous at the meeting without stating your name, please let us know.)

IV. NON – CONSENT ITEMS

- A. Recommendation as submitted by James Rice, Principal Investment Officer, Scott Zdrazil, Principal Investment Officer, and Cindy Rivera, Senior Investment Analyst: That the Committee advance to the Board of Investments for approval that LACERA affiliate to the Global Real Estate Sustainability Benchmark (GRESB).
(Memo dated May 24, 2022)

- B. Recommendation as submitted by James Rice, Principal Investment Officer, and Scott Zdrazil, Principal Investment Officer: That the Committee advance the revised Responsible Contractor Policy to the Board of Investments for approval.
(Memo dated May 23, 2022)

V. ITEMS FOR STAFF REVIEW

VI. GOOD OF THE ORDER
(For information purposes only)

VII. ADJOURNMENT

****The Board of Investments has adopted a policy permitting any member of the Board to attend a standing committee meeting open to the public. In the event five or more members of the Board of Investments (including members appointed to the Committee) are in attendance, the meeting shall constitute a joint meeting of the Committee and the Board of Investments. Members of the Board of Investments who are not members of the Committee may attend and participate in a meeting of a Committee but may not vote, make a motion, or second on any matter discussed at the meeting. The only action the Committee may take at the meeting is approval of a recommendation to take further action at a subsequent meeting of the Board.***

Documents subject to public disclosure that relate to an agenda item for an open session of the Board of Investments that are distributed to members of the Board of Investments less than 72 hours prior to the meeting will be available for public inspection at the time they are distributed to a majority of the Board of Investments Members at LACERA's offices at 300 N. Lake Avenue, Suite 820, Pasadena, CA 91101, during normal business hours of 9:00 a.m. to 5:00 p.m. Monday through Friday.

Requests for reasonable modification or accommodation of the telephone public access and Public Comments procedures stated in this agenda from individuals with disabilities, consistent with the Americans with Disabilities Act of 1990, may call the Board Offices at (626) 564-6000, Ext. 4401/4402 from 8:30 a.m. to 5:00 p.m. Monday through Friday or email PublicComment@lacera.com, but no later than 48 hours prior to the time the meeting is to commence.

MINUTES OF THE REGULAR MEETING OF THE REAL ASSETS COMMITTEE
AND BOARD OF INVESTMENTS

LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION

300 N. LAKE AVENUE, SUITE 810, PASADENA, CA 91101

8:00 A.M., Wednesday, January 12, 2022

This meeting was conducted by teleconference pursuant to the California Government
Code Section 54953(e).

PRESENT: Patrick Jones, Chair
Keith Knox
Gina V. Sanchez
David Green, Alternate

MEMBERS AT LARGE:

Herman Santos

Joseph Kelly

Michael Miller

STAFF, ADVISORS, PARTICIPANTS:

Jonathan Grabel, Chief Investment Officer

James Rice, Principal Investment Officer

Scott Zdrazil, Senior Investment Officer

Daniel Joye, Investment Officer

STAFF, ADVISORS, PARTICIPANTS (Continued):

Pushpam Jain, Investment Officer

Noah Damsky, Senior Investment Analyst

Albourne

Mark White, Head of Real Assets

James Walsh, Partner

I. CALL TO ORDER

The meeting was called to order virtually by Chair Jones at 8:00 a.m.

II. APPROVAL OF MINUTES

A. Approval of the Minutes of the Regular Real Assets Committee Meeting of December 8, 2021.

Mr. Knox made a motion, MS. Sanchez seconded, to approve the minutes of the regular meeting of December 8, 2021. The motion passed unanimously (roll call) with Messrs. Knox, Green, Jones and Ms. Sanchez voting yes.

III. PUBLIC COMMENT

There were no requests from the public to speak.

IV. CONSENT ITEM

A. Recommendation as submitted by Steven P. Rice, Chief Counsel: That, under AB 361 and Government Code Section 54953(e)(3) of the Brown Act, the Board of Investments consider whether to find that the Governor's COVID-19 State of Emergency continues to directly impact the ability of the Board and its Committees to meet safely in person and that the County of Los Angeles and other agencies still recommend social distancing such that the Board and its Committees shall hold teleconference meetings for the next 30 days, and if so,

IV. CONSENT ITEM (Continued)

direct staff to comply with the agenda and public comment requirements of the statute. (Memo dated December 27, 2021)

Ms. Sanchez made a motion, Mr. Knox seconded, to approve the consent item. The motion passed unanimously (roll call) with Messrs. Knox, Jones and Ms. Sanchez voting yes. Mr. Green was not present for the vote.

V. NON-CONSENT ITEM

A. Real Assets Structure Review

James Rice, Principal Investment Officer

Daniel Joye, Investment Officer

Pushpam Jain, Investment Officer

Noah Damsky, Senior Investment Analyst

(Memo dated December 23, 2021)

Messrs. Rice, Joye, Jain, Damsky and Messrs. White and Walsh of Albourne provided a presentation and answered questions from the Committee.

Ms. Sanchez made a motion, Mr. Knox seconded, to advance the Real Assets Structure Review to the Board of Investments for approval. The motion passed unanimously (roll call) with Messrs. Knox, Jones and Ms. Sanchez voting yes. Mr. Green was not present for the vote.

VI. REPORT

A. ESG Integration Updates and Next Steps

James Rice, Principal Investment Officer

Scott Zdrazil, Senior Investment Officer

(Memo dated November 24, 2021)

January 12, 2022

Page 4

VI. REPORT (Continued)

Messrs. Rice and Zdrazil provided a presentation and answered questions from the Committee.

VII. ITEMS FOR STAFF REVIEW

VIII. GOOD OF THE ORDER

(For information purposes only)

There was nothing to report.

IX. ADJOURNMENT

There being no further business to come before the Committee, the meeting was adjourned at 8:55 a.m.

May 24, 2022

TO: Each Member
Real Assets Committee

FROM: James Rice 
Principal Investment Officer

Scott Zdrazil 
Principal Investment Officer

Cindy Rivera 
Senior Investment Analyst

FOR: June 8, 2022, Real Assets Committee Meeting

SUBJECT: **Global Real Estate Sustainability Benchmark (GRESB) Affiliation**

RECOMMENDATION

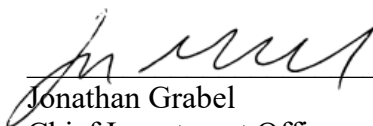
Advance to the Board of Investments for approval that LACERA affiliate to the Global Real Estate Sustainability Benchmark (GRESB).

