

Towards Best-In-Class Investor

2022 Work Plan and Strategic Initiatives

Investments Division

Board of Investments

January 12, 2022

Jonathan Grabel – Chief Investment Officer



Discussion Outline

- I. Work Plan Background

- II. Strategic Initiatives

- III. Appendix: Preliminary Project Schedules for 2022

2022 Work Plan



It is recommended that the Board approve the 2022 Work Plan and Strategic Initiatives with the **following goals**:

1. Provide **visibility** into current and upcoming initiatives
2. Accurately **reflect and synthesize** all Board-approved projects and input, recent Board meetings, and Offsite discussions into a cohesive action plan that includes best-in-class aspirations
3. Promote **disciplined execution** and aligned resources for defined priorities

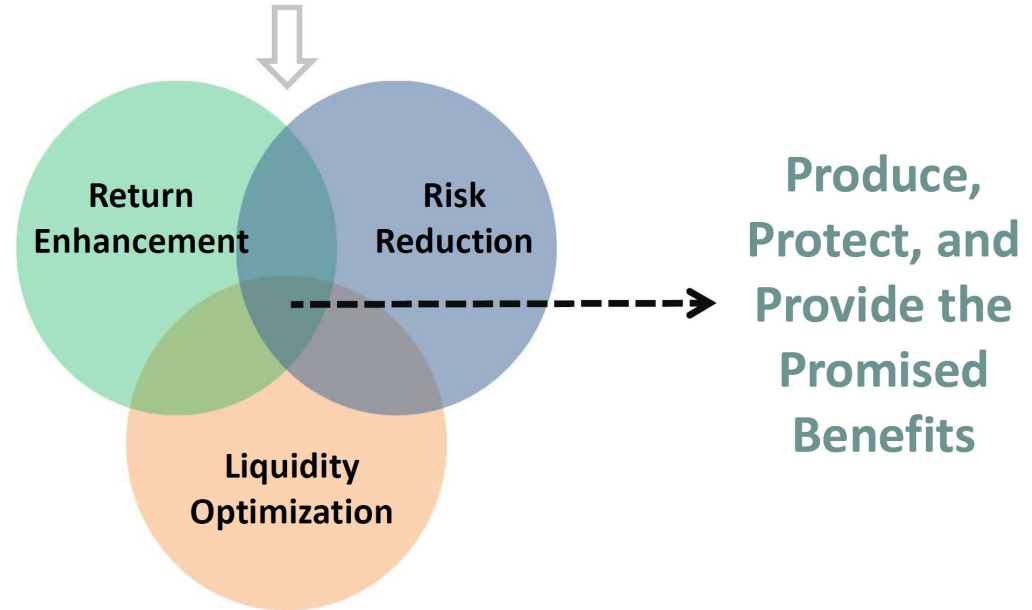
2022 Work Plan

Objective and Strategic Initiatives

Objective



Execute Strategic Asset Allocation
while balancing...



Produce,
Protect, and
Provide the
Promised
Benefits

Initiatives



Enhance
Operational
Effectiveness



Optimize
Investment Model



Maximize
Stewardship and
Ownership Rights



Strengthen
Influence on Fees
and Cost of Capital



LACERA
T.I.D.E.



Strategic Initiatives



2022 Work Plan

Strategic Initiatives Towards Best-In-Class Investor

Across LACERA's five strategic initiatives, our **journey** from an allocator to a best-in-class investor has numerous **accomplishments**, **ongoing efforts**, and **aspirational considerations**.



Upcoming slides describe our journey for each initiative and reflect feedback from the BOI.



2022 Work Plan

Strategic Initiatives



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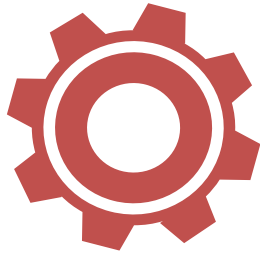
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Objective

To maximize the efficiency of our resources (internal and external, human and technological) and mitigate varied investment and enterprise risks, which can improve future outcomes

Connection to Investment Beliefs

"Risk is a broad term used to capture the concept of uncertainty. Since no single metric adequately conveys risk, LACERA will evaluate risk holistically, incorporating quantitative measures and qualitative assessments in managing its portfolio."

