AGENDA

A REGULAR MEETING OF THE BOARD OF INVESTMENTS

LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION

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

9:00 A.M., WEDNESDAY, AUGUST 8, 2018

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

I. CALL TO ORDER

II. PLEDGE OF ALLEGIANCE

III. APPROVAL OF MINUTES

A. Approval of the Minutes of the Special Meeting of July 9, 2018

B. Approval of the Minutes of the Special Meeting of July 10, 2018

IV. PUBLIC COMMENT

V. INTERIM CHIEF EXECUTIVE OFFICER’S REPORT
(Memo dated July 30, 2018)

VI. CHIEF INVESTMENT OFFICER’S REPORT
(Memo dated July 30, 2018)

VII. CONSENT ITEMS

A. Recommendation as submitted by Shawn Kehoe, Chair, Corporate Governance Committee: That the Board approve LACERA formally signing onto the Climate Action 100+ initiative as a supporter. (Memo dated July 26, 2018)
VII. CONSENT ITEMS (Continued)

B. Recommendation as submitted by Robert R. Hill, Interim Chief Executive Officer: That the Board approve attendance of Board members at the National Association of Corporate Directors - Master Class on August 20 – 21, 2018 in Newport Coast, California and approve reimbursement of all travel costs incurred in accordance with LACERA’s Education and Travel Policy. (Placed on the agenda at the request of Mr. Kelly) (Memo dated July 23, 2018)

C. Recommendation as submitted by Robert R. Hill, Interim Chief Executive Officer: That the Board approve attendance of Board members at the 2018 LAVCA Summit and Investor Roundtable on September 24 – 26, 2018 in New York, New York and approve reimbursement of all travel costs incurred in accordance with LACERA’s Education and Travel Policy. (Placed on the agenda at the request of Mr. Santos) (Memo dated July 12, 2018)

D. Recommendation as submitted by Robert R. Hill, Interim Chief Executive Officer: That the Board approve attendance of Board members at the Public Pension Trustees Fiduciary Conference: Gaining the Tools for Innovation on October 2-3, 2018 in New York, New York and approve reimbursement of all travel costs incurred in accordance with LACERA’s Education and Travel Policy. (Placed on the agenda at the request of Mr. Moore) (Memo dated June 4, 2018)

E. Recommendation as submitted by Robert R. Hill, Interim Chief Executive Officer: That the Board Approve attendance of Board Members at the 2018 PPI Executive Seminar on October 14–16, 2018 in Melbourne, Australia and PPI's Asia Roundtable on October 17–19 in Sydney, Australia and approve reimbursement of all travel costs incurred in accordance with LACERA’s Education and Travel Policy. (Placed on the agenda at the request of Mr. Kelly) (Memo dated July 16, 2018)
F. Recommendation as submitted by Robert R. Hill, Interim Chief Executive Officer: That the Board waive LACERA’s Education and Travel Policy Section 705.07 D. 2, and authorize attendance of a fourth member to the 2018 PPI Executive Seminar on October 14–16, 2018 in Melbourne, Australia and PPI's Asia Roundtable on October 17–19 in Sydney, Australia and approve reimbursement of all travel costs incurred in accordance with LACERA’s Education and Travel Policy. (Placed on the agenda at the request of Mr. Kehoe)
(Memo dated July 16, 2018)

G. Recommendation as submitted by Robert R. Hill, Interim Chief Executive Officer: That the Board approve attendance of Board members at the 2018 Milken Institute Asia Summit on September 12–14, 2018 in Singapore and approve reimbursement of all travel costs incurred in accordance with LACERA’s Education and Travel Policy. (Placed on the agenda at the request of Mr. Kehoe)
(Memo dated July 18, 2018)

H. Recommendation as submitted by Robert R. Hill, Interim Chief Executive Officer: That the Board approve attendance of Board members at the 2018 USC Marshall Corporate Directors Symposium on November 8, 2018 in Los Angeles, California and approve reimbursement of all travel costs incurred in accordance with LACERA’s Education and Travel Policy. (Placed on the agenda at the request of Mr. Kelly)
(Memo dated July 12, 2018)

I. Recommendation as submitted by Jill Rawal, Staff Counsel: That the Board (1) Adopt the revised Conflict of Interest Code; and (2) Authorize staff to file the revised Code with the County of Los Angeles Board of Supervisors, which is the code reviewing authority.
(Memo dated July 30, 2018)
VIII. NON-CONSENT ITEMS

A. Recommendation as submitted by Ted Wright, Principal Investment Officer; Brenda Cullen, Investment Officer and Mel Tsao, Investment Analyst: That the Board hire CornerCap Investment Counsel, Global Alpha Capital Management, and Matarin Capital Management for direct active public equity emerging manager mandates with the following allocations using separate account vehicles: CornerCap Fundametrics® Small Cap Equity, $60 million; Global Alpha International Small Cap, $160 million; and Matarin North America Small Cap, $125 million. (Memo dated July 30, 2018)

B. Recommendation as submitted by Adam Cheng, Senior Investment Analyst: That the Board authorize a targeted search for a Treasury Inflation Protected Securities manager. (Memo dated July 26, 2018)

C. Recommendation as submitted by James Rice, Senior Investment Officer and Shelly P. Tilaye, Senior Investment Analyst: That the Board (1) Approve the minimum qualifications for the Real Assets completion portfolio manager search, and (2) Authorize staff to initiate the Request for Information process for a separate account manager for the Real Assets completion portfolio. (Memo dated July 27, 2018)

D. Recommendation as submitted by Christopher Wagner, Principal Investment Officer, David Chu, Senior Investment Officer, and David E. Simpson, Investment Officer: That the Board approve the proposed Minimum Qualifications Evaluation Criteria, and Scope of Work thereby authorizing staff to initiate the Request for Proposal process for specialized consultant services in Hedge Funds, Illiquid Credit, and Real Assets. (Memo dated July 30, 2018)

E. Recommendation as submitted by Amit Aggarwal, Investment Officer: That the Board approve a commitment of up to €50 million to Aermont Fund IV. (Memo dated July 25, 2018)

F. Recommendation as submitted by Jonathan Grabel, Chief Investment Officer and John McClelland, Principal Investment Officer: That the Board modify the investment strategies covered by each Standing Committee. (Memo dated July 24, 2018)
VIII. NON-CONSENT ITEMS

G. Recommendation as submitted by Joseph Kelly, Board Member:

That the Board:

(1) Reconstitute the Joint Organizational Governance Committee (JOGC) as a standing joint committee of both the Board of Retirement (BOR) and Board of Investments (BOI) and reassign to the JOGC all matters currently being considered by Ad Hoc Committees, with the exception of the Ad Hoc Committee overseeing the recruitment of the Retirement Administrator/Chief Executive Officer which will remain responsible for this recruitment at this time;

(2) Revise the JOGC Charter, Section 8 Membership, Quorum, and Rules, as follows. (The revision is red-lined)

There will be eight (8) members with no designated alternates. The JOGC will be comprised of the BOR and BOI Chairs and Vice-Chairs plus one member appointed by each Chair and one member elected by each Board. If there is one JOGC member who represents both Boards (one overlap), then an additional appointment will be made by the BOR Chair in even years and by the BOI Chair in odd years. If there is more than one overlap, the BOR and BOI Chairs will make an equal number of additional appointments; if there are an odd number of overlaps, the final appointment, after the Board Chairs make their separate appointments, will be made following the rule as stated in the preceding sentence that applies in the case of one overlap. In selecting their appointments, the Chairs will endeavor to include an overall mix of trustees who are appointed by the Board of Supervisors, elected by active employees (general and safety), elected by retired employees, and who serve in an ex-officio capacity. The Chairs will also consider continuity of service when selecting Committee members, so that development of expertise and familiarity with the subject matters jurisdictional to the JOGC are encouraged, and to benefit Committee goals.

(3) Elect a JOGC Member.
VIII. NON-CONSENT ITEMS

(4) Request the Interim Chief Executive Officer (CEO) engage Funston Consultants, the consultants who assisted the BOR and the BOI Ad Hoc Committee that recommended the formation of the JOGC, to undertake an evaluation of the JOGC's effectiveness in the fall 2019. Funston should allow for input by all trustees in the evaluation processes. When completed, the evaluation should be placed on a BOR and BOI agenda for discussion. (Memo dated July 31, 2018)

IX. REPORTS

A. Asset Allocation Benchmarks
   Jonathan Grabel, Chief Investment Officer
   Stephen McCourt, Managing Principal, Meketa Investment Group
   Timothy Filla, Managing Principal, Meketa Investment Group
   (Memo dated July 26, 2018)

B. Update on Conversion of Designated Public Equity and Fixed Income Commingled Trust Funds to Separate Accounts
   Jonathan Grabel, Chief Investment Officer
   (For Information Only) (Memo dated July 12, 2018)

C. Delivery Date of Second Quarter 2018 Performance Materials
   Jonathan Grabel, Chief Investment Officer
   (For Information Only) (Memo dated July 24, 2018)

D. Performance Review of Private Equity Consultant Stepstone Group
   Christopher Wagner, Principal Investment Officer
   (For Information Only) (Memo dated July 17, 2018)

E. Performance Review of Real Estate Consultant Townsend Group
   John McClelland, Principal Investment Officer
   (For Information Only) (Memo dated July 24, 2018)

F. State Street Incident Report – Update #2
   Jonathan Grabel, Chief Investment Officer
   (For Information Only) (Memo dated July 30, 2018)
IX. REPORTS (Continued)

G. Oaktree Capital Management
   Robert Z. Santos, Investment Officer
   (For Information Only) (Memo dated July 18, 2018)

H. Mandatory Arbitration of Securities Claims
   Steven Rice, Chief Counsel
   (For Information Only) (Memo dated July 30, 2018)

I. LACERA Comment Letter on Market-Based Rules Regulation
   Barry W. Lew, Legislative Affairs Officer
   (For Information Only) (Memo dated July 27, 2018)

J. Semi-Annual Interest Crediting for Reserves as of June 30, 2018
   (Unaudited)
   Beulah Auten, Chief Financial Officer
   (For Information Only) (Memo dated July 27, 2018)

K. Implementation Update on LACERA Pension Trust Strategic Asset Allocation
   Jonathan Grabel, Chief Investment Officer
   (For Information Only) (Memo dated July 30, 2018)

L. Monthly Status Report on Board of Investments Legal Projects
   Steven P. Rice, Chief Counsel
   (For Information Only) (Memo dated August 1, 2018)

M. July 2018 Fiduciary Counsel Contact and Billing Report
   Steven P. Rice, Chief Counsel
   (Memo dated August 1, 2018) (Privileged and Confidential)
   (Attorney-Client Communication/Attorney Work Product)

X. REPORT ON STAFF ACTION ITEMS

XI. GOOD OF THE ORDER
   (For information purposes only)
XII. EXECUTIVE SESSION

A. Conference with Staff and Legal Counsel to Consider the Purchase or Sale of Particular, Specific Pension Fund Investments (Pursuant to California Government Code Section 54956.81)

1. ACCEL-KKR GROWTH CAPITAL PARTNERS III, L.P.

XIII. ADJOURNMENT

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.

Persons requiring an alternative format of this agenda pursuant to Section 202 of the Americans with Disabilities Act of 1990 may request one by calling Cynthia Guider at (626) 564-6000, from 8:30 a.m. to 5:00 p.m. Monday through Friday, but no later than 48 hours prior to the time the meeting is to commence. Assistive Listening Devices are available upon request. American Sign Language (ASL) Interpreters are available with at least three (3) business days notice before the meeting date.
PRESENT: David Green, Chair

Shawn Kehoe, Vice Chair

Wayne Moore, Secretary

Keith Knox (Chief Deputy to Joseph Kelly)

David Muir

Ronald Okum

Gina V. Sanchez

Herman B. Santos

Michael Schneider (Arrived at the meeting at 1:45 p.m.)

ABSENT: Joseph Kelly

BOARD OF RETIREMENT MEMBERS

Vivian Gray, BOR Chair

James P. Harris

Thomas Walsh

Gina Zapanta-Murphy
STAFF ADVISORS AND PARTICIPANTS

Robert Hill, Interim Chief Executive Officer

Jonathan Grabel, Chief Investment Officer

Steven P. Rice, Chief Counsel

Christopher Wagner, Principal Investment Officer

Vache Mahseredjian, Principal Investment Officer

Ted Wright, Principal Investment Officer

John McClelland, Principal Investment Officer

Jude Perez, Principal Investment Officer

Jim Rice, Senior Investment Officer

Scott Zdrazil, Senior Investment Officer

Meketa Investment Group
  Leandro Festino, Managing Principal
  Timothy Filla, Managing Principal

StepStone Group LP
  Jose Fernandez, Partner

Townsend Group
  Micolyn Magee, Partner

State Street Global Advisors
  Michael Martel, Managing Director

Lazard Asset Management LLC
  Kun Deng, Managing Director

Capital Group International, Inc.
  John Emerson, Vice Chairman
I. WELCOME

Jonathan Grabel, Chief Investment Officer

The meeting was called to order by Mr. Grabel at 9:10 a.m. at the Loews Santa Monica Beach Hotel.

II. PUBLIC COMMENT

There were no requests from the public to speak.

III. IMPLEMENTING THE NEW STRATEGIC ASSET ALLOCATION, PART 1: MANAGEMENT AND OVERSIGHT

Investment Staff

Messrs. Mahseredjian, Wagner and Jim Rice provided a presentation.

IV. IMPLEMENTING THE NEW STRATEGIC ASSET ALLOCATION, PART 2: INVESTMENT POLICY STATEMENT

Investment Staff, Meketa Investment Group

Messrs. Perez, Zdrazil and Leandro Festino of Meketa Investment Group provided a presentation.

V. IMPLEMENTING THE NEW STRATEGIC ASSET ALLOCATION, PART 3: BENCHMARK REVIEW

Meketa Investment Group

Messrs. Festino and Filla and Ms. Light of Meketa Investment Group provided a presentation.

VI. IMPLEMENTING THE NEW STRATEGIC ASSET ALLOCATION, PART 4: REBALANCING AND CASH MANAGEMENT

State Street Investment Staff

Mr. Martel of State Street Global Advisors provided a presentation.
VII. EVOLVING GLOBAL SOCIAL, POLITICAL AND ECONOMIC DYNAMICS  
Lazard Asset Management, Capital Group, Investment Staff  

Mr. Green announced that Ms. Sanchez had recused herself from this item due to potential business with Lazard.  

Mr. Deng of Lazard Asset Management and Mr. Emerson of Capital Group International, Inc. provided a presentation.  

VIII. CLOSING  

Mr. Grabel provided an overview of the days topics.  

IX. ADJOURNMENT  

There being no further business to come before the Board, the meeting was adjourned at 3:45 p.m.

WAYNE MOORE, SECRETARY  

__________________________  
DAVID GREEN, CHAIR
MINUTES OF THE SPECIAL MEETING OF THE BOARD OF INVESTMENTS
LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION
LOEWS SANTA MONICA BEACH HOTEL
1700 OCEAN AVENUE, SANTA MONICA, CA 90401
TUESDAY, JULY 10, 2018
9:00 A.M. – ARCADIA BALLROOM

PRESENT:  David Green, Chair
        Shawn Kehoe, Vice Chair
        Wayne Moore, Secretary
        Joseph Kelly
        David Muir
        Gina V. Sanchez (Arrived at 9:45 a.m.)
        Herman B. Santos
        Michael Schneider

ABSENT:  Ronald Okum

BOARD OF RETIREMENT MEMBERS

Vivian Gray, BOR Chair
James P. Harris
Thomas Walsh
STAFF ADVISORS AND PARTICIPANTS

Robert Hill, Interim Chief Executive Officer
Jonathan Grabel, Chief Investment Officer
Steven P. Rice, Chief Counsel
Christopher Wagner, Principal Investment Officer
Vache Mahseredjian, Principal Investment Officer
Ted Wright, Principal Investment Officer
John McClelland, Principal Investment Officer
Jude Perez, Principal Investment Officer
Jim Rice, Senior Investment Officer
Scott Zdrazil, Senior Investment Officer

Meketa Investment Group
   Leandro Festino, Managing Principal
   Timothy Filla, Managing Principal

StepStone Group LP
   Jose Fernandez, Partner

Townsend Group
   Micolyn Magee, Partner

I. WELCOME

Jonathan Grabel, Chief Investment Officer

The meeting was called to order by Mr. Grabel at 9:04 a.m. at the Loews Santa Monica Beach Hotel.
II. PUBLIC COMMENT

There were no requests from the public to speak.

III. STRATEGIC PLAN FRAMEWORK

*Chief Investment Officer*

Mr. Grabel provided a presentation and facilitated a Board discussion.

IV. APPROVAL OF MINUTES

A. Approval of the Minutes of the Regular Meeting of June 13, 2018

Mr. Santos made a motion, Mr. Kehoe seconded, to approve the minutes of the regular meeting of June 13, 2018. The motion passed unanimously.

V. CONSENT ITEMS

Mr. Kehoe made a motion, Mrs. Sanchez seconded, to approve the following agenda items. The motion passed unanimously.

A. Recommendation as submitted by Michael Schneider, Chair, Real Estate Committee: That the Board adopt the revised Real Estate Objectives, Policies and Procedures. (Memo dated July 1, 2018)

B. Recommendation as submitted by Michael Schneider, Chair, Real Estate Committee: That the Board:

1.) Approve the proposed Real Estate Investment Plan for Fiscal Year 2018-2019; and

2.) Approve allocation of up to $550 million for investment by the Fund’s separate account equity managers.

(Memo dated July 1, 2018)
V. CONSENT ITEMS (Continued)

C. Recommendation as submitted by Robert R. Hill, Interim Chief Executive Officer: That the Board Approve attendance of Board members at the National Association of Corporate Directors - Direct Professionalism on August 15-17, 2018 in Westlake Village, California and approve reimbursement of all travel costs incurred in accordance with LACERA’s Education and Travel Policy. (Placed on the agenda at the request of Mr. Moore) (Memo dated June 26, 2018)

VI. NON-CONSENT ITEM

A. Recommendation as submitted by Ted Wright, Principal Investment Officer, Brenda Cullen, Investment Officer and Mel Tsao, Investment Analyst: That the Board invite the following emerging manager firms to interview with the Board for direct public equity active mandates: (1) CornerCap Investment Counsel, (2) Global Alpha Capital Management, and Matarin Capital Management. (Memo dated June 25, 2018)

Mr. Wright was present and answered question from the Board.

Mr. Kehoe made a motion, Mrs. Sanchez seconded, to approve the agenda item. The motion passed unanimously.

VII. REPORTS

The following reports were received and filed:

A. Principles for Responsible Investment (PRI) Association Board Election Candidate Nominations
   Scott Zdrazil, Senior Investment Officer
   (For Information Only) (Memo dated June 18, 2018)

B. Monthly Status Report on Board of Investments Legal Projects
   Steven P. Rice, Chief Counsel
   (For Information Only) (Memo dated July 2, 2018)

C. Monthly Fiduciary Counsel Contact and Billing Report
   Steven P. Rice, Chief Counsel
   (Memo dated July 2, 2018) (Privileged and Confidential) (Attorney-Client Communication/Attorney Work Product)
VIII. REPORT ON STAFF ACTION ITEMS

There were no items to report out.

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

Mr. Green thanked the staff for their hard work.

X. CLOSING REMARKS

Mr. Grabel thanked the staff and Board members for their contributions and participation.

XI. ADJOURNMENT

There being no further business to come before the Board, the meeting was adjourned at 11:42 a.m.

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WAYNE MOORE, SECRETARY

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DAVID GREEN, CHAIR
July 30, 2018

TO: Each Member
    Board of Retirement
    Board of Investments

FROM: Robert R. Hill
      Interim Chief Executive Officer

SUBJECT: CHIEF EXECUTIVE OFFICER’S REPORT

I am pleased to present the Interim Chief Executive Officer’s Report that highlights a few of the operational activities that have taken place during the past month, key business metrics to monitor how well we are meeting our performance objectives, and an educational calendar.

Upcoming Eighth Floor Renovation

In mid-August Administrative Services will begin the eighth floor renovation project, which will expand the Investments and Internal Audit work areas, as well as complete a number of common area improvements.

The project begins with the move of the Investments Division to the second floor the weekend of August 10th. This will allow work to begin on expanding and restructuring the layout of the Investments Division to add additional cubicles to accommodate the expected hiring plan for the next two to five years. At the same time, we will be expanding the footprint for the Internal Audit Division to accommodate two new offices for the Principal Auditor positions, as well as a kitchen/work area to support the division. This project also includes the relocation of conference rooms to make them accessible from the hallways – providing easier access for all staff members and greater security when guests are present or they are used as waiting areas for Board presenters.

Common area improvements will include renovating the restrooms to meet current ADA requirements, stripping the walls in the common areas and the Boardroom of the outdated wallpaper, and replacing the carpeting throughout the eighth floor, including the Executive Office, Boardroom, and Board Lounge. The restroom renovations are significant and are expected to take six to eight weeks to complete. During the renovations the restrooms on the eighth floor will be unavailable – including on Board days. Board and staff members will be able to use restrooms on any LACERA floor (seventh, sixth, fifth, third, or second).
The entire project is expected to take up to 12 weeks, but could be completed earlier or be delayed depending on inspection schedules and progress.
Key Performance Indicator (Overall Performance)

Top Calls
1. Workshop Info/Appointments Inquiry
2. Benefit Payments: Gen. Inquiry/Payday
3. Retirement Counseling: Estimate

Member Service Center Visits

Member Service Center Average Wait Time

Call Monitoring Score
Grade of Service (80% in 60 seconds)
Survey Score
Agent Utilization Rate

*Drop Off Wait Time: No Waiting

316 Emails
5:02 hours
Avg. Response Time (ART)

144 Emails
5 day
Avg. Response Time (ART)
**Applications**

561 On Hand

- 51 Received
- 572 Year-to-Date
- 0 Re-opened
- 1 Year-to-Date
- 32 To Board - Initial
- 520 Year-to-Date
- 2 Closed
- 64 Year-to-Date
- 578 In Process
- 578 Year-to-Date

**Appeals**

106 On Hand

- 5 Received
- 31 Year-to-Date
- 3 Admin Closed/Rule 32
- 28 Year-to-Date
- 3 Referee Recommended
- 17 Year-to-Date
- 0 Revised/Reconsidered for Granting
- 6 Year-to-Date
- 105 In Process
- 105 Year-to-Date

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**Striving for Excellence in Service (Continued)**

**Audits of Retirement Elections, Payment Contracts, and Data Entry**

- Quantity
- Accuracy
- Goal

<table>
<thead>
<tr>
<th>Month</th>
<th>Retirement Elections</th>
<th>Payment Contracts</th>
<th>Data Entry</th>
</tr>
</thead>
<tbody>
<tr>
<td>June</td>
<td>452 98.28%</td>
<td>491 97.96%</td>
<td>450 98.00%</td>
</tr>
<tr>
<td>May</td>
<td>441 97.02%</td>
<td>437 99.10%</td>
<td>450 98.00%</td>
</tr>
<tr>
<td>April</td>
<td>609 95.42%</td>
<td>700 97.50%</td>
<td>753 98.05%</td>
</tr>
<tr>
<td>March</td>
<td>450 98.29%</td>
<td>748 97.96%</td>
<td>90 97.49%</td>
</tr>
</tbody>
</table>

**June 2018**

- Retirement Elections: 176 Samples, 97.96% Accuracy
- Payment Contracts: 482 Samples, 98.34% Accuracy
- Data Entry: 90 Samples, 97.49% Accuracy

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**Member Snapshot**

<table>
<thead>
<tr>
<th>Plan</th>
<th>Members as of 07/27/18</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Active</td>
</tr>
<tr>
<td><strong>General</strong></td>
<td></td>
</tr>
<tr>
<td>Plan A</td>
<td>137</td>
</tr>
<tr>
<td>Plan B</td>
<td>43</td>
</tr>
<tr>
<td>Plan C</td>
<td>55</td>
</tr>
<tr>
<td>Plan D</td>
<td>43,508</td>
</tr>
<tr>
<td>Plan E</td>
<td>18,441</td>
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<tr>
<td>Plan G</td>
<td>23,534</td>
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<tr>
<td>Total General</td>
<td>85,718</td>
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<tr>
<td><strong>Safety</strong></td>
<td></td>
</tr>
<tr>
<td>Plan A</td>
<td>5</td>
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<tr>
<td>Plan B</td>
<td>10,268</td>
</tr>
<tr>
<td>Plan C</td>
<td>2,505</td>
</tr>
<tr>
<td>Total Safety</td>
<td>12,778</td>
</tr>
<tr>
<td>TOTAL MEMBERS</td>
<td>98,496</td>
</tr>
</tbody>
</table>

- 60% Active Members
- 34% Retired Members
- 6% Survivors
Member Snapshot (Continued)

**Retirements Per Year**

<table>
<thead>
<tr>
<th>Year</th>
<th>Number</th>
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<tbody>
<tr>
<td>2010</td>
<td>2,163</td>
</tr>
<tr>
<td>2011</td>
<td>2,467</td>
</tr>
<tr>
<td>2012</td>
<td>2,627</td>
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<tr>
<td>2013</td>
<td>2,674</td>
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<td>2014</td>
<td>2,625</td>
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<tr>
<td>2015</td>
<td>2,674</td>
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<tr>
<td>2016</td>
<td>2,674</td>
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<tr>
<td>2017</td>
<td>2,765</td>
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**Healthcare Program**

<table>
<thead>
<tr>
<th>Plan Type</th>
<th>Employer</th>
<th>Member</th>
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<tbody>
<tr>
<td>Medical</td>
<td>$475.3m</td>
<td>$40.1m</td>
</tr>
<tr>
<td>Dental</td>
<td>$42.7m</td>
<td>$4.4m</td>
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<tr>
<td>Part B</td>
<td>$58.1m</td>
<td>xxxx</td>
</tr>
<tr>
<td>LTC</td>
<td>$677</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$576.1m</td>
<td>$44.4m</td>
</tr>
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</table>

**Total Members**

- Employer: 99,711
- Member: 51,155
- Total: 150,866

**Year-Over-Year Growth**

- Medical: 9.97%
- Dental: 9.73%
- Part B: 7.25%
- LTC: 5.63%

**Funding Metrics**

- **Employer**: 9.97%
- **UAAL**: 9.73%
- **Assumed Rate**: 7.25%
- **Star Reserve**: 6.14%
- **Total Assets**: 52.7bn

**Contributions**

- **Annual Add**: $131.4bn
- **% of Payroll**: 19.7%
- **Total Payroll**: $526.6bn
- **Payroll YTD**: $273bn

**Retiree Payroll by Year**

<table>
<thead>
<tr>
<th>Year</th>
<th>Billions</th>
</tr>
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<tbody>
<tr>
<td>2010</td>
<td>$213</td>
</tr>
<tr>
<td>2011</td>
<td>$239</td>
</tr>
<tr>
<td>2012</td>
<td>$266</td>
</tr>
<tr>
<td>2013</td>
<td>$277</td>
</tr>
<tr>
<td>2014</td>
<td>$289</td>
</tr>
</tbody>
</table>

**More Coming Soon!**
# LACERA’s Key Business Metrics

## Outreach Events and Attendance

<table>
<thead>
<tr>
<th>Type</th>
<th># of Workshops</th>
<th># of Members</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Monthly YTD</td>
<td></td>
</tr>
<tr>
<td>Benefit Information</td>
<td>16 171</td>
<td>1,009 9,273</td>
</tr>
<tr>
<td>Mid Career</td>
<td>6 17</td>
<td>289 871</td>
</tr>
<tr>
<td>New Member</td>
<td>12 148</td>
<td>199 3,296</td>
</tr>
<tr>
<td>Pre-Retirement</td>
<td>9 94</td>
<td>298 2,571</td>
</tr>
<tr>
<td>General Information</td>
<td>2 13</td>
<td>245 1,366</td>
</tr>
<tr>
<td>Retiree Events</td>
<td>2 15</td>
<td>75 2,237</td>
</tr>
<tr>
<td>Member Service Center</td>
<td>Daily Daily</td>
<td>1,708 21,083</td>
</tr>
<tr>
<td><strong>TOTALS</strong></td>
<td>47 458</td>
<td>3,823 40,697</td>
</tr>
</tbody>
</table>

## Member Services Contact Center

- **Overall Key Performance Indicator (KPI):** 85.34%

<table>
<thead>
<tr>
<th>Category</th>
<th>Goal</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Call Center Monitoring Score</td>
<td>95%</td>
<td>95.59%</td>
</tr>
<tr>
<td>Grade of Service (80% in 60 seconds)</td>
<td>80%</td>
<td>27%</td>
</tr>
<tr>
<td>Call Center Survey Score</td>
<td>90%</td>
<td>96.99%</td>
</tr>
<tr>
<td>Agent Utilization Rate</td>
<td>65%</td>
<td>80%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Received&amp;Prev.Bal</th>
<th>Completed</th>
<th>Quality</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance</td>
<td>Balance</td>
<td>Completed</td>
<td>Quality</td>
</tr>
<tr>
<td></td>
<td>10,455</td>
<td>4,819</td>
<td>100%</td>
</tr>
<tr>
<td>Number of Calls</td>
<td>8,333</td>
<td>4,056</td>
<td></td>
</tr>
<tr>
<td>Number of Calls Answered</td>
<td>1,622</td>
<td>759</td>
<td></td>
</tr>
<tr>
<td>Calls-Average Speed of Answer (hh:mm:ss)</td>
<td>00:05:42</td>
<td>00:05:25</td>
<td></td>
</tr>
<tr>
<td>Number of Emails</td>
<td>316</td>
<td>144</td>
<td></td>
</tr>
<tr>
<td>Emails-Average Response Time (hh:mm:ss)</td>
<td>05:02:24</td>
<td>(Days) 5</td>
<td></td>
</tr>
</tbody>
</table>

## Benefits and Member Services

### Production and Quality Summary (Rolling 6 Months)

- **Quality:**
  - **Member Services**
    1. Workshop Info/Appointments: Inquiry
    2. Benefit Pmts.-Gen. Inquiry/Payday Info
    3. Retirement Counseling: Estimate
  - **Retiree Health Care**
    1. Medical Benefits - General Inquiries
    2. General Inquiries (RHC)
    3. Carrier Rate Changes

---

**Metrics YTD from July 1, 2017 through June 30, 2018**
### LACERA’s KEY BUSINESS METRICS

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets-Market Value</td>
<td>$38.7</td>
<td>$30.5</td>
<td>$33.4</td>
<td>$39.5</td>
<td>$41.2</td>
<td>$43.7</td>
<td>$51.1</td>
<td>$51.4</td>
<td>$50.9</td>
<td>$55.8</td>
</tr>
<tr>
<td>Funding Ratio</td>
<td>94.5%</td>
<td>88.9%</td>
<td>83.3%</td>
<td>80.6%</td>
<td>76.8%</td>
<td>75.0%</td>
<td>79.5%</td>
<td>83.3%</td>
<td>79.4%</td>
<td>n/a</td>
</tr>
<tr>
<td>Investment Return</td>
<td>-1.4%</td>
<td>-18.2%</td>
<td>11.8%</td>
<td>20.4%</td>
<td>0.3%</td>
<td>12.1%</td>
<td>16.8%</td>
<td>4.3%</td>
<td>1.1%</td>
<td>13.0%</td>
</tr>
</tbody>
</table>

### DISABILITY INVESTIGATIONS

<table>
<thead>
<tr>
<th>APPLICATIONS</th>
<th>TOTAL</th>
<th>YTD</th>
<th>APPEALS</th>
<th>TOTAL</th>
<th>YTD</th>
</tr>
</thead>
<tbody>
<tr>
<td>On Hand</td>
<td>561</td>
<td>xxxx</td>
<td>On Hand</td>
<td>106</td>
<td>xxxx</td>
</tr>
<tr>
<td>Received</td>
<td>51</td>
<td>572</td>
<td>Received</td>
<td>5</td>
<td>31</td>
</tr>
<tr>
<td>Re-opened</td>
<td>0</td>
<td>1</td>
<td>Adminstratively Closed/Rule 32</td>
<td>3</td>
<td>28</td>
</tr>
<tr>
<td>To Board – Initial</td>
<td>32</td>
<td>520</td>
<td>Referee Recommendation</td>
<td>3</td>
<td>17</td>
</tr>
<tr>
<td>Closed</td>
<td>2</td>
<td>64</td>
<td>Revised/Reconsidered for Granting</td>
<td>0</td>
<td>6</td>
</tr>
<tr>
<td>In Process</td>
<td>578</td>
<td>578</td>
<td>In Process</td>
<td>105</td>
<td>105</td>
</tr>
</tbody>
</table>

### SYSTEMS AVAILABILITY - JUNE 2018

<table>
<thead>
<tr>
<th>Member Systems</th>
<th>lacera.com</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current Month</td>
<td>Rolling 6-Mo. Average</td>
</tr>
<tr>
<td>100.0%</td>
<td>97.0%</td>
</tr>
</tbody>
</table>

### Health Care Program (YTD Totals)

<table>
<thead>
<tr>
<th>Employer Amount</th>
<th>Member Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medical</td>
<td>475,327,923</td>
</tr>
<tr>
<td>Dental</td>
<td>42,652,566</td>
</tr>
<tr>
<td>Med Part B</td>
<td>58,122,313</td>
</tr>
<tr>
<td>Total Amount</td>
<td>$576,102,802</td>
</tr>
</tbody>
</table>

### Health Care Program Enrollments (Monthly)

| Medical        | 49,971 |
| Dental         | 51,155 |
| Med Part B     | 33,359 |
| Long Term Care (LTC) | 677   |

### Funding Metrics as of 6/30/17

| Employer Normal Cost | 9.97%* |
| UAAAL               | 9.73%* |
| Assumed Rate        | 7.25%* |
| Star Reserve        | $614 million |
| Total Assets        | $52.7 billion |

### Member Contributions as of 6/30/17

| Annual Additions | $526.6 million |
| % of Payroll    | 6.65%* |

### Employer Contributions as of 6/30/17

| Annual Addition | $1,331.4 million |
| % of Payroll   | 19.70%* |

*Effective July 1, 2017, as of 6/30/16 actuarial valuation.
<table>
<thead>
<tr>
<th>Date</th>
<th>Conference</th>
</tr>
</thead>
<tbody>
<tr>
<td>September, 2018</td>
<td>Principles for Responsible Investment (PRI) PRI in Person 2018 San Francisco, CA</td>
</tr>
<tr>
<td>12-14</td>
<td>CALAPRS (California Association of Public Retirement Systems) Round Table – Benefits Hilton Los Angeles North/Glendale</td>
</tr>
<tr>
<td>29-October 2</td>
<td>National Association of Corporate Directors – Global Board Leaders’ Summit Washington D.C.</td>
</tr>
<tr>
<td>October, 2018</td>
<td>PREA (Pension Real Estate Association) Annual Institutional Investor Real Estate Conference Boston, MA</td>
</tr>
<tr>
<td>3-5</td>
<td>AHIP (America’s Health Insurance Plans) Medicare Conference Washington D.C.</td>
</tr>
<tr>
<td>14-16</td>
<td>IFEBP (International Foundation of Employment Benefit Plans) Annual Employee Benefits Conference New Orleans, LA</td>
</tr>
<tr>
<td>15-17</td>
<td>CRCEA (California Retired County Employees Association) Fall Conference San Rafael, CA</td>
</tr>
<tr>
<td>22</td>
<td>International Corporate Governance Network (ICGN) New York Event New York, NY</td>
</tr>
<tr>
<td>22-24</td>
<td>Cyber Security Summit – 8th Annual Leadership Event Minneapolis, MN</td>
</tr>
<tr>
<td>22-26</td>
<td>Investment Strategies &amp; Portfolio Management (prev. Pension Fund &amp; Investment Mgmt.) Wharton School, University of Pennsylvania</td>
</tr>
<tr>
<td>24-26</td>
<td>Council of Institutional Investors (CII) Fall Conference Boston, MA</td>
</tr>
<tr>
<td>26</td>
<td>CALAPRS (California Association of Public Retirement Systems) Round Table – Trustees Hilton Los Angeles North/Glendale</td>
</tr>
<tr>
<td>November, 2018</td>
<td>Institutional Limited Partners Association (ILPA) Summit New York, NY</td>
</tr>
<tr>
<td>7-8</td>
<td>SACRS Indian Wells, CA</td>
</tr>
<tr>
<td>13-16</td>
<td>Indian Wells, CA</td>
</tr>
</tbody>
</table>
July 30, 2018

TO: Each Member
    Board of Investments

FROM: Jon Grabel
    Chief Investment Officer

SUBJECT: CHIEF INVESTMENT OFFICER’S REPORT—JUNE 2018

The following memorandum and attachments constitute the CIO report for June 2018. Attachment 1 presents summary investment information including market values, actual and target allocations, and returns. Attachment 2 is a summary investment report for the OPEB Master Trust. A list of all current applicants for public investment-related searches is included as Attachment 3 and will be provided on a monthly basis to identify firms with whom LACERA is in a quiet period. Attachment 4 summarizes compliance regarding asset allocations, portfolio guidelines, and other policies across the Total Fund for the most recent quarter.

PERFORMANCE

The Total Fund finished the month and the fiscal year with an investment balance of approximately $56.0 billion. The month had a positive net return of 0.4%. For the fiscal year, the Total Fund gained 9.0% net of fees.

