



Investment Policy Statement

OPEB Master Trust

Restated September 8, 2021



L/CERA

Contents

About LACERA and the OPEB Trust	1
Statement of Purpose	2
Legal Authority	3
Fiduciary Duty	3
Ethics and Code of Conflicts	3
Process.	4
Investment Policy	
I. Investment Philosophy and Strategy	5
Objectives of Investment Program	5
Investment Beliefs	5
Strategic Asset Allocation.	6
Overview of Strategic Asset Allocation.	7
Performance Objectives	9
Rebalancing	9
Responsible Stewardship and Beneficial Ownership Rights	9
Integration of Environmental, Social, and Governance (ESG) Factors	9
Diversity, Equity, and Inclusion.	10
II. Investment Process	11
Structure Review	11
Investment Management.	11
Liquidity Management and Other Investment Functions	12
III. Risk Management	13
Philosophy and Objectives	13
Approach.	13
IV. Roles and Responsibilities	14
Board of Investments	14
Staff	14
Third Party Service Providers	15
Participating Employers	16

Appendix

A. Investment Tables	17
Approved Asset Allocation.	17
Benchmark Table	18
B. Chief Investment Officer Delegated Authorities	19

List of Attachments 21

- Corporate Governance and Stewardship Principles
- Responsible Contractor Policy
- Emerging Manager Policy Placement Agent Policy
- Placement Agent Policy
- Private Equity Privatization Policy
- Procurement Policy for Investment-Related Services

About LACERA and the OPEB Trust

The Los Angeles County Employees Retirement Association (“LACERA”) administers a defined benefit retirement plan (the “Fund”) and has been appointed as the Investment Manager for the Los Angeles County’s, LACERA’s, and Los Angeles County Superior Court’s Other Post-Employment Benefit Trusts (“Trust[s]”), which are the participating employers under the LACERA Master Trust (“OPEB Trust”).

The Los Angeles County Board of Supervisors established LACERA by ordinance in 1937. LACERA has operated since 1938, and today, serves over 170,000 active and retired members.

LACERA’s mission is to “produce, protect, and provide the promised benefits.” LACERA aims to fulfill its mission through prudent investment and conservation of plan assets, in accordance with its Investment Beliefs and in consideration of actuarial analysis.

LACERA MISSION STATEMENT

We Produce, Protect, and Provide
the Promised Benefits

LACERA’s Board of Investments (the “Board”) is responsible for establishing LACERA’s investment policy and objectives, as well as exercising oversight of the investment management for both the Fund and the OPEB Trust.

The County of Los Angeles (“County”) established the OPEB Trust for the purpose of pre-funding the Retiree Healthcare Benefits Program (“OPEB Program”). The OPEB Trust serves as a funding tool for the participating employers to hold and invest assets used to pay OPEB Program benefits, such as medical, dental and vision.

In 2012, the County Board of Supervisors approved entering into a Trust and Investment Services Agreement with the LACERA Board to serve as trustee and investment manager for two participating employers: Los Angeles County and LACERA. In 2016, the governing body of the Los Angeles Superior Court approved a similar agreement, and the Board of Supervisors in turn approved amending the County agreement to include the Superior Court as a third participant in a pooled investment structure through the OPEB Master Trust Declaration.

Statement of Purpose

The OPEB Trust Investment Policy Statement (the “IPS”) defines the framework by which LACERA manages the assets of the OPEB Trust in order to fulfill its mission. The document provides the primary guidance for OPEB Trust investment activities by outlining the philosophy and structure of the OPEB Trust investment program, describing the general process by which assets are managed, and defining the key roles and responsibilities for the investment program.

The IPS is in furtherance of the OPEB Trust’s purpose to permit the co-investing and commingling the assets of the participating Trusts for investments purposes. The ultimate purpose of the investment program is to fund and pay benefits under the OPEB Program.

Legal Authority

Article 8.6 of the County Employees Retirement Law of 1937, as amended (California Government Code Sections 31694 - 31694.5) (“CERL”) provides authority to governing bodies of the County and Superior Court to establish a Trust to fund an OPEB Program and for the Board of Investments to be appointed and serve as Trustee, investment manager and/or third-party administrator for such Trust. The County and Court Trust agreements were established pursuant to this legal authority and approved by the Board of Investments. LACERA, in turn, used its authority to create the Master Trust to facilitate the investment of the County, Court, and LACERA funds set aside for the OPEB Program. Under the OPEB Trust Declaration, the Board of Investments has “sole and exclusive authority, control over and responsibility for directing the investment and management of” OPEB Trust assets. The Board of Investments is a fiduciary in performing its responsibilities as Trustees. The Trust documents provide for the Board of Investments to adopt investment policies and asset allocation formula as the Board sees fit in the performance of its duties to fulfill the purpose of the Trusts.