"Rebalancing the portfolio is a key aspect of prudent long-term asset allocation policy."

2022 Work Plan

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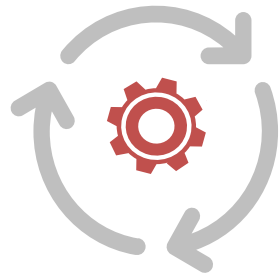
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Aspirational Considerations

- Strengthen risk orientation in a low expected return environment
- Continuously improve BOI meeting information
- Enhance compliance efforts
- Avoid uncompensated complexity



Ongoing Efforts

- Business continuity and information technology
- Comprehensive performance, risk, and return reporting
- Complete investment procedures manual
- Review OPEB operational structure



Accomplishments

- ✓ Elevated operational due diligence (“ODD”) capabilities
- ✓ Improved cash flow accounting for real estate operations
- ✓ Consolidated and simplified securities lending program
- ✓ Approval for initial dedicated managed account (“DMA”)



Enhance Operational
Effectiveness



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Optimize Investment Model

Objective

To leverage our competitive advantages through deliberate investment models and structures that harness technology, cost effectiveness, and human capital to maximize risk-adjusted returns

Connection to Investment Beliefs

"Consideration of net-of-fees returns is an integral part of a successful long-term investment strategy."

"LACERA will allow for modest tactical asset allocation adjustments during times of disruption."

"LACERA believes that conflicts of interest may pose risk; therefore, any perceived conflicts should be identified and explored as a material factor in risk analysis."

2022 Work Plan

Strategic Initiatives



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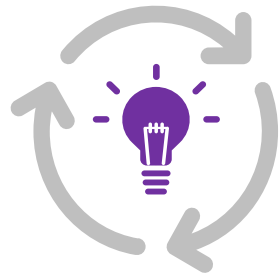
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Aspirational Considerations

- Shared ownership interests with investment manager firms
- Continued co-investment program developments
- Further development of investor mindset



Ongoing Efforts

- Implement strategic asset allocation nuances
- Risk measurement and monitoring across the portfolio
- Evaluate most advantageous investment structures
- Evaluation of merits and risks for internal management

Accomplishments

- ✓ Co-investment program successes in private equity
- ✓ Co-leading secondary investment
- ✓ Portfolio adjustments towards 2021 strategic asset allocation
- ✓ Rebalancing and exposure management through overlay

Optimize Investment Model



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Maximize Stewardship and Ownership Rights

Objective

To steward our investments – including legal rights associated with them – in a manner that promotes and safeguards our economic interests and durable financial value, including through proxy voting, engagement, and policy advocacy

Connection to Investment Beliefs

"LACERA considers the risks of environmental, social, and governance ("ESG") factors as relevant to its investment process."

"In an increasingly complex and dynamic investment universe, continued education on investment concepts and investment strategies within that universe is essential for long-term success."

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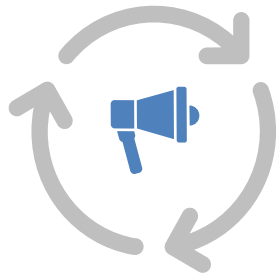
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Aspirational Considerations



- Total Fund view of climate investment risks and opportunities
- Refine ESG language in investment beliefs
- Expand thought leadership through education and research

Ongoing Efforts



- Continue advancing corporate board diversity initiative
- Improve ESG data availability and reliability, i.e., SASB support
- Encourage corporate climate risk disclosures and reductions
- Ongoing regulatory and legislative advocacy

Accomplishments



- ✓ Global proxy voting authority across 8,000 holdings
- ✓ Routine SEC comment letters on investor rights
- ✓ Climate Action 100+ initiative on climate risks
- ✓ Elevated industry collaboration (i.e., CII, PRI, SASB, etc.)

Maximize Stewardship and Ownership Rights



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Strengthen Influence on Fees and Cost of Capital

Objective

To strengthen our influence on fees and cost of capital with the goal of maximizing returns by minimizing cost across all investment strategies and structures in a manner that promotes durable investment returns

Connection to Investment Beliefs

"Consideration of net-of-fees returns is an integral part of a successful long-term investment strategy."