The OPEB Master Trust generated a positive return in June. For the month, the L.A. County, LACERA and Superior Court funds all had net gains of 0.2%. Fiscal year to date, L.A. County, LACERA and Superior Court funds had respective net gains of 10.3%, 10.4% and 9.8%.

CASH FLOWS, CASH BALANCES, AND FIDUCIARY NET POSITION

As illustrated in Chart 1 below, included to provide detail on the sources of monthly transactional flows, the Plan’s Fiduciary Net Position decreased by $119 million during the month of June. Over the last twelve months, the Plan’s net position has increased by $3.0 billion.

---

1 For months that coincide with calendar quarter end, the Total Fund value is calculated using the custodian’s quarter-end market values for all asset classes. For inter-quarter periods, the Total Fund value is calculated using the custodian’s month-end market value for all asset classes except for private equity and real estate. Private equity and real estate market values are calculated by adjusting the preceding quarter-end market value for subsequent cash flows.

2 LACERA’s fiduciary net position is an unaudited snapshot of account balances as of the preceding month end and reflects assets available for future payments to retirees and their beneficiaries, including investment fund assets, as well as any liabilities owed as of the report date. The Plan’s net position is inclusive of both investment and operational net assets, while the Total Fund’s position includes investment net assets only.
With respect to cash, LACERA finished the month of June with approximately $1.0 billion in the Fund’s primary operating account, as reported by the master custodian and identified as “cash” on various Total Fund reports. There was additional cash held in internal accounts dedicated to asset categories with frequent cash flows as well as cash held by select external managers. As illustrated in Chart 2 below, LACERA held a total of $1.1 billion of internal operating cash and short-term investments across all of its operating accounts and LACERA’s external investment managers held a further $432 million in cash and short-term investments.
In total, LACERA held approximately $1.5 billion in cash and short-term investment funds at the end of June, which can be categorized as follows:

- Non-discretionary (operating cash and Short Term Investment Fund (“STIF”) balances held by external investment managers): $432 million
- Discretionary (internal operating cash and STIF balances accessible for the daily operating needs of the plan): $1.1 billion

The Fund’s total cash and short-term investment fund balance represented 2.7% of the Plan’s unaudited net position, while its discretionary cash and short-term investment fund balance represented 2.0% of the Plan’s unaudited net position.

*Chart 2: Cash and Short-Term Investment Fund Balance (Unaudited)*
The following table (Table 1) provides a summary of cash flows at the asset category level. For the month of June, the Total Fund had net investment outflows totaling -$40.4 million.

**Table 1: Asset Category Cash Flows**

<table>
<thead>
<tr>
<th>Asset Category and Activity</th>
<th>$ in Millions</th>
<th>Cash Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Private Equity</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Distributions</td>
<td>$77.7</td>
<td>Inflow</td>
</tr>
<tr>
<td>Capital calls</td>
<td>-$102.5</td>
<td>Outflow</td>
</tr>
<tr>
<td><strong>Private Equity</strong></td>
<td>-$24.8</td>
<td>Net Outflow</td>
</tr>
<tr>
<td><strong>Public Equity: U.S.</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Distributions</td>
<td>$1,426.4</td>
<td>Inflow</td>
</tr>
<tr>
<td>Contributions</td>
<td>-$1,158.0</td>
<td>Outflow</td>
</tr>
<tr>
<td>U.S. Equity</td>
<td>$268.4</td>
<td>Net Inflow*</td>
</tr>
<tr>
<td><strong>Public Equity: Non-U.S.</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Distributions</td>
<td>$0.0</td>
<td>Inflow</td>
</tr>
<tr>
<td>Contributions</td>
<td>$0.0</td>
<td>Outflow</td>
</tr>
<tr>
<td>Currency hedge</td>
<td>$74.0</td>
<td>Inflow</td>
</tr>
<tr>
<td>Non-U.S. Equity</td>
<td>$74.0</td>
<td>Net Inflow</td>
</tr>
<tr>
<td><strong>Fixed Income</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Distributions</td>
<td>$0.0</td>
<td>Inflow</td>
</tr>
<tr>
<td>Contributions</td>
<td>-$350.0</td>
<td>Outflow</td>
</tr>
<tr>
<td>Fixed Income</td>
<td>-$350.0</td>
<td>Net Outflow</td>
</tr>
<tr>
<td><strong>Commodities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>No activity</td>
<td>$0.0</td>
<td>n/m</td>
</tr>
<tr>
<td><strong>Hedge Funds</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>No activity</td>
<td>$0.0</td>
<td>n/m</td>
</tr>
<tr>
<td><strong>Real Estate</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Separate account net activity</td>
<td>$7.9</td>
<td>Inflow</td>
</tr>
<tr>
<td>Commingled fund net activity</td>
<td>-$15.9</td>
<td>Outflow</td>
</tr>
<tr>
<td>Real Estate</td>
<td>-$8.0</td>
<td>Net Outflow</td>
</tr>
</tbody>
</table>

*Rebalancing and transition from commingled funds to separate accounts*
The Public Equity asset class realized a $74.0 million cash inflow from the Non-U.S. Equity currency-hedging program. LACERA’s Non-U.S. Equity Investment Policy requires that the developed markets Non-U.S. Equity allocation, currently $9.4 billion, maintain a passive currency hedge overlay on 50% of its investment value. Note that when the currency overlay program sustains a loss due to a depreciating U.S. dollar, underlying Non-U.S. equity values should be positively impacted. Conversely, in an appreciating U.S. dollar environment, the currency-hedging program will have a gain, while underlying Non-U.S. equity values should be negatively impacted. Due to currency market movements in the previous three months, the currency hedges maturing in early June realized a gain and $74.0 million was transferred to cash from LACERA’s passive currency overlay account. The hedged Non-U.S. Equity portfolio lost -1.5% net of fees, or approximately -$141.5 million during the month. A change in currency valuation is one of many variables that influences returns for a hedged Non-U.S. Equity portfolio. Cash flow from the currency-hedging program and the related equity portfolio can both deliver positive or negative results in a given period due to the staggered rolling of multiple futures contracts across three months.

ACTIVE SEARCHES

This section is intended to keep the Board of Investments apprised of active investment-related searches that include Requests for Proposal (RFP), Information (RFI), and Quote (RFQ). At this time, there are two searches currently underway.

The first is a targeted search requesting information from select investment management firms that have an offering in the relative value hedge fund category. Candidate firms have been identified in conjunction with LACERA’s Hedge Fund Advisors. Responses have been submitted to LACERA. Staff will conduct due diligence and possibly make recommendations to the Board in the third quarter of 2018.

The second search is an RFP issued for active U.S. and non-U.S. public equity emerging managers to oversee direct mandates in separate accounts. The RFP was issued in October 2017. The review process is underway and a recommendation is expected to be made at the August 2018 BOI Meeting.

UPDATES

This section provides a brief synopsis of recent developments, near-term work priorities and upcoming projects.

Total Fund
- Staff, in conjunction with Meketa and the Legal Office, is working on updating the Total Fund Investment Policy Statement to reflect the new strategic asset allocation.
- An asset allocation implementation plan and glide path are under development.
- A Total Fund benchmark review by Meketa is scheduled for the August BOI.
Each Member, Board of Investments  
July 30, 2018  
Page 6 of 8

Growth

- Public Equity
  - Staff has begun the process of moving assets from public market commingled strategies to separate account structures. The Domestic Equity portion of this transition was completed in June with the international portion of the transition scheduled to begin by Q3.

- Private Equity
  - A personnel search has been launched for an Investment Officer to focus on venture capital fund investments.
  - Staff and JPMorgan are working on finalizing the business plan and legal documents for the next tranche of the Emerging Manager Program.
  - Staff will review the co-investment program structure in the second half of 2018 and provide results to the Equity Committee and BOI by the end of the calendar year.

Credit

- Staff is working on developing a structure review to realign sector weights with targets and resize current liquid managers.

Real Assets and Inflation Hedges

- Real Estate
  - Staff is developing an implementation plan for the structure review and annual investment plan that was approved at the July 2018 BOI meeting.

- Natural Resources, Infrastructure and Commodities
  - Subject to Board approval, staff is preparing two searches: 1) an RFI for a Real Assets completion portfolio and 2) TIPS manager.
  - Staff is preparing to transition the commodities exposure to the new functional asset allocation framework.

Risk Reducing and Mitigating

- Fixed Income
  - Subject to Board approval, staff anticipates launching an RFP for an Emerging Manager in the fourth quarter.

- Hedge Funds
  - A direct portfolio is being built with individual manager recommendations occurring throughout 2018.
  - A new Financial Analyst II joined the Investment Division this July.
Portfolio Analytics

- Staff concluded executing proxy votes for FY2018 and the results and trends will be reported to the Corporate Governance Committee later in the fall.
- Assessment of public markets managers’ ESG practices continues to be refined, with takeaways integrated into LACERA’s public market manager searches and monitoring.
- A SIO for Portfolio Analytics was identified in July and a personnel search has been launched for a Financial Analyst II.
- Staff is working on enhancing the risk and return attribution reporting at the Total Fund level.

OPEB

- Transition to the updated asset allocation was completed.

COMPLIANCE MONITOR

Evaluating the Fund’s investment portfolios against established policies and guidelines is an integral part of the ongoing portfolio management process and is commonly referred to as compliance. The Fund’s portfolio is implemented in a nuanced way across multiple asset categories, so LACERA utilizes a multi-faceted approach to evaluate compliance. A summary of compliance activities across the Total Fund identifying advisory notifications where appropriate is provided on a calendar quarter basis. Compliance categories include allocation target weights, portfolio policies such as the use of leverage, and guidelines for various items such as types of permissible holdings. See attachment 4.

INVESTMENT MANAGER MEETINGS

The purpose of this section is to promote transparency and governance best practices through the timely listing of manager meeting requests that the staff and/or consultant(s) receive from either the Chief Executive Officer (CEO) or a member of the Board of Investments.

In the normal course of business, the CEO or a Board member might recommend that staff meet with a specific manager; there might even be a subsequent discussion regarding a specific manager. If a third communication about the manager takes place within a rolling one-year period, LACERA’s Investment Policy Statement directs that the full Board be notified of the requests. This process is designed to preserve the integrity of the decision-making process. Such contact would be reported in this section.

There are no contacts to report this month.
JULY FORECAST

In July, markets lacked a catalyst to change the status quo. Asset prices continued to appreciate as economic data continues to support a global growth story. Monetary policy around the world remains relatively accommodative. Both unemployment and inflation data have been low enough that it has not had a negative impact on the markets. Trade policy concerns seem to have heightened with increased rhetoric, but definitive actions have been relatively tamer than the threats.

Despite a positive month in July, many downside risks abound, including, but not limited to: a flattening yield curve; escalating trade actions; tighter global financial conditions; cessation of quantitative easing such as the European Central Bank’s asset purchase program; future higher inflation readings; and, continued reductions in capital flows to emerging markets. Additionally, further strengthening of the United States dollar would be a headwind to many developing and emerging countries, namely those that are commodity exporters.

As of publication of this report, during the month of July, the S&P 500 stock index was up 3.8% while the Bloomberg Barclays Global Aggregate bond index was down by -0.2%. The Total Fund will likely have a positive month.

Attachments

JG:jg:ct:cq
## Asset Allocation

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Market Value (millions)</th>
<th>Actual % Total Fund</th>
<th>Target % Total Fund</th>
<th>YTD</th>
<th>FYTD</th>
<th>3 Year</th>
<th>5 Year</th>
<th>10 Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. EQUITY</td>
<td>13,152.9</td>
<td>23.5</td>
<td>22.4</td>
<td>2.9</td>
<td>14.1</td>
<td>11.1</td>
<td>13.1</td>
<td>10.1</td>
</tr>
<tr>
<td>RUSSELL 3000 (DAILY)</td>
<td>3.2</td>
<td>14.8</td>
<td>11.6</td>
<td>13.3</td>
<td>3.9</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-U.S. EQUITY (Hedged)</td>
<td>12,734.4</td>
<td>22.8</td>
<td>21.0</td>
<td>-2.1</td>
<td>8.8</td>
<td>6.7</td>
<td>8.1</td>
<td>3.9</td>
</tr>
<tr>
<td>CUSTOM MSCI ACWI IMI N 50%H</td>
<td>-2.5</td>
<td>8.2</td>
<td>6.1</td>
<td>7.7</td>
<td>3.7</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PRIVATE EQUITY ([1])</td>
<td>5,758.3</td>
<td>10.3</td>
<td>10.0</td>
<td>9.8</td>
<td>21.2</td>
<td>13.3</td>
<td>15.2</td>
<td>11.4</td>
</tr>
<tr>
<td>PRIVATE EQUITY TARGET ([2])</td>
<td>7.0</td>
<td>13.7</td>
<td>13.1</td>
<td>13.3</td>
<td>10.6</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FIXED INCOME</td>
<td>13,981.6</td>
<td>25.0</td>
<td>26.6</td>
<td>-1.0</td>
<td>0.8</td>
<td>3.1</td>
<td>3.4</td>
<td>5.2</td>
</tr>
<tr>
<td>FI CUSTOM INDEX</td>
<td>4.1</td>
<td>7.5</td>
<td>9.4</td>
<td>10.7</td>
<td>6.3</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>REAL ESTATE ([1])</td>
<td>6,273.7</td>
<td>11.2</td>
<td>11.0</td>
<td>4.2</td>
<td>8.2</td>
<td>9.3</td>
<td>9.5</td>
<td>3.3</td>
</tr>
<tr>
<td>REAL ESTATE TARGET</td>
<td>4.1</td>
<td>7.5</td>
<td>9.4</td>
<td>10.7</td>
<td>6.3</td>
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<tr>
<td>COMMODITIES</td>
<td>1,410.5</td>
<td>2.5</td>
<td>2.8</td>
<td>0.7</td>
<td>10.0</td>
<td>-2.8</td>
<td>-5.0</td>
<td>-7.6</td>
</tr>
<tr>
<td>Bloomberg Commodity Index Total Return</td>
<td>-0.0</td>
<td>7.3</td>
<td>-4.5</td>
<td>-6.4</td>
<td>-9.0</td>
<td></td>
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<td></td>
</tr>
<tr>
<td>HEDGE FUNDS ([3])</td>
<td>1,611.2</td>
<td>2.9</td>
<td>4.2</td>
<td>2.6</td>
<td>5.6</td>
<td>2.6</td>
<td>3.8</td>
<td></td>
</tr>
<tr>
<td>HEDGE FUND CUSTOM INDEX ([3])</td>
<td>3.2</td>
<td>6.3</td>
<td>5.4</td>
<td>5.4</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CASH</td>
<td>1,030.7</td>
<td>1.8</td>
<td>2.0</td>
<td>0.9</td>
<td>1.4</td>
<td>1.0</td>
<td>0.7</td>
<td>0.8</td>
</tr>
<tr>
<td>FTSE 6 M Treasury Bill Index</td>
<td>0.8</td>
<td>1.3</td>
<td>0.7</td>
<td>0.5</td>
<td>0.4</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TOTAL FUND ([1])</td>
<td>55,953.3</td>
<td>100.0</td>
<td>100.0</td>
<td>1.5</td>
<td>9.0</td>
<td>7.4</td>
<td>8.5</td>
<td>6.3</td>
</tr>
<tr>
<td>TOTAL FUND POLICY BENCHMARK</td>
<td>1.1</td>
<td>7.8</td>
<td>7.0</td>
<td>8.1</td>
<td>6.3</td>
<td></td>
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### Net Returns

<table>
<thead>
<tr>
<th>Period</th>
<th>YTD</th>
<th>FYTD</th>
<th>3 Year</th>
<th>5 Year</th>
<th>10 Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>TOTAL FUND</td>
<td>9.0</td>
<td>7.8</td>
<td>7.4</td>
<td>8.5</td>
<td>8.1</td>
</tr>
<tr>
<td>TOTAL FUND POLICY BENCHMARK</td>
<td>6.3</td>
<td>6.3</td>
<td></td>
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</tr>
</tbody>
</table>

---

[1] Returns for private equity and real estate are calculated on a quarterly basis and are not updated intra quarter. Therefore, 3-, 5- and 10-year returns are only calculated at quarter-end for private equity and real estate. In addition, the Total Fund’s returns are based on the latest available quarterly returns for these two asset classes.


---

These are preliminary returns

Periods greater than 1-year are annualized
**OPEB MASTER TRUST**

**June 30, 2018**

<table>
<thead>
<tr>
<th>Fund Name</th>
<th>Inception Date</th>
<th>Market Value (millions)</th>
<th>Trust Ownership</th>
<th>Month</th>
<th>3 Month</th>
<th>FYTD</th>
<th>1 Year</th>
<th>3 Year</th>
<th>5 Year</th>
<th>Since Incept.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Los Angeles County:</td>
<td>Gross</td>
<td>Feb-2013 $899.4</td>
<td>95.6%</td>
<td>0.24</td>
<td>1.50</td>
<td>10.33</td>
<td>10.33</td>
<td>7.73</td>
<td>6.38</td>
<td>5.90</td>
</tr>
<tr>
<td></td>
<td>Net</td>
<td></td>
<td></td>
<td>0.23</td>
<td>1.50</td>
<td>10.29</td>
<td>10.29</td>
<td>7.69</td>
<td>6.33</td>
<td>5.86</td>
</tr>
<tr>
<td></td>
<td>Net All</td>
<td></td>
<td></td>
<td>0.23</td>
<td>1.49</td>
<td>10.25</td>
<td>10.25</td>
<td>7.62</td>
<td>6.29</td>
<td>5.81</td>
</tr>
<tr>
<td>LACERA:</td>
<td>Gross</td>
<td>Feb-2013 $3.5</td>
<td>0.4%</td>
<td>0.23</td>
<td>1.47</td>
<td>10.39</td>
<td>10.39</td>
<td>7.79</td>
<td>6.41</td>
<td>5.93</td>
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<tr>
<td></td>
<td>Net</td>
<td></td>
<td></td>
<td>0.22</td>
<td>1.46</td>
<td>10.35</td>
<td>10.35</td>
<td>7.75</td>
<td>6.37</td>
<td>5.89</td>
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<tr>
<td></td>
<td>Net All</td>
<td></td>
<td></td>
<td>0.21</td>
<td>1.42</td>
<td>9.80</td>
<td>9.80</td>
<td>7.05</td>
<td>5.96</td>
<td>5.50</td>
</tr>
<tr>
<td>Superior Court:</td>
<td>Gross</td>
<td>Jul-2016 $38.2</td>
<td>4.1%</td>
<td>0.23</td>
<td>1.49</td>
<td>9.86</td>
<td>9.86</td>
<td>---</td>
<td>---</td>
<td>10.61</td>
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<tr>
<td></td>
<td>Net</td>
<td></td>
<td></td>
<td>0.23</td>
<td>1.48</td>
<td>9.82</td>
<td>9.82</td>
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<td>---</td>
<td>10.58</td>
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<tr>
<td></td>
<td>Net All</td>
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<td></td>
<td>0.22</td>
<td>1.46</td>
<td>9.68</td>
<td>9.68</td>
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<td>---</td>
<td>9.73</td>
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**TRUST OWNERSHIP TOTAL: $941.0 100.0%**

---

**OPEB Growth**

<table>
<thead>
<tr>
<th>Fund Name</th>
<th>Inception Date</th>
<th>Market Value (millions)</th>
<th>Month</th>
<th>3 Month</th>
<th>FYTD</th>
<th>1 Year</th>
<th>3 Year</th>
<th>5 Year</th>
<th>Since Incept.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross</td>
<td>Jul-2016</td>
<td>$456.8</td>
<td>-0.58</td>
<td>0.89</td>
<td>11.48</td>
<td>11.48</td>
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<td>---</td>
<td>15.36</td>
</tr>
<tr>
<td>Net</td>
<td></td>
<td></td>
<td>-0.58</td>
<td>0.88</td>
<td>11.44</td>
<td>11.44</td>
<td>---</td>
<td>---</td>
<td>15.32</td>
</tr>
<tr>
<td>Net All</td>
<td></td>
<td></td>
<td>-0.58</td>
<td>0.88</td>
<td>11.44</td>
<td>11.44</td>
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<td>---</td>
<td>15.32</td>
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**OPEB Credit**

<table>
<thead>
<tr>
<th>Fund Name</th>
<th>Inception Date</th>
<th>Market Value (millions)</th>
<th>Month</th>
<th>3 Month</th>
<th>FYTD</th>
<th>1 Year</th>
<th>3 Year</th>
<th>5 Year</th>
<th>Since Incept.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross</td>
<td>Jun-2018</td>
<td>$189.3</td>
<td>---</td>
<td>---</td>
<td>---</td>
<td>---</td>
<td>---</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>Net</td>
<td></td>
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<td>---</td>
<td>---</td>
<td>---</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>Net All</td>
<td></td>
<td></td>
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<td>---</td>
<td>---</td>
<td>---</td>
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</table>

**OPEB Risk Reduction & Mitigation**

<table>
<thead>
<tr>
<th>Fund Name</th>
<th>Inception Date</th>
<th>Market Value (millions)</th>
<th>Month</th>
<th>3 Month</th>
<th>FYTD</th>
<th>1 Year</th>
<th>3 Year</th>
<th>5 Year</th>
<th>Since Incept.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross</td>
<td>Jun-2018</td>
<td>$100.4</td>
<td>---</td>
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<td>---</td>
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<td>---</td>
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</tr>
<tr>
<td>Net</td>
<td></td>
<td></td>
<td>---</td>
<td>---</td>
<td>---</td>
<td>---</td>
<td>---</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>Net All</td>
<td></td>
<td></td>
<td>---</td>
<td>---</td>
<td>---</td>
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**OPEB Inflation Hedges**

<table>
<thead>
<tr>
<th>Fund Name</th>
<th>Inception Date</th>
<th>Market Value (millions)</th>
<th>Month</th>
<th>3 Month</th>
<th>FYTD</th>
<th>1 Year</th>
<th>3 Year</th>
<th>5 Year</th>
<th>Since Incept.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross</td>
<td>Jun-2018</td>
<td>$192.9</td>
<td>---</td>
<td>---</td>
<td>---</td>
<td>---</td>
<td>---</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>Net</td>
<td></td>
<td></td>
<td>---</td>
<td>---</td>
<td>---</td>
<td>---</td>
<td>---</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>Net All</td>
<td></td>
<td></td>
<td>---</td>
<td>---</td>
<td>---</td>
<td>---</td>
<td>---</td>
<td>---</td>
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</table>

**Uninvested Cash**

<table>
<thead>
<tr>
<th>Fund Name</th>
<th>Inception Date</th>
<th>Market Value (millions)</th>
<th>Month</th>
<th>3 Month</th>
<th>FYTD</th>
<th>1 Year</th>
<th>3 Year</th>
<th>5 Year</th>
<th>Since Incept.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>$1.6</td>
<td>---</td>
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</tbody>
</table>

**TRUST OWNERSHIP TOTAL: $941.0**

---

* OPEB transition to new asset allocation occurred in June, first full month return will be in July 2018.

---

**These are preliminary returns**

---

* Periods greater than 1-year are annulized*
PUBLIC INVESTMENT-RELATED SEARCHES APPLICANTS

This document identifies firms who have pro-actively submitted an application to LACERA in response to a publicly posted request. These publicly posted requests are commonly referred to as searches and may include minimum qualifications. When an external firm submits an application to a search, LACERA is in a quiet period with the applying firm while the search is active.

The following firms have responded to a request for proposal regarding an active emerging manager equity mandate:

361 Capital
AttraVue Capital
AMP Wealth Management
Applied Research Investments
Arabesque Asset Management
Ativo Capital Management
Blackcrane Capital, LLC
Bowling Portfolio Management
Bridge City Capital, LLC (BBC)
Business Technology Associates
Cedar Street Asset Management
Compass Group LLC
CornerCap Investment Counsel
Decatur Capital Management
Denali Advisors
Dundas Global Investors
Eastern Shore Capital Management
Empiric Institutional LLC
Global Alpha Capital Management
Goelzer Investment Management, Inc.
Granahan Investment Management
Granite Investment Partners
High Pointe Capital Management LLC
Hillcrest Asset Management
Ithmus Partners, LLC
Marietta Investment Partners
Mark Asset Management
Martin Investment Management LLC
Maryland Capital Management (MCM)
Matarin Capital Management
Metis Global Partners
Monarch Partners
New Amsterdam Partners LLC
Oak Associates LTD
OakBrook Investments LLC
Osmosis Investment Management US LLC
Pacific Ridge Capital Partners, LLC
Pacific View Asset Management LLC
Redwood Investments
RVX Asset Management, LLC
Seamans Capital Management
Semper Augustus Investments Group LLC
Spyglass Capital Management LLC
Summit Global Investments
Sustainable Insight Capital Management
Union Square Park Capital Management LLC

JG: cq
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<th>Quarterly Review Status</th>
<th># Advisory</th>
<th>Notes</th>
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</thead>
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<td><strong>Public Markets</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>U.S. Equity</strong></td>
<td>✓</td>
<td>1</td>
<td>Passive exposure is above the 75% max allocation range by 1.3%</td>
</tr>
<tr>
<td>Asset Allocation Policy Compliance</td>
<td>✓</td>
<td></td>
<td></td>
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<tr>
<td>Investment Guideline Compliance</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Emerging Manager Program</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td># of Sudan/Iran Holdings Held by Managers</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Non-U.S. Equity</strong></td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Asset Allocation Policy Compliance</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment Guideline Compliance</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td># of Sudan/Iran Holdings Held by Managers</td>
<td>✓</td>
<td>6</td>
<td>6 issuers held representing $18.4 mm in market value</td>
</tr>
<tr>
<td><strong>Fixed Income</strong></td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Asset Allocation Policy Compliance</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment Guideline Compliance</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Emerging Manager Program</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td># of Sudan/Iran Holdings Held by Managers</td>
<td>✓</td>
<td>4</td>
<td>4 issuers held representing $14.0 mm in market value</td>
</tr>
<tr>
<td><strong>Commodities</strong></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Asset Allocation Policy Compliance</td>
<td>✓</td>
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<td></td>
</tr>
<tr>
<td>Investment Guideline Compliance</td>
<td>✓</td>
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</tr>
<tr>
<td># of Sudan/Iran Holdings Held by Managers</td>
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</tr>
<tr>
<td><strong>Securities Lending</strong></td>
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<tr>
<td>Investment Guideline Compliance</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>$ Value on Loan</td>
<td>✓</td>
<td>1</td>
<td>GSAL $777.7 mm; State Street $767.3 mm</td>
</tr>
<tr>
<td>$ Value of Cash Collateral</td>
<td>✓</td>
<td>1</td>
<td>GSAL $795.1 mm; State Street $814.8 mm</td>
</tr>
<tr>
<td>Total Income YTD</td>
<td>✓</td>
<td>1</td>
<td>GSAL $1.8 mm; State Street $1.4 mm</td>
</tr>
<tr>
<td><strong>Proxy Voting</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of Meetings Voted</td>
<td>✓</td>
<td>1</td>
<td>1182 meetings voted</td>
</tr>
<tr>
<td><strong>Tax Reclaims</strong></td>
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<td></td>
</tr>
<tr>
<td>Total Paid Reclaims YTD</td>
<td>✓</td>
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<td>$117,613</td>
</tr>
<tr>
<td>Total Pending Reclaims</td>
<td>✓</td>
<td>1</td>
<td>$2.1 mm</td>
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# Compliance Monitor* - June 2018

This report highlights operational and compliance metrics monitored by the Investment Division

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<tr>
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<th>Quarterly Review Status</th>
<th>Notes</th>
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<tbody>
<tr>
<td><strong>PRIVATE MARKETS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Real Estate (As of 3/31/2018)</strong></td>
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<td></td>
</tr>
<tr>
<td>Asset Allocation Policy Compliance</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Guideline Compliance by Strategy (Core/Non-Core)</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Guideline Compliance by Manager</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Guideline Compliance by Property Type</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Guideline Compliance by Geographic Location</td>
<td>✓ 1</td>
<td>Western Region is above target by 2.4%</td>
</tr>
<tr>
<td>Guideline Compliance by Leverage</td>
<td>✓</td>
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<td><strong>Private Equity (As of 3/31/2018)</strong></td>
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<tr>
<td>Asset Allocation Policy Compliance</td>
<td>✓</td>
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<tr>
<td>Guideline Compliance by Strategy (Buyout/Venture/Special Sits)</td>
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<tr>
<td>Guideline Compliance by Geographic Location</td>
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<td>Investment Exposure Limit</td>
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<td><strong>Hedge Funds</strong></td>
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<td>Portfolio Level Compliance</td>
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<td>HFOF Manager Guideline Compliance</td>
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<tr>
<td>Direct Portfolio Manager Guideline Compliance</td>
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<tr>
<td><strong>OPEB MASTER TRUST</strong></td>
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<tr>
<td><strong>Equity</strong></td>
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</tr>
<tr>
<td>Asset Allocation Policy Compliance</td>
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<tr>
<td>Investment Guideline Compliance</td>
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* Notes: This list is not exhaustive as various compliance processes are completed throughout the year.
Each quarter, different items may appear on the compliance monitor.
July 26, 2018

TO: Each Member
    Board of Investments

FROM: Corporate Governance Committee
      Shawn Kehoe, Chair
      David Muir, Vice Chair
      Joseph Kelly
      Herman Santos
      Gina Sanchez, Alternate

Scott Zdrazil, Senior Investment Officer

Dale Johnson, Investment Officer

FOR: August 8, 2018 Board of Investments Meeting

SUBJECT: CLIMATE ACTION 100+ INITIATIVE

RECOMMENDATION

Approve LACERA formally signing onto the Climate Action 100+ initiative as a supporter.

BACKGROUND

The Corporate Governance Committee (“Committee”) considered a staff recommendation at its July 10, 2018, meeting that LACERA join the Climate Action 100+ Initiative as a supporter. The Climate Action 100+ Initiative is a five-year “partnership of partnerships” initiative among leading investor associations across numerous continents to encourage systemically important greenhouse gas emitting companies to provide investor disclosures aligned with the reporting framework of the Financial Stability Board’s Taskforce on Climate-related Financial Disclosures (TCFD). Details about the initiative are described in the attached memo to the Committee, dated May 17, 2018.

The Committee unanimously approved LACERA’s affiliation and is now presenting the recommended affiliation for consideration by the Board of Investments.

DELIBERATIONS AND OPINIONS EXPRESSED BY THE COMMITTEE

The Committee unanimously approved recommending LACERA’s affiliation to the Climate Action 100+ Initiative at its July 10, 2018 Committee meeting. No dissenting views or opinions were expressed.
RISKS OF ACTION AND INACTION

The broad global governance model and investor participation of Climate Action 100+ is both a strength and a risk. As noted in the attached material (slide 5 of Climate Action 100+ overview slide deck), the initiative is governed by a global coalition of investor organizations, including the Principles for Responsible Investment (PRI) to which LACERA is a signatory. Nearly 300 investors with about USD $30 trillion in assets under management have signed on as supporters. The broad participation enables diverse institutional investors to speak with one voice to portfolio companies and collectively articulate their interests in reliable, timely, and material disclosures regarding climate risk in the marketplace. However, broad participation also may pose a challenge to the new project’s governance. Accordingly, staff believes it will be important for LACERA to closely monitor the activities, progress, and direction of the initiative. To promote good governance and facilitate monitoring, Climate Action 100+ intends to issue semi-annual reports describing the program’s progress during its five-year duration. PRI is also enlisting a third party to verify project progress. Regular reporting and independent monitoring should enhance LACERA’s ability to responsibly monitor its affiliation, if LACERA signs on. If approved by the Board, LACERA intends to monitor the initiative and provide periodic updates regarding the initiative to the Corporate Governance Committee as part of its ongoing oversight of LACERA’s corporate governance program.

Risk of inaction include the current lack of consistent, broadly-available, and investment-useful information regarding how climate risks may impact portfolio companies in the near and long-term. The lack of clear investor disclosures, particularly from carbon intensive companies, may mean that climate risks are not adequately known or priced in the market. Encouraging clear, comparable, and timely disclosure may enable diversified, long-term investors, such as LACERA and its external managers, to better incorporate climate risks, as well as opportunities, into their investment decisions.

CONCLUSION

The Climate Action 100+ initiative, as described above and in the attached materials, is consistent with LACERA’s Corporate Governance Principles and may provide a resource-efficient means by which LACERA can encourage meaningful assessment and disclosure of material climate risks in the market. It is therefore recommended that the Board of Investments approve LACERA signing onto the Climate Action 100+ Initiative as a supporter.

Attachments

Noted and Reviewed:

Jonathan Grabel
Chief Investment Officer
May 17, 2018

TO: Each Member
Corporate Governance Committee

FROM: Scott Zdrazil
Senior Investment Officer – Corporate Governance

Dale Johnson
Investment Officer

FOR: July 10, 2018 Corporate Governance Committee Meeting

SUBJECT: Climate Action 100+ Initiative

RECOMMENDATION

Recommend for Board of Investment approval that LACERA formally sign onto the Climate Action 100+ initiative as a supporter.

EXECUTIVE SUMMARY

Staff is presenting the option for LACERA to sign on as an investor signatory to the Climate Action 100+ initiative, consistent with LACERA’s Corporate Governance Principles (§V[B]3, p. 20) and in adherence to LACERA’s Corporate Governance Policy (§V.B.[i], p.3). In order to participate, LACERA would be required to sign onto the “Climate Action 100+ Sign-on Statement” (See slide 13 of the ATTACHMENT). Climate Action 100+ (https://climateaction100.wordpress.com/) is a collaborative five-year initiative launched in late 2017 and coordinated by global institutional investors and investor networks, including the Principles for Responsible Investment. The initiative encourages the most carbon-intensive global companies (initially starting with the most carbon intensive 100 companies) to assess investment-relevant risks and opportunities to their business models and provide investors with enhanced corporate disclosures in line with the final recommendations of the Financial Stability Board’s Taskforce on Climate-related Financial Disclosures (https://www.fsb-tcfd.org/wp-content/uploads/2017/06/FINAL-TCFD-Annex-062817.pdf). To date, 279 investors with nearly USD $30 trillion in assets under management have signed onto the initiative.

BACKGROUND

The Financial Stability Board (established by finance ministers and central bank officials of G20 member countries in the wake of the global financial crisis in 2009 in order to promote stability in global financial markets) announced the formation of the Taskforce on Climate-related Financial Disclosures (TCFD) in December 2015, to be chaired by Michael R. Bloomberg, founder of Bloomberg LP. The TCFD released a report of its final recommendations in June 2017.
Each Member,

Page 2 of 4

The Corporate Governance Committee has referenced the TCFD at several points during the past year as the Committee has further developed LACERA’s corporate governance policy and program. In August 2017, the Corporate Governance Committee heard a presentation regarding climate risk, which included discussion of the final TCFD Recommendations report. In October 2017, the Corporate Governance Committee reviewed background materials regarding climate risk and prospective language to incorporate into LACERA’s Corporate Governance Principles. In February 2018, the Board of Investments approved Corporate Governance Principles that state, in part:

*Climate Risk:* Climate change may present financial, operational, and regulatory risks to a firm’s ability to generate sustainable value, as well as to the broader economy. Firms should assess and disclose material climate-related risks and sufficient, non-proprietary information to enable investors to prudently and adequately evaluate the prospective impact of climate risk on firm value.

*Corporate Governance Principles,* §V(B)3, p. 20

At its April 2018 meeting, the Corporate Governance Committee reviewed prospective priorities for engagement, including opportunities to enhance reliable, comparable, and timely disclosures of ESG factors in the marketplace, such as climate-related risks.

The TCFD Final Recommendations encourage financial disclosures applicable across sectors and jurisdictions, addressing core themes of how organizations operate and specifically promoting disclosure in company reports to investors in four areas of how climate risk may impact a business, so that markets may better price climate risk into their investment decision-making:

**TCFD Four Core Recommendations for Corporate Disclosures**

To date, over 250 companies and investors have expressed their support for the TCFD’s disclosure framework. Companies and other institutions supporting the TCFD framework can be viewed here: https://www.fsb-tcfd.org/tcfd-supporters-may-2018/.

In the wake of the TCFD’s Final Recommendations report, the Climate Action 100+ initiative was launched in late 2017. The Climate Action 100+ is a five year “partnership of partnerships” initiative among leading investor associations across numerous continents to encourage the largest carbon emitters to provide investor disclosures aligned with the TCFD reporting framework. The partner organizations include the Principles for Responsible Investment, the Asia Investor Group on Climate Change (Asia), the Institutional Investor Group on Climate Change (Europe), the Investor Group on Climate Change (Australia/New Zealand), and Ceres Network on Climate Risk and Sustainability (North America). Ceres is an organization comprised of companies and institutional investors focused on climate risk and sustainable business practices. The initiative is governed by the CEO’s of each regional network plus one investor representative from each group.

Working in conjunction with the regional organizations, institutional investors will lead engagement with select companies, starting with the 100 largest carbon emitters, to encourage market reporting consistent with the TCFD framework. The initial focus list of 100 companies was developed using reporting and modelled data from the Carbon Disclosure Project on the companies’ combined direct and indirect (scope 1, 2, and 3) emissions, including use of their products.

To date, 279 international institutional investors with nearly USD $30 trillion in assets under management have signed onto the Climate Action 100+. Signatories include West Coast public fund systems such as the Washington State Investment Board, San Francisco Employees’ Retirement System, Oregon Treasurer’s Office, City of Seattle Employees’ Retirement System, and the British Columbia Investment Management Corporation, as well as CalPERS and CalSTRS. The full list of investor signatories is available at https://climateaction100.wordpress.com/investors/.