BACKGROUND

LACERA's *Investment Policy Statement* recognizes that environmental, social, and governance ("ESG") factors may present financial risks and opportunities to LACERA's investments. The Real Assets Committee reviewed several strategies that LACERA is pursuing to integrate financially relevant ESG factors into its investment process at its January 2022 meeting. One of the strategies has included a trial affiliation to the Global Real Estate Sustainability Benchmark ("GRESB"). GRESB is an industry-led initiative to identify ESG factors relevant to real assets and facilitate reporting and benchmarking between asset managers and asset owners. The January 2022 report indicated that staff was evaluating affiliation to GRESB as a tool to further advance LACERA's strategic work plan objectives to maximize fund stewardship in ESG integration and to enhance operational effectiveness in evaluating and monitoring asset managers and using portfolio analytics tools. The **attached** further describes GRESB and staff's recommendation.

Attachment

Noted and Reviewed:



Jonathan Grabel
Chief Investment Officer

Affiliation Recommendation

Global Real Estate Sustainability Benchmark “GRESB”

Real Assets Committee

June 8, 2022

Scott Zdrazil – Principal Investment Officer
Cindy Rivera – Senior Investment Analyst



Table of Contents

Title	<i>Slide No.</i>
Recommendation and Summary	3
GRESB Overview	4
LACERA's GRESB Trial Affiliation History	5
LACERA Real Estate Portfolio – GRESB	6
Affiliation Strengths and Merits	9
Concerns and Mitigating Factors	10
Recommendation and Summary of Benefits	11

Recommendation and Summary

Recommendation

- Formally affiliate to the Global Real Estate Sustainability Benchmark (“GRESB”)

Summary

About GRESB

- Pensions and asset managers formed GRESB in 2009 to facilitate a common set of ESG reporting and benchmarking of ESG performance in real assets
- GRESB gathers ESG data from asset managers, analyzes, benchmarks, and avails results to asset owners
- LACERA has participated in a free, trial affiliation with GRESB for two years and found participation to be useful
- No immediate cost to affiliate to GRESB; dues are an estimated \$20,000 per year starting in 2024

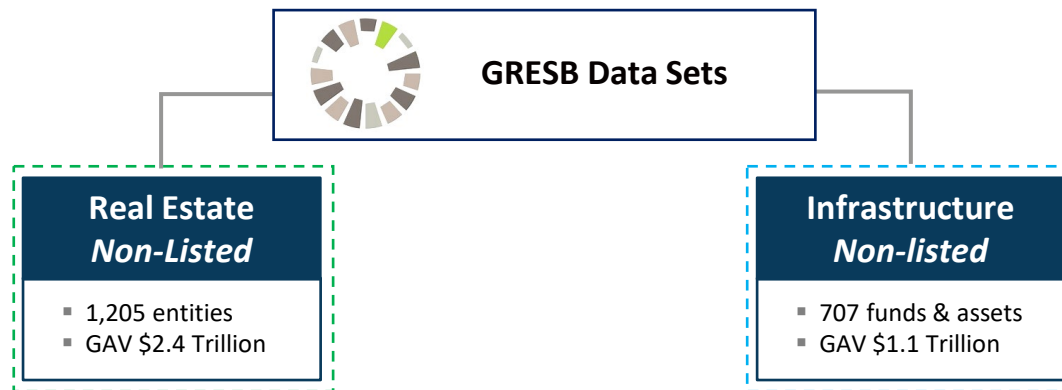
Benefits to LACERA

- **Investment Beliefs Alignment:** LACERA’s *Investment Policy Statement* recognizes that environmental, social, and governance (“ESG”) factors can affect an investment’s risk/return profile and financial performance¹ LACERA therefore seeks to integrate ESG information into its investment process to support long-term returns
- **Further Strategic Objectives:** GRESB affiliation would further LACERA’s objectives to enhance operational effectiveness and maximize stewardship by availing portfolio analytics and benchmarking on current and prospective real assets managers’ ESG performance
- **Manager Monitoring:** GRESB helps compare real estate mandates, trendlines, and areas for improvement
- **Enhanced Underwriting:** GRESB is an additional insight to assess prospective managers’ ESG track record
- **Portfolio Analytics:** Access to some core ESG data analytics, such as emissions and water usage

¹ Investment Policy Statement. Revised December 11, 2019. Page 5.

GRESB – Overview

- Participating asset owners and managers inform what info is gathered in GRESB’s annual benchmarking exercise
- Asset managers gather and report information to GRESB, which analyzes and then avails the data to asset owners
- Over 2,200 funds and 140 institutional investors participate GRESB to provide a consistent framework for asset owners and managers to measure, track, and compare management and progress of ESG factors
- GRESB manages separate benchmarks for real estate and infrastructure



Real Estate Benchmark Trial Affiliation

LACERA encouraged real estate separate account and commingled fund managers to participate in GRESB in 2020 and 2021

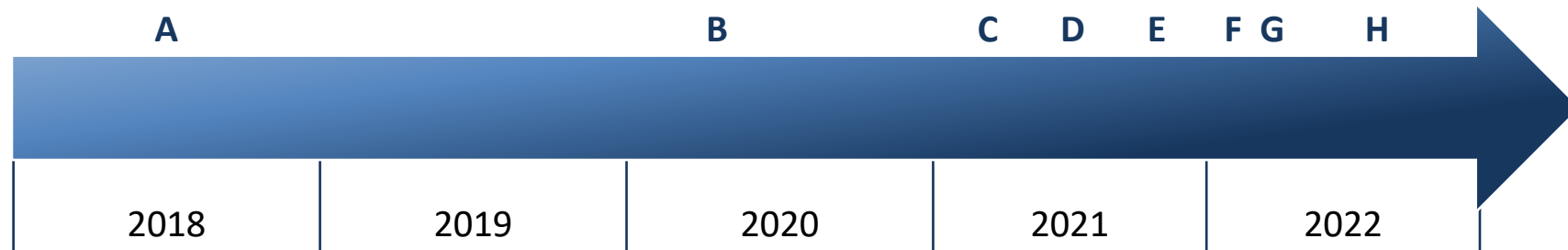
8 LACERA managers (representing U.S. and non-U.S. mandates) reported to GRESB

Infrastructure

LACERA has committed to 7 private commingled funds in the past 2 years, 3 of which already plan to participate in GRESB infrastructure reporting

- After its establishment by Dutch pension plans, GRESB was owned by Green Business Certification Inc., the global body for green certification programs, such as LEED. GBCI acquired GRESB in 2014. Summit Partners Fund III acquired GRESB in 2020. LACERA is an investor in Fund III

LACERA – GRESB Affiliation History



A LACERA initiated an internal review of GRESB as a prospective resource to assist ESG integration efforts

B LACERA initiated a trial affiliation with GRESB and encouraged its real estate managers to report

C Reviewed and discussed completed 2020 GRESB Real Estate Assessments with each participating manager

D LACERA extended GREB trial for a second year

E Reviewed and discussed completed 2021 GRESB Real Estate Assessments with each participating manager and focused on year-over-year progress