"Costs and fees should be actively monitored and negotiated to the greatest extent possible."

"As markets are largely efficient, passive management, when available, is the preferred structure for investment management; however, the Board recognizes that some asset classes may justify the higher fees and/or expected enhanced returns associated with active management."

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Aspirational Considerations

- Broadly be “term-makers” as opposed to “term-takers”
- Be a prominent co-investment and secondary investor
- Further measure and reduce costs across portfolio
- Develop a risk and fee adjusted performance measurement



Ongoing Efforts

- Expansion of co-investment and secondary programs
- Creative and beneficial fee structures such as hard hurdles
- Shared ownership interest alongside select managers
- Remain mindful of strategic considerations

Accomplishments

- ✓ Secondary purchase activity
- ✓ Beneficial structures such as dedicated managed accounts
- ✓ Capacity rights and fee negotiations
- ✓ Increased influence and improved fee terms

Strengthen Influence on
Fees and Cost of Capital



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LACERA T.I.D.E: Towards Inclusion, Diversity, and Equity

Objective

To improve outcomes through comprehensive, total Fund efforts that encourage constructive, inclusive, and equitable talent management at investment partners, industry, and internally

Connection to Investment Policy Statement

"LACERA values diversity, equity, and inclusion, and believes that effectively accessing and managing diverse talent leads to improved outcomes."

"LACERA's ongoing monitoring of third-party service providers incorporates an assessment of vendors' commitment to, adherence with, and track record of accessing and retaining diverse workforces in an inclusive and equitable manner."

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LACERA
T.I.D.E.



Aspirational Considerations

- All investment partners have clear DEI policies and reporting
- Be a catalyst for leading DEI practices at our business partners and in the investment industry
- Demonstrate cohesive, comprehensive DEI integration



Ongoing Efforts

- Diplomatic agitation of investment partners for further progress
- Industry advocacy to elevate DEI and improve data reporting
- Convening regional institutional investors on DEI practices
- Facilitate avenues for capital formation
- Intern program and avenues for DEI in internal practices

Accomplishments

- ✓ Due diligence across all new and current mandates
- ✓ Strides with partners regarding DEI policies and demographics
- ✓ Progress in corporate board diversity initiative
- ✓ LACERA tracking more data
- ✓ Increased allocation opportunities for emerging managers

LACERA T.I.D.E.



2022 Work Plan Recommendation

Towards Best-In-Class Investor

Best-In-Class
Investor



Recommendation:

Approve the 2022 Work Plan and Strategic Initiatives



Strategic Initiatives

- Execute 2022 Work Plan and Strategic Initiatives
- Maintain principles and re-evaluate as necessary
- Scale division along with Strategic Initiatives
- A component of LACERA's broad strategic plan

Appendix



Prospective 2022 Calendar

Board of Investments and Committee Meetings

	January	February	March	April	May	June	July	August	September	October	November	December
Board of Investments	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
							[Potential Offsite]					
Corporate Governance Committee				✓						✓		
Credit and Risk Mitigation Committee					✓				✓			
Equity: Public/Private Committee			✓	✓							✓	
Real Assets Committee	✓					✓						✓

- Each committee meets at least two times per calendar year
- Additional meetings would be scheduled on an as-needed basis
- Will work with the Board regarding Offsite format and logistics



1st Quarter 2022 Preliminary Monthly Calendar

FEBRUARY 9, 2022	
Board of Investments:	
Category	Subject
Total Fund	General Consultant Search Recommendation
Total Fund	4Q2021 Trust and OPEB Performance Report
Total Fund	General Consultant 4Q2021 Trust and OPEB Performance Report
Growth	Private Equity Investment Recommendations
Growth	Private Equity Emerging Manager Recommendation
Real Assets	Private Fund Investment Recommendation
Credit	Illiquid Credit Investment Recommendation
Committee: (open)	
Category	Subject

MARCH 9, 2022	
Board of Investments:	
Category	Subject
Growth	Private Equity Investment Recommendations
Real Assets	Real Estate Restructuring Update
Real Assets	Private Fund Investment Recommendation
Risk Mitigation	Long Duration Treasury Manager Recommendation
Committee: Equity: Public/Private	
Category	Subject
Growth	Analysis of Global Equity Activist Managers

Please note that certain listed items are subject to Committee advancement and/or Board approval.