Several global corporations have conducted and started to disclose forward-looking scenario-analyses, which incorporate aspects of the TCFD recommendations, including Chevron and Exxon.¹

If approved by the Committee and the Board, staff would seek to monitor progress of the initiative and report status updates. The Climate Action 100+ initiative anticipates providing updates on the initiative biannually. In addition, the initiative will be engaging a third party vendor to provide an assessment of the initiative’s progress.

OBSERVATIONS

Each Member,
Page 4 of 4

_Expectations of Impact:_ Staff notes a wide number of global corporations and investors have endorsed the TCFD as a means for consistent and investment-useful corporate reporting regarding climate risk. In the last two years, shareholder proposal requests to companies to assess and disclose to investors the prospective impact of climate risks have received strong shareowner support, including majority support at ExxonMobil, Royal Dutch Shell, and BP. Numerous companies have started to disclose climate related risks and scenario analyses. The TCFD may be a mechanism by which such reporting may be provided to the marketplace in a consistent and useful framework.

_Resources:_ LACERA’s participation in the Climate Action 100+ is scalable. LACERA may sign on as a “supporter” with minimal resources. LACERA may also opt to resource the initiative by participating in the North American regional investor network in order to be apprised of developments, monitor progress, and periodically report on the initiative’s status.

**CONCLUSION**

Staff considers that the Climate Action 100+, as a collaborative, globally coordinated initiative, would enhance market analysis and corporate disclosures that would enable investors, including LACERAs external managers, to assess and price climate risk. As such, it would be a resource-efficient means by which LACERA might promote its _Corporate Governance Principles_ related to climate and environmental risk. Staff therefore recommends that the Committee recommend for Board of Investment approval LACERA’s affiliation as a supporter of the Climate Action 100+ initiative.

Attachment

Noted and Reviewed:

__________________________
Jonathan Grabel
Chief Investment Officer
Overview
Overview

Global investors driving business transition
The Climate Action 100+ is a new five-year investor-led initiative to engage more than 100 of the world’s largest corporate greenhouse gas emitters* to curb emissions, strengthen climate-related financial disclosures and improve governance on climate change risks.

The initiative has been developed to build on the commitments laid out in the 2014/2015 Global Investor Statement on Climate Change, supported by 409 investors representing more than US $24 trillion, which stated:

“As institutional investors and consistent with our fiduciary duty to our beneficiaries, we will: [...] work with the companies in which we invest to ensure that they are minimising and disclosing the risks and maximising the opportunities presented by climate change and climate policy.”

* Taking into account emissions across the value chain (scope 1 to 3)
Overview

How does the Climate Action 100+ aim to support investors and implementation of the Paris Agreement?

Global network behind regional leadership – connects investors from around the world behind investors leading engagement in different regions

A clear engagement agenda – makes sure company boards and senior management receive a consistent message from investors

Amplifying the investor voice – ensures wider society is made aware of the position of investors on climate-related risks and opportunities

Performance tracked – provides an assessment on the progress companies are making towards delivering FSB Taskforce on Climate-Related Disclosures (TCFD) aligned disclosure and meeting the goal of the Paris Agreement
Initially proposed by CalPERS in 2016, the initiative builds on the investor engagement pioneered since 2012 by the regional investor networks who together form the Global Investor Coalition on Climate Change. It is coordinated by these networks and the Principles for Responsible Investment (PRI):

Building on existing engagement work
This new initiative aims to bring together, connect and align engagement work taking place through the five networks.
Which companies will we be focusing on?
The objective of the Climate Action 100+ is to focus investor action on the most substantial greenhouse gas emitters (considering emissions across the value chain), as well as those companies that investors believe present the greatest climate-related risk to their portfolios.

These companies present risk to investors in two ways:

1. Failure to adapt their operations and activities to policy, physical or technological changes related to climate change could impact revenues, expenditures, assets and liabilities or financing activities (see figure 1)

2. By creating systemic economy-wide impacts that may harm the financial markets (e.g. rapid repricing as a consequence of a sudden and prolonged extreme weather event)

Figure 1: TCFD Supplemental Guidance sector analysis of exposures to climate-related financial risk or opportunity by financial impact area. The Climate Action 100+ will focus on the 100 largest emitters from across these sectors plus those that participating investors view as riskiest.

Companies featuring in the top 100 as are listed below. Additional companies will be voted into the focus list by investors that have signed on to the initiative.

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What are we looking to achieve?
What are we looking to achieve?

Climate Action 100+ Engagement Agenda
The initiative aims to secure commitments from the boards and senior management to:

1. **Implement a strong governance framework** which clearly articulates the board’s accountability and oversight of climate change risk

2. **Take action to reduce greenhouse gas emissions across their value chain**, consistent with the Paris Agreement’s goal of limiting global average temperature increase to well below 2 degrees above pre-industrial levels.

3. **Provide enhanced corporate disclosure** in line with the final recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and sector-specific GIC Investor Expectations on Climate Change (when applicable) to enable investors to assess the robustness of companies’ business plans against a range of climate scenarios, including well below 2 degrees and improve investment decision-making.*

Investors signing on to the initiative are requested to support a public statement outlining these goals. We will collectively track the progress of companies subject to the initiative in delivering the high level goals.

*GIC stands for Global Investor Coalition on Climate Change. See [here](#) for more information on the GIC. The existing GIC Investor Expectations sector guides cover [oil and gas](#), [mining](#), [utilities](#) and [auto manufacturers](#) which provide additional sector specific disclosure recommendations, particularly regarding the oversight of public policy positions and activity. The series will cover steel, chemicals and cement by Q3 2018.
Goal three: what do mean by enhanced disclosure?

The Climate Action 100+ seeks enhanced disclosures in line with the FSB Task Force on Climate-Related Disclosure. The TCFD has sets out four core recommendations, which each have a number of supporting recommendations. The supplemental guidance annex sets out further disclosure recommendations for key financial and non-financial sectors. Recommendations are also made on the location of disclosure. The core disclosure recommendations and supporting recommendations are:

1. **Governance**: Disclose the organization’s governance around climate-related risks and opportunities.
   a) Describe the board’s oversight of climate-related risks and opportunities.
   b) Describe management’s role in assessing and managing climate-related risks and opportunities.

2. **Strategy**: Disclose the actual and potential impacts of climate-related risks and opportunities on the organization’s businesses, strategy, and financial planning where such information is material.
   a) Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term.
   b) Describe the impact of climate-related risks and opportunities on the organization’s businesses, strategy, and financial planning.
   c) Describe the resilience of the organization’s strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.

3. **Risk Management**: Disclose how the organization identifies, assesses, and manages climate-related risks.
   a) Describe the organization’s processes for identifying and assessing climate-related risks.
   b) Describe the organization’s processes for managing climate-related risks.
   c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization’s overall risk management.

4. **Metrics and Targets**: Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.
   a) Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process.
   b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.
   c) Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets.
Appendix A: Investor Sign-On Statement
Climate Action 100+ Sign-on Statement

The Climate Action 100+ is a collaborative five-year initiative that requires participating investors to sign-on to a public statement of action. This public statement (below) sets out the commitment from investor signatories and expectations of the companies on the focus list.

INVESTOR SIGN ON STATEMENT:
Background
We, the institutional investors that are signatories to this statement, are aware of the risks climate change presents to our portfolios and asset values in the short, medium and long term. We therefore support the Paris Agreement and the need for the world to transition to a lower carbon economy consistent with a goal of keeping the increase in global average temperature to well below 2°Celsius above pre-industrial levels.

Through this initiative, we aim to fulfil the commitment made by 409 investors representing more than US $24 trillion under management set out in the “2014/15 Global Investor Statement on Climate Change” which stated that “…as institutional investors and consistent with our fiduciary duty to our beneficiaries, we will work with the companies in which we invest to ensure that they are minimising and disclosing the risks and maximising the opportunities presented by climate change.”

Commitment
We believe that engaging and working with the companies in which we invest – to communicate the need for greater disclosure around climate change risk and company strategies aligned with the Paris Agreement – is consistent with our fiduciary duty and will contribute to achieving the goals of the Paris Agreement.

The initiative aims to secure commitments from the boards and senior management to:
1. Implement a strong governance framework which clearly articulates the board’s accountability and oversight of climate change risk and opportunities.
2. Take action to reduce greenhouse gas emissions across their value chain, consistent with the Paris Agreement’s goal of limiting global average temperature increase to well below 2 degrees above pre-industrial levels.
3. Provide enhanced corporate disclosure in line with the final recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and sector-specific GIC Investor Expectations* on Climate Change (when applicable) to enable investors to assess the robustness of companies’ business plans against a range of climate scenarios, including well below 2 degrees and improve investment decision-making.

Working through AIGCC, Ceres, IGCC, IIGCC and PRI, we will together monitor the progress that companies make towards these goals. We are committed to working collaboratively through this initiative, using a range of engagement approaches to ensure fulfilment of the above mentioned goals.

*GIC stands for Global Investor Coalition on Climate Change. The Global Investor Coalition on Climate Change (GIC) is a joint initiative of four regional groups that represent investors on climate change and the transition to a low carbon economy: AIGCC (Asia), Ceres (North America), IGCC (Australia/NZ) and IIGCC (Europe). See here for more information on the GIC. The existing GIC Investor Expectations sector guides cover oil and gas, mining, utilities and auto manufacturers and provide additional sector specific disclosure recommendations, particularly regarding the oversight of public policy positions. The series will cover steel, chemicals and cement by Q2 2018.
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July 23, 2018

TO: Each Member
    Board of Investments

FROM: Robert R. Hill Interim Chief Executive Officer

FOR: Board of Investments Meeting of August 8, 2018

SUBJECT: National Association of Corporate Directors – Master Class
         August 20 – 21, 2018 in Newport Coast, California

The National Association of Corporate Directors (NACD) – Master Class will take
place on August 20 – 21, 2018 at the Resort at Pelican Hill in Newport Coast, California.
NACD’s Master Class foundation course will convene highly experienced lead directors, board
chairs, and committee chairs on the shores of Southern California. Attendees will benefit from
candid, peer-to-peer discussion, exclusive fireside chats with prominent CEOs, interactive
simulations, and thought-provoking analysis of rapidly emerging disruptions affecting business
strategy and long-term value creation. Timely topics and the participation of renowned board
leaders with deep and varied experience will offer an unparalleled forum and the opportunity
to gain practical insights and create “next practices” to lead your board through periods of rapid
change and opportunity for innovation.

The main conference highlights include the following:

- The Board’s Role in Innovation Initiative Strategies
- Shifting Stakeholder Expectations and the Role of the Board
- Succession Planning and Talent Development for the Next-Generation Boardroom
- Navigating Today’s Global Risk Environment

The conference meets LACERA’s policy of an average of five (5) hours of substantive
educational content per day. The standard hotel rate at the Resort at the Pelican Hill is $440.00
per night plus applicable taxes and the registration fee to attend is $5,595.00.

If the registration fee is insufficient to pay the cost of the meals provided by the conference
sponsor, LACERA must reimburse the sponsor for the actual cost of the meals, less any registration
fee paid. Otherwise, the attendee will be deemed to have received a gift equal to the value of the
meals, less any registration fee paid, under California’s Political Reform Act.

IT IS THEREFORE RECOMMENDED THAT YOUR BOARD:

Approve attendance of Board members at the National Association of Corporate Directors -
Master Class on August 20 – 21, 2018 in Newport Coast, California and approve reimbursement
of all travel costs incurred in accordance with LACERA’s Education and Travel Policy.
Master Class
August 20-21, 2018 | Newport Coast, CA

Monday, August 20

Registration and Breakfast
07:00 AM - 08:00 AM

*Location: Pacific Foyer/Terrace*

Program Welcome and Introductions
08:00 AM - 08:15 AM

*Location: Pacific Ballroom*

In the spirit of helping corporate directors foster boardroom cultures that are focused on continuous improvement, long-term value creation, and strengthening investor trust and public confidence, NACD has established the standard for director education. NACD maps core responsibilities of the board to critical areas of director knowledge that are essential to a director's ability to lead with confidence in the boardroom. These responsibilities range from board governance and structure to ongoing board activities, shareholder considerations, and emerging issues. These core responsibilities will provide a framework for your continuing education as we discuss a multitude of boardroom issues over the next two days. NACD's standard is incorporated throughout our foundation courses and creates the most comprehensive director knowledge pathway—from awareness to insights to mastery.

**Speakers:**
Erin Essenmacher

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**Economic Outlook**
08:15 AM - 09:15 AM

*Location: Pacific Ballroom*

We are seeing rapid changes in technology and the global environment with a whole host of
implications for corporate strategy and enterprise risk management. An economic expert and long-term advisor to the Federal Reserve will discuss key forces shaping the economy for 2018 and beyond and what trends directors need to watch to provide effective oversight of the enterprise.

**Speakers:**
Diane Swonk

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**Networking Break**
09:15 AM - 09:30 AM

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**Navigating Today's Global Risk Environment**
09:30 AM - 10:30 AM

*Location: Pacific Ballroom*

Geopolitical risk and a shifting political landscape here at home, combined with new challenges brought on by technological change, create a host of implications for corporate strategy and enterprise risk management. Leading global risk experts and strategists will discuss the World Economic Forum's 2018 Global Risk Report's key findings, leading forces shaping the national and global environment including the implications of GDPR, and the trends directors need to watch to provide effective oversight of the enterprise.

**Speakers:**
Joel Whitaker

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**Networking Break**
10:30 AM - 10:45 AM

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**Staying Competitive in the Digital Revolution**
10:45 AM - 12:00 AM
Location: Pacific Ballroom

We are witnessing the evolution of capitalism every day, driven by the continuous digital transformation of our businesses in an increasingly connected global environment. But how can the board best leverage these transformations to compete and thrive in this brave new world? Join directors and experts in the vanguard of this change to discuss business model strategy, competitive dynamics, investment strategy, and emerging technologies in the digital transformation.

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Networking Lunch
12:00 AM - 1:15 PM

Location: Pacific Terrace

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The Board's Role in Innovation Initiative Strategies
1:15 PM - 2:00 PM

Location: Pacific Ballroom

Rapid advancements in technology and an array of potential disruptors pose significant risks to businesses—now more than ever before. The current business landscape demands that directors focus with laser-like intensity on ensuring that financial policies and capital-allocation strategies are in place that anticipate disruption, expect innovation, minimize risks, and maximize opportunity. Join this session to discuss leading practices around financial planning in an increasingly volatile business environment.

Speakers:
Nora Denzel John Hotta Hope Taitz

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Key Committee Peer Exchange Breakout: Audit Committee
2:00 PM - 3:30 PM

Location: Lida Room

Small-group, peer-peer roundtable designed to foster discussion of the critical issues affecting the audit committee.
Speakers:

Dave Wilson  Jose Rodriguez

Key Committee Peer Exchange Breakout: Compensation Committee
2:00 PM - 3:30 PM

Location: Balboa Room

Small-group, peer--peer roundtable designed to foster discussion of the critical issues affecting the compensation committee.

Speakers:

Jannice L. Koors

Key Committee Peer Exchange Breakout: Nominating and Governance Committee
2:00 PM - 3:30 PM

Location: Catalina Room

Small-group, peer--peer roundtable designed to foster discussion of the critical issues affecting the nominating and governance committee.

Speakers:

Steven Walker

Networking Break

3:30 PM - 3:45 PM

Shifting Stakeholder Expectations and the Role of the Board

3:45 PM - 4:45 PM
What are the top issues your company's stakeholders want to see addressed by your organization in the coming years? How are society's expectations for your organization changing? In this session, top experts will explore the evolving role of the board in this age of heightened accountability and discuss emerging areas of concern for investors, such as ESG, diversity, and culture. The way your board approaches these concerns can make or break your company's reputation and long-term value. How will you respond?

Networking Reception
5:00 PM - 6:30 PM

Optional Peer Exchange Dinner
6:30 PM - 8:30 PM

Boards are concerned about the rapid pace of disruptive innovation with good reason: new technologies are compressing the half-life of business models and disrupting whole industries. Companies that are not agile and adaptive enough to recognize market opportunities and emerging risks on a timely basis are at risk of being swept aside by a tidal wave of disruption. This session will discuss the board's role in overseeing innovation, disruptive change, and digital transformation, and will describe leading practices that can help your organization to not just survive but thrive in this challenging business environment. Discover how other companies are addressing the risk of disruption within their industries, learn the best ways to assess your company's digital readiness, and hear how other companies are focusing on digital to improve their customer engagement, products and services, decision-making processes, and operational performance.

Space is limited. Onsite registration is required.

Speakers:
Tuesday, August 21

Breakfast
07:00 AM - 08:00 AM

Location: Pacific Foyer/Terrace

Day 2 Introduction
08:00 AM - 08:10 AM

Location: Pacific Ballroom

Culture As a Corporate Asset
08:10 AM - 08:55 AM

Location: Pacific Ballroom

In this session, we'll discuss the findings from the Report of the NACD Blue Ribbon Commission on Culture as a Corporate Asset in the context of innovation, risk, and disruption. What does a culture of innovation look like in practice? What does a risk-resilient culture look like in an era of increased transparency and volatility? And what is the board's role in overseeing both?

Speakers:
Cheemin Bo-Linn    Phyllis Campbell    Robyn Bew

Networking Break
08:55 AM - 09:10 AM
Succession Planning and Talent Development for the Next-Generation Boardroom

09:10 AM - 10:25 AM

*Location: Pacific Ballroom*

Just as the cell phones of the 1990s look nothing like today's smartphones, the workforce of the future will bear little resemblance to that of previous generations. How do directors and nominating and governance committees ensure effective CEO-succession planning and meaningful talent acquisition in an era of constant disruption and shifting demographics? The task of retaining and cultivating talent has never been more challenging or more imperative for a company's survival. Meet the future head-on in this engaging session. Ensure that your board has a talent-oversight strategy that will keep your company relevant for years to come.

**Speakers:**

Mary Beth Vitale

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**Networking Break**

10:25 AM - 10:40 AM

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**Topical Breakout: The Board's Role in M&A**

10:40 AM - 12:20 AM

*Location: Catalina Room*

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**Topical Breakout: Blockchain, ICOs, and Cryptocurrencies**

10:40 AM - 12:20 AM

*Location: Balboa Room*

**Speakers:**

Glenn Gow
Networking Lunch
12:20 AM - 1:20 PM

Location: Pacific Terrace

Risk Oversight
1:20 PM - 2:20 PM

Location: Pacific Ballroom

The board of directors has always played a critical role in enterprise-wide risk oversight, but increasing complexity resulting from globalization, regulation, M&A, disruptive innovation, emerging technologies, and new competitors have made that role more challenging than ever. In this session we’ll discuss how to evaluate emerging risks, how to prioritize each in the context of your corporate strategy, and how to ensure your board calendar and processes align for effective risk oversight.

Speakers:
James Lam    Dave Wilson

Networking Break
2:20 PM - 2:30 PM

The Evolving Board-Shareholder Engagement Landscape
2:30 PM - 3:30 PM

Location: Pacific Ballroom

A more shareholder-centric model of corporate governance has emerged in the past few years, fueled by greater influence from the investor community in board composition, succession planning, executive compensation, and general corporate-governance practices. More than ever before, investors are expecting transparency from companies in regards to boardroom decisions and
processes. This session will discuss how directors and shareholders can work together to pursue their shared interest in long-term value creation.

**Speakers:**

Cynthia Jamison        Howard Brod
Brownstein

**Program Adjourns**

3:30 PM
July 12, 2018

TO: Each Member 
Board of Investments

FROM: Robert R. Hill Interim Chief Executive Officer

FOR: Board of Investments Meeting of August 8, 2018

SUBJECT: 2018 Latin America Private Equity & Venture Capital Association (LAVCA) Summit and Investor Roundtable 
September 24 – 26, 2018 in New York City, New York

The 2018 LAVCA Summit and Investor Roundtable will take place on September 24 – 26, 2018 at the Metropolitan Club in New York, New York. The LAVCA Summit & Investor Roundtable is the industry’s premier annual gathering of private capital investors from Latin America and around the globe, including fund managers, institutional investors, family offices, development finance institutions, sovereign wealth funds, corporates, fund of funds, and secondaries. Sessions included a Brazil Keynote Breakfast, a Mexico Keynote Breakfast, an LP Keynote and panel, and a dedicated afternoon session on private real estate investment.

The main conference highlights include the following:

- Navigating Political Headwinds
- Deploying Capital in Argentina & Peru
- Investment Trends such as Agribusiness & Food
- Consumer Products & Services
- Technology Disruption
- Renewable Energy

The conference meets LACERA’s policy of an average of five (5) hours of substantive educational content per day. The standard hotel rate at the Warwick Hotel is $409.00 per night plus applicable taxes and registration fee to attend is $355.00.

If the registration fee is insufficient to pay the cost of the meals provided by the conference sponsor, LACERA must reimburse the sponsor for the actual cost of the meals, less any registration fee paid. Otherwise, the attendee will be deemed to have received a gift equal to the value of the meals, less any registration fee paid, under California’s Political Reform Act.

**IT IS THEREFORE RECOMMENDED THAT YOUR BOARD:**

Approve attendance of Board members at the 2018 LAVCA Summit and Investor Roundtable on September 24 – 26, 2018 in New York, New York and approve reimbursement of all travel costs incurred in accordance with LACERA’s Education and Travel Policy.

RH/lg

Attachment
2018 LAVCA Summit & Investor Roundtable
The Metropolitan Club, New York City

Monday, September 24

6.00pm – LAVCA Member and LP Reception
8.00pm Hosted by Advent International

Tuesday, September 25

7.30 am Registration Opens

8.30 am Opening Remarks
Carlos Garcia, Chairman, LAVCA
Cate Ambrose, President, LAVCA

8.45 am Brazil Keynote Breakfast
Welcome Remarks: Piero Minardi, Chairman, ABVCAP

Brazil Keynote Interview:
David Rubenstein, Founder, The Carlyle Group

What to Expect in Brazil?
Moderator: Cesar Collier, Managing Director, Siguler Guff & Company
Piero Minardi, Managing Director, Warburg Pincus
Bruno Zaremba, Partner, Vinci
Richard Rincon, Director, UTIMCO

10.00 am Networking Break

10.30 am How to do Deals in Latin America Today
Moderator: Cate Ambrose, President & Executive Director, LAVCA
Jasvinder Khaira, Senior Managing Director, Blackstone
Maurico Salgar, Managing Director, Advent International
Michael Harrington, Partner, Actis
Francisco Alvarez-Demalde, Founder & Partner, Riverwood Capital
11.10 am  
**Identifying New Consumer Trends in Latin America**  
Moderator:Jose Fernandez, Partner, Stepstone  
Dirk Donath, Managing Director, L Catterton  
Arturo Saval, Senior Managing Partner, Nexxus Capital  
Saul Villa, Partner, KPMG  
Speaker TBA

11.50 am  
**Deal Cases and Investment Trends: Food Retailing and Restaurants**  
Moderator:Carlos Heniene, Partner, Quilvest  
Flavia Almeida, Partner, Peninsula Participacoes  
Reynaldo Gonzalez, Managing Director, Mesoamerica  
Mauricio Camargo, Co-Founder and Director, Altra Investments

12.20 am  
**Deal Case and Investment Trends: Healthcare**  
Moderator:Jesus Arguelles, Portfolio Manager, OTPP  
Jaime Cervantes, CEO, Vitalmex  
Hector Cateriano, CEO, Managing Partner, Mas Equity  
Priscilla Rodrigues, Partner, Bozano Investimentos  
Speaker TBA

1.00 pm  
**Luncheon**

2.20 pm  
**What is the Private Capital Play in Infrastructure?**  
Moderator:Lars Pace, Principal, Hamilton Lane  
Ana María Vidaurre, Regional Director, Latin America Infrastructure, CDPQ  
Elizabeth Martinez, Director, CAF  
Camilo Villaveces, CEO, Ashmore

2.50 pm  
**Deal Cases and Investment Trends: Agribusiness**  
Moderator:TBA  
Luiz Kaufmann, CEO, O'Telhar  
Aldo Mares Benavides, CEO, Green Gold Farms  
Sebastian Popik, Managing Partner, Aqua Capital

3.30 pm  
**Two Years In: How to Invest in Argentina Today?**  
Moderator:Mariana Barcena, Director, DEG  
Jeronimo Bosch, Partner & Vice President, Grupo Pegasus  
Rick Rodriguez, Founder, Southern Cross Group  
Alfredo Irigoin, Founding Partner, Linzor Capital Partners

4.00 pm  
**Networking Break**
4.20 pm  Transactions Cases: The New Generation of Secondary Deals
Moderator: Jose Sosa del Valle, Partner, Lexington Partners
Jesus Zamora, Founder & CEO, Enfoca
Rodolfo Spielmann, Managing Director, Head of Latin America, CPPIB

4.40 pm  Update on Ecuador

5.00 pm  Closing Keynote

5.30 pm  Cocktail Reception

Wednesday September 26

7.30 am  ILPA Breakfast

8.45 am  Mexico Keynote Breakfast
Welcome Remarks: Felipe Vila, Director General, Fondo de Fondos

Keynote Interview

The Changing Paradigm for Investors in Mexico
Moderator: Carlos Mendoza, Chairman, AMEXCAP
Martin Escobari, Head of Latin America, General Atlantic
Ricardo Spinola, CEO, Farmapiel
Miguel Angel Davila, Partner, LIV Capital
Leon de Paul, Chief Risk Officer, Afore CitiBanamex,

10.00 am  Networking Break

10.30 am  Cambridge Associates/LAVCA LP Survey on Latin America Private Equity
Speaker, Cambridge Associates
Ksenija Jovanovic, Senior Advisor, LAVCA

10.50 am  LP Keynote Fireside Chat
Craig Thorburn, Head of Emerging Markets, Future Fund
Interviewed by: Maria Kozloski, Global Head & Chief Investment Officer, IFC
11.20 am  **Manager Showcase**  
Moderator:  
Tim Cohan, Partner, Stanwich Advisors  
Fabio Vassel, Managing Partner & CEO, Starboard Partners  
Speakers TBA

12.00 pm  **Institutional Investor Perspectives**  
Moderator:  
Fabiana Andrade, Principal, First Avenue  
Head of Equity, European DFI  
CIO, US College Endowment  
Speakers TBA

12.40 pm  Networking Luncheon

**Real Estate Program**

2.00 pm  **Where to Find Value in Latin America’s Evolving Real Estate Market**  
Moderator:  
Eduardo Roman, Director of Research, LAVCA  
Marcelo Fedak, Managing Director, The Blackstone Group  
Prabhu Raman, Managing Director, Macquarie Capital  
Ron Rawald, Head of International Real Estate, Cerberus Capital Management  
Adam Gallistel, Head of Americas, GIC Real Estate

2.40 pm  **Commercial Real Estate: Where Are We in the Cycle?**  
Moderator:  
TBA  
Elizabeth Bell, Principal, Jaguar Growth Partners  
Gregorio Schneider, Founder, Managing Partner, & CIO, TC Latin America Partners  
Alfonso Munk, CIO – Americas & Head of LatAm, PGIM Real Estate

3.20 pm  Break

3.40 pm  **Residential Housing: Which Strategy Works Best in this Asset Class?**  
Moderator:  
TBA  
Pablo Sala, Managing Director, Avenida Capital  
Eduardo Orozco, Managing Director, Latin America, Greystar  
Ricardo Goldberg, Vice President, Investments, CIM Group  
Rodrigo Suarez, COO & Co-Founder, Hasta Capital
4.20 pm  
**How is Technology Disrupting the Latin American Real Estate Market?**

**Moderator:** Juan Savino, Senior Advisor, LAVCA  
Brian Finerty, CIO, Equity International  
Andres Alvarado, Managing Partner, Real Estate, SURA Asset Management  
Joshua Pristaw, Co-Founder & Senior Managing Director, GTIS Partners  

5.00 pm  
Reception
June 4, 2018

TO: Each Member
    Board of Investments
    Board of Retirement

FROM: Robert R. Hill
      Interim Chief Executive Officer

FOR: Board of Investments Meeting of August 8, 2018
     Board of Retirement Meeting of August 9, 2018

SUBJECT: Public Pension Trustees Fiduciary Conference: Gaining the Tools for Innovation
          New York, New York on October 2-3, 2018

The Public Pension Trustees Fiduciary Conference: Gaining the Tools for Innovation will take
place on October 2-3, 2018 at New York Law School in New York, New York. This conference
provides a venue for trustees from around the country to explore how values and beliefs have a
crucial role to play in approaching our fiduciary duties. The conference emphasizes collaboration
and small-group activities interspersed with on-topic speakers and high-quality panel discussions.

The main conference highlights include the following:

- We Did the Investments Beliefs – Now What?
- The Purpose of Asset Management
- The Price is Wrong – Fee Models for Asset Management Services
- FinTech and the Effect on Institutional Investors

The conference meets LACERA’s policy of an average of five (5) hours of substantive educational
content per day. The hotel group rate at the Sheraton Tribeca New York Hotel is $359.00 per night
plus applicable taxes and the registration fee for trustees to attend is $495.00.

If the registration fee is insufficient to pay the cost of the meals provided by the conference
sponsor, LACERA must reimburse the sponsor for the actual cost of the meals, less any registration
fee paid. Otherwise, the attendee will be deemed to have received a gift equal to the value of the
meals, less any registration fee paid, under California’s Political Reform Act.

IT IS THEREFORE RECOMMENDED THAT YOUR BOARD:

Approve attendance of Board members at the Public Pension Trustees Fiduciary Conference:
Gaining the Tools for Innovation on October 2-3, 2018 in New York, New York and approve
reimbursement of all travel costs incurred in accordance with LACERA’s Education and Travel
Policy.

RH/bn
Attachment
SAVE THE DATE • OCTOBER 2-3, 2018 • IN NYC

PUBLIC PENSION TRUSTEES FIDUCIARY CONFERENCE

GAINING THE TOOLS FOR INNOVATION

NYC
The Mayor’s Office of Pensions and Investments

NEW YORK LAW SCHOOL

INITIATIVE FOR RESPONSIBLE INVESTMENT
CONFERENCE AGENDA

Tuesday, October 2
9:00am-10:00am Registration and Breakfast

10:00am-10:15am: Opening Remarks

10:15am-11:00am: Keynote Speaker

11:00am-12:30pm: We Did The Investment Beliefs- Now What?!?!?
In this panel discussion, trustees and investment staff will highlight ways in which they integrated their investment beliefs statement into their actual investment process. What were the challenges? How did other stakeholders react? How far have you gotten? What lessons should boards draw from your experience as they go through their investment beliefs process?

- Wayne Moore, Trustee, Los Angeles County Employees Retirement Association
- Anna Pot, Manager Responsible Investments, APG Asset Management

12:30pm-1:30pm: Lunch

1:30pm-2:00pm: The Price Is Wrong
After-lunch activity that talks about innovations in fee models for asset management services

2:00pm-3:00pm: The Purpose of Asset Management:
A fireside chat with Jon Lukomnik, co-author of the book “What They Do With Your Money,” focusing on his new white paper “The Purpose of Asset Management,” and how he believes institutional investors must change their investment practices for better and more sustainable economic growth.

3:00pm-3:15pm: Coffee Break

3:15pm-4:45pm: “Murder and Revival on the Orient Express,”
Based on the paper by Charlie Ellis that describes how each of the four major sets of decision-makers in institutional asset management, managers, consultants, staff, and boards all are responsible for underperformance. Instead of underperformance however, this session will focus on how each of these groups is responsible for the inability of institutional investors to “invest for the long-term.” More importantly, we will discuss how each of these groups can play a positive role in reforming institutional asset management.

4:45pm-5:00pm: Report Outs and Wrap-Up

5:00-6:00pm: Reception: Mingle and debrief with your fellow trustees over drink

Wednesday, October 3
8:00am-9:00am: Breakfast and Learn session with CFA Institute

9:00am-9:15am: Recap of Day 1

9:15am-10:00am: Tech Talk
In this session, Ken Akoundi, Founder of Risk Metrics and publisher of InvestorDNA will discuss the latest developments in the “FinTech” world and how they will affect institutional asset owners.
10:00am-10:15am - Coffee Break

10:15am-11:15am: Developments in Institutional Asset Management Session: TBD

11:15am-11:30am: Coffee Break

11:30am-1:00pm: Closing Plenary: Putting It All Together

1:00pm: Closing
July 16, 2018

TO: Each Member  
    Board of Investments

FROM: Robert R. Hill  
       Interim Chief Executive Officer

FOR: Board of Investments Meeting of August 8, 2018

SUBJECT: 2018 Pacific Pension Institute (PPI) Executive Seminar on October 14 – 16, 2018 and PPI Asia Roundtable on October 17 – 19, 2018 in Australia

PPI's Executive Seminar and Asia Roundtable will take place on October 14 – 19, 2018 in Melbourne and Sydney, Australia. The Executive Seminar is designed to provide 15-20 of PPI’s institutional asset owner members a deep dive into these and other aspects of the Australian economy as well as the evolving external environment in which it operates. The seminar is attended by representatives of some of the largest asset owners in the world, serves to better inform their investment decisions and allows them to interact directly with senior officials, academics and industry experts. The main conference highlights include the following:

- Australia’s Financial Services Industry
- Australia’s Energy Portfolio
- Traditional Industries Outlook: Agriculture and Mining
- Between Two Powers: Managing Relations with the United States and China
- Foreign Investment Reviews: Implications for Global Investors

The Conference meets LACERA’s policy on an average of five (5) hours of substantive educational content per day. Registration fee per delegate for the 2018 Executive Seminar is $3,600.00. The fee includes hotel room for two nights at the Langham Hotel in Melbourne. Registration fee per delegate for the Asia Roundtable is $900.00 and the standard hotel rate at the Shangri-La Hotel is $275.00 per night plus applicable taxes.

If the registration fee is insufficient to pay the cost of the meals provided by the conference sponsor, LACERA must reimburse the sponsor for the actual cost of the meals, less any registration fee paid. Otherwise, the attendee will be deemed to have received a gift equal to the value of the meals, less any registration fee paid, under California's Political Reform Act.

IT IS THEREFORE RECOMMENDED THAT YOUR BOARD:

Approve attendance of Board Members at the 2018 PPI Executive Seminar on October 14–16, 2018 in Melbourne, Australia and PPI's Asia Roundtable on October 17–19 in Sydney, Australia and approve reimbursement of all travel costs incurred in accordance with LACERA’s Education and Travel Policy.

RH/lg  
Attachment
Australia: Building a Diverse Economy for Sustainable Growth

October 14 (5PM Start) - October 16, 2018 (1PM Adjournment)

Investment Centre Victoria • Melbourne, Australia

In Partnership with the State Government of Victoria

About The 2018 Executive Seminar: Australia’s cycle-defying economy is at a significant juncture. On one hand, its transition to a more services-oriented and diverse economy, coupled with smart immigration policies, will bode well for future growth; on the other, stagnant wage increases, soft consumer spending, an unstable housing market, and challenges in the energy and mining sectors are reasons for concern. Externally, Australia’s relations with its largest trading partner, China, and its main foreign investor, the United States, have also entered new territory, which may necessitate some changes to Australia’s strategies in the Asia-Pacific region. The Executive Seminar is designed to provide 15-20 of PPI’s institutional asset owner members a deep dive into these and other aspects of the Australian economy as well as the evolving external environment in which it operates. The seminar, attended by representatives of some of the largest asset owners in the world, serves to better inform their investment decisions and allows them to interact directly with senior officials, academics and industry experts.

Possible Topics for Discussion:

- The Outlook for the Recession-Proof Economy
- Demographic, Immigration and Labor Market Trends
- State and Local Initiatives: Driving The Australian Infrastructure Model
- Tensions and Remedies in Australia-China Relations
- Australia’s Financial Services Industry
- Traditional Industries Outlook: Agriculture and Mining
- Growth Industries Outlook: Healthcare and Education
- Australia’s Energy Portfolio

Pacific Pension & Investment Institute (PPI) convenes global pension and investment thought leaders for in-depth dialogue and knowledge sharing on issues facing long-term institutional investors in Asia and the Pacific Rim. PPI is a global organization with individual and institutional members from leading pension funds, sovereign wealth funds, endowments, foundations, commercial asset management and other investment experts. With approximately 21 trillion USD in assets under management, advisement and administration, our membership represents a powerful force in the global economy.
The Asia-Pacific’s Opportunity in an Evolving International Order

October 17 (2:30PM Start) - October 19, 2018 (2PM Adjournment)
Shangri-La Hotel Sydney • Sydney, Australia

About The 2018 Asia Pacific Roundtable: With its unique geographical location in the Asia-Pacific, Australia has provided an interesting vantage point for discussions toward rethinking the changes and opportunities in the region as a result of a shifting global order. As the United States retracts its engagements in international affairs and China expands its overseas investments and influence, how will Southeast Asian countries, Japan, India, and others reposition their growth strategies? Will the Trans-Pacific Partnership grow and evolve? What other partnerships are being considered and negotiated? Will the Chinese Yuan become an international settlement currency for energy and commodities? How can Asia-Pacific economies, with drastically different demographic profiles, moderate the challenges of job creation in some and a shrinking labor force in others? How will these trends and undercurrents affect asset prices in the mid-to-long run?