LACERA’s governing statutes create a legal framework within which this IPS must be interpreted and implemented by the Board in approaching its decisions. Under the OPEB Trust Declaration, the Board is independent and has sole and exclusive legal responsibility over investment of OPEB Trust assets, including the establishment of the investment policy and asset allocation.

A. Fiduciary Duty

The Board and its Trustees are fiduciaries under the Trust documents and applicable by law, making decisions for the benefit of the Trusts as a whole without other concerns or outside influence. All Trustees, whether they are elected, appointed, or ex officio, have the same fiduciary duty under the law. This fiduciary duty has two components:

- *Duty of Loyalty.* Under the duty of loyalty, Trustees have the sole and exclusive responsibility to administer the OPEB Trust in the interest of and for the exclusive purpose of providing benefits to the participating employers’ participants in the OPEB Program and their beneficiaries. In making every decision, the Board must act according to a three-pronged legal formula that balances the interests of OPEB Trust stakeholders: (1) solely in the interest of providing OPEB Program benefits to Program participants and beneficiaries, (2) to minimize employer contributions necessary to fund the OPEB Program, and (3) to defray the expenses of administering the OPEB Trust. The Board’s duty to participants and their beneficiaries takes precedence over any other duty.
- *Duty of Prudence.* Trustees must discharge their duties with the care, skill, prudence, and diligence that a prudent fiduciary familiar with the matters and the circumstances of each particular decision would use in the conduct of a similar enterprise with like aims. The Board must diversify OPEB Trust investments so as to minimize risk of loss and maximize the rate of return, unless under the circumstances it is clearly prudent not to do so. The Board may invest or delegate the authority to invest OPEB Trust assets through the purchase, holding, or sale of any form or type of investment, financial instrument, or financial transaction when prudent in the informed opinion of the Board.

B. Ethics and Code of Conflicts

The Board and LACERA staff must refrain from personal activity that could conflict with the proper management of the OPEB Trust investment program, or that could impair their ability to make decisions in compliance with

fiduciary duty. Further details are defined in LACERA's Code of Ethical Conduct, Conflict of Interest Code, the Political Reform Act, Fair Political Practices Commission regulations, and other applicable law.

C. Process

Because the Board is a governing body of a public agency, the Board and its Trustees must conduct business according to the State of California Ralph M. Brown Act, which provides that Board meetings, deliberations, and actions must be public unless subject to a specific closed session exception. The Board may go into closed session to discuss the purchase and sale of particular, specific OPEB Trust investments under the Brown Act.

Investment Policy

I. Investment Philosophy and Strategy

A. Objectives of the Investment Program

LACERA follows a carefully planned and executed strategic investment program in order to:

- i. **Produce** the promised benefits for OPEB Trust participants and beneficiaries by achieving the OPEB Trust assumed rate of return on a total return basis over the long-term, consistent with LACERA's mission;
- ii. **Protect** the promised benefits on behalf of OPEB Trust participants and beneficiaries by mitigating investment risks through diversification and other means, consistent with LACERA's mission; and
- iii. **Provide** the promised benefits for OPEB Trust participants and beneficiaries, in part by ensuring adequate liquidity, consistent with LACERA's mission.

B. Investment Beliefs

The Board has adopted the following investment beliefs ("Investment Beliefs") to describe its core beliefs and underlying assumptions about how capital markets operate. Collectively, the Investment Beliefs provide a framework to guide LACERA's investment decisions in a manner consistent with LACERA's nature as an institutional investor with a long-term investment horizon in order to achieve the objectives defined above.

i. Strategic Asset Allocation

Long-term strategic asset allocation will be the primary determinant of OPEB Trust risk/return outcomes.

- a. It is important that LACERA be forward looking, as its investment horizon spans decades, if not indefinitely into the future.
- b. Asset allocation has a greater effect on return variability than asset class investment structure or manager selection. It is essential to account for OPEB Trust liabilities in setting long-term investment strategy.
- c. Rebalancing the portfolio is a key aspect of prudent long-term asset allocation policy.

ii. Market Efficiency

Markets are largely efficient over the long term (10–20 years); however, during certain economic and financial environments markets may not be efficient in setting prices.

- a. Consequently, LACERA will allow for modest tactical asset allocation adjustments during times of disruption.

iii. Active Versus Passive Management

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.

- a. Consequently, active strategies will be used only when there is strong conviction that they can be expected to add value net of their higher fees and are adjusted for risk.

iv. Private Markets and Liquidity

Private market assets can add value to a portfolio, providing opportunities for returns that exceed those expected from public markets.

- a. The total capital allocated to illiquid strategies must be kept at a prudent level.
- b. The high return potential of these assets needs to be balanced with the OPEB Trust's need for liquidity.
- c. Liquid assets serve a critical role to fund benefit payments and rebalance the portfolio.

v. Risk

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.