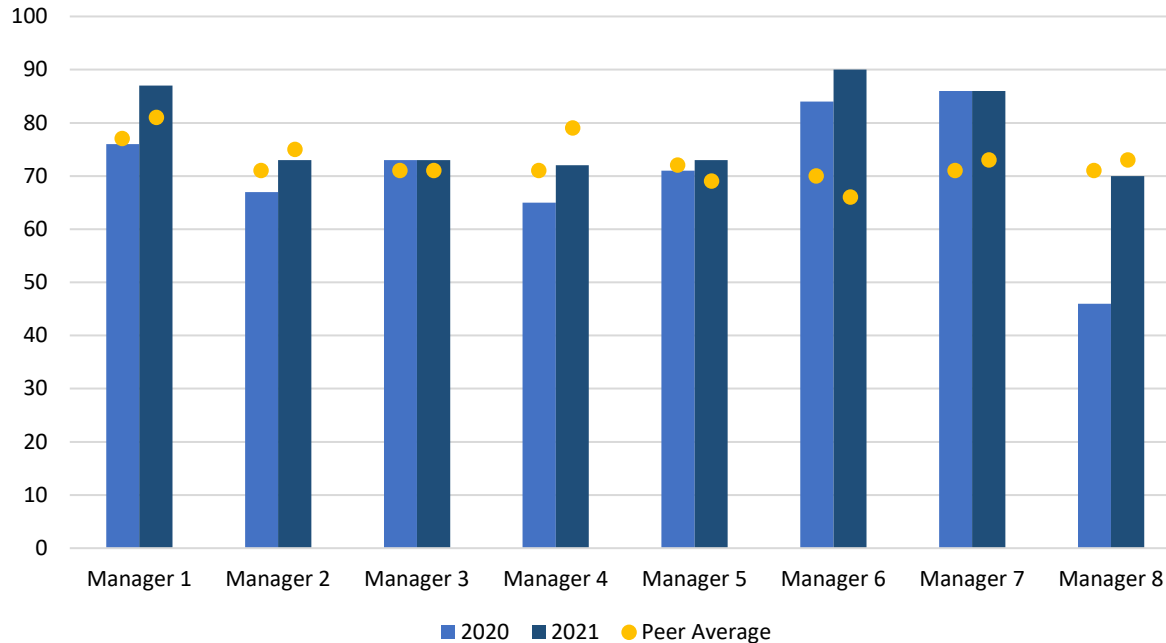
F LACERA Real Assets Structure Review presented to Real Assets Committee and Board of Investments 2022 Strategic Work Plan incorporate formal evaluation of GRESB affiliation

G Formal affiliation recommendation to internal Real Assets Investment Group

H Formal affiliation recommendation to Real Assets Committee

LACERA Real Estate Portfolio – GRESB Results

Year-Over-Year Aggregate GRESB Scores of Participating LACERA Mandates



74

LACERA portfolio asset-weighted GRESB score

compared to

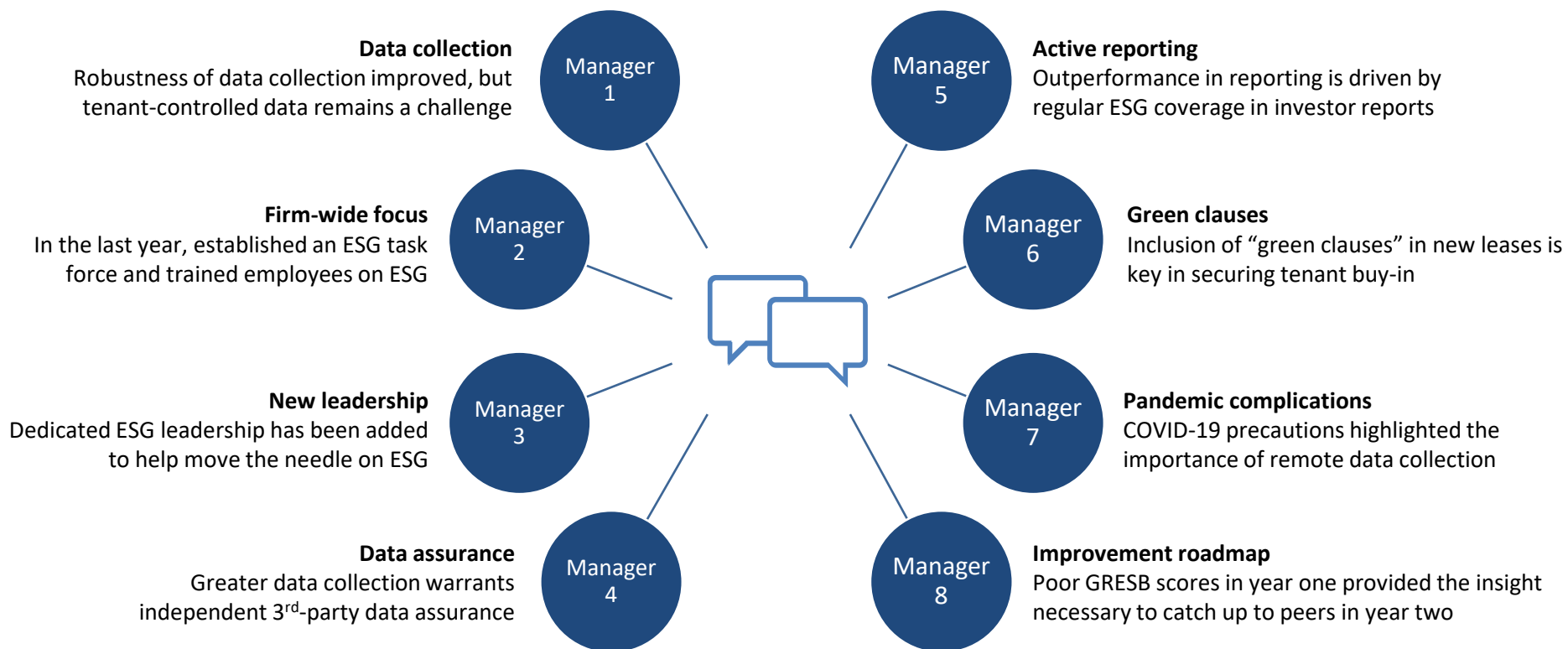
79

GRESB average score of similar portfolio exposures

- Eight LACERA real estate managers participated in GRESB reporting in 2020 and 2021
- Six of eight LACERA managers improved GRESB scores year-over-year while two maintained the same score as prior year
- Manager performance relative to sector and regional peers is mixed – some in line, two outperformance, and several under
- GRESB participation has provided LACERA staff with useful insights and data points to evaluate ESG performance and discuss with managers opportunities to enhance ESG management within their mandates