Possible Topics for Discussion:

- Breakout Discussions on Various Asset Classes
- Innovation and Technology: A Key Differentiator
- Asia-Pacific Trade: Regional Integration Amid Global Disarray?
- ASEAN: Asia’s Next Growth Spurt?
- The Pacific Alliance and Asia
- Between Two Powers: Managing Relations with the United States and China
- Currency Outlook for Asia-Pacific Economies
- Development and Investment Opportunities in Oceania
- Tech Disruptions in Financial and Physical Infrastructure
- The Superannuation Industry: Strengths, Challenges and New Trends
- The Rising Role of Sovereign Wealth Funds
- Foreign Investment Reviews: Implications for Global Investors

Pacific Pension & Investment Institute (PPI) convenes global pension and investment thought leaders for in-depth dialogue and knowledge sharing on issues facing long-term institutional investors in Asia and the Pacific Rim. PPI is a global organization with individual and institutional members from leading pension funds, sovereign wealth funds, endowments, foundations, commercial asset management and other investment experts. With approximately 21 trillion USD in assets under management, advisement and administration, our membership represents a powerful force in the global economy.
July 16, 2018

TO:   Each Member
      Board of Investments

FROM:  Robert R. Hill
        Interim Chief Executive Officer

FOR:   Board of Investments Meeting of August 8, 2018

SUBJECT: Authorize Attendance of a Fourth Board Member to Attend an International Conference

Board member, Shawn Kehoe, requests that your Board waive LACERA’s Education and Travel Policy Section 705.07 D. 2., which states that “Not more than three Board members shall be authorized to attend the same International Conference,” so that he may be the fourth Board attendee at the PPI Executive Seminar and Asia Roundtable. Section 705.01 A. 5 provides, “The Board may ratify attendance at otherwise unapproved conferences, seminars and meetings for good cause explained in a written communication to the Board.” Section 705.18 provides, “For good cause presented in writing, and in the exercise of its sound discretion, the Board of Retirement or the Board of Investments may waive compliance with specific requirements of this Policy when in the best interest of LACERA.”

Good cause exists to permit Mr. Kehoe to attend as a fourth LACERA Board attendee is because of the following:

- PPI has brought together a premier global community of pension and investment professionals for 25 years.
- PPI helps their members navigate the changing international investment environment, and provide them with the knowledge and connections to better serve their beneficiaries.
- PPI’s programs offers a forum for honest and confidential discussions on important themes and trends that affect asset allocation, risk management, and investment decisions.
- One of the reasons PPI has decided to host their programs in Australia this year is for provide their members the opportunity to learn more about Australia’s Superannuation Industry, which is a global standout as a unique retirement system model.

The conference meets LACERA’s policy on an average of five (5) hours of substantive educational content per day. Registration fee per delegate for the 2018 Executive Seminar is $3,600.00. The fee includes hotel room for two nights at the Langham Hotel in Melbourne. Registration fee per delegate for the Asia Roundtable is $900.00 and the standard hotel rate at the Shangri-La Hotel is $275.00 per night plus applicable taxes.

If the registration fee is insufficient to pay the cost of the meals provided by the conference sponsor, LACERA must reimburse the sponsor for the actual cost of the meals, less any registration fee paid. Otherwise, the attendee will be deemed to have received a gift equal to the value of the meals, less any registration fee paid, under California's Political Reform Act.
IT IS THEREFORE RECOMMENDED THAT YOUR BOARD:

Waive LACERA’s Education and Travel Policy Section 705.07 D. 2, and authorize attendance of a fourth member to the 2018 PPI Executive Seminar on October 14–16, 2018 in Melbourne, Australia and PPI's Asia Roundtable on October 17–19 in Sydney, Australia and approve reimbursement of all travel costs incurred in accordance with LACERA’s Education and Travel Policy.

RH/lg
Attachment
Australia: Building a Diverse Economy for Sustainable Growth

October 14 (5PM Start) - October 16, 2018 (1PM Adjournment)

Investment Centre Victoria • Melbourne, Australia

In Partnership with the State Government of Victoria

About The 2018 Executive Seminar: Australia’s cycle-defying economy is at a significant juncture. On one hand, its transition to a more services-oriented and diverse economy, coupled with smart immigration policies, will bode well for future growth; on the other, stagnant wage increases, soft consumer spending, an unstable housing market, and challenges in the energy and mining sectors are reasons for concern. Externally, Australia’s relations with its largest trading partner, China, and its main foreign investor, the United States, have also entered new territory, which may necessitate some changes to Australia’s strategies in the Asia-Pacific region. The Executive Seminar is designed to provide 15-20 of PPI’s institutional asset owner members a deep dive into these and other aspects of the Australian economy as well as the evolving external environment in which it operates. The seminar, attended by representatives of some of the largest asset owners in the world, serves to better inform their investment decisions and allows them to interact directly with senior officials, academics and industry experts.

Possible Topics for Discussion:

- The Outlook for the Recession-Proof Economy
- Demographic, Immigration and Labor Market Trends
- State and Local Initiatives: Driving The Australian Infrastructure Model
- Tensions and Remedies in Australia-China Relations
- Australia’s Financial Services Industry
- Traditional Industries Outlook: Agriculture and Mining
- Growth Industries Outlook: Healthcare and Education
- Australia’s Energy Portfolio

Pacific Pension & Investment Institute (PPI) convenes global pension and investment thought leaders for in-depth dialogue and knowledge sharing on issues facing long-term institutional investors in Asia and the Pacific Rim. PPI is a global organization with individual and institutional members from leading pension funds, sovereign wealth funds, endowments, foundations, commercial asset management and other investment experts. With approximately 21 trillion USD in assets under management, advisement and administration, our membership represents a powerful force in the global economy.
The Asia-Pacific’s Opportunity in an Evolving International Order
October 17 (2:30PM Start) - October 19, 2018 (2PM Adjournment)
Shangri-La Hotel Sydney • Sydney, Australia

About The 2018 Asia Pacific Roundtable: With its unique geographical location in the Asia-Pacific, Australia has provided an interesting vantage point for discussions toward rethinking the changes and opportunities in the region as a result of a shifting global order. As the United States retracts its engagements in international affairs and China expands its overseas investments and influence, how will Southeast Asian countries, Japan, India, and others reposition their growth strategies? Will the Trans-Pacific Partnership grow and evolve? What other partnerships are being considered and negotiated? Will the Chinese Yuan become an international settlement currency for energy and commodities? How can Asia-Pacific economies, with drastically different demographic profiles, moderate the challenges of job creation in some and a shrinking labor force in others? How will these trends and undercurrents affect asset prices in the mid-to-long run?

Possible Topics for Discussion:

- Breakout Discussions on Various Asset Classes
- Innovation and Technology: A Key Differentiator
- Asia-Pacific Trade: Regional Integration Amid Global Disarray?
- ASEAN: Asia’s Next Growth Spurt?
- The Pacific Alliance and Asia
- Between Two Powers: Managing Relations with the United States and China
- Currency Outlook for Asia-Pacific Economies
- Development and Investment Opportunities in Oceania
- Tech Disruptions in Financial and Physical Infrastructure
- The Superannuation Industry: Strengths, Challenges and New Trends
- The Rising Role of Sovereign Wealth Funds
- Foreign Investment Reviews: Implications for Global Investors

Pacific Pension & Investment Institute (PPI) convenes global pension and investment thought leaders for in-depth dialogue and knowledge sharing on issues facing long-term institutional investors in Asia and the Pacific Rim. PPI is a global organization with individual and institutional members from leading pension funds, sovereign wealth funds, endowments, foundations, commercial asset management and other investment experts. With approximately 21 trillion USD in assets under management, advisement and administration, our membership represents a powerful force in the global economy.
July 18, 2018

TO:   Each Member  
      Board of Investments  

FROM:  Robert R. Hill  
        Interim Chief Executive Officer  

FOR:   Board of Investments Meeting of August 8, 2018  

SUBJECT:  2018 Milken Institute Asia Summit on September 12–14, 2018 in Singapore  

The 2018 Milken Institute Asia Summit will be held on September 12–14, 2018 in Singapore at the Four Seasons Hotel in Singapore. The Summit will gather a high-level audience of leaders in business, government, technology, philanthropy, academia, and media to address the trends, innovations and disruptions transforming the Asia-Pacific region. It will be a platform for senior leaders to have frank and in-depth discussions about issues shaping the regional agenda. Each session at the Asia Summit will take a deep dive into the short-term and long-term trends, build scenarios for the future, and provide actionable steps for business leaders and policymakers to effectively prepare for the inevitable disruption and transition.

The main conference highlights include the following:

• The Revolutionaries: Innovating a New Asia  
• Global Credit Markets: Opportunities in Volatility  
• Artificial Intelligence, Real Impact  
• China in Focus  
• Preparing for Asia’s Future

The conference meets LACERA’s policy of an average of five (5) hours of substantive educational content per day. The standard hotel rate at the Four Seasons hotel is $339.00 per night plus applicable taxes and the registration fee to attend is complimentary to Board members.

If the registration fee is insufficient to pay the cost of the meals provided by the conference sponsor, LACERA must reimburse the sponsor for the actual cost of the meals, less any registration fee paid. Otherwise, the attendee will be deemed to have received a gift equal to the value of the meals, less any registration fee paid, under California’s Political Reform Act.

IT IS THEREFORE RECOMMENDED THAT YOUR BOARD:

Approve attendance of Board members at the 2018 Milken Institute Asia Summit on September 12–14, 2018 in Singapore and approve reimbursement of all travel costs incurred in accordance with LACERA’s Education and Travel Policy.
A global transformation is underway, and Asia is right in the middle. The vast region is increasingly being considered as the world’s economic center, with China at the helm. Global market movements, shifting political tides, emerging demographic trends, growing wealth, and relentless breakthroughs in technology are shaping the region in ways that will impact the rest of the world.

Despite the leaps and bounds Asia as a region has made, the downsides to change have not been fully addressed. While some have powered forward into the future, the rest are being increasingly left behind. To fully realize the region’s potential, issues such as income inequality, geopolitical security, rapid population aging, climate change, inclusion, capital market development, and the impact of technology on jobs must be tackled head-on.

How Asia responds to these challenges will shape the world for decades to come. Now is the time we must prepare for the future.

**About the 2018 Milken Institute Asia Summit**
The 5th annual Milken Institute Asia Summit will gather a high-level audience of leaders in business, government, technology, philanthropy, academia, and media to address the trends, innovations and disruptions transforming the Asia-Pacific region. It will be a platform for senior leaders to have frank and in-depth discussions about issues shaping the regional agenda. Each session at the Asia Summit will take a deep dive into the short- and long-term trends, build scenarios for the future, and provide actionable steps for business leaders and policymakers to effectively prepare for the inevitable disruption and transition.

**Contact Us**
For more information on the Asia Summit and program, please contact:

Laura Deal Lacey  
Executive Director, Asia  
llacey@milkeninstitute.org

Ann-Marie Eu  
aeu@milkeninstitute.org

Amos Garcia  
agarcia@milkeninstitute.org
Draft Program

Though we will not be releasing our agenda until July, below are the public panel discussions, private roundtables and networking events that will be taking place at the Asia Summit to give you a good idea of the content to come. Information is subject to change.

Wednesday, September 12

- Asia Investor Group on Climate Change Roundtable (Invite only)
- Best-Performing Cities China Roundtable
- EDB CleanTech Session (Invite only)
- Future of Food Roundtable (Invite only)
- Speaker Sponsors Welcome Reception (Invite only)

Thursday, September 13 and Friday, September 14

- A Brave New World: Preparing for the Jobs of Tomorrow
- A New World Dis-Order: Understanding Asia’s Evolving Geopolitical Situation
- A World in Transition: What Matters for Asia
- Artificial Intelligence, Real Impact
- ASEAN in Focus: Big Risks, Bigger Rewards
- Breaking the Bank: How Asian FinTechs Are Redefining Financial Services
- China in Focus
- FasterCures
- Global Credit Markets: Opportunities in Volatility
- Hacking Health: The Future of Humankind
- Hedge Funds
- How to Build an Empire
- How To Live To An Active 120
- India in Focus
- Investing for Immortality
- Investing for the Long-Term
- Japan in Focus
- Mind The Gap: Financing Resilient Infrastructure For The Future
- New Life of the Party: China in the Era of Xi
- Of Trump, Tweets and Trade: US Outlook
- Playing With Your Food: Innovating a Healthier Future
- Preparing for Asia’s Future
- Private Equity
- Post #MeToo: The New Anatomy of Leadership
- Putting Principle into Practice: How to Make Sustainability Profitable
- Real Estate
- Rethinking Risk
- Rise of the Blockchain: How To Trust Strangers
- The Revolutionaries: Innovating a New Asia
• Uncertain Times: The State of Global Capital Markets

Private Sessions (Invite only)

• Aging Roundtable | The Business of Boomers: A Silver Playbook
• Family Office Roundtable
• Family Program | Philanthropy Saving Lives
• FasterCures Roundtable
• Global Capital Markets Advisory Council Roundtable
• Hedge Funds Asset Owners Roundtable
• Long-Term Asset Owners Roundtable
• Offshore to Online: The Evolution of Wealth Management in China
• The Future of Banking: How David and Goliath Will Transform One Another
• Young Leaders Circle Fireside Chat
Speakers

Achal Agarwal, President, Asia-Pacific, Kimberly-Clark Corporation
Fahad Al-Bader, Head of Managed Funds, Gulf Investment Corporation
Jose Rene D. Almendras, President and CEO, Ayala Corporation Infrastructure Holdings Corporation; Managing Director and Group Head of Public Affairs, Ayala Corporation
Haslinda Amin, Anchor and Chief International Correspondent for Southeast Asia, Bloomberg Television
Hugh Andrew, Managing Director and Head of Real Estate Asset Management, BlackRock
Robbie Antonio, Founder and CEO, Revolution Precrafted
Gerard Baker, Editor-at-Large, The Wall Street Journal
Anies Baswedan, Governor, City of Jakarta, Indonesia
Swan Gin Beh, Chairman, Economic Development Board of Singapore
David Bonderman, Chairman and Founding Partner, TPG
Michael Carmen, Equity Portfolio Manager and Senior Managing Director, Wellington
Ilfryn Carstairs, Partner and Co-Chief Investment Officer, Värde Partners
Clara Chan, Head of Direct Investment, Hong Kong Monetary Authority (HKMA)
Binod Chaudhary, Chairman, CG Corp Global
Sophia Cheng, CIO, Cathay Financial Holdings
John Claisse, CEO, Albourne Group
Jeremy Coller, Chairman and Chief Investment Officer, Coller Capital
Catherine Collinson, CEO and President, Transamerica Institute; Executive Director, Aegon Center for Longevity and Retirement
Pierre de Chillaz, Partner and Portfolio Manager, GoldenTree Asset Management
Werner Eberhardt, Global Head of Health, SAP
Tony Fernandes, Group CEO, AirAsia
Thomas Finke, Chairman and CEO, Barings
Goodwin Gaw, Chairman and Managing Principal, Gaw Capital Partners
David George, Deputy CIO, Public Markets, Australia Future Fund
Gregory Gibb, CEO, Lufax
Steve Groff, Vice President (Operations 2), ADB
Mary Gu, CEO, CAA China
Sir Michael Hintze, Founder, CEO and Senior Investment Officer, CQS
Kwon Ping Ho, Executive Chairman, Banyan Tree Holdings Limited
Robin Hu, Head of Sustainability and Stewardship Group, Temasek International Pte Ltd
Jingdong Hua, Vice President and Treasurer, International Finance Corporation
Jeanette R. Ickovics, PhD, Samuel and Liselotte Herman Professor of Social and Behavioral Sciences, Yale School of Public Health and Professor of Psychology, Yale University
Jeffrey Jaensubhakij, Deputy Group CIO and President of Public Markets, GIC
Dong Hun Jang, CIO, POBA
Alex Jeffrey, Head of APAC, M&G Investments
Cory Johnson, Chief Market Officer, Ripple
Ridwan Kamil, Mayor of Bandung, Indonesia
Robert Kelly, Associate Professor of International Relations, Pusan University
Parag Khanna, Managing Director, Hybrid Reality Pte Ltd.
Yong Hyun Kim, CEO, Hanwha Asset Management
Steve Krouskos, Global Vice Chair, Transaction Advisory Services, EY
Sky Kurtz, Co-founder and CEO, Pure Harvest
Donald Lacey, Managing Director and Chief Operating Officer, Ping An Voyager Fund
Michael Latimer, CEO, OMERS
Ted Lee, Senior Portfolio Manager, CPPIB
Thomas Lembong, Chairman, Indonesia Investment Coordinating Board
Sharanjit Leyl, Producer and Presenter, BBC World News; President, Foreign Correspondents Association of Singapore
Forrest Li, Founder, Chairman and Group CEO, Sea Limited
Ning Li, Chief Development Officer, BGI Genomics
Damian Lillicrap, Head of Investment Strategy, QSuper
Chow Kiat Lim, CEO, GIC
Frank Luntz, Founder and President, Luntz Global
Leslie Maasdorp, Vice President and CFO, New Development Bank
Rohan Mahadevan, CEO and SVP, APAC, PayPal
Virginie Maisonneuve, Chief Investment Officer, Eastspring Investments
Nadiem Makarim, CEO, Go-Jek
Anita Marangoly George, Executive Vice-President, Growth Markets, CDPQ India
Ian Martin, Executive Vice President, State Street
Steffen Meister, Executive Chairman, Board of Directors, Partners Group
Jim Mellon, Entrepreneur and Investor; Chairman, Burnbrae
Ravi Menon, Managing Director, Monetary Authority of Singapore
Michael W. Michalak, SVP and Regional Managing Director, US-ASEAN Business Council, Inc.; Former U.S. Ambassador to Vietnam
Oriel Morrison, Anchor, CNBC
Dan Murphy, Correspondent, CNBC
John Murphy, President, Asia Pacific Group, The Coca-Cola Company
Mike Novogratz, CEO, Galaxy Investment Partners
Taylor O’Malley, Co-founding Partner and Chief Risk Officer, Balyasny Asset Management
Ai Hua Ong, Company Group Chairman, Janssen Asia Pacific
Hugh O’Reilly, President and CEO, OPTrust
John Park, Director, Korea Working Group and Adjunct Lecturer, Harvard Kennedy School
Dilhan Pillay, President, Temasek International Pte. Ltd.
Serge Pun, Chairman, Serge Pun & Associates
Danny Quah, Dean and Li Ka Shing Professor in Economics, Lee Kuan Yew School of Public Policy, National University of Singapore
John Riady, Executive Director, Lippo Group
David Rosenberg, Co-Founder and CEO, AeroFarms
Robert Rosenstein, Co-founder and Chairman, Agoda; Special Advisor to the CEO, Booking Holdings
Kaidi Ruusalepp, CEO and Co-founder, Funderbeam
Hisae Sato, CIO, Nissan Motor
Jay Shetty, Award Winning Host, Storyteller and Filmmaker
Tokihiro Shimizu, CEO, Japan Post Investment Corporation
Pier Luigi Sigismondi, President, Southeast Asia and Australasia, Unilever
Ralph Simon, Chairman and CEO, Mobilium Global Limited
Chatri Sityodtong, Founder and Chairman, ONE Championship
Stephanie Syptak-Ramnath, Chargé d’affaires, a.i., U.S. Embassy in Singapore
Ning Tang, Founder, Chairman and CEO, CreditEase
Betty Tay, Head of Hedge Funds, GIC
Noorsurainah Tengah, Head of Hedge Funds, Brunei Investment Agency
Nadia Magnenat Thalmann, Director, Institute of Media Innovation, NTU
Igor Tulchinsky, Founder, Chairman and CEO, WorldQuant
Dennis Wallace, Managing Director of Strategic Initiatives Group, OPTrust
Megan Walters, Head of Research, Asia Pacific, JLL
Mark Watson, Head of Sustainable Development, John Swire & Sons (HK)
Sarah Williamson, CEO, FCLT Global
John Wood, Founder, Room to Read
Francis Yeoh, CEO, YTL
David Yeung, Co-Founder, Green Monday
Roslyn Zhang, Head of Hedge Funds, CIC
Lihan Zhou, Co-founder and CEO, MiRXES
Milken Institute Strategic Partners
Accenture
Barings
Bombardier Business Aircraft
Citi
Credit Suisse
CreditEase Wealth Management
EJF Capital LLC
EY
GoldenTree Asset Management LP
Guggenheim Partners
Helmsley Charitable Trust
Jefferies
KBBO Group
Principal Financial Group
Resnick Foundation
State Street
Värde Partners
WorldQuant
July 12, 2018

TO: Each Member
    Board of Investments
    Board of Retirement

FROM: Robert Hill
    Interim Chief Executive Officer

FOR: Board of Investments Meeting of August 8, 2018
    Board of Retirement Meeting of August 9, 2018

SUBJECT: 2018 USC Marshall Corporate Directors Symposium
    November 8, 2018 in Los Angeles, California

The National Association of Corporate Directors (NACD) - Southern California Chapter and USC Marshall School of Business presents the USC Marshall Corporate Directors Symposium - Governing in the Digital Age: Board Leadership Matters on November 8, 2018 at the California Club in Los Angeles, California. The event will provide you with the opportunity to meet with experts and board colleagues from throughout the West and examine today’s turbulent times and the impact of steady board leadership in steering challenges.

The main conference highlights include the following:

- Overview and Investors Perspective in the Digital Age
- Talent and Culture in the Digital Age
- Privacy, Transparency and IP in the Digital Age
- Audit/Risk Roundtable

The conference meets LACERA’s policy of an average of five (5) hours of substantive educational content per day. The standard hotel rate near the venue ranges from $275.00 to $450.00 per night plus applicable resort fees and taxes. The registration fee to attend is $675.00.

If the registration fee is insufficient to pay the cost of the meals provided by the conference sponsor, LACERA must reimburse the sponsor for the actual cost of the meals, less any registration fee paid. Otherwise, the attendee will be deemed to have received a gift equal to the value of the meals, less any registration fee paid, under California’s Political Reform Act.

**IT IS THEREFORE RECOMMENDED THAT YOUR BOARD:**

Approve attendance of Board members at the 2018 USC Marshall Corporate Directors Symposium on November 8, 2018 in Los Angeles, California and approve reimbursement of all travel costs incurred in accordance with LACERA’s Education and Travel Policy.

RH/lg
Attachment
Governing in the Digital Age: Board Leadership Matters

2018 Corporate Directors Symposium

Presented by The National Association of Corporate Directors Southern California Chapter and USC Marshall School of Business

Thursday, November 8, 2018 | 7:30 a.m. – 5:00 p.m.
The California Club, 538 S. Flower Street, Los Angeles, CA 90071

Speakers

Peter Gleason
President and CEO, National Association of Corporate Directors

Hester M. Peirce
Commissioner, Securities and Exchange Commission (SEC)

Panellists

Matt Arevalo, Co-Founder - Loot Crate
Ray Rothrock, CEO - RedSeal, Inc.; Board Director - Check Point Software Technologies
David Shadpour, CEO - Social Native
Jayne Studemund, Board Director - CoreLogic, Inc., Western Asset

Mark Your Calendars!
<table>
<thead>
<tr>
<th>TIME</th>
<th>Location</th>
<th>Details</th>
<th>Notes / Sponsor</th>
<th>Speakers</th>
</tr>
</thead>
<tbody>
<tr>
<td>7:30 a.m. - 8:20 a.m.</td>
<td>Main Lounge - 120 max</td>
<td><strong>Nominating / Corporate Governance Roundtable</strong></td>
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<tr>
<td>7:30 a.m. - 8:20 a.m.</td>
<td>2nd Floor Dining Room - 190 max</td>
<td><strong>Compensation Roundtable</strong></td>
<td><strong>Semler Brosby</strong></td>
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<td>8:30 a.m. - 9:20 a.m.</td>
<td>Main Lounge - 120 max</td>
<td><strong>Audit / Risk Roundtable</strong></td>
<td><strong>PwC</strong></td>
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<tr>
<td>8:30 a.m. - 9:20 a.m.</td>
<td>2nd Floor Dining Room - 190 max</td>
<td><strong>Cyber Roundtable</strong></td>
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<tr>
<td>8:30 a.m. - 9:20 a.m.</td>
<td>French Room - 40 max</td>
<td><strong>D&amp;O</strong></td>
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<tr>
<td>9:30 a.m.</td>
<td>Main Dining Room</td>
<td><strong>Crisis Management</strong></td>
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<tr>
<td>9:40 a.m. - 10:30 a.m.</td>
<td>Main Dining Room</td>
<td><strong>Opening Fireside Chat:</strong> Capital Formation in the Digital Age / SEC</td>
<td><strong>Jim Ellis</strong>/ SEC Commissioner Hester Peirce</td>
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<tr>
<td>10:30 a.m. - 11:30 a.m.</td>
<td></td>
<td><strong>Plenary Panel - AI - Overview and Investors Perspective in the Digital Age</strong></td>
<td><strong>Jared Franz, Economist - Capital Group</strong></td>
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<tr>
<td>11:40 a.m. - 12:40 p.m.</td>
<td>Main Lounge - 120 max</td>
<td><strong>Breakout Session #2 - Talent and Culture in the Digital Age</strong></td>
<td><strong>RGP</strong></td>
<td>Kate Duchene, CEO - RGP/ Caroline Nahas - Korn Ferry/ Matt Arevalo, Co-Founder - Loot Crate</td>
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<tr>
<td>11:40 a.m. - 12:40 p.m.</td>
<td>2nd Floor Dining Room - 190 max</td>
<td><strong>Breakout Session #2 - Marketing and Communications in the Digital Age</strong></td>
<td></td>
<td>Jaynie Studemund, Board Director - Corelogic, Western Asset/ David Shadpour, Founder - Social Native</td>
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<tr>
<td>12:45 p.m. - 1:45 p.m.</td>
<td>Main Dining Room</td>
<td><strong>Lunch</strong></td>
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<tr>
<td>1:55 p.m. - 2:55 p.m.</td>
<td>Main Lounge - 120 max</td>
<td><strong>Breakout Session #3 - Operation Supply Chain in the Digital Age</strong></td>
<td><strong>Nick Vyas, Executive Director and Co-Founder - USC Marshall's Center for Global Supply Chain Management</strong></td>
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<tr>
<td>1:55 p.m. - 2:55 p.m.</td>
<td>2nd Floor Dining Room - 190 max</td>
<td><strong>Breakout Session #4 - Privacy, Transparency and IP in the Digital Age</strong></td>
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<td>Bret Arsenault, CVP and Chief Information Security Officer - Microsoft</td>
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<td>2:55 - 3:10</td>
<td>Main Dining Room</td>
<td><strong>Afternoon Session Break</strong></td>
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<tr>
<td>3:15 p.m. - 4:15 p.m.</td>
<td>Main Dining Room</td>
<td><strong>Plenary Panel - BRC/Risk Management in the Digital Age</strong></td>
<td><strong>Robyn Bew, NACD/ Maureen Breakiron-Evans, Director, Ally Financial Inc., Cognizant Technology Solutions, Cubic Corp.</strong></td>
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<tr>
<td>4:15 p.m. - 4:45 p.m.</td>
<td>Main Dining Room</td>
<td><strong>Closing Keynote: What it Means to be a Director in the Digital Age</strong></td>
<td><strong>Peter Gleason, NACD President</strong></td>
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<tr>
<td>4:45 p.m. - 4:55 p.m.</td>
<td>Main Dining Room</td>
<td><strong>Symposium Wrap Up / Closing Comments / Invite all to cocktail reception</strong></td>
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<tr>
<td>5:00 p.m. - 6:30 p.m.</td>
<td>Main Lounge</td>
<td><strong>Cocktail Reception / Appetizers</strong></td>
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July 30, 2018

TO:       Each Member, Board of Investments
           Each Member, Board of Retirement

FROM:     Jill P. Rawal
           Staff Counsel

FOR:      August 8, 2018 Board of Investments Meeting
           August 9, 2018 Board of Retirement Meeting

SUBJECT:  BIENNIAL REVIEW OF LACERA’S CONFLICT OF INTEREST CODE,
           AND ADOPTION OF REVISED CODE

RECOMMENDATION

Staff recommends that the Boards:

1. Adopt the revised Conflict of Interest Code; and

2. Authorize staff to file the revised Code with the County of Los Angeles Board of
   Supervisors, which is the code reviewing authority.

Because every local agency is legally required to review its Conflict of Interest Code
biennially in even numbered years, the Boards must review LACERA’s Code this year.
Staff recommends that LACERA’s Code be revised to update the positions subject to the
Code, adjust disclosure categories for certain positions based on the decisions they may
be able to influence, and bring the Code into compliance with recent developments in the
law. The revised Code will not go into effect until approved by the Board of Supervisors.

BACKGROUND

California law requires that every local agency adopt a Conflict of Interest Code identifying
positions required to file a Statement of Economic Interests (Form 700) and stating the
disclosure categories for each position. The Code applies to positions “which involve the
making or participation in the making of decisions which may foreseeably have a material
effect on any financial interest,” except positions which manage public investments. Cal
Gov’t Code Section 87302(a).

Positions managing public investments must file a Statement of Economic Interests under
Government Code section 87200, and therefore their disclosures do not need to be
addressed in the Conflict of Interest Code.
Persons who file under an agency-adopted Conflict of Interest Code are referred to as “Code Filers,” and persons who file under Section 87200 are referred to as “87200 Filers.”

LACERA’s Conflict of Interest Code has three parts:

1. **Introductory page**, which incorporates FPPC Regulation 18730. Regulation 18730 contains the terms of a standard conflict of interest code as prescribed by the FPPC. Regulation 18730 is attached as Exhibit 2 to this memo; it provides a great deal of relevant information concerning disclosures, disqualification, and penalties for violation. The regulation provides that it may be incorporated by reference into the Code and need not be repeated in full in the Code. The introductory page of the Code also identifies the place of filing and retention of Statements of Economic Interests.

2. **Exhibit “A,”** which lists and defines the disclosure categories. The disclosure categories summarize the information that must be disclosed by persons subject to each category. The disclosure categories are tailored to the specific categories of interests that are relevant to LACERA. LACERA has seven (7) disclosure categories.

3. **Exhibit “B,”** which lists all designated positions subject to the Conflict of Interest Code and the disclosure categories that apply to each position.

Once approved by the local agency, the Code must be submitted to the agency’s code reviewing body, which in LACERA’s case is the Board of Supervisors. The Code is not effective until approved by the code reviewing body.

**DISCUSSION**

Staff reviewed LACERA’s current Conflict of Interest Code and determined that the Code should be updated.

The revised Conflict of Interest Code is attached as Exhibit 1. The changes recommended by LACERA staff are redlined. The changes fall into three general categories:

1. **Minor edits for clarity and readability.** Several minor revisions were made throughout the Code to ensure consistency and improve readability.

2. **Changes in position titles.** Chief Financial Officer, LACERA and Assistant Chief Financial Officer, LACERA will be added to the Code; however, this is merely a title change from Division Manager and Assistant Division Manager, respectively.
Each Member, Board of Investments and Board of Retirement
July 30, 2018
Re: Biennial Review of Conflict of Interest Code, and Adoption of Revised Code
Page 3

3. **Addition of new positions.** Chief Information Security Officer, LACERA and Chief Technology Officer will be added to the Code.

**CONCLUSION AND RECOMMENDATION**

For the reasons set forth above, **IT IS RECOMMENDED** that the Boards:

1. Adopt the revised Conflict of Interest Code; and

2. Authorize staff to file the revised Code with the County of Los Angeles Board of Supervisors, which is the code reviewing authority.

Attachments

Reviewed and Approved

[Signature]

Steven P. Rice
Chief Counsel

c: Robert Hill
   James Brekk
   Bernie Buenaflor
   John Popowich
   All Division Managers
Conflict of Interest Code
of the
LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION
(LACERA)

Incorporation of FPPC Regulation 18730 (2 California Code of Regulations, Section 18730) by Reference

The Political Reform Act (Government Code Section 81000, et seq.) requires state and local government agencies to adopt and promulgate conflict of interest codes. The Fair Political Practices Commission has adopted a regulation (2 Cal. Code of Regs. 18730), which contains the terms of a standard conflict of interest code. After public notice and hearing, it may be amended by the Fair Political Practices Commission to conform to amendments in the Political Reform Act. Therefore, the terms of 2 California Code of Regulations Section 18730, and any amendments to it duly adopted by the Fair Political Practices Commission, are hereby incorporated into the conflict of interest code of this agency by reference. This regulation and the attached Exhibits and Appendix designating officials and employees and establishing economic disclosure categories shall constitute the Conflict of Interest Code of the Los Angeles County Employees Retirement Association (LACERA).

Place of Filing of Statements of Economic Interests

All officials and employees required by this Conflict of Interest Code to submit a statement of economic interests shall file their statements with LACERA’s Chief Executive Officer, or his or her designee.

LACERA shall make and retain a copy of all statements filed by its Board Members, Alternate Board Members, as appropriate, and its Chief Executive Officer and forward the originals of such statements to the Executive Office of the Board of Supervisors of Los Angeles County.

LACERA shall retain the originals of statements for all other Designated Positions named in this Conflict of Interest Code and for: Chief Counsel, LACERA; Chief Investment Officer, LACERA; and Principal Investment Officer, LACERA. All retained statements, original or copied, shall be available for public inspection and reproduction (Gov. Code Section 81008).
CATEGORY 1

Persons in this category shall disclose all interest in real property within the jurisdiction that would be suitable for housing all or part of LACERA’s operations and all real property within two miles of that property. Real property shall be deemed to be within the jurisdiction if the property or any part of it is located within or not more than two miles outside the boundaries of the County of Los Angeles or within two miles of any land used to conduct LACERA’s operations.

Persons are not required to disclose a residence, such as a home or vacation cabin, used exclusively as a personal residence; however, a residence in which a person rents out a room or for which a person claims a business deduction may be reportable.

CATEGORY 2

Persons in this category shall disclose all investments and business positions in, and all income (including gifts, loans and travel payments) received from, business entities that are the type utilized by LACERA.

CATEGORY 3

Persons in this category shall disclose all business positions and investments in business entities that are the type in which LACERA’s trust funds may be invested (include securities, real estate and business entities), all income (including gifts, loans and travel payments) from such business entities, and all interests in real estate co-owned with or purchased from such business entities.

CATEGORY 4

Persons in this category shall disclose all business positions, investments in, or income (including gifts, loans and travel payments) received from business entities that manufacture, provide or sell service and/or supplies of a type utilized by LACERA and associated with the job assignment of designated positions assigned to this disclosure category.

CATEGORY 5

Persons in this category shall disclose all income (including gifts, loans and travel payments) from, investments in and business positions with any member of LACERA, any agent or employee association representing any such member, and business positions with, investments in or income (including gifts, loans and travel payments) from any entity owned or controlled by any such member or any such member’s spouse or other financial dependent.
CATEGORY 6

Individuals who perform under contract the duties of any designated position shall be required to file Statements of Economic Interests disclosing reportable interest in the categories assigned to that designated position.

In addition, individuals who, under contract, participate in decisions which affect financial interests by providing information, advice, recommendation or counsel to LACERA which could affect a financial interest of the individual shall be required to file Statements of Economic Interests, unless they fall within the Political Reform Act’s exceptions to the definition of consultant. The level of disclosure shall be as determined by LACERA’s Chief Executive Officer or his or her designee. (See footnote in Exhibit “B” for clarification.)

CATEGORY 7

Persons in this category shall disclose all income (including gifts, loans and travel payments) received from any LACERA member, or agent of any such LACERA member, with a disability retirement application before the Board of Retirement (during the reporting period) and all business positions with, investments in, or income (including gifts, loans and travel payments) received, from any entity owned or controlled by any such member.
# Designated Positions

## Board of Retirement:
- First Member (County Treasurer) 1, 2, 5
- Second Member (Elected General Member) 1, 2, 5
- Third Member (Elected General Member) 1, 2, 5
- Fourth Member (Appointed by Board of Supervisors) 1, 2, 5
- Fifth Member (Appointed by Board of Supervisors) 1, 2, 5
- Sixth Member (Appointed by Board of Supervisors) 1, 2, 5
- Seventh Member (Elected Safety Member) 1, 2, 5
- Eighth Member (Elected Retired Member) 1, 2, 5
- Ninth Member (Appointed by Board of Supervisors) 1, 2, 5
- Alternate Safety Member (Elected by Safety Members) 1, 2, 5
- Alternate Retired Member (Elected by Retired Members) 1, 2, 5

## Retirement Administration:
- Assistant Executive Officer, LACERA, Unclassified 1, 2, 3, 5
- Assistant Executive Officer, LACERA 1, 2, 3, 5
- Senior Staff Counsel, LACERA 1, 2, 3, 5
- Staff Counsel, LACERA 1, 2, 3, 5
- Chief Counsel, LACERA (Disability Litigation Section) 4, 7
- Senior Staff Counsel, LACERA (Disability Litigation Section) 7
- Senior Investment Officer, LACERA 1, 2, 3
- Finance Analyst III, LACERA 1, 2, 3
- Finance Analyst II, LACERA 1, 2, 3
- Chief, Internal Audit, LACERA 4, 5
- Division Manager, LACERA 4, 5
- Assistant Division Manager, LACERA 4, 5
- Chief Financial Officer 4, 5
- Assistant Chief Financial Officer 4, 5
- Director, Human Resources, LACERA 4
- Administrative Services Officer, LACERA 4, 5
- Disability Retirement Specialist Supervisor 4, 7

## Designated Positions

| Contract Analyst, LACERA | 4 |
| Special Assistant, LACERA | 4 |
| Creative Coordinator, LACERA | 4 |
| Chief, Communications, LACERA | 4 |
| Director, Retiree Health, LACERA | 4, 5 |
| Principal Internal Auditor, LACERA | 4, 5 |
| Chief, Quality Assurance and Metrics, LACERA | 4, 5 |
| Section Head, LACERA | 4, 5 |
| Information Systems Manager, LACERA | 4, 5 |
Assistant Information Systems Manager, LACERA

LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION

EXHIBIT “B” (Continued)

Chief Technology Officer
Chief Information Security Officer
Consultants/New Positions*

Consultants/New Positions are included in the list of designated positions and shall disclose pursuant to the broadest disclosure category in this code, subject to the following limitations:

The Chief Executive Officer or his or her designee may determine in writing that a particular consultant or new position, although a “designated position,” is hired to perform a range of duties that is limited in scope and thus is not required to fully comply with disclosure requirements in this section. Such written determination shall include a description of the consultant’s or new position’s duties, and, based upon that description, a statement of the extent of disclosure requirements. The Chief Executive Officer or his or her designee’s determination is a public record and shall be retained for public inspection in the same manner and location as this Conflict of Interest Code. (Gov. Code Section 81008.)