- a. LACERA operates in a global financial marketplace, and as such, LACERA believes that in order to diversify its risk broadly, it is vital that LACERA possess a global perspective.
- b. Diversification across different risk factors is necessary for risk reduction.
- c. Markets are cyclical; risk premia, volatility, and correlations vary over time.
- d. The pattern of returns matters because volatility levels and the sequence of gains and losses can impact funded status and contribution rates.
- e. Risk that is not expected to be rewarded over the long-term, or mitigated through diversification, will be minimized.
- f. For LACERA, not taking enough risk is risky; therefore, LACERA will accept a prudent amount of risk to achieve its long-term target returns.
- g. LACERA considers the risks of environmental, social, and governance ("ESG") factors as relevant to its investment process.
- h. 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.

vi. Costs and Fees

Investment outcomes are determined by risk, returns, and costs. All three must be managed, and cost is the most certain.

- a. Consideration of net-of-fees returns is an integral part of a successful long-term investment strategy.
- b. Costs and fees should be actively monitored and negotiated to the greatest extent possible.

vii. Education

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.

C. Strategic Asset Allocation

LACERA fundamentally believes long-term strategic asset allocation will be the primary determinant of risk/return outcomes, and therefore establishes a strategic asset allocation to meet its mission and investment objectives.

The OPEB Trust strategic asset allocation categorizes capital outlays into four groups, defined by the function each allocation is intended to serve in the portfolio: (1) Growth, (2) Credit, (3) Real Assets and Inflation Hedges, and (4) Risk Reduction and Mitigation. The functional categories include various asset classes that represent the risk/return characteristics of each area. LACERA expects the four functional categories to diversify the OPEB Trust and optimize upside growth while mitigating downside risk. The asset allocation determines what proportion of the OPEB Trust are allocated to each functional category and underlying asset class, including target weights and allowable ranges as a percentage of the OPEB Trust.

In order to determine the OPEB Trust strategic asset allocation, LACERA conducts a comprehensive asset allocation study every three to five years, or at the Board's request. The asset allocation study considers a number of factors, such as:

- A projection of actuarial assets, liabilities, benefits payments, contributions, and the actuarial rate of return for the OPEB Trust, as well as its current and projected funded status.
- Historical results and expected long-term capital market risk, return, and correlation forecasts.
- An assessment of future economic conditions, including inflation and interest rate levels.
- Various risk/return scenarios.
- OPEB Trust liquidity requirements.

Approved asset allocation and benchmarks for the OPEB Trust are detailed in the tables of the Appendix.

D. Overview of Strategic Asset Allocation

LACERA groups asset classes into the following functional categories:

i. Growth

- a. Role in the portfolio: The role of assets in this category is to be the primary driver of long-term total returns for the OPEB Trust.
- b. Asset Classes: Global Equity and Private Equity.
- c. Investment Approach: Growth assets generally represent equity or equity-like interests in current and future income streams. Growth assets include public and private market strategies that include both liquid and illiquid investments. The OPEB Trust utilizes passive strategies in relatively efficient segments of the market for global equity and employs active strategies in relatively less efficient market segments including private equity.
- d. Risk Factors: Growth assets are primarily equity ownership positions that tend to perform well in times of positive economic growth. They are highly sensitive to economic conditions and are subject to potential loss in value based on a number of factors. For example, growth assets may be sensitive to inflation and generally perform poorly in times of high and unexpected inflation. To a lesser extent, growth assets may be sensitive to interest rates due to the use of leverage in certain strategies as well as the relationship between interest rates and the discount rates used to price securities.

ii. Credit

- a. Role in the portfolio: LACERA expects assets categorized as Credit to produce current income and moderate long-term total returns. Credit has more moderate levels of risk than assets categorized as Growth, and, accordingly, provides incremental diversification to the OPEB Trust.

- b. Asset Classes: Liquid Credit (High Yield, Bank Loans, Emerging Market Debt), and Illiquid Credit.
- c. Investment Approach: Credit assets are generally fixed claims on assets or income streams of an issuer (e.g., government, corporation, asset-backed securities). The category is composed of certain fixed income, real estate, and private debt investments. Investment strategies within this category may have a specific mandate or be multi-strategy. The investment strategies may be liquid, illiquid, or a combination of both, depending on the nature and terms of the specific investment vehicle. The OPEB Trust employs passive strategies for the more efficient segments of the credit market and may employ active strategies in certain segments that are relatively less efficient.
- d. Risk Factors: The primary risk for owners of Credit assets is the failure of the borrower to make timely payments of interest and principal. There are three elements of credit risk: the risk of default, the risk of a credit downgrade, and spread risk, which is the risk that investors may demand greater compensation for bearing the first two types of risk. Bonds with credit risk offer a yield premium over government bonds to compensate investors for the additional risk. Bonds with greater credit risk (i.e., bonds with lower credit ratings) are typically less liquid than higher quality bonds.