LACERA Real Estate Manager Takeaways

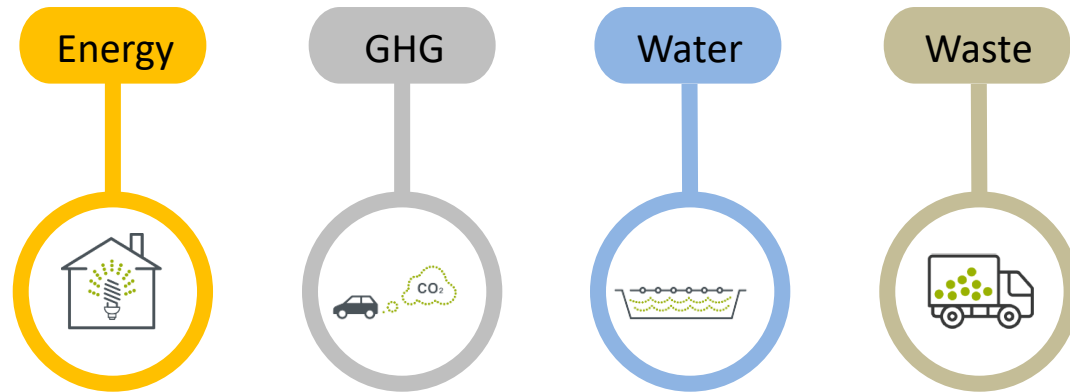
Managers reported a variety of enhanced ESG efforts in light of GRESB participation



Each manager has indicated that they intend to continue participating in GRESB as they report it to be a useful internal tool to systematize their ESG integration efforts and identify areas for further improvement

LACERA Real Estate Portfolio – GRESB Summary

LACERA gains access to several data points reported by managers through GRESB to compare manager performance, evaluate trendlines, and inform portfolio analytics



Data Coverage	57%	54%	64%	35%
Footprint	40,681 MWh	11,053 tCO ₂	348,158 m ³	3,191 t
Like-for-Like Coverage	40%	37%	44%	n/a
Like-for-Like Change	-12%	-16%	+1%	n/a
Impact	Reduction equals 423 homes	Reduction equals 349 autos	Increase equals 4 Olympic pools	Equals 118 truck loads

Strengths and Merits

Strengths	Merits
1. Further LACERA's Strategic Work Plan Goals	<ul style="list-style-type: none">• GRESB provides data analytics to further LACERA's operational effectiveness goals• GRESB helps integrate ESG, in line with our strategic goal to maximize stewardship
2. Tool to benchmark and identify roadmap for ESG performance improvements	<ul style="list-style-type: none">• GRESB has served as a tool for dialogue with managers to identify actions needed to improve ESG performance of the portfolio and monitor ongoing progress• Of the eight managers that reported to GRESB during LACERA's trial period, the manager with the lowest GRESB score in year one, improved its score by 52% in year two, primarily because of the lessons learned at the onset
3. Collaborate with managers to share and adopt best practices	<ul style="list-style-type: none">• GRESB assessment questions are aligned with international reporting frameworks such as GRI, PRI, SASB, DJSI, TCFD recommendations, the Paris Climate Agreement, UN SDGs, and regional and country specific disclosure guidelines• Managers (with little to no history of reporting to GRESB prior to LACERA's request to do so) report becoming aware of ESG best practices by way of completing the GRESB questionnaire, informing them to recognize and address prior ESG blind spots
4. Access objective and validated data points	<ul style="list-style-type: none">• GRESB facilitates managers reporting ESG performance data that LACERA can use in broader portfolio analytics, such as energy consumption, greenhouse gas emissions, water consumption, and waste usage• Data validation is a core component of ESG performance data. Independent third-party data validation improves the reliability of data
5. Utilize GRESB assessments as an underwriting tool	<ul style="list-style-type: none">• LACERA can access past GRESB reports to underwrite new funds• GRESB real estate benchmark enables LACERA staff to better understand potential new managers' ESG performance vs peers similar in strategy, sector, and geography• The benchmark covers nearly 117,000 assets reporting at the asset level and serves as an additional underwriting tool for LACERA staff

Concerns and Mitigating Factors

Concerns	Mitigating Factors
1. Future costs	<ul style="list-style-type: none">• No affiliation costs until 2024, after which may be an estimated \$20,000 per year• Reasonable annual expense in line with LACERA’s other affiliations• GRESB is the established ESG real assets benchmark initiative among asset owners and managers• LACERA may opt to disaffiliate at any time, should we so choose
2. Benchmark integrity	<ul style="list-style-type: none">• Asset managers may try to “game” the benchmark• GRESB scoring is developed with investor and industry input to make scores more meaningful• GRESB maintains a multi-dimensional focus on data validation, including a three-layer data quality control process, developed by PwC and involving third-party verification• 70% of a GRESB score relies on objective, quantitative data measurement processes, such as energy consumption, greenhouse gas emissions, water consumption, and waste

Recommendation

- **Formally affiliate to GRESB**

Summary

Benefits to LACERA

- **Investment Beliefs Alignment:** LACERA's *Investment Policy Statement* recognizes that ESG factors can affect an investment's risk/return profile and financial performance. LACERA therefore seeks to integrate ESG information into its investment process to support long-term returns
- **Further Strategic Objectives:** GRESB affiliation would further LACERA's objectives to enhance operational effectiveness and maximize stewardship by availing portfolio analytics and benchmarking on current and prospective real assets managers' ESG performance
- **Manager Monitoring:** GRESB helps compare real estate mandates and identify areas to improve ESG efforts
- **Enhanced Underwriting:** GRESB is an additional insight to assess prospective managers' ESG track record
- **Portfolio Analytics:** Access to some core ESG data analytics, such as emissions and water usage

May 23, 2022

TO: Trustees – Real Assets Committee

FROM: James Rice 
Principal Investment Officer

Scott Zdrazil 
Principal Investment Officer

FOR: June 8, 2022, Real Assets Committee Meeting

SUBJECT: ***Responsible Contractor Policy Review***

RECOMMENDATION

Advance a revised *Responsible Contractor Policy* to the Board of Investments for approval.

BACKGROUND

LACERA's *Responsible Contractor Policy* ("RCP") was initially adopted in 2002 with an objective to guide LACERA's real estate investment managers when selecting building construction and services contractors for properties held in LACERA's separately managed accounts.

As discussed at the Real Assets Committee January 2022 meeting, staff considers that periodic policy review is prudent to ensure that the RCP and its provisions are aligned with their stated objectives. Staff noted that LACERA's real assets portfolio has evolved. LACERA has expanded its real assets allocation from real estate alone to include infrastructure and natural resources, which are currently not referenced in the RCP. Moreover, LACERA's recently approved real assets and real estate structure reviews anticipate LACERA reducing investment allocations in separately managed accounts and increasing use of commingled investment vehicles, which are not referenced in the current RCP. In addition, recently revised RCPs at peer plans have incorporated clarifications of key terms and provisions.