Officials Who Manage Public Investments:

The following positions are not covered by the code because they must file under Government Code Section 87200 and, therefore, are listed for informational purposes only.

Board of Investments:

First Member (County Treasurer and Tax Collector)
Second Member (Elected General Member)
Third Member (Elected General Member)
Fourth Member (Elected Safety Member)
Fifth Member (Appointed by Board of Supervisors)
Sixth Member (Appointed by Board of Supervisors)
Seventh Member (Appointed by Board of Supervisors)
Eighth Member (Elected Retired Member)
Ninth Member (Appointed by Board of Supervisors)
Chief Executive Officer, LACERA
Chief Executive Officer, LACERA, Unclassified
Chief Counsel, LACERA
Chief Investment Officer, LACERA, Unclassified
Principal Investment Officer, LACERA, Unclassified
Principal Investment Officer, LACERA

Employees of LACERA’s independent Contractors and Consultants who perform the same or substantially all the same functions as LACERA’s Chief Investment Officer.
July 30, 2018

TO: Each Member
Board of Investments

FROM: Ted Wright, CFA, FRM, PRM, CAIA
Principal Investment Officer

Brenda Cullen
Investment Officer

Mel Tsao
Investment Analyst

FOR: August 8, 2018 Board of Investments Meeting

SUBJECT: FINALIST INTERVIEWS FOR THE PUBLIC EQUITIES ACTIVE U.S. AND NON-U.S. EMERGING MANAGER SEARCH

RECOMMENDATION

Hire CornerCap Investment Counsel (CornerCap), Global Alpha Capital Management (Global Alpha), and Matarin Capital Management (Matarin) for direct active public equity emerging manager mandates with the following allocations using separate account vehicles: CornerCap Fundametrics® Small Cap Equity, $60 million; Global Alpha International Small Cap, $160 million; and Matarin North America Small Cap, $125 million.

EXECUTIVE SUMMARY

On July 10, 2018, the Board voted unanimously to invite CornerCap, Global Alpha, and Matarin to interview for active public equity emerging manager mandates. The three firms are scheduled to present at the August 8, 2018 Board meeting.

Staff recommends that these three highest scoring candidates, CornerCap, Global Alpha, and Matarin, be retained for direct mandates with initial allocations of $60 million, $160 million, and $125 million, respectively. Funding for these mandates will come from existing passive equity portfolios as the public equity composite is slightly above its current passive target limit.

Attached for your review are the finalists’ presentations. Staff’s report from the July Board meeting, which includes Meketa’s recommendation, is included for reference.

Each firm has been allocated 15 minutes for its presentation with an additional 15 minutes allotted for questions. The order of presentations are as follows:
1. Matarin Capital Management
   Stuart Kaye, Co-founder, Portfolio Manager
   Valerie Malter, Co-founder, Managing Principal
   Nili Gilbert, Co-founder, Portfolio Manager

2. CornerCap Investment Counsel
   J. Cannon Car, Chief Investment Officer
   Jeff Moeller, Director of Research

3. Global Alpha Capital Management
   Robert Beauregard, Chief Investment Officer and Portfolio Manager
   Qing Ji, Portfolio Manager
   David Savignac, Portfolio Manager

Attachments

Noted and Reviewed:

______________________________
Jonathan Grabel
Chief Investment Officer
Public Equities Active U.S. and Non-U.S. Emerging Manager Search

Board of Investments Meeting
July 10, 2018

TED WRIGHT
PRINCIPAL INVESTMENT OFFICER, GLOBAL EQUITIES

BRENDA CULLEN
INVESTMENT OFFICER

MEL TSAO
INVESTMENT ANALYST
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RFP RESPONDENTS

MINIMUM QUALIFICATIONS
June 25, 2018

TO: Each Member
Board of Investments

FROM: Ted Wright, CFA, FRM, PRM, CAIA
Principal Investment Officer

Brenda Cullen
Investment Officer

Mel Tsao
Investment Analyst

FOR: July 10, 2018 Board of Investments Meeting

SUBJECT: PUBLIC EQUITIES ACTIVE U.S. AND NON-U.S. EMERGING MANAGER SEARCH

RECOMMENDATION

Invite the following emerging manager firms to interview with the Board of Investments (Board) for direct public equity active mandates: 1) CornerCap Investment Counsel (CornerCap), 2) Global Alpha Capital Management (Global Alpha), and 3) Matarin Capital Management (Matarin).

EXECUTIVE SUMMARY

On September 11, 2017, the Board of Investments unanimously approved restructuring the public equity emerging manager program (EMP) from its then-current indirect, or fund-of-funds model to a direct investment program that utilizes LACERA’s Board-approved standard public markets search process and emerging manager selection criteria to identify emerging firms to manage direct mandates. As part of the recommendation, the Board authorized staff to issue a Request for Proposal (RFP) for active U.S. and Non-U.S. public equity emerging managers.

On October 2, 2017, an RFP was issued for active U.S. and Non-U.S. public equity emerging managers in accordance with the investment manager search process for public markets and the emerging manager selection criteria (minimum qualifications, or MQs) as specified in LACERA’s Investment Policy Statement (IPS). In an effort to narrow the universe to those managers with solid, consistent longer-term track records, the MQs included an excess return
Each Member, Board of Investments
June 25, 2018
Page 2 of 8

performance requirement consistent with other public market searches as directed in the IPS that varied based on geography and market capitalization.

Fifty-one responses to the RFP were received, 13 of which ultimately met the search’s minimum qualifications. Staff evaluated and ranked the 13 managers using LACERA’s two-phase assessment process: 1) evaluation of the written RFP response, and 2) in-house and on-site interviews.

The first phase, evaluation of RFP submissions, is comprised of a quantitative and qualitative review of each manager. The quantitative review is intended to assess the quality and consistency of each manager’s performance while the qualitative review evaluates factors historically associated with continued success. The qualitative criteria reviewed include an assessment of each manager’s organization (such as ownership and independence, oversight and risk controls, regulatory reviews, financial strength (both the firm and any significant outside partners), and the characteristics and risk profile of the firm’s asset base); investment team (breadth and depth as well as alignment of interests); philosophy, process, and research; performance, trading, and operations; and, finally, fees. Submissions were ranked according to the weighted average of each manager’s qualitative (70%) and quantitative (30%) scores.

Firms with a combined score of 75 or above out of 100 were invited to continue into the second phase of the evaluation process, in-house and on-site interviews. The purpose of this second portion of the evaluation process is to provide a deeper understanding of each firm’s investment process, greater familiarity with key decision-makers, and comfort with the manager’s risk controls and back office functions. In this search, twelve firms were invited for in-house interviews at LACERA, six of which advanced to the more rigorous part of the process, on-site due diligence.

Upon the completion of the second phase, final scores were assigned to each of the six managers who had completed the entire process, reflecting a critical assessment of all information gathered throughout the evaluation process. The scores for all six are presented in Table 1 below. Staff is recommending that the Board invite for interviews the managers denoted in bold.

<table>
<thead>
<tr>
<th>Investment Manager</th>
<th>Strategy</th>
<th>Final Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global Alpha Capital Management</td>
<td>Global Alpha International Small Cap</td>
<td>95</td>
</tr>
<tr>
<td>CornerCap Investment Counsel</td>
<td>Fundametrics® Small Cap Equity</td>
<td>93</td>
</tr>
<tr>
<td>Matarin Capital Management</td>
<td>Matarin North America Small Cap</td>
<td>91</td>
</tr>
<tr>
<td>Redwood Investments</td>
<td>International Developed Markets</td>
<td>90</td>
</tr>
<tr>
<td>Pacific Ridge Capital Partners</td>
<td>US Micro Cap Value Equity</td>
<td>85</td>
</tr>
<tr>
<td>Cedar Street Asset Management</td>
<td>International Small Cap Value</td>
<td>did not meet MQs</td>
</tr>
</tbody>
</table>

A brief summary of the three recommended finalists is included below, while a more detailed discussion of each finalist firm is located in the Manager Assessment section of this memo.
Global Alpha Asset Management – Global Alpha International Small Cap
Final Score 95
Global Alpha, founded in 2008 as an affiliate of Connor, Clark & Lunn Financial Group Ltd, began managing an international small cap equity strategy in 2009. The investment team consists of eight well-rounded team members with solid backgrounds and experience in the industry. The team displayed acumen in fundamental analysis and was succinct in its description of their investment process which focuses on recognizing capital markets inefficiencies and identifying “unrecognized growth” companies. The breadth and depth of experience of Global Alpha’s investment team, including its knowledge of local markets and securities, offers a comparative advantage relative to peers in the international small cap space.

CornerCap Investment Counsel - Fundametrics ® Small Cap Equity
Final Score 93
Headquartered in Atlanta, Georgia, CornerCap provides investment management services to a variety of clients including high-net-worth individuals, retirement plans, foundations, and endowments. The firm was co-founded in 1989 by the former management team of RJR’s Nabisco’s Retirement Fund and is 100% employee-owned. The Fundametrics® Small Cap strategy is managed by a three-person team led by Mr. Jeffrey Moeller, Director of Research and Portfolio Manager, and Mr. J. Cannon Carr, Chief Investment Officer. Key strengths include the experience of the investment team and the strategy’s Fundametrics® investment process that is based on a quantitative model with a robust fundamental overlay.

Matarin Capital Management – Matarin North America Small Cap
Final Score 91
A women-owned business, Matarin has been managing its North America Small Cap equity strategy since January 2011. The firm was co-founded in 2010 by Mr. Stuart Kaye, Ms. Nili Gilbert, and Ms. Valerie Malter and is 100% employee-owned. Key comparative advantages include the experience of the investment team, the strategy’s investment process, and the firm’s collegial culture. Matarin employs a distinctive investment approach that blends fundamental and quantitative investment practices. Matarin was a sub-manager in LACERA’s fund-of-funds emerging program from May 2017 until the program’s termination in September 2017 managing a U.S. large cap core strategy.

Two of the remaining managers selected for on-site interviews, Redwood Investments and Pacific Ridge, were well regarded but ranked lower than the recommended managers due to lower relative scores, primarily in the staffing and research categories. Redwood experienced the departure of two recently hired investment professionals during the search and, despite the subsequent hire of two qualified individuals and a quant-heavy investment process developed and run by existing personnel, staff and Meketa agreed that additional monitoring is advisable prior to any Board recommendation. Pacific Ridge scored relatively lower than the other finalists did on research capabilities, while Cedar Street scored highly across all qualitative
metrics but ultimately did not meet the search’s MQs. The consistency of scoring across all categories was an additional consideration in reaching this recommendation.

From a performance perspective, all three finalists have regularly exceeded LACERA’s excess return expectation for strategies in their categories for the three-year period ending June 30, 2017; while from a fit perspective, the low correlation of each manager’s excess returns to its corresponding LACERA equity composite indicates their potential to add positively to portfolio diversification (detailed results are provided in the Performance and Risk Analysis section of this document). The consistency of scoring across all categories was an additional consideration in reaching this recommendation.

Table 2 below presents historical performance and risk metrics for the proposed portfolio of recommended emerging managers relative to public equity’s blended benchmark (included as a proxy for LACERA’s public equity composite which, with its large allocation to passive strategies, has experienced a low tracking error in recent years) and the proposed portfolio’s blended benchmark. As illustrated in the table below, the portfolio of managers performs favorably on various performance and risk metrics relative to a weighted average index of its constituents’ benchmarks and LACERA’s public equity composite proxy.

<table>
<thead>
<tr>
<th>Relative to:</th>
<th>Information Ratio</th>
<th>Up Capture</th>
<th>Down Capture</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public Equity Blended Benchmark</td>
<td>0.9</td>
<td>108.4%</td>
<td>70.1%</td>
</tr>
<tr>
<td>Custom EMP Benchmark</td>
<td>1.5</td>
<td>107.2%</td>
<td>82.5%</td>
</tr>
</tbody>
</table>

Returns are gross of fees

The three managers are also complementary to each other differing in terms of geographic focus as well as investment philosophy and process. Global Alpha’s process relies on rigorous fundamental analysis to construct concentrated, core/growth portfolios while CornerCap and Matarin both employ distinct quantitative processes with fundamental overlays to construct diversified, core/value portfolios. Finally, all three managers rank highly on qualitative characteristics that have historically been associated with continued success such as sound philosophies; disciplined investment processes; stable, experienced investment teams; and adequate back office and risk control functions, the latter being prerequisites to managing institutional assets.

In sum, from a pool of active U.S. and non-U.S. managers who met the requirements for LACERA’s emerging manager search, staff believes it has identified three talented, institutional-quality firms that exhibit the performance and fit characteristics capable of providing a benefit to LACERA’s public equity composite. Accordingly, staff recommends

---

1 Excess return correlation measures how similar a manager’s excess return stream is to that of LACERA’s existing equity composites.
2 Proposed allocation of $60 mm to CornerCap Fundamentals® Small Cap Equity, $125 mm to Matarin North America Small Cap, and $160 mm to Global Alpha International Small Cap. The custom EMP benchmark is a weighted average of the proposed portfolio constituents’ benchmarks.
that Global Alpha Capital Management, CornerCap Investment Counsel, and Matarin Capital Management be invited to interview with the Board for direct public equity mandates.

**BACKGROUND**

On May 10, 2017, investment staff and Meketa presented a recommendation to the Board’s Equity: Public/Private Committee (the Committee) to restructure the public equity Emerging Manager Program. To better position the program to achieve its objectives, staff recommended that it be transitioned from an indirect fund-of-funds model to a direct investment program that would use LACERA’s standard public markets search process and emerging manager selection criteria to identify managers for direct mandates with an expectation that the resulting intentional, integrated portfolio could yield: 1) better investment performance, 2) improved risk management, and 3) a potential reduction in fees. Accordingly, staff made three recommendations: 1) revise LACERA’s Emerging Manager Policy to include a target range of 0-5% within the Non-U.S. equity composite, 2) approve a direct investment program for the public equity emerging manager program, and 3) utilize an ongoing Request for Information (RFI) process to evaluate emerging managers for LACERA’s direct program. The first recommendation passed unanimously while a vote on the second and third recommendations was postponed pending additional detail on the transition plan.

On August 9, 2017, staff presented an updated recommendation to the Committee that included staff’s original recommendation to approve a direct investment program as well as recommendations to approve a detailed transition plan and update the Emerging Manager Policy to reflect all other recommendations, if approved (staff’s earlier recommendation for an ongoing RFI was withdrawn as they concluded that a periodic screening of the eVestment database would be just as effective and less time-consuming). After discussion, the Committee voted unanimously to forward the recommendations to the Board for approval, and on September 11, 2017, the Board of Investments voted unanimously to approve August’s recommendations as written.

**EVALUATION PROCESS**

LACERA’s active U.S. and Non-U.S. public equity emerging manager search was initiated in October 2017 using the Board-approved investment manager search process for public markets and the emerging manager selection criteria, or MQs, specified in LACERA’s Investment Policy Statement. A detailed explanation of the two-phase evaluation process is presented in the Evaluation Process section of this document while a summary is provided below.

Phase one of the evaluation process consisted of a qualitative and quantitative assessment of RFP responses aimed at evaluating the quality and consistency of each manager’s performance and determining the prospect for each manager to enjoy continued success. Qualitative criteria examined include each manager’s organization; professional staff; investment philosophy, process, and research; performance, trading, and operations; and fees. Metrics used for the quantitative portion of the evaluation were information ratio, upside capture, downside capture, and excess return correlation. Submissions were ranked based on the weighted average of each
manager’s qualitative (70%) and quantitative (30%) scores, and the twelve highest-ranked managers with scores of 75 or above were advanced to the next phase of the evaluation process. Consistent with staff’s normal search procedures, phase one scores were set aside so that candidates advanced to phase two with a clean slate. A table detailing each manager’s ranking is presented in the section labeled **Phase One Scoring Matrix**.

Phase two of the evaluation process consisted of in-house and on-site manager interviews. The interviews provided staff with an opportunity to further clarify RFP responses as well as to gain a greater appreciation for the managers’ investment processes; investment professionals; trading, operations, and compliance functions; and other areas of potential risk or competitive advantage. In the first part of this stage, staff conducted in-house interviews at LACERA with the twelve highest-scoring phase one candidates (**Table 3**).

**Table 3**

<table>
<thead>
<tr>
<th>Investment Manager</th>
<th>Phase One Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Redwood Investments</td>
<td>91</td>
</tr>
<tr>
<td>Global Alpha Capital Management</td>
<td>87</td>
</tr>
<tr>
<td>Matarin Capital Management</td>
<td>86</td>
</tr>
<tr>
<td>Summit Global Investments</td>
<td>84</td>
</tr>
<tr>
<td>CornerCap Investment Counsel</td>
<td>82</td>
</tr>
<tr>
<td>Isthmus Partners</td>
<td>80</td>
</tr>
<tr>
<td>Pacific Ridge Capital Partners</td>
<td>80</td>
</tr>
<tr>
<td>New Amsterdam Partners</td>
<td>79</td>
</tr>
<tr>
<td>Pacific View Asset Management</td>
<td>79</td>
</tr>
<tr>
<td>Granite Investment Partners</td>
<td>78</td>
</tr>
<tr>
<td>Bridge City Capital</td>
<td>78</td>
</tr>
<tr>
<td>Cedar Street Asset Management (<em>did not meet MQs</em>)</td>
<td>77</td>
</tr>
</tbody>
</table>

Of the twelve managers invited, the following six firms with the highest scores from this portion of the interview process advanced to the second part of phase two, on-site due diligence: Cedar Street Asset Management, CornerCap Investment Counsel, Global Alpha Capital Management, Matarin Capital Management, Pacific Ridge Capital Partners, and Redwood Investments.

Upon completion of the second phase, final scores were assigned to each of the six managers, reflecting a critical assessment of all information gathered throughout the evaluation process. The scores for these six firms are presented in **Table 1** on page 2 of this memo in order of highest to lowest rank. While all six firms are highly regarded, staff is recommending the Board interview the top three at this time due to the reasons enumerated above.
CONCLUSION

On October 3, 2017, staff issued an RFP for active U.S. and Non-U.S. public equity emerging managers in accordance with LACERA’s standard investment manager search process for public markets and Board-approved emerging manager selection criteria as specified in LACERA’s Investment Policy Statement. Thirteen responses ultimately met the search’s minimum qualifications. Staff assessed the qualifying investment managers using its customary two-phase evaluation process. This process resulted in the identification of the following three finalists that staff recommends the Board interview for direct emerging manager mandates: Global Alpha Capital Management (Global Alpha International Small Cap), CornerCap Investment Counsel (Fundametrics® Small Cap Equity), and Matarin Capital Management (Matarin North America Small Cap).

The three recommended firms are quality managers that exhibit the characteristics expected of participants in an emerging manager program: all are independent, employee-owned firms with small asset bases and dedicated, incentivized investment professionals whose singular focus is to generate sustained outperformance for their client partners. Further, all three firms utilize disciplined, differentiated investment processes that have resulted in multiple years of positive risk-adjusted performance. Operational infrastructure and risk controls are in line with institutional expectations while cash flow and balance sheet metrics indicate a low probability of financial concern. Finally, though all three managers independently exhibit return characteristics that could benefit LACERA’s existing public equity composite, the positive impact of the proposed portfolio in aggregate on the composite could be even larger (Table 2 above).

For the reasons stated above, staff would propose hiring all three managers in the following allocation using separate account vehicles: $160 million to Global Alpha International Small Cap, $125 million to Matarin North America Small Cap, and $60 million to CornerCap Fundametrics® Small Cap Equity. Under the proposed separate account structure, LACERA would retain all beneficial ownership rights, including proxy voting authority, and vote proxies of underlying securities in accordance with LACERA’s Corporate Governance Principles. The funding for these mandates would come from passive public equity strategies.

LACERA’s general consultant, Meketa Investment Group (Meketa), collaborated closely with staff throughout this search and concurs with conclusions reached.3

Accordingly, staff recommends that the Board of Investments invite CornerCap Investment Counsel, Global Alpha Asset Management, and Matarin Capital Management to interview for active emerging manager public equity mandates.

3 Meketa’s memo is included in section X of this document labelled Meketa Memorandum.
The remainder of this presentation report is as follows:

Section II: Evaluation Process
Section III: Manager Assessments
Section IV: Phase One Scoring Matrix
Section V: Performance and Risk Analysis
Section VI - IX: General Manager Information (information provided by the firm about their organization, answers to additional questions, and key personnel biographies)
Section X: Meketa Memorandum
Section XI: Appendix

Attachments

Noted and Reviewed:

Jonathan Grabel
Chief Investment Officer
EVALUATION PROCESS

OVERVIEW

The public equities active emerging manager search was conducted using staff’s customary two-phase approach. Phase one consists of a qualitative and quantitative evaluation of RFP responses that met the search’s minimum qualifications. The factors reviewed as part of the qualitative analysis are: 1) organization, 2) professional staff, 3) investment philosophy, process, and research, 4) performance, trading, and operations, and 5) fees, while those that comprise the quantitative portion are: 1) information ratio, 2) upside capture, 3) downside capture, and 4) excess return correlation. Phase one scores for each manager are calculated by combining each firm’s qualitative score (weighted 70%) with their quantitative score (weighted 30%). A complete list of phase one scores for this search is located behind the tab labeled Phase One Scoring Matrix.

In phase two of the evaluation process, staff conducts in-house interviews in LACERA’s office and on-site interviews at each manager’s principle place of business.

PHASE ONE: REQUEST FOR PROPOSAL (RFP) EVALUATION

Phase one of the evaluation process evaluates the quality and consistency of a manager’s performance and, equally importantly, assesses the qualitative factors that have historically been associated with continued success. As managers advancing to this stage in this search had strong performance but generally brief track records, the sustainability of each manager’s performance took on a greater level import. Accordingly, the qualitative portion of this phase was given a weight of 70% while a 30% weight was assigned to the quantitative portion. The following is a discussion of both components of this phase.

Qualitative Evaluation

The following four categories are used in the qualitative assessment of the RFP responses (weighted as noted after each heading):

Organization (20%)

This section includes a review of the firm’s history, ownership structure, products offered, assets under management (AUM), capacity limits, client base, and client/account turnover. Securities and Exchange Commission (SEC) audits and past or pending litigation are also reviewed.

A firm’s ownership structure is considered important for two primary reasons. First, the availability of direct ownership opportunities for employees generally improves recruitment and enhances retention of talented people. Second, privately owned firms may not have the same pressure to generate profits as firms owned by public entities and may be better positioned to manage asset growth in an effort to sustain outperformance. Beyond the Emerging Manager Program’s guideline and minimum qualification (MQ) which states that no other person or entity other than principals or employees of the firm should own more than a 49% interest in the
firm, firms that were either entirely employee-owned or partially externally owned (but could demonstrate financial strength and independence) and offered ownership opportunities for stakeholders were viewed more favorably than those where an external entity owned a significant stake and exercised greater influence or presented a conflict of interest.

Recent organizational changes are reviewed for their potential impact on the firm, its investment team, and its investment philosophy and process. Organizational changes that were deemed to be disruptive or have the potential for disruption were scored negatively.

Additionally, each manager’s AUM characteristics are examined as rapid growth rates and/or high asset levels could have a negative impact on a manager’s performance. Rapid growth or a large asset base may result in the dilution of a manager’s best ideas or may curtail investment in the smallest capitalization (cap) securities in the manager’s universe, two factors often identified as the basis for outsized emerging manager returns. Conversely, a firm with insufficient assets may lack the resources needed to provide the robust risk controls, compliance, infrastructure, or personnel needed to support an institutional quality investment team. As the ability of smaller, emerging managers to access the smallest cap names in their universe is key to providing a higher degree of alpha relative to their larger counterparts, asset growth and capacity limits were heavily scrutinized with managers committed to reasonable growth and suitable capacity limits viewed more favorably.

Each manager’s client base is also evaluated as various client types tend to have distinct investment horizons, potentially affecting performance or the financial strength of the firm. Firms with client bases weighted towards institutional rather than retail accounts were given preference as longer institutional investment horizons may result in fewer flows, exerting less selling pressure on illiquid securities. Material client turnover attributable to manager-related deficiencies was scored negatively.

Responses to questions concerning regulatory issues and past or potential litigation are evaluated and an internet search is performed on each phase one finalist. Firms with clean SEC audits, no current or previous litigation, and no investigations were viewed more positively.

Finally, a review of each firm’s SEC Form ADV (parts I and II), code of ethics, personal trading policies, and disaster recovery/business resumption plans is conducted and scores assigned. An assessment of a firm’s use of placement agents, if any, is also performed.

**Professional Staff (15%)**

Skilled and experienced investment professionals are critical to the continued success of any investment strategy. Important factors in this category include
portfolio manager continuity, staff turnover, size and depth of the investment/research team, and investment personnel’s experience investing in the proposed strategy. Diversity of the investment team and members of senior management is noted.

While portfolio managers are the individuals principally responsible for developing, defining, implementing, and monitoring the investment process, analysts, traders, and other research personnel play an important role in gathering information needed to make the buy, hold, and sell decisions that ultimately determine the portfolio’s performance. Therefore, well-established investment firms with seasoned professionals were viewed favorably as was low turnover within key investment professional ranks. Further, firms with portfolio managers and research analysts responsible for multiple, dissimilar products received lower scores than those with teams that focused on a single or related products.

With respect to small cap and emerging market strategies, less extensive sell-side coverage necessitates a greater degree of internal research for both quantitative and fundamental strategies. Accordingly, staff viewed firms with deep and experienced teams and strong internal capabilities as having a competitive advantage over those that relied primarily on external research. Additionally, products employing a unique or specialized research focus or process were viewed more favorably.

Finally, organizations with recent turnover (or reassignment) at the senior management level were viewed less favorably than those that were more stable due to the potential negative impact on the organization’s corporate culture and the possibility of additional departures.

Investment Philosophy, Process, and Research (15%)

This category evaluates each manager’s core investment principles, decision-making process (including security analysis, portfolio construction, and buy/sell disciplines), and investment-related risk controls.

In its review of this category, staff evaluates how investment ideas are initially identified. Although many managers employ some form of quantitative screening in identifying investment opportunities, many also use qualitative tools. Staff viewed the use of multiple approaches to idea generation more positively than approaches relying solely on a single quantitative screen.

The consistent and disciplined application of an investment process is another key determinant of a manager’s ability to repeat past successes. Managers who have shown consistency in security selection, portfolio construction, and the implementation of buy/sell decisions, as well as those who exhibit strong portfolio risk controls, were viewed more favorably than those who did not.

Regarding strategies focused on less liquid (and less well covered) areas of the market such as small cap or international, preference was given to managers with
strong internal research capabilities and robust analytical methods for identifying investment opportunities as well as ones who incorporated liquidity considerations into the security selection process.

Although a team approach can provide advantages related to portfolio construction and key man risk, other methods of organizing the investment team may sometimes be preferable. With respect to this item, staff generally gave preference to managers with a clearly identified decision-maker as it is typically easier to gain insight into, and therefore confidence in, the thought process(es) of one or two individuals as opposed to a group. Nevertheless, strategies that utilized a team-based method were scrutinized to determine what advantages, if any, their approach offered.

Each product’s style bias was evaluated for consistency and for the potential impact that volatility may have on performance and on the financial health of the firm. Due to a higher level of volatility in less liquid segments of the market such as small cap and emerging markets, strategies in those areas that were not highly stylized (i.e., neither deep value nor aggressive growth) were viewed more favorably. Mitigating factors include diverse investment strategies, a client base characterized by longer-term investment horizons, and stable, recurring revenue streams.

Finally, managers who incorporated Environmental, Social, and Governance (ESG) issues in the investment process were viewed more positively.

**Performance, Trading, and Operations (15%)**

This category assesses each manager’s infrastructure support including trading, operations, performance, compliance, and risk management capabilities.

Regarding performance, staff verifies that the returns submitted by respondents have been calculated in compliance with the CFA Institute’s Global Investment Performance Standards (GIPS). Although certification of GIPS compliance by an independent third party is not required per LACERA’s Emerging Manager MQs, it is preferred and LACERA specifies that managers not meeting this MQ must make a good faith effort to comply with such standards within one year of hire.

The dispersion of each manager’s investment returns is also evaluated as large discrepancies among client accounts may be indicative of underlying issues. In general, staff preferred managers whose performance exhibited lower dispersions than those with higher but assessed explanations for large differences for reasonability.

The depth of experience of a manager’s trader(s) can also have a marked impact on performance, particularly for concentrated strategies in less liquid markets. Accordingly, managers who exhibited the following characteristics were viewed more favorably: traders with extensive experience, knowledge, and relationships suitable to the strategy’s market segment; robust, risk-controlled trade processes; and analytics to monitor and evaluate trade costs on a regular basis.
A review of each firm’s trade order management system and operations processes is conducted to evaluate, understand information flows and the types and capabilities of systems used. Firms that use automated systems to integrate portfolio management, trading, compliance, risk management, settlement and accounting were viewed positively as increased automation of such processes should minimize manual errors.

**Fees (5%)**

This category assessed managers based on provided fee quotes. Separate accounts were preferred and managers with lower fees received higher scores.

**Quantitative Evaluation**

The following four categories were used in the quantitative assessment of the RFP responses (metrics were calculated using Zephyr Associates StyleADVISOR). Each manager was ranked relative to the other managers on each metric and the ranked scores for all metrics averaged to arrive at each manager’s total quantitative score.

1. **Information Ratio** – measures a manager’s excess return per unit of excess risk incurred (i.e., the extent to which a manager has outperformed its benchmark divided by the amount of risk the manager took relative to that benchmark). Higher information ratios indicate that investors are better rewarded per unit of risk incurred.

2. **Upside Capture** – a measure of a manager’s ability to keep up with its benchmark in a rising stock market environment. For example, if the benchmark increases 10% during a year and the manager’s portfolio rises 12%, the manager’s upside capture is 120% of his benchmark’s return. Conversely, if the benchmark increases 10% and the manager’s portfolio only rises 8%, the manager’s upside capture is 80%. All else equal, a higher upside capture ratio is superior to a lower one.

3. **Downside Capture** – a measure of a manager’s ability to preserve capital relative to its benchmark in a declining stock market environment. For example, if the benchmark falls 10% during a year but the manager’s portfolio declines only 7%, the manager’s downside capture is 70%. Conversely, if the benchmark falls 10% and the manager’s portfolio declines 11%, the manager’s downside capture is 110%. A lower downside capture ratio is superior to a higher one.

4. **Excess Return Correlation** – the correlation of each manager’s excess returns to those of LACERA’s existing U.S. or Non-U.S. equity composites. Managers exhibiting a low correlation of excess returns relative to LACERA’s existing managers would be expected to provide a diversification benefit and would thus rank higher than a manager with a higher level of correlation would.
Total scores for phase one were calculated using each manager’s RFP qualitative score (70% weight) and each manager’s aggregate quantitative score (30% weight). Detailed manager scores are located behind the Phase One Scoring Matrix tab. The firms with phase one scores of 75 or higher advanced to phase two of the evaluation process, the interview phase. Consistent with LACERA’s approved public markets search procedures, phase one scores were set aside so that candidates advanced to phase two with a clean slate.

PHASE TWO: INTERVIEW PROCESS

In-House Interviews
The first stage of the interview phase consists of presentations by managers that advanced from phase one to staff at LACERA’s office. These interviews, usually attended by one or more key investment professionals, allow staff to go beyond the written RFP responses and gain a deeper understanding of each manager’s investment philosophy and process. Staff can clarify outstanding questions from the RFP and identify and evaluate each firm’s competitive advantage.

Staff scored each manager on a more robust understanding of the firm’s philosophy, people, process, and organization as well as the ability of the presenter to clearly articulate these items. Each participating manager was ranked accordingly and the six highest-ranking firms chosen to advance to the next step, on-site due diligence.

On-Site Interviews
An on-site interview at the investment manager’s office allows staff to obtain an even greater understanding of each firm. During on-site meetings, staff meets with each firm’s senior management, remaining investment team members, and individuals responsible for operations, compliance, and trading. Staff reviews each manager’s investment process, ensuring consistency with previous presentations and RFP responses.

On-site interviews also provide staff with the opportunity to assess each organization’s culture and gain additional insight into the manager’s values and business practices. A firm’s corporate culture affects its ability to recruit and retain talented individuals and has the potential to influence employee morale. As is the case for presentations at LACERA’s office, each manager is re-ranked on these attributes and all information gathered during the evaluation process and finalist firms are aggregated.

Final Fee Quote
Following the selection of finalist firms, staff requests a final fee quote based on a maximum allocation given current firm and strategy asset levels as well as the specific needs of LACERA’s equity portfolio. To preserve the integrity of the evaluation process and ensure that each manager negotiates in good faith, staff has the ability to withdraw any recommendation to retain a manager if the manager attempts to renegotiate fees subsequent to staff’s recommendation.
**Final Manager Scores**

Final scores are based on information gathered throughout the entire evaluation process. Reference checks are also conducted and the final scores for the active U.S. and Non-U.S. public equity emerging manager search are presented in **Table 1** below.

**Table 1**

<table>
<thead>
<tr>
<th>Investment Manager</th>
<th>Strategy</th>
<th>Final Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global Alpha Capital Management</td>
<td>Global Alpha International Small Cap</td>
<td>95</td>
</tr>
<tr>
<td>CornerCap Investment Counsel</td>
<td>Fundamentals® Small Cap Equity</td>
<td>93</td>
</tr>
<tr>
<td>Matarin Capital Management</td>
<td>Matarin North America Small Cap</td>
<td>91</td>
</tr>
<tr>
<td>Redwood Investments</td>
<td>International Developed Markets</td>
<td>90</td>
</tr>
<tr>
<td>Pacific Ridge Capital Partners</td>
<td>US Micro Cap Value Equity</td>
<td>85</td>
</tr>
<tr>
<td>Cedar Street Asset Management</td>
<td>International Small Cap Value</td>
<td>did not meet MQs</td>
</tr>
</tbody>
</table>


MANAGER ASSESSMENT
CORNERCAP INVESTMENT COUNSEL LLC (FINAL SCORE 93)

Organization
CornerCap Investment Counsel (CornerCap) was co-founded in 1989 by two former employees of RJR Investment Management, President Gene Hoots and Chief Investment Officer, Tom Quinn, after the leveraged buyout of RJR Nabisco by Kohlberg Kravis Roberts. Prior to founding CornerCap, Mr. Quinn and Mr. Hoots oversaw the $4 billion RJR Nabisco pension fund and served as the in-house advisers with day-to-day management responsibility for the portion of the plan managed internally. Headquartered in Atlanta, CornerCap is 100% employee-owned with approximately 95% of the ownership controlled by six principals of the firm.

As of May 31, 2018, CornerCaps’s total assets under management were $1.1 billion, of which $168.4 million was in the Fundametrics® Small Cap Equity strategy proposed for this search. CornerCap estimates approximately $1.4 billion in capacity remaining in the proposed strategy.

Professional Staff
CornerCap’s Fundametrics® Small Cap Equity strategy is managed by a team of three investment professionals based in Atlanta, Georgia. Mr. Jeffrey Moeller, Director of Research and Portfolio Manager (PM), would be the lead portfolio manager for the LACERA account. Mr. Moeller has 18 years of investment experience, 17 of which have been with CornerCap. Mr. Moeller’s broader responsibilities include overseeing the day-to-day execution of CornerCap’s Fundametrics® Research System and directing research related to the firm’s investment products. Mr. Moeller co-manages the strategy with J. Cannon Carr, Chief Investment Officer (CIO) of CornerCap, and Joshua Tucker, the firm’s research analyst. The team of three has an average of 16 years investment experience.

CornerCap’s larger investment team includes three additional members who, alongside Mr. Moeller, Mr. Carr, and Mr. Tucker, comprise the Investment Committee, the body responsible for approving any changes to the Fundametrics® Research System. CornerCap’s Small Cap Equity strategy relies heavily on the model for decision-making. Although the strategy’s PMs do not make buy/sell decisions, they do provide oversight of the model by validating data accuracy and ensuring model integrity.