iii. Real Assets and Inflation Hedges

- a. Role in the portfolio: LACERA expects assets in this category to provide income as well as a hedge against inflation, while diversifying the OPEB Trust due to the assumed low correlation of returns between these assets and other asset classes.
- b. Asset classes: Private Real Estate, Natural Resources, Commodities, Private Infrastructure, and Treasury Inflation-Protected Securities (“TIPS”).
- c. Investment Approach: Real Assets generally include physical assets, such as real estate and infrastructure, or securities whose value is derived from a physical asset, such as commodities or natural resources. Assets in this category may be invested in both public and private investments and may be liquid or illiquid, as well as passively or actively managed.
- d. Risk Factors: Real Assets and Inflation Hedges are sensitive to inflation. The primary risk for owners of real assets/inflation hedges is that they fail to provide a hedge against long-term changes in inflation. A secondary risk is loss of principal. The value of real estate and natural resources assets may fall, particularly during an economic downturn, but also due to idiosyncratic aspects of each asset. Diversification may offset asset-specific risk. Foreign assets are also subject to currency movements against the U.S. dollar. TIPS are exposed to liquidity risk, as they tend to be less liquid than nominally U.S. Treasuries, particularly during a market environment in which there is a flight to safety.

iv. Risk Reduction and Mitigation

- a. Role in the portfolio: LACERA expects assets in this category to provide moderate amounts of current income by generating a modest level of return while also reducing risks for the OPEB Trust, in part by preserving capital in the event of a downturn in equity markets. LACERA anticipates that assets in this category will have a low level of volatility and a low correlation to Growth assets, thereby providing downside protection. In the event of a market correction, these assets could also provide a source of liquidity for benefit payments.

- b. Asset classes: Investment Grade Bonds, Long-Term Government Bonds, and Cash.
- c. Investment Approach: The category is composed of investment grade bonds, long-term government bonds, and cash. Cash is the least volatile asset class, as well as the most liquid; the flexibility it provides during periods of market decline helps to mitigate risk. Investment grade bonds comprise a mix of U.S. Treasuries, corporate debt, and other bonds of high quality, typically rated “BBB” or above by rating agencies. High quality bonds would be expected to protect the OPEB Trust by retaining or increasing their value during a market correction.
- d. Risk Factors: The primary risk factor for Risk Reduction and Mitigation Assets is that they will fail to provide the anticipated level of protection during market downturns. Assets in this category are also subject to additional risks. For example, investment grade bonds are sensitive to fluctuations in interest rates and have some risk of default. Cash can include short-term instruments and vehicles where there is a low probability of loss of principal.

E. Performance Objectives

The OPEB Trust’s long-term performance objective is to generate risk-adjusted returns that meet or exceed its defined actuarial target as well as its policy benchmark, net-of-fees, over the OPEB Trust designated investment time horizon. The OPEB Trust’s policy benchmarks at the total OPEB Trust level, the functional category level, and the asset class level can be found in the Appendix.

F. Rebalancing

LACERA considers rebalancing the OPEB Trust a key aspect of prudent long-term portfolio management. LACERA rebalances the OPEB Trust portfolio in accordance with established guidelines and procedures to adhere to its approved strategic asset allocation, consistent with the OPEB Trust stated Investment Beliefs. The approved ranges for each functional asset category and underlying asset class are defined in the Appendix.

G. Responsible Stewardship and Beneficial Ownership Rights

In pursuing its investment program, and as part of mitigating risks associated with the OPEB Trust investments, LACERA seeks to manage its investments in a manner that promotes and safeguards the economic interests of its participants, consistent with LACERA’s mission. LACERA prudently exercises its rights as an investor to support policies and practices at companies in which LACERA invests, as well as public policies governing financial markets, that are consistent with the OPEB Trust’s economic interests. In doing so, LACERA aims to promote sustainable, long-term value on behalf of its participants and enhance LACERA’s ability to fulfill its mission. LACERA has therefore adopted Corporate Governance and Stewardship Principles (see Attachments). Beneficial ownership rights pertaining to the OPEB Trust investments, including, but not limited to proxy voting where LACERA has retained voting authority, are managed in accordance with LACERA’s Corporate Governance and Stewardship Principles.

H. Integration of Environmental, Social, and Governance (ESG) Factors

LACERA recognizes that environmental, social, and governance factors may influence the risk-return profile and financial performance of investments. Financially material ESG factors may vary by industry, geographic exposure, business strategy, investment time horizon, and other variables. LACERA endeavors to identify, assess, and manage relevant ESG factors in its market research, portfolio construction, and throughout its investment process in furtherance of its mission and fiduciary duties. Careful consideration of ESG factors throughout LACERA’s investment process aims to generate sustainable investment returns. LACERA assesses

and monitors all investment partners on their capacity and skill in evaluating ESG risks and opportunities in a compelling manner to enhance LACERA's risk-adjusted returns.