As discussed at the January Committee meeting, staff has prepared a revised and restated RCP for the Committee's review that aims to:

1. Reflect LACERA's current portfolio, including broadening the focus from real estate alone to all of real assets and incorporating reference to commingled fund exposures;
2. Clarify key terms and provisions, similar to recent revisions at peer plans;
3. Integrate the RCP into LACERA's broader investment policy framework by incorporating cross-references to LACERA's *Investment Policy Statement* and *Corporate Governance and Stewardship Principles*;

4. Enhance transparency by simplifying the policy structure and using plain language to facilitate comprehension as a public-facing fund document; and
5. Aspire for a “best-in-class” approach, consistent with the Board of Investment’s strategic work plan to aim for best-in-class investment policies, strategies, and operations.

Please find attached a summary deck explaining the proposed RCP revisions (**Attachment 1**), the proposed revised and restated RCP (**Attachment 2**), and a copy of LACERA’s current RCP (**Attachment 3**) for the Committee’s review and discussion at the upcoming June 8th meeting. Although the proposed revised RCP incorporates language drawn from the current RCP, a redlined version is not included given the extensive restructuring of the policy and language simplification.

Attachments

Noted and Reviewed:



Jonathan Grabel
Chief Investment Officer

Responsible Contractor Policy (RCP) Review and Proposed Revised Policy

Real Assets Committee

June 8, 2022

James Rice, Principal Investment Officer
Scott Zdrazil, Principal Investment Officer



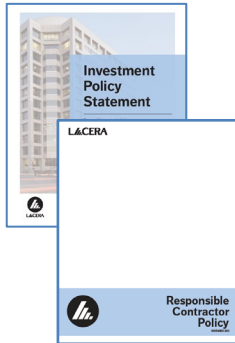
Discussion Outline

- I. Background on Responsible Contractor Policy (RCP) Objectives and Policy Review
- II. Overview and Explanation of Proposed Revisions

Background on RCP Objective and Review



Background on Responsible Contractor Policy



About LACERA's Responsible Contractor Policy

LACERA's [Investment Policy Statement](#) recognizes that environmental, social, and governance (ESG) factors may impact investment risks and opportunities

LACERA adopted a Responsible Contractor Policy in 2002; Last revised in 2014

What the RCP Does

The RCP aims to guide real estate separate account managers to select high-quality, stable, safe construction and operations contractors, as evidenced by their track records of legal compliance, stability, and fair wages and benefits

- Enhance risk-adjusted returns through **“high-road”** real estate, i.e.:
 - Compliance with all applicable laws and regulations
 - Workforce safety and stability
 - “Fair” pay and benefits
- Avoid **“low-road”** strategies that may present:
 - Operational instability, project delays, workforce unrest, undercut local pay levels
 - Legal and regulatory risks
 - Reputational risks



RCP Policy Review Rationale and Timeline



What Prompted the Policy Review

▪ Prudent Periodic Policy Review

- LACERA's current RCP largely reflects an industry template adopted 20 years ago

▪ Recent Changes in LACERA's Real Assets Portfolio

- **Expanded:** LACERA's real assets portfolio has been expanded beyond real estate investments to include infrastructure and natural resource investments
- **Shifting:** Increasing portfolio exposures to commingled funds from separate accounts

▪ Evolving Market RCP Provisions

- Numerous peer funds (CalPERS, CalSTRS, Maryland, NYC Funds, NY State, Oregon) as well as asset managers have revised their policies in recent years to a "Version 2.0"

Policy Review Timeline

2021

- Policy gap analysis
- Peer policies review
- Interviews with peer funds and stakeholders

January 2022

- Committee report on LACERA's real assets ESG integration strategies included preliminary RCP policy gap analysis
- Indicated intent to present revised RCP for Committee review

Spring 2022

- Staff drafted revised RCP
- Legal Office consultation

Today

- Committee review of draft revised policy
- If advanced, revised policy to be presented for Board of Investments approval



Objectives in Drafting the Proposed RCP Revision



- 1. Ensure alignment of the RCP scope of coverage with current portfolio structure**
 - Address investment exposures not covered; e.g., infrastructure and commingled funds
- 2. Add clarity for key provisions and address any policy gaps with market practice**
 - Scope of coverage
 - Clarity of terms and provisions have been added at peer funds' RCPs
- 3. Promote policy cohesion with key investment policies**
 - Significant updates to LACERA's Investment Policy Statement and Corporate Governance and Stewardship Principles in recent years
- 4. Promote transparency**
 - Simplify structure for reading comprehension
 - Aim to use plain language or explain terms to facilitate policy comprehension
- 5. Aim for "best-in-class"**
 - Execute on Investments Strategic Work Plan objective to aspire to "best-in-class" strategies

Overview and Explanation of Proposed Revisions



1. Align Scope of Coverage with Portfolio Structure



Objective #1: Ensure alignment of the RCP scope of coverage with current portfolio structure

Address investment exposures not covered, such as infrastructure and commingled fund investments

Current RCP	Observations	Proposed RCP Provisions
<p>Limited coverage: Covers real estate investments only</p>	<p>Real assets portfolio has expanded; now includes infrastructure, natural resources</p> <p>Peer policies include all real assets</p>	<p>All real assets investments covered</p>
<p>High ownership threshold: Applies RCP at accounts where LACERA owns 100% of equity</p>	<p>Peers use “over 50%” ownership threshold</p> <p>Some LACERA separate accounts have JV partners with minority stake</p>	<p><u>Requires</u> RCP compliance at “Controlled Investments” in which LACERA owns more than 50% equity</p>
<p>Commingled funds: No reference or coverage</p>	<p>Commingled fund investors have less control</p> <p>LACERA increasing investment exposures in commingled funds</p> <p>Some peer policies <i>encourage</i> commingled fund managers to follow spirit of RCP</p> <p>More managers adopting RCPs of their own</p>	<p><u>Encourages</u> “Non-Controlled Investments” (i.e., commingled funds where LACERA has less than 50% ownership) to apply RCP and adopt RCPs of their own; Incorporates use of responsible contracting into manager due diligence and monitoring</p>



2. Enhance Clarity of Terms and Address Policy Gaps



Objective #2: Identify and address any policy gaps with market practice

- Scope of coverage
- Clarity of terms and provisions added at peer funds

Current RCP	Observations	Proposed RCP Provisions
Supports “fair wages and benefits”	<p>No definition of what constitutes “fair”</p> <p>Market dynamics vary across regions</p> <p>Peer policies cite factors to consider when managers evaluate wages and benefits</p>	Adds explanatory guidance mirroring peer policies, recognizing local markets vary and citing factors to consider, such as family health care coverage, employee safety training, etc.
Requires Legal Compliance	Peers also prohibit contractors who have been debarred by a government agency	Adds language from peer policies prohibiting debarred contractors
Supports competitive bidding	Peer policies encourage adequate notification of bidding opportunities	Adds language mirroring peers to encourage adequate advance notification of bidding opportunities
Supports labor neutrality	<p>No definition of what “neutrality” means</p> <p>Peer policies define neutrality provisions</p>	Adds language from peer policies