Investment Process
It is CornerCap’s view that markets can be inefficient, particularly those at the smaller end of the market cap spectrum. The firm believes that these inefficiencies, which result from human emotion, create valuation discrepancies and, therefore, investment opportunities. Adhering to a strict and independent investment discipline irrespective of market conditions can minimize the impact of human emotion in the investment process and has the potential to yield favorable long-term results.

Independent thinking and a conservative value orientation are core investment beliefs and the identification of securities with attractive valuations and, therefore, favorable appreciation
characteristics, begins with CornerCap's proprietary multi-factor fundamental research system called Fundametrics®.

The Fundametrics® Alpha Composite is an unbiased, disciplined method of ranking investment candidates that principally favors stocks with attractive valuations but also takes into account GARP (growth at a reasonable price), momentum, and risk characteristics when ranking securities (typically, value represents 65–75% of the model whereas GARP and momentum factors comprise 25–35%). The firm’s proprietary Financial Warnings Overlay seeks to identify and avoid stocks that exhibit excess risk. Using scores from the Alpha Composite (but discarding those identified in the financial warning overlay), stocks within CornerCap’s small cap investible universe (1,500+ companies) are ranked into deciles based on relative attractiveness. The stocks that rank in the top 30% of the model are considered to be the strategy’s internal benchmark, or theoretical return, assuming frictionless trading and using Friday’s closing price (model is run weekly). The portfolio construction process attempts to replicate the strategy’s internal benchmark as closely as possible. By purchasing stocks from the internal benchmark, CornerCap’s Fundametrics® Small Cap Equity strategy has the potential to outperform its Russell 2000 benchmark.

The strategy’s portfolios are constructed using proprietary software called the Optimizer Portfolio Management system. This optimization software, which is fully integrated with the Fundametrics® Research System, compares the composition of client portfolios to the strategy’s internal benchmark (or, the top three deciles of its Alpha Composite). Stocks in the Alpha Composite’s first decile in GICS sub-industries that are most underweight are prioritized for new buys although stocks in the second decile can be purchased if first decile stocks are either already owned or not otherwise available.

The strategy’s sell decision is also systematic and unemotional in its execution. A stock is sold from the portfolio when it’s Alpha Composite ranking drops into the fifth decile or when it fails the Financial Warnings Overlay. Sells are also triggered when the market cap of a company falls below $50 million or exceeds $5.5 billion. Further, there is a 10% absolute aggregate limit to fourth decile portfolio holdings. When that limit is exceeded, the lowest ranked fourth decile stock(s) is(are) sold.

The result of this process as it relates to the Fundametrics® Small Cap Equity strategy is a diversified portfolio of 200-250 equally weighted stocks. Individual positions are allowed to grow to 150% of the portfolio’s average position size (200 stock portfolio = 50 bps positions) before trims are executed. CornerCap expects the Fundametrics® Small Cap Equity strategy to achieve an annual excess return of 3-4% over a full market cycle.

CornerCap does not currently incorporate ESG factors in its investment process. The firm is in the process of evaluating an ESG data provider and determining whether the data provided can be used effectively within the Fundametrics research process. At this time, CornerCap is not a signatory to the UN Principles for Responsible Investment.
Staff’s Observations

Staff views the investment team’s experience and investment approach as key comparative advantages. During the in-house interview at LACERA, staff came away with a favorable impression of both Mr. Moeller, lead PM, and Mr. Carr, PM and CIO. Both PMs have extensive experience in small cap quantitative investing and a long history of working effectively together.

During on-site due diligence, staff met Mr. Tucker, the strategy’s research analyst, a newer addition to the team but who seemed well qualified. Mr. Tucker demonstrated a deep knowledge of the Fundametrics® Research System and provided further insight into CornerCap’s investment and research processes. Staff also met with Investment Committee members, Thomas Quinn, CEO and co-founder, and Richard Bean, client servicing PM. Although small in number, the team appeared more than capable of executing their investment duties, both in terms of resources and knowledge.

In staff’s view, one of CornerCap’s key comparative advantages is the robustness of their proprietary quantitative model. The firm’s Fundametrics® model efficiently and effectively reduces the strategy’s investment universe of thousands of stocks to a much narrower list of potentially attractive investment opportunities. Other key differentiators include the use of a Financial Warning System that makes detailed use of financial data to avoid value traps and the strict level of discipline used in portfolio construction. CornerCap’s distinctive process has resulted in portfolios that have delivered positive performance over various market cycles. This same approach has been implemented across CornerCap’s strategies since the inception of the firm.

Lastly, CornerCap has a strong performance track record. The Fundametrics® Small Cap Equity strategy has outperformed its benchmark, the Russell 2000 Index, by 230 bps on a net-of-fees basis since the strategy’s inception on August 31, 2006. Further, performance has been consistent with the strategy outperforming the index in 34 of 35 three-year quarterly rolling periods.

A primary concern with respect to CornerCap’s Fundametrics® Small Cap Equity was the make-up of the firm’s client base. The majority of CornerCap’s assets are private client in nature (approximately 75%) with the remainder institutional. Private wealth clients typically have smaller account sizes than institutional clients and can require higher levels of customization and, therefore, attention. Mitigating this concern is the recent hire of a dedicated institutional sales and client service professional whose primary responsibilities are to grow and service the firm’s institutional client base. Additionally, CornerCap’s private client base is characterized by long-standing relationships capable of providing a relatively stable revenue stream throughout market cycles, thereby insulating CornerCap from large cash flows.

Staff believes that CornerCap’s process is differentiated and the firm’s trading, operation, compliance and risk functions sufficiently developed for the management of institutional assets. The investment team is intelligent, experienced, and dedicated to the disciplined execution of the investment process and the continuous improvement of its quantitative model.
Staff has confidence in CornerCap Investment Counsel and recommends CornerCap’s Fundametrics® Small Cap Equity strategy as a finalist candidate for LACERA’s active U.S. and Non-U.S. emerging manager mandate.
MANAGER ASSESSMENT
GLOBAL ALPHA CAPITAL MANAGEMENT (FINAL SCORE 95)

Organization

Global Alpha Capital Management (Global Alpha), headquartered in Montreal, Canada operates as a majority employee-owned affiliate of the Connor, Clark & Lunn Financial Group, Ltd. (CC&L). Since 2012, Global Alpha has been a signatory to the Principles for Responsible Investment (PRI) and a member of the regional Responsible Investment Association (RIA), a Canadian association for responsible investing.

As of May 31, 2018, Global Alpha’s firm assets under management were $1.3 billion, of which approximately $600 million was in the International Small Cap strategy. Global Alpha estimates the capacity for this strategy to be roughly $4-6 billion. Founded in 2008, Global Alpha received financial backing from Connor, Clark & Lunn, a group that provides the firm with back office, compliance, and marketing support. Despite the initial investment, Global Alpha remains a majority employee-owned and independent entity, with an eight member board of directors, six of whom are Global Alpha employees while the remaining two CC&L personnel (according to both entities, CC&L’s role on the board is largely that of a sounding board and support mechanism).

Professional Staff

Global Alpha’s International Small Cap strategy is managed by a team of eight investment professionals. With the team primarily based in Montreal, Robert Beauregard, CFA is Global Alpha’s Chief Investment Officer and Portfolio Manager (PM). Prior to his ten years with Global Alpha, Robert was with the National Bank of Canada (Natcan) where he worked alongside David Savignac, CFA who was also at Natcan at the time. Both focused on the investment management of small cap equities. When Global Alpha was founded in 2008, they brought on Qing Ji, CFA to supplement the investment team. At the time, David focused on developed Europe while Qing focused on developed Asia and the Pacific. In their current roles, Robert, David, and Qing are the strategy’s lead PMs, supported by Serge Depatie, PM, who focuses on materials and healthcare industries. In addition to the four PMs, an additional associate PM and two analysts comprise the International Small Cap investment team. Collectively, the team averages 15 years of investment experience.

Investment Process

Global Alpha believes that the international small cap market offers greater opportunities for growth and pricing inefficiencies as compared to developed markets and large/middle-cap markets where investment sell-side research and coverage is more plentiful. The lack of coverage and information in the international small cap market allows the Global Alpha team to utilize their experience and expertise in fundamental analysis, portfolio construction, and risk management to add value to the client’s investment portfolio.

The focus of Global Alpha’s fundamental analysis is the identification of “unrecognized growth” companies as characterized by strong balance sheets, high insider equity ownership, and business strategies that may be misinterpreted by investors. To support the rigorous fundamental analysis necessary for an advantage relative to peers, the team brings solid experience and an array of
financial designations. Robert Beauregard is a Certified Public Accountant, (CPA) by training and a CFA charter holder. Prior to joining Global Alpha, Qing Ji spent five years at Credit Lyonnais where she developed her skills in credit analysis, worked at Laurentian Bank in equity research focusing on the financials sector, and earned her CFA designation in 2011. Portfolio manager Serge Depatie, who joined the firm as an analyst and was promoted to portfolio manager in 2016, has a background in engineering and work experience in the biotech field now leverages his knowledge in covering biotechnology and materials. Serge also worked at Natcan alongside Robert and David prior to Global Alpha’s inception, and the team chemistry works very well in the fundamental analysis of companies and the team decision-making process.

In GlobalAlpha’s fundamental research process, the team first screens the MSCI EAFE Small Cap universe which consists of roughly 2,200 constituent companies. The PMs then participate in on-site company visits and industry conferences. Information is aggregated and digested to build out business models and growth projections to identify the “unrecognized growth” companies. Companies with good secular tail winds, positive intrinsic values on their balance sheet, and high ranks in environmental, social, and governance factors qualify for an approved list of approximately 150 high conviction names. Global Alpha’s International Small Cap strategy consists of a concentrated portfolio of 50-70 holdings of these best ideas once portfolio construction is complete.

**Staff’s Observations**

Global Alpha’s International Small Cap strategy launched in 2009, has regularly outperformed its blended benchmark of the MSCI EAFE Small Cap and MSCI EAFE Small Cap + Canada. In additional to its headquarters in Montreal, Global Alpha operates a regional office in Vancouver to help facilitate access to Asia when meeting with companies that may fit Global Alpha’s investment theme. The organization includes both the breadth and depth of experience of a seasoned investment team that work well together and operates in a cohesive and efficient manner. In meeting with the Global Alpha investment team, each member discussed the value of the culture at Global Alpha and made that a priority as one of the key assets of the firm. The team at Global Alpha is diverse, young, and talented. With strategy assets of $600 million, LACERA is able to allocate a meaningful allocation to the International Small Cap portfolio and truly become a partner, as Global Alpha aims to exceed $2 billion in firm assets. In the prior three years, Global Alpha has not lost any mandates, nor have they lost any key staff members. They have, however, managed to grow the business organically, add experienced professionals to the team, and promote from within the organization, reinforcing a culture that the employees have come to value.

In summary, staff believes that the international small cap space is an opportunity to capitalize on market inefficiencies and that Global Alpha is able to capitalize on these inefficiencies. Staff considers Global Alpha’s investment team to be knowledgeable and insightful, its process to be differentiated and rigorous, and its operational procedures and controls to be of institutional quality. For these reasons, staff recommends Global Alpha’s International Small Cap strategy as a finalist for LACERA’s active U.S. and Non-U.S. emerging manager mandate.
MANAGER ASSESSMENT
MATARIN CAPITAL MANAGEMENT LLC (FINAL SCORE 91)

Organization

Matarin Capital Management LLC (Matarin), founded in 2010 by Stuart Kaye, Nili Gilbert, and Valerie Malter, is a women-owned business and is 100% employee-owned by the firm’s five principals. Matarin is headquartered in New York and offers investment management services for U.S. large and small capitalization (cap) equity strategies.

Matarin offers four primary investment strategies: 1) Matarin Large Cap Core, 2) Matarin North America Small Cap (NASC), 3) Matarin MicroCap, and 4) Matarin Market Neutral U.S. Plus (LP fund). The firm has eight employees, four of which comprise the investment team.

As of May 31, 2018, Matarin’s assets under management were $1.4 billion, of which $1.2 billion is in the North America Small Cap product. Matarin estimates approximately $200-300 million in capacity remaining in the proposed strategy.

Previously, Matarin was a sub-manager within LACERA’s U.S. Equity Emerging Manager of Manager Program from May 2017 until LACERA’s termination of the program in September 2017, managing a Large Cap Core strategy for LACERA through Northern Trust, one of LACERA’s two fund-of-funds emerging manager advisors.

Professional Staff

Matarin’s investment team consists of Stuart Kaye, Nili Gilbert, and Ralph Countant. The three portfolio managers (PMs) are responsible for Matarin’s proprietary model development, portfolio construction, and the day-to-day management of all investment strategies. Mr. Kaye, Ms. Gilbert, and Mr. Countant have extensive investment experience, managing client assets for over 28, 14, and 18 years, respectively. In sum, the team of three has an average of 20 years of investment experience and has worked together for over 14 years. Further, prior to founding Matarin in 2010, all three members of the investment team worked together at Invesco managing strategies similar to those at Matarin.

With respect to investment team interaction in the portfolio construction process, Matarin’s portfolio managers have no latitude individually. Rather, all portfolios are managed identically across the strategy by the entire team utilizing Matarin’s quantitative approach to capture fundamental investment insights.

Investment Process

With an investment process that combines both fundamental and quantitative methods of investing, Matarin believes it can add value as an active manager by taking advantage of stock market inefficiencies that occur in short and intermediate time frames. Factors that drive these market inefficiencies are behavioral biases exhibited by market participants. These biases are natural in human decision-making but can be detrimental to investment results if left unchecked. The firm’s investment process is focused on identifying long term fundamentals that drive stock returns and then quantifying these fundamental insights so they can be expressed in the marketplace absent
typical investor emotions and biases. This allows the firm to take advantage of inevitable pricing inefficiencies as they occur. Further, Matarin’s quantitative model attempts to forecast the type of inefficiency that will be most rewarded in the current market environment (e.g. valuation vs. momentum) and gradually tilts the portfolio towards those investments that are expected to be most successful in the near term.

The firm’s process for stock selection are focused on four fundamental investment concepts: 1) business, 2) people, 3) price, and 4) catalyst. The team’s research focuses on identifying new aspects of these fundamental concepts which are significant and consistent over time and, when incorporated, have the potential to improve the strategy’s risk/return profile. Once the model has been determined, it is used consistently to capture these factors in a multi-step process that includes portfolio construction, peer group classification, and the implementation of the firm’s proprietary stock selection model. A risk model is then introduced and portfolio optimization performed taking into account transaction costs. Matarin uses Northfield’s risk model to optimize the risk characteristics of the portfolio and is able to minimize expected total risk for a given expected return or maximize total expected return on a risk-adjusted basis.

Matarin constructs portfolios using a “bottom-up” approach such that the primary determinant of excess return is stock selection and the corresponding weight of each security within the portfolio. Accordingly, portfolio sector and industry weights may differ materially from those of its benchmark. These positive and negative exposures are typically established when the team’s multi-factor model identifies opportunities to exploit mispricing that is broader than a single stock investment. In managing risk, portfolios may be constructed to maintain exposures within a tighter (or broader) range around the benchmark’s sector and industry weights.

The result is a well-diversified portfolio holding approximately 120-180 stocks. Individual positions are typically established with a maximum overweight of 1% but are allowed to increase to a 2% overweight given valuation characteristics relative to other investment opportunities. The portfolio is evaluated daily to ensure its holdings are in line with the desired characteristics and objectives of the model.

Although Matarin does not have an overarching Environmental, Social, and Governance (ESG) policy, the firm has made a significant effort to identify and test potential ESG factors. Matarin believes they have identified several factors that have the potential to add value, either from a return or risk perspective, and the team continues to investigate ESG data for possible inclusion in the investment process. As of this writing, Matarin is not a signatory to the Principles for Responsible Investment.

Matarin expects the NASC strategy to achieve an annual excess return of 4-6% relative to the Russell 2000 Index with an expected tracking error of 4-7% across a full market cycle.

Staff’s Observations

Staff views the portfolio management team’s experience, knowledge, investment approach, and collegial culture as the firm’s key comparative advantages. During the in-house interview, staff met with Stuart Kaye and was impressed with his understanding and explanation of small capitalization stocks as it relates to Matarin’s quantitative Alpha model. Mr. Kaye’s experience
with small cap quantitative investing began twenty-four years prior when he served as CIO of Invesco’s Quantitative Strategies Group. In this role, Mr. Kaye worked alongside Matarin’s two other NASC PMs, Ralph Countant (since 1999) and Nili Gilbert (since 2003).

Further confidence in Matarin’s investment team was gained during the on-site due diligence visit. Staff found all three team members to be succinct in describing Matarin’s investment process and able to explain its complex concepts. Ms. Gilbert and Mr. Countant articulated their individual roles on the team and very clearly shared Mr. Kaye’s passion for investing. Both PMs appeared comfortable with their roles and responsibilities and appeared to have the full confidence of each of their peers.

Staff also determined what distinguishes Matarin from its peers is its blended investment approach that combines both fundamental analysis and quantitative models. The fundamental portion of the process relies on years of research identifying the fundamental drivers of future stock returns while the quantitative piece focuses on mitigating the risk of behavioral bias that is typically found in fundamental investment processes.

Lastly, Matarin has a flat organizational structure that eliminates multiple layers of decision-making and creates an environment that is nimble and where employees are engaged. The firm’s culture is collegial and collaborative, allowing for investment decisions to be made with unfettered input by the entire team. Given the firm’s team-based approach to investing, there would be minimal impact if one were to leave.

A primary concern regarding Matarin relates to the potential for a conflict of interest between key personnel. During the firm’s in-house interview at LACERA, staff learned Ms. Malter, who oversees the executive team (including the areas of finance, operations, and compliance), is the spouse of Mr. Kaye who heads the investment team. Concern that the couple’s personal relationship would result in weaker risk controls and compliance oversight has been adequately mitigated as the firm’s chief compliance function is neither under Ms. Malter’s nor Mr. Kaye’s purview (although compliance duties are temporarily being performed by Matarin’s director of operations (who is, in turn, overseen by an external compliance consultant) while the firm works to replace its prior CCO who departed (for personal reasons) during the search process). Staff intends to continue to monitor the firm with respect to this issue.

Staff perceives that Matarin’s investment philosophy and process are differentiated and the firm’s trading, operations, compliance, and risk functions sufficiently developed and suitable for an institutional client. The investment team is intelligent, experienced, and engaged and positively benefits from the firm’s collegial culture.

Staff has confidence in Matarin Capital Management and recommends Matarin’s North America Small Cap equity strategy as a finalist for LACERA’s active U.S. and Non-U.S. emerging manager mandate.
# PHASE ONE: TOTAL MANAGER SCORE

<table>
<thead>
<tr>
<th>Investment Manager</th>
<th>RFP (Qualitative)</th>
<th>Risk Factors (Quantitative)</th>
<th>Total 100%</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Redwood Investments</td>
<td>90</td>
<td>95</td>
<td>91</td>
</tr>
<tr>
<td>2 Global Alpha Capital Management</td>
<td>86</td>
<td>90</td>
<td>87</td>
</tr>
<tr>
<td>3 Matarin Capital Management</td>
<td>87</td>
<td>84</td>
<td>86</td>
</tr>
<tr>
<td>4 Summit Global Investments</td>
<td>78</td>
<td>100</td>
<td>84</td>
</tr>
<tr>
<td>5 CornerCap Investment Counsel</td>
<td>81</td>
<td>84</td>
<td>82</td>
</tr>
<tr>
<td>6 Isthmus Partners</td>
<td>77</td>
<td>86</td>
<td>80</td>
</tr>
<tr>
<td>7 Pacific Ridge Capital Partners</td>
<td>76</td>
<td>87</td>
<td>80</td>
</tr>
<tr>
<td>8 New Amsterdam Partners</td>
<td>81</td>
<td>76</td>
<td>79</td>
</tr>
<tr>
<td>9 Pacific View Asset Management</td>
<td>75</td>
<td>91</td>
<td>79</td>
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<tr>
<td>10 Granite Investment Partners</td>
<td>76</td>
<td>81</td>
<td>78</td>
</tr>
<tr>
<td>11 Bridge City Capital</td>
<td>73</td>
<td>89</td>
<td>78</td>
</tr>
<tr>
<td>12 Cedar Street Asset Management (did not meet minimum qualifications)</td>
<td>72</td>
<td>88</td>
<td>77</td>
</tr>
<tr>
<td>13 Oak Associates Large Cap Growth</td>
<td>70</td>
<td>79</td>
<td>72</td>
</tr>
<tr>
<td>14 Oak Associates All Cap Core Growth</td>
<td>70</td>
<td>75</td>
<td>71</td>
</tr>
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</table>
## ANNUALIZED MANAGER PERFORMANCE
### AS OF MARCH 31, 2018

<table>
<thead>
<tr>
<th>Years</th>
<th>One</th>
<th>Three</th>
<th>Five</th>
<th>Seven</th>
<th>Since Inception*</th>
</tr>
</thead>
<tbody>
<tr>
<td>CornerCap Fundametrics® Small Cap Equity (gross of fees)</td>
<td>7.1%</td>
<td>9.9%</td>
<td>14.5%</td>
<td>13.3%</td>
<td>11.3%</td>
</tr>
<tr>
<td>CornerCap Fundametrics® Small Cap Equity (net of fees)¹</td>
<td>6.0</td>
<td>8.7</td>
<td>13.2</td>
<td>12.3</td>
<td>10.4</td>
</tr>
<tr>
<td>Russell 2000 Index</td>
<td>11.8</td>
<td>8.4</td>
<td>11.5</td>
<td>10.4</td>
<td>8.2</td>
</tr>
<tr>
<td>eVestment Small Cap Median</td>
<td>11.7</td>
<td>8.9</td>
<td>12.1</td>
<td>11.4</td>
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</tbody>
</table>

*Inception date September 2006

<table>
<thead>
<tr>
<th>Years</th>
<th>One</th>
<th>Three</th>
<th>Five</th>
<th>Seven</th>
<th>Since Inception*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global Alpha International Small Cap (gross of fees)</td>
<td>26.3%</td>
<td>16.7%</td>
<td>16.3%</td>
<td>12.4%</td>
<td>14.4%</td>
</tr>
<tr>
<td>Global Alpha International Small Cap (net of fees)¹</td>
<td>25.3</td>
<td>15.8</td>
<td>15.3</td>
<td>11.4</td>
<td>13.5</td>
</tr>
<tr>
<td>MSCI EAFE Small Cap Index (Net)</td>
<td>23.5</td>
<td>12.3</td>
<td>11.1</td>
<td>8.7</td>
<td>10.4</td>
</tr>
<tr>
<td>eVestment EAFE Small Cap Median</td>
<td>24.4</td>
<td>12.9</td>
<td>12.1</td>
<td>10.3</td>
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*Inception date January 2010

<table>
<thead>
<tr>
<th>Years</th>
<th>One</th>
<th>Three</th>
<th>Five</th>
<th>Seven</th>
<th>Since Inception*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Matarin North America Small Cap (gross of fees)</td>
<td>10.3%</td>
<td>8.7%</td>
<td>13.7%</td>
<td>13.5%</td>
<td>13.8%</td>
</tr>
<tr>
<td>Matarin North America Small Cap (net of fees)¹</td>
<td>9.5</td>
<td>7.9</td>
<td>12.9</td>
<td>12.6</td>
<td>13.0</td>
</tr>
<tr>
<td>Russell 2000 Index</td>
<td>11.8</td>
<td>8.4</td>
<td>11.5</td>
<td>10.4</td>
<td>11.2</td>
</tr>
<tr>
<td>eVestment Small Cap Median</td>
<td>11.7</td>
<td>8.9</td>
<td>12.1</td>
<td>11.4</td>
<td></td>
</tr>
</tbody>
</table>

*Inception date January 2011

¹ Net of fee returns are actual composite returns and are not representative of the more favorable fee structures offered to LACERA.
# Calendar Year Manager Performance

**As of December 31, 2017**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
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</thead>
<tbody>
<tr>
<td>CornerCap Fundametrics® Small Cap Equity (gross of fees)</td>
<td>-2.6%</td>
<td>9.3%</td>
<td>30.3%</td>
<td>-0.9%</td>
<td>7.0%</td>
<td>49.6%</td>
<td>18.9%</td>
<td>1.6%</td>
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<tr>
<td>CornerCap Fundametrics® Small Cap Equity (net of fees)¹</td>
<td>-2.8%</td>
<td>8.1%</td>
<td>28.8%</td>
<td>-2.1%</td>
<td>5.7%</td>
<td>47.9%</td>
<td>18.5%</td>
<td>1.3%</td>
</tr>
<tr>
<td>Russell 2000 Index</td>
<td>-0.1</td>
<td>14.7%</td>
<td>21.3%</td>
<td>-4.4%</td>
<td>4.9%</td>
<td>38.8%</td>
<td>16.4%</td>
<td>-4.2%</td>
</tr>
<tr>
<td>eVestment Small Cap Median</td>
<td>-0.3%</td>
<td>14.8%</td>
<td>20.6%</td>
<td>-2.9%</td>
<td>5.1%</td>
<td>41.5%</td>
<td>16.6%</td>
<td>-1.9%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Global Alpha International Small Cap (gross of fees)</td>
<td>2.4%</td>
<td>36.9%</td>
<td>5.0%</td>
<td>19.0%</td>
<td>-1.0%</td>
<td>29.6%</td>
<td>23.0%</td>
<td>-15.3%</td>
</tr>
<tr>
<td>Global Alpha International Small Cap (net of fees)¹</td>
<td>2.2%</td>
<td>35.7%</td>
<td>4.1%</td>
<td>18.1%</td>
<td>-1.8%</td>
<td>28.6%</td>
<td>22.0%</td>
<td>-16.1%</td>
</tr>
<tr>
<td>MSCI EAFE Small Cap Index (Net)</td>
<td>0.2%</td>
<td>33.0%</td>
<td>2.2%</td>
<td>9.6%</td>
<td>-5.0%</td>
<td>29.3%</td>
<td>20.0%</td>
<td>-15.9%</td>
</tr>
<tr>
<td>eVestment EAFE Small Cap Median</td>
<td>0.1%</td>
<td>35.0%</td>
<td>1.7%</td>
<td>10.9%</td>
<td>-3.1%</td>
<td>31.2%</td>
<td>23.3%</td>
<td>-13.5%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Matarin North America Small Cap (gross of fees)</td>
<td>-0.5%</td>
<td>9.7%</td>
<td>26.3%</td>
<td>-1.1%</td>
<td>10.7%</td>
<td>38.5%</td>
<td>19.3%</td>
<td>2.4%</td>
</tr>
<tr>
<td>Matarin North America Small Cap (net of fees)¹</td>
<td>-0.7%</td>
<td>8.9%</td>
<td>25.4%</td>
<td>-1.8%</td>
<td>9.9%</td>
<td>37.5%</td>
<td>18.4%</td>
<td>1.6%</td>
</tr>
<tr>
<td>Russell 2000 Index</td>
<td>-0.1%</td>
<td>14.7%</td>
<td>21.3%</td>
<td>-4.4%</td>
<td>4.9%</td>
<td>38.8%</td>
<td>16.4%</td>
<td>-4.2%</td>
</tr>
<tr>
<td>eVestment Small Cap Median</td>
<td>-0.3%</td>
<td>14.8%</td>
<td>20.6%</td>
<td>-2.9%</td>
<td>5.1%</td>
<td>41.5%</td>
<td>16.6%</td>
<td>-1.9%</td>
</tr>
</tbody>
</table>

¹ Net of fee returns are actual composite returns and are not representative of the more favorable fee structures offered to LACERA.
SOURCE: Zephyr StyleADVISOR
## QUANTITATIVE PERFORMANCE AND RISK METRICS

**As of June 30, 2017**

<table>
<thead>
<tr>
<th>Rank</th>
<th>Manager</th>
<th>Excess Return</th>
<th>Up Capture</th>
<th>Down Capture</th>
<th>Correlation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Oak Associates LTD All Cap Core Growth</td>
<td>(0.06)</td>
<td>158.5%</td>
<td>152.6%</td>
<td>0.48</td>
</tr>
<tr>
<td>2</td>
<td>Oak Associates LTD Large Cap Growth</td>
<td>0.10</td>
<td>140.4%</td>
<td>128.9%</td>
<td>0.37</td>
</tr>
<tr>
<td>3</td>
<td>New Amsterdam Partners LLC</td>
<td>0.05</td>
<td>99.9%</td>
<td>98.6%</td>
<td>-0.10</td>
</tr>
<tr>
<td>4</td>
<td>Granite Investment Partners</td>
<td>(0.07)</td>
<td>75.8%</td>
<td>72.5%</td>
<td>-0.54</td>
</tr>
<tr>
<td>5</td>
<td>Bridge City Capital, LLC</td>
<td>0.41</td>
<td>88.2%</td>
<td>74.8%</td>
<td>-0.49</td>
</tr>
<tr>
<td>6</td>
<td>Pacific View Asset Management LLC</td>
<td>0.63</td>
<td>95.5%</td>
<td>74.2%</td>
<td>-0.19</td>
</tr>
<tr>
<td>7</td>
<td>Matarin Capital Management</td>
<td>0.25</td>
<td>92.9%</td>
<td>87.7%</td>
<td>-0.35</td>
</tr>
<tr>
<td>8</td>
<td>CornerCap Investment Counsel</td>
<td>0.34</td>
<td>98.5%</td>
<td>91.2%</td>
<td>-0.29</td>
</tr>
<tr>
<td>9</td>
<td>Summit Global Investments</td>
<td>0.92</td>
<td>82.1%</td>
<td>41.1%</td>
<td>-0.67</td>
</tr>
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<td>10</td>
<td>Isthmus Partners LLC</td>
<td>0.55</td>
<td>95.5%</td>
<td>82.3%</td>
<td>-0.26</td>
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<tr>
<td>11</td>
<td>Pacific Ridge Capital Partners LLC</td>
<td>0.64</td>
<td>107.5%</td>
<td>91.4%</td>
<td>0.08</td>
</tr>
<tr>
<td>12</td>
<td>Redwood Investments</td>
<td>0.67</td>
<td>91.2%</td>
<td>70.7%</td>
<td>-0.29</td>
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<tr>
<td>13</td>
<td>Cedar Street Asset Management</td>
<td>did not meet minimum qualifications</td>
<td></td>
<td></td>
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<tr>
<td>14</td>
<td>Global Alpha Capital Management</td>
<td>0.66</td>
<td>97.6%</td>
<td>83.1%</td>
<td>-0.21</td>
</tr>
</tbody>
</table>

*Source: Zephyr StyleADVISOR*

---

1. For period common to all managers ending June 30, 2017, sorted in order of receipt.
2. Excess return per unit of excess risk measured by dividing excess return by excess risk.
3. Amount a manager’s performance increases relative to the benchmark in an rising equity market.
4. Amount a manager’s performance declines relative to the benchmark in a falling equity market.
5. Measure of similarity of a manager’s excess returns relative to those of LACERA’s U.S. and Non-U.S. composites. A lower number indicates a greater potential diversification benefit.
## Organizational Information

### Headquarters
1355 Peachtree Street, Suite 1700  Atlanta, GA

### Year Firm Founded
1989

### Where Money is Managed
Atlanta, GA

### Ownership Structure
100% Employee Owned S-Corp

### Year Proposed Product Was Introduced
2006

## Assets Under Management

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Firm Assets Under Management as of 5/31/2018</td>
<td>$1,170.8 million</td>
</tr>
<tr>
<td>Total Product Assets as of 5/31/2018</td>
<td>$168.4 million</td>
</tr>
</tbody>
</table>

### Number of Institutional Clients in Product
3

### Largest Account in Product
$26,980

### Proposed Annual Fee Break Points (Separate Account)

- **Asset based fee:**
  - 55 bps on the first $45 million
  - 50 bps on the balance

- **Proposed effective fee on $100 million (basis points)**: $225
- **Proposed effective fee on $100 million (dollars)**: $522,500
- **Proposed effective fee on $200 million (basis points)**: $1,125
- **Proposed effective fee on $200 million (dollars)**: $1,022,500

## Professional Staff

### Proposed Lead Portfolio Manager(s)
Jeffrey Moeller, CFA; Cannon Carr

### Average Years of Portfolio Management Experience
11

### Number of Research Analysts in Product
1

### Average Years of Research Analyst Experience
8

### Product Professional Additions for the Last 4 Calendar Years

<table>
<thead>
<tr>
<th>Year</th>
<th>Name of Professional</th>
<th>Title</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018 YTD</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>2017</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>2016</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>2015</td>
<td>--</td>
<td>--</td>
</tr>
</tbody>
</table>

### Product Professional Departures for the Last 4 Calendar Years

<table>
<thead>
<tr>
<th>Year</th>
<th>Name of Professional</th>
<th>Title</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018 YTD</td>
<td>--</td>
<td>--</td>
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<td>--</td>
</tr>
<tr>
<td>2016</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>2015</td>
<td>--</td>
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</tr>
</tbody>
</table>

## Proposed Annual Fee Structure

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
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</thead>
<tbody>
<tr>
<td>Proposed Annual Fee Break Points (Separate Account)</td>
<td>Asset based fee:</td>
</tr>
<tr>
<td>Proposed effective fee on $100 million (basis points)</td>
<td>$225</td>
</tr>
<tr>
<td>Proposed effective fee on $100 million (dollars)</td>
<td>$522,500</td>
</tr>
<tr>
<td>Proposed effective fee on $200 million (basis points)</td>
<td>$1,125</td>
</tr>
<tr>
<td>Proposed effective fee on $200 million (dollars)</td>
<td>$1,022,500</td>
</tr>
</tbody>
</table>
## ORGANIZATION

| HEADQUARTERS | Montreal, QC |
| YEAR FIRM FOUNDED | 2008 |
| WHERE MONEY IS MANAGED | Montreal, QC & Vancouver, BC |
| OWNERSHIP STRUCTURE | Partnership |
| YEAR PROPOSED PRODUCT WAS INTRODUCED | 2009 |

## ASSETS UNDER MANAGEMENT

| TOTAL FIRM ASSETS UNDER MANAGEMENT AS OF 5/31/2018 | $1,262.7 |
| TOTAL PRODUCT ASSETS AS OF 5/31/2018 | $599.9 |
| NUMBER OF INSTITUTIONAL CLIENTS IN PRODUCT | 24 |
| LARGEST ACCOUNT IN PRODUCT | $322.7 |

### PRODUCT ASSETS GAINED IN LAST 4 CALENDAR YEARS:

<table>
<thead>
<tr>
<th>YEAR</th>
<th>NUMBER OF NEW CLIENTS</th>
<th>ASSETS GAINED ($MM)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018 YTD</td>
<td>4</td>
<td>$20</td>
</tr>
<tr>
<td>2017</td>
<td>11</td>
<td>$187</td>
</tr>
<tr>
<td>2016</td>
<td>3</td>
<td>$123</td>
</tr>
<tr>
<td>2015</td>
<td>0</td>
<td>$0</td>
</tr>
</tbody>
</table>

### PRODUCT ASSETS LOST IN LAST 4 CALENDAR YEARS:

<table>
<thead>
<tr>
<th>YEAR</th>
<th>NUMBER OF LOST CLIENTS</th>
<th>ASSETS LOST ($MM)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018 YTD</td>
<td>0</td>
<td>$0</td>
</tr>
<tr>
<td>2017</td>
<td>0</td>
<td>$0</td>
</tr>
<tr>
<td>2016</td>
<td>0</td>
<td>$0</td>
</tr>
<tr>
<td>2015</td>
<td>0</td>
<td>$0</td>
</tr>
</tbody>
</table>

## PROFESSIONAL STAFF

### PROPOSED LEAD PORTFOLIO MANAGER(S)

| Robert Beauregard |

### AVERAGE YEARS OF PORTFOLIO MANAGEMENT EXPERIENCE

| 11 |

### NUMBER OF RESEARCH ANALYSTS IN PRODUCT

| 2 |

### AVERAGE YEARS OF RESEARCH ANALYST EXPERIENCE

| 4 |

### PRODUCT PROFESSIONAL ADDITIONS FOR THE LAST 4 CALENDAR YEARS

| 2018 YTD | Tracy Li, Anthony Sutton | Analyst, Analyst/Trader |
| 2017 | Janine Tran Lam | Manager |
| 2016 | - | - |
| 2015 | Serge Depatie | Portfolio Manager |

### PRODUCT PROFESSIONAL DEPARTURES FOR THE LAST 4 CALENDAR YEARS

| 2018 YTD | - | - |
| 2017 | - | - |
| 2016 | - | - |
| 2015 | - | - |

## PROPOSED ANNUAL FEE STRUCTURE

### Proposed Annual Fee Break Points (Separate Account)

| $1 - $100m @ 76bps | $101m and above @ 65bps |

### Proposed effective fee on $100 million (basis points)

| 76 |

### Proposed effective fee on $100 million (dollars)

| $760,000.00 |

### Proposed effective fee on $200 million (basis points)

| 70.5 |

### Proposed effective fee on $200 million (dollars)

| $1,500,000.00 |
### ORGANIZATION

<table>
<thead>
<tr>
<th>Headquarters</th>
<th>New York, NY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year Firm Founded</td>
<td>2010</td>
</tr>
<tr>
<td>Where Money is Managed</td>
<td>New York, NY</td>
</tr>
<tr>
<td>Ownership Structure</td>
<td>LLC; 100% Employee Owned</td>
</tr>
<tr>
<td>Year Proposed Product Was Introduced</td>
<td>2011</td>
</tr>
</tbody>
</table>

### ASSETS UNDER MANAGEMENT

<table>
<thead>
<tr>
<th>Total Firm Assets Under Management as of 5/31/2018</th>
<th>$1.4 Billion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Product Assets as of 5/31/2018</td>
<td>$1.16 Billion</td>
</tr>
<tr>
<td>Number of Institutional Clients in Product</td>
<td>21 client accounts</td>
</tr>
<tr>
<td>Largest Account in Product</td>
<td>$215 Million</td>
</tr>
</tbody>
</table>

#### PRODUCT ASSETS GAINED IN LAST 4 CALENDAR YEARS:

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of New Clients</th>
<th>Assets Gained ($MM)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018 YTD</td>
<td>1</td>
<td>$100 million (M)</td>
</tr>
<tr>
<td>2017</td>
<td>7</td>
<td>$341 M</td>
</tr>
<tr>
<td>2016</td>
<td>6</td>
<td>$123 M</td>
</tr>
<tr>
<td>2015</td>
<td>8</td>
<td>$344 M</td>
</tr>
</tbody>
</table>

#### PRODUCT ASSETS LOST IN LAST 4 CALENDAR YEARS:

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of Lost Clients*</th>
<th>Assets Lost ($MM)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018 YTD</td>
<td>1*</td>
<td>$38 M</td>
</tr>
<tr>
<td>2017</td>
<td>3*</td>
<td>$57 M</td>
</tr>
<tr>
<td>2016</td>
<td>1*</td>
<td>$57 M</td>
</tr>
</tbody>
</table>

*All lost clients due to manager of emerging managers losing mandate.