I. Diversity, Equity, and Inclusion

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 external asset managers and other third-party providers to respect and reflect LACERA's value of diversity, equity, and inclusion. 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.

II. Investment Process

The following sections articulate the general parameters and processes by which LACERA executes its investment strategy, in adherence to established policies and procedures.

A. Structure Review

After an asset allocation study apportions capital across categories, LACERA conducts a structure review to address how to implement each asset category. A structure review establishes the framework for each asset category by addressing its role within a total portfolio context. The structure review evaluates the objectives, portfolio composition, related strategic initiatives, and how the portfolio may evolve in the near to medium term. These reviews are presented to the Board no less frequently than the comprehensive asset allocation study conducted for the OPEB Trust, or at the Board's request.

B. Investment Management

i. Investment Agreements

Board-approved investment recommendations are subject to negotiation and execution of an agreement that, in the judgment of LACERA's Chief Investment Officer and Chief Counsel, includes all terms necessary to provide adequate protection for the OPEB Trust's interests under the circumstances of the transaction, including but not limited to an appropriate standard of care on the part of the investment manager.

ii. Selection and Monitoring

LACERA may utilize internal resources or externally managed portfolios implemented by asset management firms and service providers to effectuate the OPEB Trust investment program. In determining whether to use internal or external resources to implement a specific investment mandate, strategy, or investment-related service, LACERA takes into consideration numerous factors, including, but not limited to, return expectations, associated risks, compliance requirements, and expenses related to the specific strategy or service.

LACERA has adopted formal procedures to guide the selection, appointment, and monitoring of external managers and service providers. LACERA expects any external party that manages assets on behalf of the OPEB Trust to serve as a fiduciary

iii. Costs

LACERA considers the costs and expenses related to executing its investment program to be a crucial component of its fiduciary duty and an important element in determining its strategic asset allocation. In all aspects and functions of its investment program, LACERA seeks to actively identify, assess, and monitor expenses. LACERA expects that the economic terms and conditions by which any external party is compensated for investment-related services should promote an alignment of interests between the OPEB Trust and the external party in fulfilling LACERA's mission and investment objectives. Accordingly, LACERA diligently attends to and negotiates the economic terms of investment services rendered to the OPEB Trust.

C. Liquidity Management and Other Investment Functions

The following sections provide the general guiding principles and parameters for certain components of LACERA's investment process, including liquidity management, the use of derivative instruments, securities lending, and certain prohibited transactions.

i. Liquidity and Cash Management

Effective cash management is integral to LACERA's investment process. LACERA strives to maintain appropriate levels of liquidity—i.e., the ability to convert investments into cash—in order to meet immediate or short-term obligations and liabilities, such as satisfying a request by a participating employer to fund OPEB Program participant benefits, meeting capital calls, and rebalancing the portfolio per the strategic asset allocation. LACERA manages liquidity by monitoring the aggregate liquidity and liquidity risk exposures of the OPEB Trust.

ii. Derivatives Management

LACERA may employ derivative instruments to hedge or gain exposure to certain investments. A derivative is a financial instrument that derives its value from an underlying asset which represents direct ownership of a security or a direct obligation of an issuer. Derivatives may be exchange-traded or traded over the counter (OTC). LACERA expects that any use of derivatives by external managers must adhere to LACERA's policies and investment guidelines.

iii. Prohibited Transactions

LACERA prohibits the following transactions unless stated otherwise in the investment management agreement:

- “Prohibited transactions” as defined under the Employee Retirement Income Security Act of 1974 (ERISA)
- Transactions that involve a broker acting as a “principal,” where such broker is also the investment manager (or an entity related to the investment manager) who is making the transaction
- Any or all applicable investment activities forbidden by the United States Securities and Exchange Commission or other applicable governing bodies
- Any acts or omissions that violate state and local laws regarding conflicts of interest and disclosures

LACERA does not lever the OPEB Trust investment portfolio as a whole. However, leverage is implicit in many investment strategies. LACERA expects that any use of leverage by external managers must adhere to LACERA's established policies and investment guidelines.

III. Risk Management

LACERA manages risk by establishing and adhering to investment guidelines, pursuing multiple approaches to diversification (such as asset class, geography, liquidity profile, currency, and degree of active management), and conducting regular measurement and analytical exercises. LACERA assumes certain risks to achieve sufficient returns to meet the OPEB Trust's financial obligations and investment objectives. Investment risks pertain to the prospect of a permanent loss of capital or of not meeting objectives within the designated timeframe. LACERA seeks to mitigate the impact of a drawdown to the OPEB Trust in order to accomplish its investment objectives, reduce volatility, and avoid increased contributions to the OPEB Trust from the participating employers.