3. Promote Cohesion of LACERA Investment Policies



Objective #3: Promote policy cohesion with key investment policies

- Significant updates to LACERA’s Investment Policy Statement and Corporate Governance and Stewardship Principles in recent years

Current RCP	Observations	Proposed RCP Provisions
Standalone policy: No references to key LACERA investment policies	RCP predates recent, significant revisions to LACERA <i>Investment Policy Statement (IPS)</i> , investment beliefs, and <i>Corporate Governance and Stewardship Principles</i>	Aims to support policy cohesion and surpass market practice by framing introduction with references to IPS and Stewardship Principles policies
Legal Authority: No reference	LACERA policies generally reference the Board of Investments’ legal authority to adopt policies, such as the RCP	Adds language reflecting language in more recently revised LACERA policies
Supports non-discrimination by race or gender	IPS has broader language supporting DEI at investment partners and has broader definition; e.g., LGBTQ, disability, and more	Expands DEI language to reflect the IPS
Isolated, Prescriptive Manager Monitoring	RCP requires specific steps at investment managers, property managers, subcontractors LACERA has comprehensive manager monitoring; e.g., Manager Scorecards Limited control of managers’ operations	Elevates and integrates RCP into LACERA’s broader manager compliance and monitoring practices

4. Promote Transparency



Objective #4: Promote transparency

- Simplify structure for reading comprehension
- Aim to use plain language or explain terms to facilitate clear policy interpretation

Current RCP	Observations	Proposed RCP Provisions
Structure and terms based on external template	<p>LACERA, as a public agency, operates in the public eye</p> <p>Clear policy structure, terms, and language may make the policy more accessible to LACERA stakeholders, including members, plan sponsors, and investment partners</p>	<p>Aims to be more user-friendly and transparent, using plain language where feasible, to explain what LACERA expects in responsible contracting provisions at investment managers</p>

5. Aim for “Best-In-Class”



Objective #5: Execute on Strategic Work Plan Objective for “Best-In-Class” Approaches

- Strategic Work Plan aspires to be “best-in-class” across investment policies, strategies, operations
- Several features of the proposed RCP would distinguish LACERA’s RCP

Integrated Policy Framework

Cross-references to Investment Policy Statement and Stewardship Principles; Not siloed approach

Aspirational, Universal Guiding Principles

Framed by principles LACERA expects of all investment managers (compliance, human rights, etc.)

Comprehensive Scope of Coverage

Incorporates commingled funds and includes real estate, infrastructure, as well as natural resources

Broad, Integrated Promotion of Diversity, Equity, and Inclusion

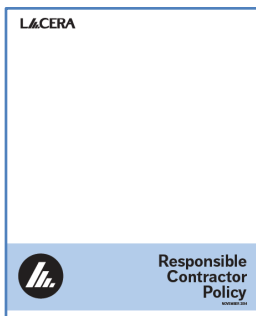
Elevates DEI beyond expectation of non-discrimination and includes inclusive definition of diversity

Elevated Accountability of External Investment Managers

Places onus on external managers to demonstrate adherence

Integrated Monitoring

Incorporates RCP compliance into routine, comprehensive manager monitoring strategies



**PROPOSED REVISED AND
RESTATED POLICY FOR REVIEW**



**Responsible
Contractor
Policy**

I. Purpose and Objective

The Los Angeles County Employees Retirement Association's (LACERA) investment philosophy and strategy recognize that careful consideration of financially relevant environmental, social, and governance (ESG) factors in the Fund's investment process may protect and enhance LACERA's risk-adjusted returns, as stated in the Fund's *Investment Policy Statement*. LACERA's *Corporate Governance and Stewardship Principles* (Stewardship Principles) articulate LACERA's position on key corporate governance and broader ESG factors that may impact the financial performance of LACERA's portfolio holdings including, but not limited to:

- Effective legal and regulatory compliance
- Constructive human capital practices
- Inclusive and equitable management of diverse talent
- Robust adherence to human rights standards
- Prudent natural resource stewardship
- Careful mitigation of environmental risks and liabilities

LACERA seeks to steward its assets throughout its investment portfolio in a manner that promotes adherence to its Stewardship Principles in furtherance of its mission, "to produce, protect, and provide the promised benefits." LACERA encourages investment managers who manage capital on its behalf to enact effective and practical measures in their investment processes and portfolio management that exemplify adherence to the principles referenced above.

In furtherance of its Investment Policy Statement and Stewardship Principles, LACERA has adopted this *Responsible Contractor Policy* (Policy) to guide investment managers who manage real estate, infrastructure, and other real assets investments on behalf of LACERA to select construction and operation services contractors that demonstrate practices in line with LACERA's Stewardship Principles. LACERA expects investment managers to ensure effective practices and internal controls are in place to select responsible contractors based upon their demonstrated ability to provide high quality services as evidenced by experience, skill, reputation, responsiveness, fees, dependability, record of compliance with applicable laws, regulations and statutes, and payment of fair compensation and benefits to employees.

By promoting responsible contracting, LACERA seeks to prudently optimize financial performance while mitigating investment risks—including, but not limited to, compliance, legal, operational, and reputational liabilities—that may be presented when business entities fail to meet responsible contracting standards.

II. Legal Authority and Fiduciary Duty

The LACERA Board of Investments has "the sole and exclusive fiduciary responsibility over the assets of" the system, as provided by the California Constitution (Article XVI, Section 17(a)). LACERA exercises its legal rights in defining responsible contracting provisions in furtherance of its fiduciary duty under Article XVI, Section 17 of the California Constitution, the County Employees Retirement Law of 1937 (CERL), and other governing laws, regulations, and case authority.

The Policy is guided in all aspects by LACERA's fiduciary duties, including loyalty, care, skill, prudence, and diligence, which require evaluation of expected investment returns and risk of loss.

LACERA's assets are diligently and prudently invested and managed in accordance with the Fund's fiduciary duties in the sole interest of plan participants and their beneficiaries, and for the exclusive purpose of providing benefits to its participants and their beneficiaries. LACERA seeks to have its real assets investments managed and operated in a manner that is expected to prudently maximize the rate of return, while minimizing the risk of loss. LACERA's duties, and the duties of its investment managers, to LACERA's participants and their beneficiaries take precedence over any other duty.

III. Policy Application at Real Assets Investments

LACERA promotes prudent, responsible contracting provisions for construction and operation services throughout its real assets investments. All investment managers who have been selected to manage LACERA’s capital in real estate, infrastructure, and natural resources mandates should have in place effective policies, procedures, and internal controls to ensure that contracting practices result in the selection of responsible contractors that reflect the responsible contracting provisions outlined in this Policy.