Matarin has never lost a direct client.

### PROFESSIONAL STAFF

**Proposed Lead Portfolio Manager(s):**

Stuart Kaye, Nili Gilbert, Ralph Coutant

**Average Years of Portfolio Management Experience:**

20

**Number of Research Analysts in Product:**

0

**Average Years of Research Analyst Experience:**

NR

#### PRODUCT PROFESSIONAL ADDITIONS FOR THE LAST 4 CALENDAR YEARS

<table>
<thead>
<tr>
<th>Year</th>
<th>Name of Professional</th>
<th>Title</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018 YTD</td>
<td>Eli Rietti</td>
<td>Junior Inv Team Member</td>
</tr>
<tr>
<td>2017</td>
<td>None</td>
<td>None</td>
</tr>
<tr>
<td>2016</td>
<td>None</td>
<td>None</td>
</tr>
<tr>
<td>2015</td>
<td>None</td>
<td>None</td>
</tr>
</tbody>
</table>

#### PRODUCT PROFESSIONAL DEPARTURES FOR THE LAST 4 CALENDAR YEARS

<table>
<thead>
<tr>
<th>Year</th>
<th>Name of Professional</th>
<th>Title</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018 YTD</td>
<td>None</td>
<td></td>
</tr>
<tr>
<td>2017</td>
<td>None</td>
<td></td>
</tr>
<tr>
<td>2016</td>
<td>None</td>
<td></td>
</tr>
<tr>
<td>2015</td>
<td>None</td>
<td></td>
</tr>
</tbody>
</table>

### PROPOSED ANNUAL FEE STRUCTURE

**Proposed Annual Fee Break Points (Separate Account):**

1st $10 million (M): 100bps;  
next $50 M: 70bps;  
next $40 M: 60 bps;  
above $100 M: 40 bps

*If the account is greater than or equal to $125 million at funding, an overall account relationship discount of 5% will be applied on all assets.

**Proposed effective fee on $100 million (basis points):**

69 bps

**Proposed effective fee on $100 million (dollars):**

$690,000

**Proposed effective fee on $200 million (basis points):**

51.8 bps

$125 M = 60 bps;  
$150 M = 56.4 bps;  
$200 M = 51.8 bps
1. Please describe your investment philosophy.

CornerCap believes that markets are inefficient, especially small cap markets. The firm also believes that human emotion and bias creates extremes and further inefficiencies, and therefore opportunity. By minimizing our own emotions and relying on discrete fundamental factors that can be measured objectively to capitalize on the emotions of others, the strategy can produce superior returns. Independent research and a conservative value orientation are at the core of the firm's beliefs.

2. In what market environment would you expect your product to outperform/underperform?

**Favorable market environment:** CornerCap’s investment philosophy is to purchase stocks with attractive fundamentals at below market valuations all while minimizing the effects of human emotion. This strategy works well in many market environments, but in most cases, two primary characteristics need to be present for the Fundametrics® Small Cap Equity strategy to outperform. The first is an environment where value factors show discrimination and are positive or neutral (i.e. valuation matters). Valuation is the primary style that makes up our Fundametrics® Alpha composite. When low valuation stocks outperform or are neutral, this strategy has outperformed its external benchmark. Even in a growth market, if valuation “matters” the strategy can still outperform given the diversified nature of the Alpha Composite with valuation, acceleration and GARP factors. The other characteristic is a rational market or a market that is not experiencing emotional extremes of greed or fear.

**Unfavorable market environment:** The Fundametrics® Small Cap Equity strategy has the potential to underperform its benchmark in three types of environments. The first is a market where valuation is not positive or at least neutral. The second is in more of an extreme growth market where valuations are less important and investors seem to deemphasize risk elements. Finally, very narrow markets where a few attributes, a market cap range or a very narrow group of stocks lead the market are also environments where the strategy could underperform.

3. Please describe how your portfolio construction process is the most efficient method for implementing your stock selection ideas.

CornerCap’s core competency is in identifying statistical fundamental factors and attributes that most likely predict alpha or identify excess risk. We acknowledge that the selection process can be wrong for any one individual or small group of stocks. As a result, portfolios are constructed with a broad, diversified group of equally weighted securities to minimize individual stock risk in favor of a portfolio that reflects the attractive fundamental characteristics utilized in the Alpha Composite. The portfolio is more heavily weighted to the stocks that compose the Internal Benchmark (top 30% of the Alpha Composite). Maximum limits are placed on stocks ranked in the 4th decile to further the weighting to the top 30% ranked stocks.
4. What do you consider the greatest risk to your active U.S. small capitalization equity portfolio?

The greatest risk to the Fundametrics Small Cap Equity strategy is risk of underperformance relative to the benchmark. This generally occurs when fundamentals and stock prices disconnect. This happens at rapid market inflection points or in environments where valuation factors are not at least neutral, extreme growth markets where risk elements are de-emphasized or very narrow markets. These types of markets are generally short-term in duration and fundamentals win out through a full market cycle.

5. What is your firm’s competitive advantage in the U.S. small capitalization equity space?

CornerCap’s competitive advantage derives from three areas: 1) the firm knows what matters in small cap research after 25+ years of experience, which is made manifest in the firm’s internal small cap benchmark; 2) the firm knows how to implement that knowledge consistently and objectively, through the alpha composite and the Financial Warnings (risk) overlay; and 3) the firm invests heavily in proprietary software and programming, as embodied in the Fundametrics® research system and the Optimizer portfolio management software.

The internal benchmark is the universe of Fundametrics® BUYS that is created from the top 30% ranked stocks in the Alpha Composite on a weekly basis. This universe of stocks, from which new ideas are added to the portfolio, has demonstrated better long term returns than the Russell 2000 Value index.

The Alpha Composite is a combination of thirteen unique and uncorrelated factors compiled after testing and observation for alpha generation in actual, not back-tested, market environments.

The Financial Warnings overlay provides a systematic and efficient way to identify and avoid stocks with characteristics of excess risk. This overlay supersedes Alpha Composite rankings. Stocks can rank favorably with all the characteristics of potential alpha but failing Financial Warnings will exclude them from contention or cause them to be sold from the portfolio.
**Portfolio Managers**

**Jeffrey P. Moeller, CFA, Director of Research and Portfolio Manager**
17 years with CornerCap

Jeff is the Director of Research and Portfolio Manager, overseeing the day-to-day execution of Fundametrics® and research of the firm’s investment products. He is a member of the investment committee and Portfolio Manager. He co-manages the three CornerCap mutual funds (Small Cap Value, Large/Mid Cap Value, and Balanced). Jeff joined CornerCap in 2000 and served as the firm’s trader for three years. He returned in 2004 in his present capacity. Jeff is a Chartered Financial Analyst (CFA) Charterholder and a member of the CFA Institute and the Atlanta Society of Finance and Investment Professionals. He has a BS in Finance from Oklahoma State University.

**J. Cannon Carr, Jr., Chief Investment Officer**
11 years with CornerCap

Cannon is the Chief Investment Officer of CornerCap. He joined the firm in June 2007, after being a client for over seven years, and leads the weekly investment committee meetings. Prior to joining CornerCap, Cannon was a senior equity analyst at CIBC World Markets (formerly Oppenheimer), covering IT business services (2006-07), wireless services (2001-05), and emerging telecom (1998-05). Cannon has provided commentary on CNBC, CNN, Lou Dobbs MoneyLine, and Bloomberg News. He has also been quoted in the New York Times, Wall Street Journal, Financial Times, and Fortune, among other publications. He was rated a five-star analyst by Zachs Research in 2006. Cannon has an MBA from Columbia Business School and a BA from Princeton University in Political Economy. Cannon heads the investment committee for the Wesleyan College endowment, serves on the Advisory Board for the Center for Ethics at Emory University, is a Board member with the Technical College System of Georgia Foundation, is an officer at the Atlanta Rotary Club, and serves as Chair of the Georgia Tennis Foundation, among other nonprofit endeavors.

**Research Analyst**

**Joshua Tucker, CFA, Research Analyst**
4 years with CornerCap

Josh is a Research Analyst and a member of the investment committee. He joined CornerCap in January 2014 after completing a research internship with the firm in 2013. Josh holds an MBA from Scheller College of Business at Georgia Institute of Technology and a BS in Business Administration with a major in Finance from Mississippi State University. Prior to business school, Josh worked as a research associate where he was responsible for individual stock analysis as well as macroeconomic research. He is a Chartered Financial Analyst (CFA) Charterholder and a member of the CFA Institute and the Atlanta Society of Finance and Investment Professionals.
**Investment Committee**

**Thomas E. Quinn, CFA, CPA, CEO**
29 years with CornerCap

Tom is CEO of CornerCap Investment Counsel and is a member of the investment committee. He and Gene Hoots co-founded the firm, which was incorporated in 1989. Tom is also President and Treasurer of the CornerCap Group of Funds. His previous positions included being Chief Investment Officer of RJR Investment Management, Inc., the investment advisory subsidiary of RJR Nabisco, and a consultant for Arthur Andersen & Co. He is a Chartered Financial Analyst (CFA) Charterholder and a member of the CFA Institute and the Atlanta Society of Finance and Investment Professionals. He is a certified public accountant (CPA) and a member of the American Institute of Certified Public Accountants (AICPA). Tom serves as Chairman of the Episcopal Diocese of Atlanta Foundation and Chairman of the Episcopal Diocese of Atlanta Long Term Investment Committee for the Diocese's Common Fund. He is also Chairman of the Midtown Atlanta Rotary Foundation and serves on the Board of the Church Investment Group. He has an MS in Industrial and Systems Engineering from Ohio University and an MBA from the University of North Carolina at Greensboro.

**Richard T. Bean, CFA, CPA, Senior Vice President and Portfolio Manager**
22 years with CornerCap

Richard is a Senior Vice President of CornerCap Investment Counsel and member of the investment committee. He oversees the wealth advisory practice. Prior to joining the firm in 1996 he worked for an employee benefits and actuarial firm. He is a Chartered Financial Analyst (CFA) Charterholder and a member of the CFA Institute and the Atlanta Society of Finance and Investment Professionals. He is also a certified public accountant (CPA) and a member of the American Institute of Certified Public Accountants (AICPA). Richard has a BS in Finance from the University of Southern Mississippi.

**Mark H. Tucker, CFA; Vice President and Portfolio Manager**
9 years with CornerCap

Mark is a Portfolio Manager and a member of the investment committee. He also oversees CornerCap’s proprietary statistical modeling and analysis tools. Prior to joining CornerCap in 2009, Mark served as a portfolio manager and securities analyst at a local Atlanta investment advisory firm. He previously worked in the equity research department of SunTrust Robinson Humphrey. He is a Chartered Financial Analyst (CFA) Charterholder and a member of the CFA Institute and the Atlanta Society of Finance and Investment Professionals. He has a BA in Economics from The University of the South–Sewanee.
1. **Please describe your investment philosophy.**

The Small Cap universe is unique, typically not having the same sell side coverage from analysts and fund managers when comparing to widely-covered large cap universes. This lack of coverage creates informational and pricing inefficiencies. The Global Alpha strategy identifies these "unrecognized growth" companies with accelerating earnings, fortress balance sheets, high insider ownership and a business strategy misinterpreted by investors. The investment team utilizes a bottom-up, research-based approach to identify these inefficiencies combined with embedded global themes to produce a conviction based portfolio with sustainable alpha.

Global Alpha believes its philosophy will be successful in the future because of its focus on global growth themes and trends. In addition to selecting stocks that possess strong fundamental characteristics (strong relative industry growth, low levels of debt, strong management team, etc.); Global Alpha also focuses on companies who have exposure to global trends and growth areas. By selecting strong stocks which the team believes will benefit from these global growth trends, Global Alpha believes its philosophy will continue to generate strong risk adjusted returns for its clients.

2. **In what market environment would you expect your product to outperform/underperform?**

The Global Alpha process tends to outperform when markets reward quality, growth companies. An example of a period when Global Alpha would experience outperformance would be a market environment that rewards these high quality, high growth companies which have sound fundamentals.

Conversely, Global Alpha tends to underperform during periods when deep value, cyclical stocks have short-term momentum. An example is a market environment where equity valuations are stretched and momentum-driven stocks outperform those with sound fundamentals.
3. Please describe how your portfolio construction process is the most efficient method for implementing your stock selection ideas.

PORTFOLIO CONSTRUCTION & RISK MANAGEMENT

≈ 70% OF RISK IS STOCK SPECIFIC

Stock Risk
- Maximum individual stock weight 5%
- Most names between 1% and 2.5%

≈ 30% OF RISK IS INDUSTRY GROUP AND CURRENCY

Sector/Industry Risk
- Minimum of 9 out of 11 sectors
- Minimum of 18 out of 24 GIC Industry groups
- No GIC Industry > 10%

Country/Currency Risk
Region Constraints
- Benchmark weight
  - Region <25% +/- 10%
  - Region ≥ 25% +/- 1/3rd of the weight

ADDED VALUE TARGET OF 3% PER YEAR TRACKING ERROR OF 3.6% PER YEAR

The Small Cap universe is unique, typically not having the same sell side coverage from analysts and fund managers when comparing to widely-covered large cap universes. This lack of coverage creates informational and pricing inefficiencies. The Global Alpha International Small Cap strategy identifies these "unrecognized growth" companies with accelerating earnings, fortress balance sheets, high insider ownership and a business strategy misinterpreted by investors. The investment team utilizes a bottom-up, research-based approach to identify these inefficiencies combined with embedded global themes to produce a conviction based portfolio with sustainable alpha. Stock selection is then the primary driver of performance attribution and Global Alpha’s bottom-up stock selection process is guided by key international themes that drive growth potential.

Currently, the team tends to favor companies that benefit from the following investment themes: R&D innovation, consumer products, environment, demographics and outsourcing. The portfolio construction process starts with the selection of the portfolio managers’ highest conviction stocks leaning into the investment themes that will drive significant long-term growth. The team favors stocks with the largest gap between the unrecognized growth and current price. Next, the portfolio managers weave into the portfolio names that are attractive, but also benefit from shorter-term cyclical or secular trends. The team then balances out the attributes of the individual stocks to ensure that most of the portfolio risk is stock specific, not industry or currency risk.

The firm is conscious that its investment in a company finances its emission of greenhouse gases. ISS-Ethix assesses Global Alpha’s portfolios and Global Alpha is pleased to report that as of June
30, 2017 the carbon intensities of the International Small Cap portfolio is well below their benchmarks and peer groups.

The overall annual carbon footprint of the International Small Cap portfolio (Scopes 1 & 2) is 75.6 tonnes of CO2e per USD million invested (7,561 tonnes are for USD 100 million invested), which is 65% less carbon intense than an equivalent investment in its benchmark, the MSCI EAFE Small Cap Index.

What are Scopes 1 & 2 & 3?

Scope 1 is defined as emissions from sources that are owned or controlled by the organization; for example, from burning fossil fuels or emissions released during the production process.

Scope 2 is defined as emissions from the consumption of purchased electricity, heat, steam or other sources of energy (e.g. chilled water) generated upstream from the organization.

Scope 3 is defined as emissions that are a consequence of the operations of an organization but are not directly owned or controlled by the organization; for example, emissions generated by business travel.

Looking at figures made available by asset managers in the global investment universe, ISS-Ethix believes the average carbon intensity of a portfolio is between 240 and 326 tonnes of CO2e. The carbon intensity of our portfolios is well below average, with our International Small Cap portfolio at 76 tonnes.

By selecting strong stocks which Global Alpha believes will benefit from these global growth trends, the firm believes its philosophy will continue to generate strong risk adjusted returns for its clients.

The maximum stock weight is 5%. Most names have weights between 1% and 2.5%. A position is usually initiated between 0.75% and 1.5%.

4. What do you consider the greatest risk to your active International Small Capitalization equity portfolio?

Stock specific risk is considered the greatest risk in Global Alpha’s portfolio. With a high non-factor risk ratio, the portfolio typically has over 70% of its’ expected tracking error risk stemming from idiosyncratic, stock-specific sources. In this aspect, risk can be measured by a single security’s capacity to grow earnings and keep or improve its earnings multiple. As stock pickers, the firm aims to ensure that alpha is added from stock picking while neutralizing risks associated with country and currency selection.

As of Q1 2018, 85% of the portfolio risk derives from non-factor risk. The balance comes from factor risk (Country 6.5%; Industry risk 4.4%; Style risk 2.5%; Currency risk 2.2%).

Source: RFP Respondent
5. **What is your firm’s competitive advantage in the International Small Capitalization equity space?**

Global Alpha believes that the key to generating consistent added value for clients over time is by creating portfolios from the bottom-up using a global thematic perspective and a risk-controlled, high-conviction approach.

The team focuses on adding value through careful stock selection. This bottom-up fundamental approach is combined with management interviews to identify companies with features that include a sustainable competitive advantage, clearly defined growth strategies, and a strong balance sheet. Detailed financial analysis is conducted to determine whether a good company also offers an attractive investment opportunity. Discounted cash flow analysis is used to identify stocks that are trading at a significant discount to intrinsic value along with the catalysts expected to drive realization to their true value.

Global Alpha believes a distinguishing factor in their methodology is the “one stock, one view” approach across the team. This creates a cohesive team of global research specialists that are able to translate regional stock views into a low turnover, focused portfolio of approximately 60 companies.

The team believes that the following qualities of their philosophy and process, in conjunction with the aforementioned core philosophical tenets, distinguish them from peers and have enabled their successful investment track record to date:

- Focus on small caps where many peers have research responsibility for stocks of all capitalizations and potentially a broader suite of product offerings.
- Integration of ESG and sustainability criteria into the investment process and company models as a means of both mitigating exogenous business risk for portfolio companies but also as a driver of returns for businesses with competitive advantages in these areas.
- Global Alpha team experience in business management and entrepreneurial ventures prior to joining the investment management industry. The team has a philosophical belief that this enables a better understanding and evaluation of management teams in small cap companies as well as the viability of a company’s primary strategy for earnings growth.

The Global Alpha team additionally manages a Global Small Cap strategy, so team members are intimately familiar with the U.S. small cap market industries and many of the companies and securities in the universe. The US market remains a predominant economy impacting international markets; knowledge of the US market is well served during its investment process for international funds both on what can be explained as transferrable business plans (comparing 2 similar companies in different jurisdictions) and competitive landscapes. The team believes their global research purview offers a competitive advantage to the country or regional specialist model when scouring for ideas in the small cap universe.
**Portfolio Management**

**Robert Beauregard, CFA, CMA, CPA, Chief Investment Officer, Portfolio Manager**
10 years at Global Alpha

Robert is Chief Investment Officer for Global Alpha and is lead portfolio manager for its global small cap equity strategies. Robert is also responsible for global coverage of the energy and utilities sectors.

Robert brings over 20 years of financial and investment industry experience to the firm. Prior to founding Global Alpha, Robert was Senior Vice President and portfolio manager at Natcan Investment Management where he managed over $1.5 billion in Canadian and global small cap equities. Before joining Natcan, Robert managed a global high tech portfolio and co-managed the Canadian Small Cap Equity Fund for Caisse de Dépôt du Québec. He has held senior operational, financial and risk management roles with various multi-nationals, including Alcan, IBM and Grant Thornton.

Robert received a B.Admin. from the Royal Military College and an MBA from McGill University. He holds the CFA designation and is Chartered Professional Accountant (CPA) and a Certified Management Accountant (CMA). Robert is fluent in English and French.

**Qing Ji, CFA, Portfolio Manager**
10 years at Global Alpha

Qing is a Portfolio Manager responsible for the Asia-Pacific region, as well as global coverage of the Consumer Discretionary and Consumer Staples sectors.

In the eight years before joining Global Alpha, Qing worked in the financial industry in Canada, Singapore and Switzerland. Most recently, she was Senior Analyst – Financial Markets for the Bank of Canada. Prior to that, Qing held various analyst and wealth management positions with Laurentian Bank Securities, ING Private Bank Asia (Singapore), Credit Lyonnais (Singapore) and Temenos Systems SA (Switzerland).

Qing has a Bachelor of Economics from Xiamen University (China), a Master of Economics from Shanghai University of Finance and Economics (China), an MBA from McGill University and is a CFA charterholder. She is fluent in English, French and Mandarin.

**David Savignac, CFA, Portfolio Manager**
10 years at Global Alpha

David is a Portfolio Manager responsible for Europe and global coverage of the Technology and Industrials sectors.
Prior to joining Global Alpha, David spent four years at Natcan Investment Management where he held a variety of senior analyst positions, including Risk & Performance and Small Caps and was co-manager of Natcan's Global Small Cap Fund. David also spent time at TAL Global Asset Management and Desjardins Securities.

David received a BSc from HEC Montreal and is a CFA charterholder. He is fluent in English, French and Spanish.

**Serge Depatie, P.Eng., Portfolio Manager**  
3 years at Global Alpha

Serge is a Portfolio Manager responsible for the North American region, as well as global coverage of the Materials and Health Care sectors.

Joining Global Alpha in 2015, Serge brings with him over 15 years of financial services experience holding positions such as Chief Investment Officer of NCP Investment Management, Portfolio Manager and Analyst of Global Equities at Natcan Investment Management as well as sell-side equity analyst positions with Canadian-based broker dealers. Before entering the financial industry, Serge worked in a variety of capacities in the environmental and biotechnology industry.

Serge has a B.Eng in Civil, Environmental Engineering from McGill University and an MBA from Concordia University. He is fluent in English and French.

**Sain Godil, Associate Portfolio Manager**  
8 years at Global Alpha

Sain is an Associate Portfolio Manager for the North American region, as well as global coverage of the Financials and Telecom sectors as well as stock screening.

Born in India, Sain graduated with great distinction from Goa University in 1999. Prior to immigrating to Canada, he was an Asset Manager for ICICI, India's second largest bank. Before taking the position with ICICI, Sain worked at 3Global services (a division of Hutchison Whampoa Group) and previously at Vinray Education where he was a manager.

Sain earned a Master’s in Administration (Finance) in 2013 and a Bachelor of Commerce degree (Finance) in 2011 from the John Molson School of Business (JMSB) at Concordia University. He also received the Calvin Potter Fellowship from Concordia's Kenneth Woods Portfolio Management Program.

During his studies at JMSB, Sain worked as a Junior Analyst at Global Alpha. In 2010, before joining Global Alpha, he was with Industrial Alliance Securities as a Research Associate and in
2009 with Abitibi Bowater as a Logistics Analyst. Prior to continuing his education at Concordia he had short-term contracts with CareFusion Corporation a spin off from Cardinal Health Inc. and Nordia, Inc. in Quebec. Sain is fluent in English, French and Hindi.

Research Analyst and Trading

Tracy Li, Analyst
<1 year at Global Alpha

Tracy is an equity analyst responsible for the Asia-Pacific region as well as coverage of the Consumer Discretionary and Staples sectors on a global basis.

Beginning her full-time investment career as a co-op student with Global Alpha in 2017, Tracy also brings experience as an equity analyst of the SIAS Fund and research assistant with Simon Fraser University. As well, she was a management trainee with the Harbin Bank in China and an administrative intern with the National Development and Reform Commission in Beijing.

Tracy earned a BA in Japanese Languages and Literature and an MA in Japanese Literature from the China Foreign Affairs University and an MSc, Finance from the Beedie School of Business at Simon Fraser University. She is a 2018 Level III candidate in the CFA Program. Tracy is fluent in English, Chinese and Japanese.

Anthony Sutton, Analyst, Trader
<1 year at Global Alpha

Anthony is an analyst and trader responsible for covering Europe and the Industrial and Materials sectors.

Prior to joining Global Alpha, Anthony was a research associate with Eight Capital and a junior analyst with Jarislowsky Fraser. He began his financial career as a research/analyst intern with Dundee Capital Markets and Goodman & Company Investment Counsel. Prior to entering the financial services industry, Anthony worked for NCJ Pressings Ltd., a manufacturer of air reservoirs and compressor assembly, fuel tank protectors, gas meters and sunshade assembly products for the automotive, agricultural and gas industries throughout the UK and Europe. At NCJ he worked as a welder and team leader of six individuals while ensuring all products and systems met the appropriate ISO System Certification.

Anthony received his BComm from Concordia University and has passed Level I of the CFA exam. He is fluent in English and French.
Biographies: Key Investment Staff

**Risk, Compliance, and Operations**

**Janine Tran Lam, CFA, Manager, Client Relationships, Risk, Compliance and Operations**

1 year at Global Alpha

Janine is responsible for the management of client relationships, operations and risk and compliance.

Bringing over 20 years of experience in the banking & financial industry to her role at Global Alpha, she has previously worked as an Investment Counsellor at HSBC Private Wealth Services and a Manager and Senior Analyst with National Bank of Canada as well as holding various positions with RBC Dominion Securities and TAL Global Asset Management.

Janine has a Bachelor of Arts degree in Political Science from the University of Montreal and is a CFA charterholder. She is fluent in English, French and Vietnamese.
1. Please describe your investment philosophy.

Matarin believes it can add value as an active manager because the stock market tends to be inefficient in the intermediate term. Philosophically, we believe human emotions (like fear and greed) create intermediate-term inefficiencies in markets. Opportunities can be exploited through the implementation of a disciplined approach which combines fundamental insights and quantitative rigor. This combination of art and science can result in superior risk-adjusted returns to our clients.

Matarin’s North America Small Cap strategy takes advantage of proprietary models, which while quantitatively constructed, are based on fundamental insights with sustainable future investment merit. They are designed to capture our best investment thinking regarding the critical sources of risk and return in the market. We are highly aware that stock picking is not a “one size fits all” game, and we therefore customize our models to emphasize what matters most when forecasting returns for each type of stock. Because we recognize that these sources of risk and return change over time, the process by which we identify and rigorously test factors is also dynamic. Our models, like our insights, evolve and we are constantly striving to improve our methodology. Matarin’s investment research and the consistent implementation of our models in portfolio construction seek to eliminate the emotional and behavioral biases which are natural to most human decision making but detrimental to investment results.

2. In what market environment would you expect your product to outperform/underperform?

Matarin would expect to outperform the Russell 2000 benchmark during periods when stocks are being rewarded in the market for delivering on the fundamental concepts strongly represented in our investment models, such as those stocks with high quality businesses, exhibiting strong free cash flow generation, inexpensive valuations, and capable management (those making appropriate asset allocation decisions).

In addition, Matarin would expect to outperform its peers when small cap stocks are outperforming large cap stocks, as many small cap managers move up the market cap spectrum as their AUM has grown. Because Matarin stays true to its benchmark in terms of relative size and intends to close the strategy to avoid having to move up the market cap spectrum in search of liquidity, we tend to be smaller in weighted average market cap and so perform better than many when small cap is outperforming. A recent example of this is May 2018, which was a month in which large cap stocks significantly underperformed small cap stocks.

Matarin would expect to underperform in environments which become excessively speculative but have not yet peaked (like 1999). Also, 2017 is a good example of this type of environment, as the stocks we define as “rocket stocks” (expensive, high growth, volatile) outperformed by close to 30%, while historically underperforming by 10% per year. While these periods of short term speculative activity will always occur through time, in the long run, we believe stock returns and company fundamentals are highly correlated. We also believe that our diversified model and
opportunistic and contrarian weight shifting into value and momentum factors can help mitigate portfolio drawdowns.

3. Please describe how your portfolio construction process is the most efficient method for implementing your stock selection ideas.

In our portfolio construction process, our goal is to produce a core, well diversified, risk controlled portfolio that maximizes exposure to those stock characteristics which we believe lead to outperformance through time.

We believe that our quantitative tools are extremely important in enabling us to robustly express all the complexity of our fundamental thinking. For example, there are several drivers of return that we seek to emphasize in the portfolio, and also many sources of risk which we seek to avoid or control. Given that we want to take all of these factors into consideration for over 1800 small cap stocks, this is a volume of information and calculation intensity that even math-loving people like ourselves could not manage to do in our heads. Therefore, we use the Northfield Portfolio Optimizer to create from our proprietary return forecasts, risk forecasts, and in-house produced transaction cost forecasts, in combination with other constraints and penalties, an optimized portfolio that maximizes total expected return for a given range of risk.

The optimizer is run on a daily basis with return forecasts automatically adjusting as new, relevant information is reported. Portfolios are typically traded 1-2 times per month, or more frequently as market circumstances warrant. The decision to trade, based on optimizer output, is largely determined by the expected impact on the portfolio’s information ratio, taking into consideration all possible transaction costs. Trades will not be executed unless the anticipated benefit exceeds the anticipated cost of transacting.

We believe that this optimization methodology allows us to get our best ideas into the portfolio at all times while closely monitoring and controlling multiple sources of portfolio risk. We are also simultaneously able to easily monitor and comply with client portfolio constraints and guidelines as well as minimize transaction costs.

4. What do you consider the greatest risk to your active U.S. small capitalization equity portfolio?

At Matarin, we think about risk in terms of longer-term active risk versus the small cap benchmark. We prefer to think broadly about portfolio risk and how to manage it using a concept we refer to as “risk budgeting”. Our objective in risk management is to spend our risk budget where we think we have the most information, and where our risk taking will be most rewarded. Given our high degree of confidence in our stock selection capability, we closely monitor and control for the many other sources of portfolio risks where we have less or no information. For example, we tightly control for industry and sector risks, beta, size, macro factors, and other common risks amongst stocks and we stay fully invested at all times. Since the inception of our North America
Small Cap strategy, by design, 85-90% of active portfolio risk has been attributable to stock picking.

Given that we have chosen to spend our risk budget on stock selection, we will be at risk to underperform in periods where our stock selection concepts are not being rewarded (or are acting in an “abnormal” manner). This will typically occur in periods where stock prices become detached from the fundamental metrics we utilize. We will tend to underperform in periods of high speculative activity where lower quality, cash burning, richly valued stocks are leading the market.

5. What is your firm’s competitive advantage in the U.S. small capitalization equity space?

Matarin's "edge" is its unique ability to bring together the “Best of Both Worlds” - thoughtful fundamental approaches to investing with unbiased, repeatable quantitative methods of investing. In terms of specific aspects of the investment program which are unique to Matarin:

First, Matarin recognizes that a “one size fits all” approach to stock picking is suboptimal. Each stock in the market behaves in its own way and responds to different factors and data points. So our process attempts to paint a unique picture for each of the stocks in the universe depending upon its unique characteristics. For example, highly speculative momentum stocks are treated differently than lower growth, more stable stocks, such as utilities, are treated. We have a separate set of indicators for biotech stocks, utilities and REITS, each of which exhibit their own pattern of behavior. Highly leveraged stocks are treated differently than stable cash generating companies, and on and on.

Second, because the stock selection criteria are quantified, our stock selection process is not constrained by “breadth” or research bandwidth. Return forecasts are generated on a daily basis for roughly 1800 small cap stocks and these forecasts automatically adjust as new information is released. In addition, a systematic portfolio construction process is utilized to insure portfolios are not subject to the greed and fear so often displayed in the marketplace. Therefore, Matarin client portfolios tend to take contrarian positions and hold differentiated and often underfollowed names relative to other investors in the same style box.

Earnings are not used at all in the valuation work. Matarin believes earnings are too easy to manipulate so the use of cash flows and sales measures are preferred.

Finally, we do not buy factors from outside sources. All of our factors are developed and researched internally.

Most importantly, Matarin believes it can consistently generate alpha for clients by rigorously and systematically implementing fundamental investment insights. Other variables which contribute most to Matarin’s success include strict monitoring of transaction costs to ensure portfolio liquidity and to avoid giving investor returns away while trading, the continuity of the firm’s investment team (the team has worked together for over 19 years), the values each member of the team share,
the firm’s commitment to continuous learning and debate, and the fact that the principals of Matarin are invested right alongside its clients and have tremendous personal ‘skin in the game.’

Matarin’s investment process was originally developed in the 1980s by a group of quantitative investors at Citibank (which eventually became Invesco). The strategy has been used for over 35 years and has consistently generated alpha for clients over that period of time, including during the seven plus years it has been utilized at Matarin.
**Portfolio Management**

**Stuart Kaye**

Stuart Kaye joined Matarin Capital Management as a Co-Founder and Portfolio Manager in 2010. His primary responsibilities include model development, portfolio construction and management of Matarin's suite of investment strategies.

Prior to joining Matarin, Stuart was a partner at Aronson + Johnson + Ortiz responsible for portfolio management and research. Earlier in his career, Stuart worked at Invesco as the U.S. Director of Research for the Global Quantitative Strategies Group and was a member of the Global Management Committee and Invesco Investors’ Forum. As Director of Research, Stuart was responsible for the firm’s stock selection and asset allocation strategies, the majority of which outperformed their respective benchmarks during his period of oversight. Stuart also worked at AT&T’s Defined Benefit Pension Plan where he played a key role in asset allocation decisions and manager selection. Stuart has 27 years of asset management experience.

Stuart holds a BBA from the University of Michigan, graduating with Distinction in Finance and Accounting, and received his MBA with Honors in Finance from The Wharton School. Stuart holds a CFA Charter.

Stuart’s passion for investing began at an early age and he has managed investments on behalf of both friends and family since his days at Wharton. He has published numerous articles in Barron’s Weekly and is co-author of “How to be a Growth Investor,” published by McGraw Hill in 1999. Additionally, Stuart has mentored children and young adults, and has participated in several internationally based volunteer expeditions.

**Nili Gilbert**

Nili Gilbert joined Matarin Capital Management as a Co-Founder and Portfolio Manager in 2010. Her primary responsibilities include model development, portfolio construction and management of Matarin’s suite of investment strategies.

Prior to joining Matarin, Nili was a Senior Director and Research Analyst at Invesco in the Global Quantitative Strategies Group and was responsible for development of the firm’s global multi-asset strategies. While attending graduate school Nili worked in Institutional Equities at Morgan Stanley and focused on derivatives trading. Prior to graduate school Nili began her career in development at the Synergos Institute, an organization aimed at reducing poverty globally. Nili has 13 years of asset management experience.

Nili holds an AB from Harvard University, graduating *magna cum laude* in a Special Concentration in Economics and Social Studies, and received her MBA in Finance and Economics from Columbia University. Nili holds CFA and CAIA Charters.
Nili chairs the Finance and Investment Committees for and is a member of the Synergos Institute’s Board of Directors. She is also a member of The Council on Foreign Relations, and is an alumna of the Toigo Foundation, an organization that promotes diversity within financial services.

**Ralph Coutant**

Ralph Coutant joined Matarin Capital Management as a Principal and Portfolio Manager in November 2011. His primary responsibilities include model development, portfolio construction and the management of Matarin’s suite of investment strategies.

Prior to joining Matarin, Ralph spent 12 years as a senior member of the Equity Research Team within Invesco’s Global Quantitative Strategies Group. Ralph was a member of the Global Management Team and the Research Coordination Committee tasked with developing and coordinating the research agenda for a global team of 15 research analysts. Ralph has significant experience in conducting research on stock selection factors, style and industry modeling, factor weighting and timing strategies, and transactions cost modeling. Ralph brings with him expertise in providing a forward-looking, intuitive, fundamental, “real world” perspective to quantitative research, and a passion for investing. Ralph has 17 years of asset management experience.

Ralph holds a BS degree with honors from the Whittemore School of Business and Economics at The University of New Hampshire. Ralph holds a CFA Charter and is a Chartered Market Technician (CMT).

**Eli Rietti**

Eli Rietti joined Matarin in April 2018 as an investment team member. His primary responsibilities include oversight of all aspects of the trade execution process, as well as supporting the investment team in model development, portfolio construction and management of Matarin’s suite of investment strategies.

Prior to joining Matarin, Eli was an analyst at Milton Berg Advisors, a technical analysis research firm. While there, he was responsible for tracking the performance of three theoretical long/short portfolios, managing a database of 30k market timing signals, and writing research reports. Prior to that, he was an accounts payable manager for six Skilled Nursing Facilities in Pennsylvania at Apex Healthcare Partners. Eli is a veteran of the Israel Defense Forces, where he served as an infantryman and a desert-navigation instructor.