A. Philosophy and Objectives

LACERA considers risk multi-faceted and, therefore, views risk from multiple perspectives. Risk may vary and evolve over time, across sectors or geographic exposures, and depends on the nature and terms of the investment vehicle that LACERA deploys to implement OPEB Trust investment strategies. Risk may be systematic (i.e., present across the market) or unsystematic (i.e., specific to a particular investment strategy). A risk may pertain to and potentially impact the OPEB Trust, a functional asset category, or individual underlying asset classes.

LACERA seeks to diligently identify, assess, and monitor relevant investment risks throughout the investment process, from determining its strategic asset allocation to ongoing evaluation and monitoring of OPEB Trust performance. This helps to ensure that risks assumed by the OPEB Trust are intentional and adequately compensated.

B. Approach

The OPEB Trust strategic asset allocation attempts to position the OPEB Trust to capture growth while mitigating large drawdowns. LACERA's investment strategy is designed to take intentional risk, called active risk, in order to achieve commensurate investment results. LACERA may define expectations for active return earned per unit of active risk taken for various investment strategies and portfolios.

LACERA seeks to identify and acknowledge the sources and types of risk inherent in each investment strategy. However, LACERA also recognizes that even sophisticated risk measurement techniques may not detect certain risks, including extreme events, in advance. Accordingly, risk models may only provide limited predictive qualities. LACERA endeavors to test and challenge investment strategies and assumptions prior to a capital outlay as well as for ongoing monitoring.

LACERA measures investment risk using multiple metrics on both an absolute and relative basis at all relevant levels (i.e., total OPEB Trust, functional asset categories, and underlying asset classes). LACERA also strives to employ stress testing, scenario analyses, and broader financial and economic analyses to understand current and potential risks related to its investment strategy and decisions. LACERA selects appropriate benchmarks to assess and determine whether investment risks taken by the OPEB Trust are appropriate in order to achieve expected investment returns.

LACERA may establish a risk budget to set active risk targets for each functional asset category and underlying asset classes. LACERA aims to minimize unintended risk caused by asset allocation drift or other factors.

IV. Roles and Responsibilities

LACERA has established the following roles and responsibilities to implement its investment program, all of which must be performed under the terms of the Trust documents and the Board's fiduciary duty as defined above. The duties explained below apply to the Board, staff, and various external parties who collectively oversee and administer the functions necessary for LACERA to accomplish its investment objectives.

The overview outlined below is further complemented by the following documents: (*Board of Investments Charter, Board of Investments Powers Reserved Defined, Board of Investments Powers Reserved and Delegated Authorities, and the Board of Investments Regulations (previously referred to as "Bylaws").*) Roles and responsibilities are performed in a manner consistent with these governance documents and other Board policies.

A. Board of Investments

i. Board

The exclusive fiduciary responsibility of the Board is to ensure prudent investment and management of the OPEB Trust so as to provide, through the utilization of the Board's powers and duties as Trustee, the timely payment of OPEB Program benefits to participants and their beneficiaries, minimize employer contributions, and defray the reasonable cost of administration, with the duty to participants being paramount. It is the responsibility of the Board to ensure that LACERA employees administer OPEB Trust investments at reasonable cost, while preserving the quality of investments. The Board exercises oversight of all aspects of the investment program. The Board oversees the management of the OPEB Trust in compliance with all aspects of this IPS and all applicable federal and state laws and regulations. The Board may request staff and investment consultants to inform and make recommendations on matters pertinent to OPEB Trust investment operations. The Board may also delegate specific authorities to the Chief Investment Officer ("CIO"), as further outlined in the Appendix.

ii. Committees

To assist the Board in carrying out its duties, the Board may establish one or more committees ("Committee"). A Committee makes recommendations to the Board on investment actions related to its area of focus. A Committee may request staff and investment consultants to inform and make recommendations to it on matters pertinent to the OPEB Trust investment program.

B. Staff

i. Chief Executive Officer

The Board and LACERA'S Board of Retirement jointly appoint the Chief Executive Officer ("CEO"). The CEO is responsible for planning, organizing, and administering the operations of LACERA under policy guidance and direction from the Board and the Board of Retirement. The CEO exercises administrative oversight of the CIO, excluding investment decisions delegated to the CIO. The Board provides input to the CEO in the CEO's oversight of the CIO.

ii. Chief Investment Officer and Investment Staff

The CIO and staff assist the Board in performing its fiduciary duty. The internal investment staff reports to the CIO, who in turn reports to the CEO, with the input of the Board. The CIO, with the assistance of

staff, has the responsibility and authority to assist the Board in establishing investment and administrative policies. The CIO and staff are responsible for implementing the policies and programs established by the Board. The CIO has primary responsibility for the implementation of the Board's investment decisions.