LACERA recognizes that its control and influence on external investment managers varies by the degree of ownership it maintains in investment funds managed on its behalf by external investment managers. Accordingly, LACERA has defined the application of the terms and provisions of this Policy as follows:

A. **Controlled Investments:** Where LACERA owns more than a 50 percent equity position either directly or indirectly in a real estate, infrastructure, natural resources, or other real assets investment fund or partnership (“Controlled Investments”), LACERA *requires* the investment manager to use its best efforts to comply with the responsible contractor terms and provisions defined within this Policy when soliciting and selecting contractors and subcontractors for construction and operation services.

At Controlled Investments, LACERA expects investment managers to apply this Policy to all contracts valued at \$100,000 or more. Contract value refers to the total project work to be contracted for, with desegregation by trade or task. Desegregation designed to evade the requirements of this Policy is not permitted.

B. **Non-Controlled Investments:** Where LACERA does not have greater than 50 percent equity ownership and/or control of a real estate, infrastructure, natural resources, or other real assets investment fund or partnership (“Non-Controlled Investments”), LACERA *strongly encourages* its investment managers to comply with the spirit and practice of responsible contracting, including—but not limited to—adhering to the terms of this Policy and defining responsible contracting terms and policies of their own.

For the avoidance of any confusion, while LACERA encourages all real assets firms to practice responsible contracting, the specific terms and requirements of this Policy do not apply to other real assets exposures in LACERA’s portfolio, including—but not limited to—publicly-listed real estate investment trusts (or REITs), mezzanine debt, hybrid debt, investments acquired through a secondaries fund acquisition transaction, and indirect, specialty, and mortgage investments lacking equity features, and their respective investment managers.

IV. Key Provisions of Responsible Contracting

A “Responsible Contractor,” as used in this Policy, is a contractor or subcontractor who: (1) has the appropriate experience, skill, reputation, employee relations, responsiveness, fees, and dependability to perform the required work, and (2) provides workers fair compensation and fair benefits for the required work as evidenced by factors including—but not limited to—payroll and employee records, policies, and practices.

Responsible contracting practices include, but are not limited to, the following:

A. **Fair Wages and Benefits:** In determining fair wages and fair benefits concerning a specific contract in a specific market, items that may be considered include—but are not limited to—local wage practices, prevailing wages, and labor market conditions. This Policy does not mandate a specific wage level or benefits, but instead recognizes and considers that local market practices may vary across LACERA’s investment exposures. How investment managers and their respective contractors evaluate what constitutes “fair wages” and “fair benefits” should be informed by relevant market factors that include the nature and location of the project, comparable job or trade classifications, and the scope and complexity of services provided. “Fair benefits” may include—but are not limited to—employer-supported family health care coverage, pension benefits, employee safety training, and apprenticeship training programs.

- B. **Legal Compliance:** All contractors should demonstrate a compelling track record of compliance with all applicable federal, state, and local laws, regulations, and ordinances, including (but not limited to) those related to insurance, withholding taxes, minimum wage, health and safety, and environmental matters. Responsible Contractors exclude any contractor who has been debarred—or whose principal has been debarred—by a municipal, state, or federal government.
- C. **Diversity, Equity, and Inclusion:** As outlined in LACERA’s *Investment Policy Statement*, LACERA values diversity, equity, and inclusion, and believes that effectively accessing and managing diverse talent leads to improved outcomes. 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. LACERA expects real assets investment managers to ensure equal opportunity and non-discrimination in contracting provisions for construction and operation services. Effective assurance of equal opportunity and non-discrimination includes effective policies and practices to prohibit and deter retaliation against any individual or entity who reports incidents of prospective non-compliance.
- D. **Competitive Bidding:** Investment managers should ensure that all requests for proposals and invitations to bid applicable contracts covered by this Policy are made in accordance with the terms of this Policy. LACERA encourages adequate advance notice of bidding opportunities to promote competitive bidding, as practical and appropriate. Investment managers and their associated property managers and contractors should use reasonable methods to provide adequate notice to potential contractors of bidding opportunities for contracted services. Adequate notification may include, but is not limited to, maintaining lists of eligible, qualified Responsible Contractors for inclusion in the bidding process.
- E. **Neutrality:** Where there is a legitimate attempt by a labor organization to organize workers employed in contracted construction, maintenance, operation, and services, LACERA encourages investment managers, property managers, and contractors to maintain a position of neutrality. To remain “neutral” means not taking any action or making any statement that will directly or indirectly state or imply any support for or opposition to the selection by employees of a collective bargaining agent, or preference or opposition to any particular union as a bargaining agent.

For the avoidance of any confusion, nothing in this Policy obligates or prohibits an investment manager, property or asset manager, or contractor from entering into project labor agreements, labor peace or other lawful agreements with a labor organization seeking to represent or that currently represents workers, or take actions to address violations of applicable law.

It is also not the intent of this Policy to call for any involvement by investment managers, property or asset managers, or contractors in resolving any jurisdiction disputes that may arise between or among building trades and other labor organizations and unions.

V. Policy Implementation

- A. **Notification:** All current and prospective real assets investment managers shall be provided a copy of this Policy (both at Controlled Investments and Non-Controlled Investments).
- B. **Contracts and Contract Renewals:** All contracts and contract renewals at Controlled Investments entered into after the effective date of this Policy shall incorporate expectations of adherence to all applicable provisions of this Policy.
- C. **Investment Manager Administration and Reporting:** All investment managers of Controlled Investments are expected to communicate the terms and provisions of this Policy to property and asset managers and ensure effective practices are in place to implement them. Investment managers of Controlled Investments are further expected to collect, provide, and retain adequate data documenting their compliance with this Policy on no less than an annual basis in reporting to LACERA in a format acceptable to and approved by LACERA. Effective monitoring and enforcement by investment managers includes reasonable investigation of allegations of non-compliance with the terms and provisions of the Policy, as well as cooperative and timely communication with LACERA regarding the status of any such investigations.

Investment managers of Non-Controlled Investments are encouraged to report to LACERA on the administration, monitoring, and compliance with the responsible contracting provisions and terms stated above and any responsible contracting policies or provisions of their own, as well as to be responsive to any inquiries from LACERA related to the same.

- D. **LACERA Monitoring:** LACERA actively monitors all external investment managers, including those managing Controlled Investments and Non-Controlled Investments. All investment managers should demonstrate a compelling track record of adhering to responsible contracting practices. Any investment decisions to renew, increase, or decrease allocations may be informed, in part, by the investment managers track record of adherence to responsible contracting practices.

LACERA's regular review of Controlled Investments includes an assessment of the investment manager's track record in adhering to the terms and provisions of this Policy. LACERA reviews reports from investment managers of Controlled Investments regarding implementation and compliance with the terms and provisions of this Policy and furnishes reports as part of LACERA's overall compliance reporting practices to the Board of Investments for its oversight.

LACERA's review of all investment managers (both Controlled Investments and Non-Controlled Investments) focuses on the overall pattern of conduct and compliance and not particularly a single incident, depending on the severity and impact of incidents of non-compliance.