2nd Quarter 2022 Preliminary Monthly Calendar

APRIL 13, 2022	
Board of Investments:	
Category	Subject
Total Fund	Annual Securities Lending Income Report
Growth	Private Equity Investment Recommendation
Real Assets	Private Fund Investment Recommendation
Committees: Corporate Governance and Equity	
Category	Subject
Corporate Gov.	Principles Policy Review
Corporate Gov.	ESG Standards Report
Growth	Global Equity Emerging Manager Program Assessment

MAY 11, 2022	
Board of Investments:	
Category	Subject
Total Fund	1Q2022 Trust and OPEB Performance Report
Total Fund	General Consultant 1Q2022 Trust and OPEB Performance Report
Total Fund	OPEB Private Markets Search Recommendation
Growth	Private Equity Investment Recommendation
Committee: Credit and Risk Mitigation	
Category	Subject
Credit	Outside Speaker: Inflation and Interest Rates

JUNE 8, 2022	
Board of Investments:	
Category	Subject
Total Fund	Internal Trading Update (Global Equity and Fixed Income)
Total Fund	Securities Lending Update Report
Real Assets	Private Fund Investment Recommendation
Committee: Real Assets	
Category	Subject
Real Assets	GRESB Review
Real Assets	RCP Review
Real Assets	Real Estate Emerging Manager Program RFP

Please note that certain listed items are subject to Committee advancement and/or Board approval.



3rd Quarter 2022 Preliminary Monthly Calendar

JULY 13, 2022	
Board of Investments:	
Category	Subject
Total Fund	Board Offsite (potential)
Growth	Private Equity Portfolio Performance Review
Growth	Private Equity Investment Recommendation
Real Assets	Private Fund Investment Recommendation
Credit	Illiquid Credit Emerging Manager Program Recommendation
Committee: (open)	
Category	Subject

AUGUST 10, 2022	
Board of Investments:	
Category	Subject
Total Fund	Board Offsite (potential)
Total Fund	2Q2022 Trust and OPEB Performance Report
Total Fund	General Consultant 2Q2022 Trust and OPEB Performance Report
Credit and Risk Mitigation	Credit and Hedge Funds Portfolio Performance Review
Committee: (open)	
Category	Subject

SEPTEMBER 14, 2022	
Board of Investments:	
Category	Subject
Total Fund	Board Offsite (potential)
Total Fund	Custody Bank Search RFP Recommendation
Total Fund	Fiscal Year End Risk Review
Real Assets	Private Fund Investment Recommendation
Committee: Credit and Risk Mitigation	
Category	Subject
Credit	Investment Manager Panel
Risk Mitigation	Implementation Update

Please note that certain listed items are subject to Committee advancement and/or Board approval.



4th Quarter 2022 Preliminary Monthly Calendar

OCTOBER 12, 2022	
Board of Investments:	
Category	Subject
Growth	Private Equity Investment Recommendation
Real Assets	Private Fund Investment Recommendation
Real Assets	Real Assets Portfolio Performance Review
Credit	Illiquid Credit Manager Recommendation
Committee: Corporate Governance	
Category	Subject
Corporate Gov.	Proxy Results and Trends
Corporate Gov.	PRI Assessment and ESG Update

NOVEMBER 9, 2022	
Board of Investments:	
Category	Subject
Total Fund	3Q2022 Trust and OPEB Performance Report
Total Fund	General Consultant 3Q2022 Trust and OPEB Performance Report
Committee: Equity: Public/Private	
Category	Subject
Growth	Structure Review

DECEMBER 14, 2022	
Board of Investments:	
Category	Subject
Total Fund	T.I.D.E. Initiative Update
Total Fund	AB2833 – Investment Fee Validation
Real Assets	Private Fund Investment Recommendation
Other	2022 Actuarial Valuation of Retirement Benefits
Committee: Real Assets	
Category	Subject
Real Assets	Real Assets Emerging Manager Program RFP
Real Assets	Structure Review Update

Please note that certain listed items are subject to Committee advancement and/or Board approval.