The CIO and staff manage the portfolio according to the Board's policies, advise and inform the Board about investments, assist with development and review of investment policies and procedures, oversee operational aspects of the OPEB Trust, report on the progress of the OPEB Trust in meeting its investment objectives, and monitor and report to the Board on the performance of the OPEB Trust relative to the appropriate benchmarks. The Board has delegated specific investment authority and responsibility directly to the CIO as described in the Appendix. The CIO is authorized to interact with and communicate directly with the Board regarding all investment-related matters. The CEO does not have any authority over any and all investment decisions that are delegated to the CIO.

iii. Chief Counsel and Legal Staff

The Office of Chief Counsel and legal staff (Legal Counsel) are primarily responsible for legal issues concerning the investment program and advise the Board, CEO, CIO, and staff on investment-related legal matters. Legal Counsel advises the Board in performing its fiduciary responsibility. In addition to reliance upon internal resources for such matters, the Chief Counsel or designee within the Legal Office may retain external legal counsel, when deemed necessary and appropriate, to advise staff, negotiate and prepare contracts on investment-related matters and individual transactions, and provide other investment legal advice to protect LACERA's interests.

C. Third Party Service Providers

LACERA may engage external service providers, as described below, to implement the OPEB Trust investment program. All service providers, unless otherwise not applicable, are expected to serve as fiduciaries to the OPEB Trust in fulfilling their contracted services. Third party service providers must refrain from gift-giving or other efforts that may jeopardize the impartiality, or appearance thereof, of LACERA's Board and staff.

i. Investment Consultants

An investment consultant works for the Board in the oversight and implementation of investment objectives. In meeting the Board's objectives, investment consultants may work with staff and investment managers. The Board's general investment consultant provides advice and recommendations to the Board or Committee regarding OPEB Trust strategic objectives, risks, oversight, and implementation of investment objectives. Investment consultants, both general and specialized, provide advice and recommendations regarding strategic asset allocation, portfolio implementation, and oversight of the OPEB Trust to the Board, CIO, and staff. Investment consultants report to the Board or the Committee, as directed, and serve as an independent resource accountable to the Board. Investment consultants have a fiduciary duty to LACERA and must report economic interests and conflicts in accordance with California law and LACERA policy, including the Code of Ethical Conduct and filing of Form 700s.

ii. Custodian Bank

The Custodian Bank ("Bank") serves as a fiduciary in the safekeeping of OPEB Trust assets. The Bank is responsible for maintaining the OPEB Trust's official accounting book of record, including the ongoing pricing and valuation of all assets, collection of income generated by those assets, any corporate action notification, and performance calculation. The Bank cooperates with and provides assistance to staff

and investment managers in the reconciliation process. LACERA may opt to designate other duties to the Bank as stipulated in the professional services agreement. LACERA's investment office works with LACERA's accounting division to manage the custodial relationship.

iii. Investment Managers

Investment managers are selected by the Board and, subject to the terms and conditions of this IPS, serve LACERA through contracts that specify investment guidelines, administrative requirements, responsibilities, investment fees, and performance expectations for management of each mandate. Investment managers provide reporting for the OPEB Trust to LACERA on the performance of specific investment mandates in adherence to established guidelines and agreements. Staff and consultants synthesize investment managers' performance for presentation to the Board in accordance with established performance monitoring and oversight procedures. Investment managers should accept a fiduciary duty to LACERA, must report economic interests and conflicts in accordance with California law and LACERA policy, including the Code of Ethical Conduct and filing of Form 700s, and enforce their own diversity, ethics, and sexual harassment policies.

iv. Other Third Party Service Providers

Additional third-party service providers may be retained, subject to the terms and conditions of LACERA's established policies and procedures, in order to perform other duties to assist in the administration of the OPEB Trust.

D. Participating Employers

The Participating Employers, the County, the Court, and LACERA, have those roles and responsibilities set forth in the County and Court Trust agreements and the Master Trust Declaration, including the right to determine contributions made. The Participating Employers have given the fiduciary responsibility over investments and disbursements to the Board of Investments, according to the terms set forth in the Trust documents.

Appendix

A. Investment Tables

Table 1: Approved Asset Allocation

Asset Class	Target Allocation (%)	Allocation Range +/- (%)	Target Allocation (Step I) 10/1/2021	Target Allocation (Step II) 7/1/2022	Target Allocation (Step III) 7/1/2023
Growth	45	+/-10	50	48	45
Global Equity	40	+/-10	50	45	40
Private Equity	5	+/-5	0	3	5
Credit	18	+/-5	20	20	18
Liquid Credit	13	+/-5	20	17	13
Illiquid Credit	5	+/-5	0	3	5
Real Assets and Inflation Hedges	20	+/-5	20	20	20
Real Estate	8	+/-4	10	9	8
Natural Resources	2	+/-2	0	1	2
Commodities	2	+/-2	4	3	2
Infrastructure	2	+/-2	0	1	2
TIPS	6	+/-4	6	6	6
Risk Reduction and Mitigation	17	+/-6	10	14	17
Investment Grade Bonds	10	+/-4	8	9	10
Long-term Government Bonds	5	+/-5	0	3	5
Cash	2	+/-2	2	2	2
TOTAL FUND	100		100	100	100