Document History

Revised and restated [month/day/year]

Revised November 19, 2014

Reviewed November 20, 2013

Revised November 13, 2012

Adopted December 11, 2002

Current Policy



**Responsible
Contractor
Policy**

NOVEMBER 2014

I. Purpose

The Responsible Contractor Policy (the “Policy”) of the Los Angeles County Employees Retirement Association (“LACERA” or the “Fund”) is designed to guide, in a manner consistent with the Fund’s fiduciary duties, the Fund’s real estate investment advisers and other participants in the process of selecting contractors to provide building operations services and construction services to the real estate properties owned by the Fund.

The Policy seeks to ensure that such contractors will be selected based upon demonstrated ability to provide high quality services, and thereby enhance the value of LACERA’s real estate investments, as evidenced by their experience, reputation, responsiveness, fees, and dependability, and further by their record of compliance with applicable statutes and payment of fair compensation and benefits to employees.

II. Introduction

LACERA supports and encourages fair compensation and fair benefits for workers employed by its contractors, subject always, however, to the Fund’s overriding fiduciary duties to LACERA’s participants and their beneficiaries, duties which take precedence over any other duty, including any duty or obligation established by this Policy.

The LACERA Board of Investments hereby adopts the Responsible Contractor Policy described herein in order to support and encourage the engagement of contractors who can be expected to provide high quality services to LACERA properties, utilizing properly trained and fairly compensated employees, subject always to LACERA’s fiduciary duties, including loyalty, care, skill, prudence, and diligence, which require evaluation of expected investment returns and risk of loss when awarding contracts with respect to LACERA’s assets.

Utilization of responsible contractors adds value to the investments by ensuring that essential building operations services and construction services are provided by adequately trained, experienced, and motivated workers. An adequately compensated and trained workforce can be expected to deliver a higher quality product and service. Therefore, LACERA supports a healthy and profitable business environment through market competition, small business development, and control of operating costs.

III. Definition of Responsible Contractor

A Responsible Contractor is a contractor who: (1) has the appropriate experience, reputation, employee relations, responsiveness, fees, and dependability to perform the required work, and (2) provides workers fair compensation and fair benefits for the required work, based on market conditions.

IV. Basic Requirements of the Responsible Contractor Policy

- **Fiduciary Duties Take Precedence:** Notwithstanding any other considerations, LACERA’s assets shall be diligently and prudently invested and managed in accordance with the Fund’s fiduciary duties in the sole interest of plan participants and their beneficiaries, and for the exclusive purpose of providing benefits to its participants and their beneficiaries. LACERA’s duties, and the duties of its advisers, to LACERA’s participants and their beneficiaries shall take precedence over any other duty.
- **Competitive Rate of Return:** LACERA seeks to have its real estate investments managed and operated in a manner that is expected to produce a competitive rate of return for its participants and beneficiaries at an acceptable level of risk.

- **Legal Compliance:** LACERA seeks to have all LACERA contractors comply with all applicable federal, state, and local laws, regulations, and ordinances, including (but not limited to) those related to insurance, withholding taxes, minimum wage, health and safety, and environmental matters.
- **Non-discrimination:** LACERA shall give equal consideration to minority-controlled firms, firms owned and controlled by women, and ventures involving those same firms, that meet the selection criteria for contractors and service providers.

V. Preference for Responsible Contractors

Provided the basic requirements in the foregoing section have been satisfied, LACERA expresses a strong preference that Responsible Contractors be hired in accordance with this Policy.

VI. Administration, Monitoring, and Enforcement

- **Applicable Contracts:** This Policy applies to all contractors and subcontractors who provide building operations services and construction services to real estate properties that are wholly owned by LACERA either directly or indirectly through subsidiary entities. The contractors and subcontractors shall use their best efforts to comply with this Policy. This Policy does not apply to real estate properties in LACERA's portfolio that are not wholly owned by LACERA either directly or indirectly.
- **Notification:** All current and prospective real estate advisers shall be provided a copy of this Policy.
- **Contract Solicitation:** All requests for proposals and invitations to bid applicable contracts covered by this Policy shall be made in accordance with the terms of this Policy.
- **Contracts and Contract Renewals:** All contracts and contract renewals entered into after the effective date of this Policy shall include applicable provisions of this Policy.

Minimum Contract Size: This Policy shall apply to all contracts valued at \$25,000 or more. Contract value refers to the total project work to be contracted for, with desegregation by trade or task. Desegregation designed to evade the requirements of this Policy shall not be permitted.

- **Reporting:** All advisers and contractors shall collect and retain adequate data documenting their compliance with this Policy and shall be prepared to produce such data for review upon request. LACERA staff shall produce periodic reports to LACERA's Board of Investments, when non-compliance with this Policy is identified.
- **Definition of Fair Wages and Benefits:** This Policy does not mandate any strict definition of fair wages and benefits. In the determination of fair wages and benefits, this Policy recognizes and considers indicators such as local wage practices, state law and labor market conditions, as well as prevailing wages.
- **Neutrality:** Where there is a legitimate attempt by a labor organization to organize workers employed in the construction, maintenance, operation, and services of a LACERA property, LACERA encourages a position of neutrality.
- **Enforcement:** LACERA shall place any adviser or property manager who fails to comply with this Policy on a probation list. In reviewing adviser and property management contracts for renewal, LACERA shall take into consideration the failure of any LACERA adviser or property manager to comply with this Policy.

VII. Duties of Responsible Parties

Responsibilities of the LACERA staff shall include:

- Review of the real estate advisers' annual reports regarding compliance with this Policy.
- Furnish periodic reports to LACERA's Board of Investments, as requested, on each adviser's compliance with this Policy, and make recommendations as needed for action to correct any pattern of non-compliance.

Responsibilities of the adviser shall include:

- Communicate this Policy to property managers of LACERA properties and to managers of LACERA's real estate investment vehicles and direct them to implement it.
- Maintain a simplified bid summary for each applicable contract. The summary should include identification of the contract's successful bidder and the bidder's status as a Responsible Contractor.
- Provide an annual report to LACERA staff describing actions taken by such adviser to comply with this Policy, including those taken by property managers and their subcontractors.
- Monitor and enforce compliance with this policy, including reasonable investigation of potential violations.

Responsibilities of the property manager shall include:

- Communicate this Policy in all bid documents seeking to secure construction or building service contracts subject to this policy.
- Provide to adviser property level annual reports regarding compliance with this Policy.
- Provide to advisers for each LACERA property under management a list of contracts subject to this Policy.
- Maintain a list of Responsible Contractors utilized at each LACERA Property.

Responsibilities of contractor shall include:

- Provide the property manager with Responsible Contractor documentation.
- File with the property manager reports, certifications, and other forms relating to this Policy, as required by LACERA or the manager.

Document History

Revised November 19, 2014

Reviewed November 20, 2013

Revised November 13, 2012

Adopted December 11, 2002