Table 2: Benchmark Table

Asset Class	Benchmark
Growth	Custom Blend
Global Equity	MSCI ACWI IMI Net
Private Equity	MSCI ACWI IMI + 200 bps (3-Month lagged)
Credit	Custom Blend
Liquid Credit	38% BBg Barc U.S. Corporate High Yield; 46% Credit Suisse Leveraged Loans; 8% JP Morgan EMBI GD; 4% JP Morgan GBI-EM GD; 4% JP Morgan CEMBI BD
Illiquid Credit	Custom Liquid Credit Benchmark + 150 bps (1-month lagged)
Real Assets and Inflation Hedges	Custom Blend
Real Estate	75% NFI ODCE; 25% DJ US Select Real Estate (Private 3-Month lagged)
Natural Resources	S&P Global Natural Resources TR
Commodities	Bloomberg Commodity TR
Infrastructure	Dow Jones Brookfield Global Composite Infrastructure TR
TIPS	BBg Barc US TIPS
Risk Reduction and Mitigation	Custom Blend
Investment Grade Bonds	BBg Barc US Aggregate TR
Long-term Government Bonds	BBg Barc U.S. Long Treasury Bond
Cash	FTSE 3-Month US Treasury Bill
TOTAL FUND	Custom Blended Policy Benchmark

B. Chief Investment Officer Delegated Authorities

The Board has delegated to the CIO the following authorities in accordance with Board-approved asset class specific program parameters. CIO actions will be reported to Trustees consistent with the reporting provisions below, or in a timely manner.

Total Fund

<p>General Authorities</p>	<p>Authority to limit or freeze manager trading activity pending discussion and action by the Board. Such actions shall be reported as an informational item as reasonably practicable to the Board, and no later than the next scheduled meeting of the Board.</p> <p>Authority to take actions not otherwise specifically delegated, in concurrence with the CEO and the Chair of the Board, when deemed necessary in the best interest of the OPEB Trust and when there is not enough time to take the action to the full Board. Such actions shall be reported as an informational item as soon as reasonably practicable to the full Board, and no later than the next scheduled meeting of the Board.</p> <p>Authority to rebalance the OPEB Trust in order to raise cash for satisfying a participating employer’s request, adjust investment exposures, or pay operational expenses while adhering to investment policy targets. Rebalancing may include increasing or decreasing all Board-approved mandates.</p> <p>Authority to take actions as specified in LACERA’s Procurement Policy.</p>
<p>Approval of Variances</p>	<p>Authority to approve temporary variances from asset-level program and investment manager guidelines.</p>
<p>Contract Authorities</p>	<p>Authority to sign, or delegate authority to sign, all investment-related contracts and agreements necessary to implement Board-approved action. Thereafter, during the original term, authority to sign all amendments and modifications with respect to such contracts and agreements and make all decisions with respect to their day-to-day operation and implementation where the investment mandate remains substantially unchanged. Upon expiration of a contract or agreement for Board-approved mandates, an extension or modification may only be made with Board approval or as outlined in LACERA’s Procurement Policy.</p> <p>Authority to approve reductions to investment manager fee schedules and service provider costs.</p> <p>Authority to negotiate and execute investment agreements that, in the judgment of the CIO and Chief Counsel, provide adequate protection for LACERA’s interests, including an appropriate standard of care on the part of each manager</p>

Asset Class Specific

Private Equity	<p>Authority to approve the purchase or sale of any existing fund investment within the Private Equity portfolio.</p> <p>Authority to approve co-investments, secondary transactions, re-ups, and advisory board seats.</p>
Real Estate	<p>Authority to approve the purchase or sale of any existing fund investment within the Real Estate portfolio.</p> <p>Authority to approve co-investments, secondary transactions, re-ups, and advisory board seats.</p>
Real Assets (ex-Real Estate)	<p>Authority to approve the purchase or sale of any existing fund investment within the Real Assets portfolio.</p> <p>Authority to approve co-investments, secondary transactions, re-ups, and advisory board seats.</p>
Credit	<p>Authority to approve the purchase or sale of any existing fund investment within the Credit portfolio.</p> <p>Authority to approve co-investments, secondary transactions, re-ups, and advisory board seats.</p>

In the event the CIO is not available, and time is of the essence in making a decision, LACERA will follow the Board-approved Crisis Response Plan. The Board will receive written notification of all such actions.

List of Attachments

Corporate Governance and Stewardship Principles
Responsible Contractor Policy
Emerging Manager Policy Placement Agent Policy
Placement Agent Policy
Private Equity Privatization Policy
Procurement Policy for Investment-Related Services