Eli holds a BA degree with honors in Liberal Arts and Judaic Studies from Thomas Edison State University. He is currently registered for the June 2018 CFA program Level II exam.
To: LACERA Board of Investments
From: Stephen McCourt, Leandro Festino, Tim Filla, Mitch Dynan
Meketa Investment Group
Date: June 15, 2018
Re: Public Equities Active Emerging Managers Search

BACKGROUND

Last year, the Board of Investments (“BOI” or the “Board”) approved the termination of the externally managed equity emerging manager programs, bringing them in-house. Since then, Staff, in consultation with Meketa Investment Group (“Meketa” or “We”), has lead a search for one or more equity emerging managers, primarily focused in small cap and non-U.S. products. An RFP was issued during the fourth quarter of 2017, and responses were evaluated during the following six months.

Meketa collaborated with Staff providing feedback and insights with respect to the language in the RFP. In particular, we offered insights with respect to the Minimum Qualifications (“MQs”) managers must pass in order to be considered for the search. We note that setting up appropriate MQs is very important, as only those firms and products that pass the MQs are considered by LACERA. To illustrate, the choice of performance measurement period in the MQs can have a great impact. Looking at rolling periods of performance over long time horizons can help alleviate some of these challenges.

With the submission of RFP responses, Staff began the review of the products, focusing only on those that passed the MQs. After due diligence, Staff arrived at a shortlist of managers to invite for interviews to LACERA’s offices. We reviewed Staff’s shortlist and provided insights and feedback. Subsequently, Staff met with these managers, which lead to a further narrowing of the universe. Once again, Meketa and Staff discussed this universe of remaining managers. Next, Staff conducted onsite visits with the finalist group. In the same way, Meketa independently conducted its assessment of these products. Finally, Staff and Meketa conferred to discuss which products should be brought to the attention of the BOI for potential funding. After much deliberation weighing the pros and cons of each strategy, we agreed on three products, which are detailed next.
RECOMMENDED EMERGING MANAGER PRODUCTS

Our research suggests that these managers would be positive additions to the LACERA portfolio.

**CornerCap Fundametrics Small Cap**

**Recommendation & Summary:**

- CornerCap Fundametrics Small Cap is a reasonable quantitative small cap product and an acceptable investment strategy.
- The team has been stable, and the generational transition has been well thought-out.
- The factors that the team uses in their model are rooted in fundamental analysis. The team has shown a willingness to tweak their investment process over time.
- Long-term performance has been strong. The strategy’s excess returns rank in the top decile of the small cap value peer universe over the 5, 7, 10-year and since inception periods. Risk-adjusted returns are also strong. The since inception information ratio ranks in the top decile of the peer group. We would caution, however, that while there is a reasonable chance the strategy can outperform in the future, we do not believe the historical magnitude of the strategy’s excess returns (400 – 450 bps, gross of fees) are sustainable.

**Organization:**

Gene Hoots and Tom Quinn founded CornerCap Investment Counsel in 1989. These two men had previously managed RJR Nabisco’s Retirement Fund.

CornerCap currently manages $1.2 billion in three quantitative U.S. equity strategies, individual private client bond portfolios, and externally managed private client investments in non-U.S. equity passive strategies. Private clients comprise 80% of CornerCap’s asset base. The Fundametrics Small Cap strategy has ~$200 million in AUM.

The firm is 100% owned by 16 employees. Founder and CEO Tom Quinn has 51% of the equity. Other large shareholders include CIO Canon Carr (~16%), portfolio manager Richard Bean (10%), and Director of Research/Fundametrics Small Cap portfolio manager Jeff Moeller (5%).
**Investment Team:**

CIO Canon Carr leads the investment team. Mr. Carr joined the firm in 2007 and has 22 years of investment experience. Mr. Carr’s hire was part of a transition process in which Mr. Quinn, who previously was both CIO and CEO and who is now in his early 70s, transferred leadership of the investment process to Mr. Carr. As CIO, Mr. Carr leads a six-person Investment Committee that manages the equity strategies and conducts quantitative research. Prior to joining CornerCap, Mr. Carr was a senior equity analyst at CIBC World Markets, covering IT business services, wireless services, and emerging telecom. Mr. Carr earned an MBA from Columbia Business School and a BA from Princeton University.

Five other members of the Investment Committee and three programmers comprise the rest of the investment staff. Mr. Moeller, the portfolio manager of Small Cap, is also on the Investment Committee. The investment team has been stable, with no departures in the last five years.

**Investment Philosophy:**

CornerCap utilizes a quantitative investment approach. The firm’s investment approach is predicated on minimizing human emotion and bias, and capitalizing on “regression to the mean.” The investment team believes that human judgement detracts from performance and that relying on objective data yields optimal results. The team follows a relative value discipline.

**Investment Process:**

CornerCap’s approach to investing is quantitative, but the factors they incorporate into their model are fundamental in nature. CornerCap’s investable universe, after filtering for liquidity and market cap ($100 million to $4.8 billion), comprises approximately 1,500 stocks. Run each week, the multi-factor model ranks these stocks in deciles based on valuation, momentum, and growth factors. Valuation factors comprise ~2/3 of the weighting in the model, while momentum and growth factors make up the remaining 1/3. Each stock’s ranking is derived from its broad small cap universe ranking (50%) and sector specific ranking (50%). The model contains 12-13 factors for the universe ranking and ~15 sector-specific factors for the sector ranking.

Ideas for the portfolio are typically sourced from the top two deciles. These stocks are also run through a financial warnings risk overlay tool to determine their quality profile. This tool contains 20 underlying factors, many of which are balance sheet focused. Stocks either pass or fail the financial warnings test. If a potential idea fails this test, it will not be purchased. Once potential buy candidates are identified, CornerCap uses a proprietary optimization tool to evaluate the purchase candidates against existing holdings and the broader Fundametrics buy universe.

The portfolio is diversified with 200-250 equally weighted stocks. Sector allocations are limited to 40% of the portfolio. Industry allocations are limited to the larger of the benchmark weight or 20%.
The team has shown a willingness to tweak their investment process over time. For example, the firm added a financial warnings overlay at the end of 2008. CornerCap believes this addition aided the portfolio’s performance in 2009.

**Performance (gross of fees):**

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<th>Description</th>
<th>1Q 2018</th>
<th>1 Yr</th>
<th>3 Yr</th>
<th>5 Yr</th>
<th>7 Yr</th>
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**Meeting Log:**

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<th>Date</th>
<th>Meeting Type</th>
<th>MIG Attendees</th>
<th>Manager Attendees</th>
<th>Product Discussed</th>
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<td>6/11/2018</td>
<td>Conference Call</td>
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Matarin Small Cap Core

Recommendation & Summary:

- Matarin is a reasonable quantitative small cap core product and an acceptable investment strategy.
- The firm is 100% employee-owned. The investment team is small and has been stable.
- The firm’s quantitative model is straightforward. It combines fundamentals, valuation, management behavior and price momentum factors.
- Performance has been good since product inception in January of 2011. Excess returns have been in the top quartile of the peer group during the trailing 5-year period.

Organization:

Founded in July 2010, Matarin is 100% employee-owned by five shareholders, three of whom are on the investment team. The firm is majority female-owned.

As of 3/31/18, total firm AUM was $1.4B, with $1.1B in the small cap strategy. The remainder of the assets were in Matarin’s Large Cap Core, market neutral, and recently incepted micro cap strategies.

Investment Team:

The investment team has worked together for nearly 20 years. Prior to forming Matarin, they were part of the Quantitative Strategies Group at Invesco. The team consists of Stuart Kaye and Nili Gilbert, both co-founders, and Ralph Coutant, who subsequently joined Matarin from Invesco in 2011.

Investment Philosophy:

Matarin believes that the stock market is inefficient in the intermediate term due to irrational market behavior. The factors driving this inefficiency are emotions (i.e. fear and greed) and behavioral biases (i.e. ego and short-term focus.)

Matarin believes that by identifying future drivers of return and capitalizing on inefficiencies in these drivers, it can generate superior risk-adjusted returns. First, the team identifies long-term, fundamental insights regarding what variables drive stock returns through time. Second, it quantifies these fundamental insights using its “alpha model” to take advantage of the pricing inefficiency.
Investment Process:

Matarin utilizes a quantitative investment approach. The firm’s alpha model incorporates four fundamental “concepts”. These are “business” (high cash flow generators that are “efficient” and demonstrate steady growth), “price” (stocks that are out of favor and poised to outperform as fundamentals and sentiment mean revert), “people” (insider ownership, strong corporate governance and share buybacks/issuance) and “catalyst” (change in volume or price momentum, short-term analyst forecast changes indicating trends in business momentum).

Matarin forecast 19 factors within these four “concepts” to generate an excess return forecast for each of the 2,700 stocks in its universe. All stocks are scored on each of the factors, and these scores roll up into an overall “alpha” rating. No factor receives more than a 15% weight in the model. The “business” concept is the most heavily weighted concept in the model. Factors that are in the “business” concept include strong free cash flow over 1, 3 and 5 years, above average, stable revenue growth, and efficiency metrics, which can vary by industry. The free cash flow factors are especially important. A governance factor to assess issues such as board diversity and board independence was also added a couple of years ago. The investment team also checks the model recommendations at the back-end of the optimization to ensure that the output is reasonable.

The investment team will tactically tilt portfolio exposure to the price and catalyst concepts based on the environment. For instance, when valuation spreads across stocks are wide, the price concept will be more heavily tilted.

The team uses a customized Northfield U.S. Single Country model to manage portfolio risk exposure. This model enables the team to focus its risk budget where it has the most information.

The portfolio holds approximately 150 stocks. Depending on the sector, constraints are either +/-0.5% or +/-1% compared to the benchmark. Industry constraints are +/-3% versus the Russell 2000. Initial position sizes are capped at +1% relative to the benchmark, but can grow to a maximum of 2% above the benchmark.
Performance (gross of fees):

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Inception: 1/2011

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<td>MIG East</td>
<td>Mitch Dynan Roberto Obregon</td>
<td>Stuart Kaye, Co-Founder, PM, Ralph Coutant, Principal, PM Marta Cotton, Principal, Dir. of Client Development</td>
<td>Small Cap Core</td>
</tr>
</tbody>
</table>
Global Alpha International Small Cap

Recommendation & Summary:

- Global Alpha is an above average small cap manager and the firm’s International Small Cap product is an acceptable investment strategy.
- The firm is majority employee-owned and focused on just two, overlapping investment products. These products are Global Small Cap and International Small Cap.
- While the investment team is relatively small, they benefit from the firm’s focus on just two strategies. Both products are relatively concentrated and have a high degree of overlap. Portfolio turnover is low.
- Global Alpha’s investment approach is intuitive and focuses on high quality growth businesses. These businesses are supported by secular, top-down growth themes.
- Performance has been consistently strong over all trailing periods. Global Alpha has outperformed the index in six of eight calendar years since inception, with since inception returns of 13.4% versus 10.4%, net of fees.

Organization:

Global Alpha Capital Management is a Montreal-based investment manager. Robert Beauregard and David Savignac, who previously worked together at Natcan Investment Management, the investment management arm of the National Bank of Canada, founded the firm in 2008.

Global Alpha employees own 51% of the firm, with the balance held by Connor Clark & Lunn (CC&L), a large, independent financial services firm based in Toronto. CC&L seeded Global Alpha’s global and international small cap products and provide marketing support in exchange for a 49% stake in the business. Currently, Mr. Beauregard is the largest employee-owner of the firm with 25% of the stock.

Global Alpha Capital Management has a total of $1.2 billion in AUM. The firm manages two investment products: Global Small Cap ($549mm) and International Small Cap ($618mm). The International Small Cap strategy was incepted in January 2010.

Investment Team:

CIO Robert Beauregard leads the investment team. Mr. Beauregard is the key decision-maker on the firm’s two investment products. He is supported by three PMs who have regional coverage responsibilities, two analysts, and one analyst/trader.
**Investment Philosophy:**

Global Alpha’s core belief is that earnings growth drives stock prices over time. They seek to identify high quality companies that benefit from secular growth trends and have the potential to outperform market expectations over a 3-5 year time horizon. Global Alpha builds relatively concentrated portfolios of 50 to 70 stocks.

**Investment Process:**

The investment process starts with a series of screens that filter the universe of international small cap companies. The screen is limited to companies with between $100mm and $3B in market capitalization. The team screens the remaining companies based on a variety of growth metrics, including revenue growth, operating margins above industry averages, and debt levels below industry averages. This step of the process further reduces the investable universe further to approximately 500 stocks.

The investment team overlays top-down, secular themes to prioritize their research efforts, as they look for growing, high quality businesses that can benefit from secular growth trends. Examples of themes include R&D innovation, consumer products, environmental innovation, demographics, and outsourcing. The result is a list of roughly 250 stocks for the team to further research.

The investment team’s bottom-up research centers on assessing the quality of management, the company’s potential earnings power, and the quality of the balance sheet. The investment team is required to meet with company management at least once before investing in any new investment idea. After developing a view of the company’s quality and growth potential, Global Alpha uses a 5-Year DCF valuation model to estimate the intrinsic value of the business using a terminal growth assumption of 3%, and a terminal multiple based on both comparable analysis and asset-based valuation multiples.

Benchmark relative guidelines are the basis for portfolio construction. Regional and sector exposures are limited to +/-10% versus the index. Position sizes are limited to an absolute weight of 5%. Portfolios are relatively concentrated at 50 to 70 stocks. Annual portfolio turnover is relatively low and typically ranges between 25%-30%. Tracking error is modest at between 4% and 6%.
Performance (gross of fees):

Performance Analysis as of March 31, 2018

<table>
<thead>
<tr>
<th></th>
<th>1Q2018</th>
<th>1 Yr</th>
<th>3 Yr</th>
<th>5 Yr</th>
<th>7 Yr</th>
<th>SI</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global Alpha</td>
<td>2.4%</td>
<td>26.3%</td>
<td>16.7%</td>
<td>16.3%</td>
<td>12.4%</td>
<td>14.4%</td>
</tr>
<tr>
<td>International Small Cap</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>MSCI EAFE</td>
<td>0.2%</td>
<td>23.5%</td>
<td>12.3%</td>
<td>11.1%</td>
<td>8.7%</td>
<td>10.4%</td>
</tr>
<tr>
<td>Small Cap</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Excess Returns</td>
<td>2.2%</td>
<td>2.8%</td>
<td>4.5%</td>
<td>5.1%</td>
<td>3.6%</td>
<td>4.0%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Global Alpha</td>
<td>36.8%</td>
<td>5.0%</td>
<td>19.0%</td>
<td>(1.0%)</td>
<td>29.6%</td>
<td>23.0%</td>
<td>(15.3%)</td>
<td>29.6%</td>
</tr>
<tr>
<td>International Small Cap</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>MSCI EAFE</td>
<td>33.0%</td>
<td>2.2%</td>
<td>9.6%</td>
<td>(5.0%)</td>
<td>29.3%</td>
<td>20.0%</td>
<td>(15.9%)</td>
<td>22.0%</td>
</tr>
<tr>
<td>Small Cap</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Excess Returns</td>
<td>3.8%</td>
<td>2.8%</td>
<td>9.4%</td>
<td>4.0%</td>
<td>0.3%</td>
<td>3.0%</td>
<td>0.6%</td>
<td>7.6%</td>
</tr>
</tbody>
</table>

Inception: 1/2010

Meeting Log:

<table>
<thead>
<tr>
<th>Date</th>
<th>Meeting Type</th>
<th>MIG Attendees</th>
<th>Manager Attendees</th>
<th>Product Discussed</th>
</tr>
</thead>
<tbody>
<tr>
<td>11/2/2017</td>
<td>MIG West</td>
<td>David Smith</td>
<td>Robert Beauregard (CIO), Stephen Reynolds (CC&amp;L, Sales)</td>
<td>International Small Cap</td>
</tr>
<tr>
<td>12/2/2014</td>
<td>MIG West</td>
<td>David Hetzer</td>
<td>Robert Beauregard (CIO), Eric Hasenauer (CC&amp;L, Sales)</td>
<td>International Small Cap</td>
</tr>
</tbody>
</table>
**SUMMARY AND RECOMMENDATION**

Staff has proposed that CornerCap, Matarin, and Global Alpha be invited by the Board to present their emerging manager equity products. We concur with the recommendation from Staff. We followed the search from its beginning, and can attest that Staff followed LACERA’s existing process. Furthermore, we concur that these managers are sound options for the Board to consider, both independently and in relationship to LACERA’s existing U.S. equity assets.

We look forward to discussing this matter with you at the next BOI meeting.

SM/TF/LF/MD/srt
# ACTIVE U.S. AND NON-U.S. EMERGING MANAGER RESPONDENTS

<table>
<thead>
<tr>
<th>Investment Manager</th>
<th>Passed Initial Screen</th>
<th>Reason Screen Not Passed</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Blackcrane Capital LLC</td>
<td>N</td>
<td>Did not meet Excess Return MQ</td>
</tr>
<tr>
<td>2 Monarch Partners</td>
<td>N</td>
<td>Did not meet Excess Return MQ</td>
</tr>
<tr>
<td>3 Bowling Portfolio Management Small Cap Value</td>
<td>N</td>
<td>Did not meet Excess Return MQ</td>
</tr>
<tr>
<td>4 Bowling Portfolio Management Small Cap Equity</td>
<td>N</td>
<td>Did not meet Excess Return MQ</td>
</tr>
<tr>
<td>5 Matarin Capital Management</td>
<td>Y</td>
<td></td>
</tr>
<tr>
<td>6 Applied Research Investments</td>
<td>N</td>
<td>Did not meet Minimum Strategy AUM or Excess Return MQs</td>
</tr>
<tr>
<td>7 Business Technology Associates</td>
<td>N</td>
<td>Did not meet Minimum Strategy AUM or Minimum Strategy Number of Clients MQs</td>
</tr>
<tr>
<td>8 Cedar Street Asset Management</td>
<td>Y</td>
<td></td>
</tr>
<tr>
<td>9 Global Alpha Capital Management</td>
<td>Y</td>
<td></td>
</tr>
<tr>
<td>10 Mark Asset Management</td>
<td>N</td>
<td>Did not meet Excess Return MQ</td>
</tr>
<tr>
<td>11 CornerCap Investment Counsel</td>
<td>Y</td>
<td></td>
</tr>
<tr>
<td>12 Redwood Investments</td>
<td>Y</td>
<td></td>
</tr>
<tr>
<td>13 361 Capital</td>
<td>N</td>
<td>Did not meet Excess Return MQ</td>
</tr>
<tr>
<td>14 Ativo Capital Management</td>
<td>N</td>
<td>Did not meet Excess Return MQ</td>
</tr>
<tr>
<td>15 Seamans Capital Management</td>
<td>N</td>
<td>Did not meet &quot;US&quot; or &quot;Non-US&quot; RFP requirement; did not meet Minimum Strategy AUM MQ</td>
</tr>
<tr>
<td>16 Eastern Shore Capital Management</td>
<td>N</td>
<td>Did not meet Excess Return MQ</td>
</tr>
<tr>
<td>17 Hillcrest Asset Management</td>
<td>N</td>
<td>Did not meet Excess Return MQ</td>
</tr>
<tr>
<td>18 AltraVue Capital</td>
<td>N</td>
<td>Did not meet Excess Return MQ</td>
</tr>
<tr>
<td>19 Denali Advisors</td>
<td>N</td>
<td>Did not meet Excess Return MQ</td>
</tr>
<tr>
<td>20 Decatur Capital Management</td>
<td>N</td>
<td>Did not meet Excess Return MQ</td>
</tr>
<tr>
<td>21 Granite Investment Partners</td>
<td>Y</td>
<td></td>
</tr>
<tr>
<td>22 Maryland Capital Management</td>
<td>N</td>
<td>Did not meet Excess Return MQ</td>
</tr>
<tr>
<td>23 Summit Global Investments</td>
<td>Y</td>
<td></td>
</tr>
<tr>
<td>24 Sustainable Insight Capital Management</td>
<td>N</td>
<td>Did not meet Excess Return MQ</td>
</tr>
<tr>
<td></td>
<td>Company</td>
<td>Meet Requirement</td>
</tr>
<tr>
<td>---</td>
<td>----------------------------------------------</td>
<td>------------------</td>
</tr>
<tr>
<td>25</td>
<td>Arabesque Asset Management</td>
<td>N</td>
</tr>
<tr>
<td>26</td>
<td>Dundas Global Investors</td>
<td>N</td>
</tr>
<tr>
<td>27</td>
<td>Oak Associates LTD Large Cap Growth</td>
<td>Y</td>
</tr>
<tr>
<td>28</td>
<td>Oak Associates LTD All Cap Core Growth</td>
<td>Y</td>
</tr>
<tr>
<td>29</td>
<td>Semper Augustus Investments Group LLC</td>
<td>N</td>
</tr>
<tr>
<td>30</td>
<td>Pacific Ridge Capital Partners LLC</td>
<td>Y</td>
</tr>
<tr>
<td>31</td>
<td>High Pointe Capital Management LLC</td>
<td>N</td>
</tr>
<tr>
<td>32</td>
<td>Martin Investment Management LLC Best Ideas</td>
<td>N</td>
</tr>
<tr>
<td>33</td>
<td>Martin Investment Management LLC Int'l Equity</td>
<td>N</td>
</tr>
<tr>
<td>34</td>
<td>Bridge City Capital LLC</td>
<td>Y</td>
</tr>
<tr>
<td>35</td>
<td>Summit Global Investments (Global)</td>
<td>N</td>
</tr>
<tr>
<td>36</td>
<td>Ithmus Partners LLC</td>
<td>Y</td>
</tr>
<tr>
<td>37</td>
<td>AMP Wealth Management</td>
<td>N</td>
</tr>
<tr>
<td>38</td>
<td>New Amsterdam Partners LLC</td>
<td>Y</td>
</tr>
<tr>
<td>39</td>
<td>Compass Group LLC</td>
<td>N</td>
</tr>
<tr>
<td>40</td>
<td>Union Square Park Capital Management LLC</td>
<td>N</td>
</tr>
<tr>
<td>41</td>
<td>OakBrook Investments LLC</td>
<td>N</td>
</tr>
<tr>
<td>42</td>
<td>RVX Asset Management LLC</td>
<td>N</td>
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<tr>
<td>43</td>
<td>Spyglass Capital Management LLC</td>
<td>N</td>
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<tr>
<td>44</td>
<td>Pacific View Asset Management LLC</td>
<td>Y</td>
</tr>
<tr>
<td>45</td>
<td>Empiric Institutional LLC</td>
<td>N</td>
</tr>
<tr>
<td>46</td>
<td>Granahan Investment Management</td>
<td>N</td>
</tr>
<tr>
<td>47</td>
<td>Osmosis Investment Management US LLC</td>
<td>N</td>
</tr>
<tr>
<td>48</td>
<td>Goelzer Investment Management Inc</td>
<td>N</td>
</tr>
<tr>
<td>49</td>
<td>Marietta Investment Partners</td>
<td>N</td>
</tr>
<tr>
<td>50</td>
<td>Metis Global Partners Int'l Small Cap</td>
<td>N</td>
</tr>
<tr>
<td>51</td>
<td>Metis Global Partners Emerging Markets</td>
<td>N</td>
</tr>
</tbody>
</table>
Public Equities Active Emerging Manager Search
Minimum Qualifications
(October 2017 RFP)

1. The emerging manager is a registered investment advisor under the Investment Advisers Act of 1940.

2. No one person or entity, other than the principals or employees of the emerging manager, shall own more than a forty-nine percent (49%) interest in the emerging manager.

3. LACERA prefers emerging managers who currently comply with the performance presentation standards set forth in Global Investment Performance Standards (GIPS) of the CFA Institute. If the emerging manager does not currently follow the GIPS standards, then the emerging manager must make a good faith effort to comply with such standards within one (1) year of hire.

4. The portfolio managers that are assigned to manage the LACERA portfolio must have an average of at least five (5) years of verifiable investment experience managing portfolios containing a similar investment style as the mandate for which the emerging manager is being hired by LACERA.

5. The emerging manager must have at least $25 million of assets under management in the same investment style as the assets to be managed for LACERA before any allocation of LACERA assets to the emerging manager.

6. Each emerging manager must have no more than $2 billion of total assets under direct management before selection.

7. The emerging manager must have direct responsibility for managing assets of the same investment style it will manage for LACERA for at least three (3) other clients besides LACERA.

8. The assets for any single client (other than LACERA) must comprise no more than fifty percent (50%) of the total assets managed by the emerging manager.

9. At least sixty percent (60%) of the proposed product’s quarterly rolling one-year excess returns over the last three years ended June 30, 2017 (6 of 9 observations) must exceed the strategy’s respective benchmark on a net of fee basis by the levels identified in the following schedule:

- U.S. Equity all capitalization ranges 50 bps
- Non-U.S. Developed Markets Small Cap Equity 75 bps
- Non-U.S. Developed Markets Equity all other cap ranges 50 bps
- Non-U.S. Emerging Markets Equity all cap ranges 75 bps
Firm Background & Mission

Background

• Extensive institutional investment experience managing billions in AUM as a team
• Team personally invested in strategies and firm, alongside clients
• Five principals are owners and control 100% of the equity
• SEC-registered investment adviser, NFA-registered Commodity Trading Adviser, and WBENC certified women-owned business
• Founded July 2010

Mission

• Matarin Capital Management aspires to be a symbol of stewardship within the investment management industry.
• We are dedicated to delivering excellent investment performance through insight, passion, and diligence.
• We aim to build strategic alliances with our clients based on the highest ethical standards.

Registration as an Investment Adviser or CTA, and certification as a women-owned business do not require any particular skill or training.
Assets and Clients

Firm AUM by Strategy

![Graph showing Firm AUM by Strategy with labels for NASC, LCC, MNF, LCC, NASC, LCC, NASC, LCC, NASC, LCC, NASC.]

$ Millions


NASC—North America Small Cap; LCC—Large Cap Core; MC—MicroCap
MNF—Market Neutral Fund

Partial Client List

Matarin did not use any performance-based data in its selection of the clients listed and selected the listed clients based on permission. Additionally, it is not known whether the listed clients approve or disapprove of Matarin or its advisory services. ¹ Combined Classes A and B of Matarin Market Neutral U.S. Plus LP fund.

*Through 6.30.18
Our Team

Investment Team

Managing client assets since 1988 (over $20 B while at Invesco)
Together since 1999/2003
19 years of US Small Cap investment experience
Investment philosophy dates back to 1983
NASC strategy seeded with Managing Principal’s capital
All senior team members are equity owners of firm
Our Investment Approach: Matarin’s Edge

Fundamental Investing & Quantitative Investing

Insightful, independent fundamental ideas stemming from a deep knowledge of the drivers of excess returns

Focus on the future investment merit of the varying drivers of return as the environment demands

Matarin combines decades of experience in assessing the fundamental drivers of future stock returns without the risk of behavioral bias

Matarin’s proprietary platform and approach are designed to deliver:

• Portfolios absent of behavioral biases (fear/greed), human fallibility (ego), and bandwidth constraints (massive amounts of data)

• Contrarian points of view and unique holdings

• Systematic, repeatable and consistent portfolio construction and execution
Matarin’s optimization process is designed to generate a portfolio which delivers the highest expected return for a given level of risk using the output from each stage of the investment process.

**Portfolio construction** takes expectations of alpha, risk and transactions costs into account.

---

### Equity Investment Process: Putting it all together

**Excess Return Forecasts**
- **Alphas**

**Risk Forecasts**
- **Fundamental:** Industry/Sector, Beta, Size, etc.
- **Macro:** Interest Rates, Energy Prices, etc.
- **Statistical:** Blind Factors

**Proprietary T-Cost Forecasts**
- Percent of Daily Volume
- Price per share

---

**Sample Portfolio**

<table>
<thead>
<tr>
<th></th>
<th>NASC</th>
<th>R2000 Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beta vs. Russell 2000®</td>
<td>1.04</td>
<td>1.00</td>
</tr>
<tr>
<td>Price/Earnings</td>
<td>15.9</td>
<td>18.8</td>
</tr>
<tr>
<td>Price/Cash Flow</td>
<td>9.6</td>
<td>11.5</td>
</tr>
<tr>
<td>Holdings</td>
<td>169</td>
<td>2013</td>
</tr>
<tr>
<td>Wtd Avg Mkt Cap ($B)</td>
<td>2122.4</td>
<td>2245.1</td>
</tr>
<tr>
<td>Active Share</td>
<td>91.4</td>
<td></td>
</tr>
<tr>
<td>Turnover</td>
<td>71%</td>
<td></td>
</tr>
</tbody>
</table>
Equity Investment Process: Forecasting Stock Returns

Four Fundamental Concepts

Good Businesses (Business)
- High cash flow generators
- Highly efficient businesses
- Steady growth

Inexpensive Valuations (Price)
- Low-expectation, out of favor stocks
- Poised to outperform as fundamentals (and sentiment) mean revert
- Value viewed through several different lenses

Shareholder-Friendly Leadership (People)
- Record of adding value through capital allocation decisions
- Behave as owners
- Avoid “empire” builders
- Good corporate governance

Drivers for Near-Term Outperformance (Catalyst)
- Price and volume changes manifesting greed and fear
- Short-term analyst forecast changes indicating trends in business momentum
Matarin In Action: Investment Example

Matarin’s proprietary models, while quantitatively constructed, are based on fundamental insights with sustainable Future Investment Merit.

### Wabash National (WNC)

<table>
<thead>
<tr>
<th>Business</th>
<th>Price</th>
<th>People</th>
<th>Catalyst</th>
<th>Forecast</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business generates strong free cash flow</td>
<td>Inexpensive valuation reflects low expectations</td>
<td>Strong corporate governance</td>
<td>Recent weak price momentum less worrisome given strong balance sheet</td>
<td>BUY</td>
</tr>
<tr>
<td>Efficient business with high sales relative to assets</td>
<td>High sales-to-price relative to peers</td>
<td>Significant share buybacks in recent years</td>
<td>Trading volume stable, not overly speculative</td>
<td></td>
</tr>
<tr>
<td>Strong and measured sales growth over past few years</td>
<td>High operating cash flow yield and price to sales</td>
<td>Adding value via capital allocation skill</td>
<td>Strong improvement in industry fundamentals</td>
<td></td>
</tr>
<tr>
<td>Good business</td>
<td>Inexpensive valuation</td>
<td>Shareholder friendly management</td>
<td>Strong catalysts</td>
<td></td>
</tr>
</tbody>
</table>

The information provided here is used as an example of our proprietary alpha model and is provided for illustrative and discussion purposes only and should not be viewed as a recommendation to buy or sell these securities. In addition, the data represents our analysis of two securities and it should not be seen as an indicator or guaranty of future performance. Data as of 12/31/17.
Matarin North America Small Cap

Actual Returns through June 2018

<table>
<thead>
<tr>
<th>fund</th>
<th>MRQ</th>
<th>YTD</th>
<th>1YR</th>
<th>3YR</th>
<th>5YR</th>
<th>since inception</th>
</tr>
</thead>
<tbody>
<tr>
<td>Matarin North America Small Cap (gross)</td>
<td>7.2</td>
<td>6.7</td>
<td>15.8</td>
<td>11.5</td>
<td>14.2</td>
<td>14.4</td>
</tr>
<tr>
<td>Matarin North America Small Cap (net)²</td>
<td>7.0</td>
<td>6.4</td>
<td>15.1</td>
<td>10.8</td>
<td>13.5</td>
<td>13.7</td>
</tr>
<tr>
<td>Russell 2000® Index</td>
<td>7.8</td>
<td>7.7</td>
<td>17.6</td>
<td>11.0</td>
<td>12.5</td>
<td>11.9</td>
</tr>
</tbody>
</table>

NASC Excess Return (gross)

<table>
<thead>
<tr>
<th>fund</th>
<th>MRQ</th>
<th>YTD</th>
<th>1YR</th>
<th>3YR</th>
<th>5YR</th>
<th>since inception</th>
</tr>
</thead>
<tbody>
<tr>
<td>Matarin North America Small Cap (gross)</td>
<td>-0.6</td>
<td>-1.0</td>
<td>-1.8</td>
<td>0.5</td>
<td>1.7</td>
<td>2.5</td>
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</tbody>
</table>

Information Ratio: 0.66
Active Share: 91.4%
Upside/Downside Capture: 93%/79%

Peer Relative Statistics through Q1 2018

<table>
<thead>
<tr>
<th>statistic</th>
<th>1YR</th>
<th>3YR</th>
<th>5YR</th>
<th>since inception</th>
</tr>
</thead>
<tbody>
<tr>
<td>Excess Returns</td>
<td>59</td>
<td>52</td>
<td>25</td>
<td>21</td>
</tr>
<tr>
<td>Information Ratio</td>
<td>64</td>
<td>50</td>
<td>16</td>
<td>12</td>
</tr>
<tr>
<td>Annualized Alpha</td>
<td>60</td>
<td>57</td>
<td>26</td>
<td>18</td>
</tr>
<tr>
<td>Batting Average</td>
<td>59</td>
<td>79</td>
<td>33</td>
<td>23</td>
</tr>
<tr>
<td>Upside Capture</td>
<td>48</td>
<td>56</td>
<td>48</td>
<td>58</td>
</tr>
<tr>
<td>Downside Capture</td>
<td>67</td>
<td>47</td>
<td>21</td>
<td>17</td>
</tr>
</tbody>
</table>

¹GIPS examined through 12/31/17. Accrual basis, Inception 1/1/11. ²Assumes negotiated fee of 60 basis points and $125 M AUM. Past performance is not indicative of future returns.
Past performance is not a guarantee of future results. NASC return information was provided to eVestment at the strategy level gross of fees, and does not represent the performance of any particular client.

Universe: eVestment US Small Cap Equity  (556 strategies)

<table>
<thead>
<tr>
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<th></th>
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<th></th>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Matarin Capital Management, LLC</td>
<td>North America Small Cap</td>
<td>SA</td>
<td>Gross</td>
<td>2.63</td>
<td>0.69</td>
<td>3.49</td>
<td>0.55</td>
<td>80.04</td>
<td>83</td>
</tr>
</tbody>
</table>

Strong performance vs. other managers
Appendix

Risk Mitigation
Infrastructure
Team Bios
GIPS Verification
Disclosures
## Risk Mitigation

### Organization

- **Focus on selective hiring, training and retaining talent**
  - Partnership structure where everyone has a voice
  - Broad employee ownership
  - Opportunity for all to share in firm economics and/or equity
  - Environment of continuous learning and healthy debate

### Culture of Compliance

- Reviews of all Policies and Procedures performed annually.

### Operational

- **Sophisticated operations and reporting technology**
  - Front and back end compliance testing
  - Most recent version accounting and reporting software

- **State of the art technology infrastructure**
  - Tested disaster recovery with multiple geographic locations for backup

- **Committee structure**
  - Vendor vetting and monitoring
  - Valuation oversight
  - Proxy Voting oversight

- **Separate Legal/Compliance staff**
  - In-house CCO*

- **Separate Trade Monitoring**

### Investment

- **Monitor and control risk at every stage of the investment process**
  - Monitor common sense investment risks (size, beta, industry, sector) as well as harder to see risks (macro, statistical)
  - Strict adherence to client guidelines which are hard coded into portfolio optimization process
  - Customized use of the Northfield Single Country Risk Model to insure risk minimization across the portfolios

* Currently interviewing for role. Firm’s earlier compliance consultant currently engaged.
Matarin takes its operations infrastructure seriously. Via thorough due diligence and thoughtful investment of time and research, the team has brought together a network of trusted independent resources to support core aspects of its operations—ensuring sound practices today and into the future.

### Core Services

<table>
<thead>
<tr>
<th>Category</th>
<th>Provider</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounting/Audit</td>
<td>KPMG</td>
</tr>
<tr>
<td>IT</td>
<td>Triada Networks</td>
</tr>
<tr>
<td>Legal</td>
<td>Finn, Dixon &amp; Herling</td>
</tr>
<tr>
<td>Compliance</td>
<td>Brian Kawakami; ACA Performance Services (GIPS)</td>
</tr>
<tr>
<td>Communications</td>
<td>Segesta Communications; Four Design</td>
</tr>
<tr>
<td>Proxy Voting</td>
<td>Glass Lewis &amp; Co.</td>
</tr>
</tbody>
</table>

### Systems and Data Resources

<table>
<thead>
<tr>
<th>Category</th>
<th>Service</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trading</td>
<td>EZE Order Management System (OMS)</td>
</tr>
<tr>
<td>Reporting</td>
<td>Tradar PMS</td>
</tr>
<tr>
<td>Data Warehousing</td>
<td>FactSet</td>
</tr>
<tr>
<td>Optimizer</td>
<td>Northfield Open Optimizer</td>
</tr>
<tr>
<td>Data</td>
<td>Bloomberg, FactSet, Capital IQ, Stock Cube, Sentiment Data, S&amp;P</td>
</tr>
</tbody>
</table>
Matarin Team

**Stuart Kaye, CFA**  Co-Founder | Portfolio Manager

- 29 years Investment Experience at Matarin, Invesco, AJO and AT&T Investment Management Corp.
- Leadership including CIO Role at Invesco Structured Products Group, Director of Research responsible for 12-person quant research team, Global Management Committee Member
- Significant experience in both developing and leading teams in researching and implementing quantitative strategies for stock selection and asset allocation products
- University of Michigan | BBA, *with distinction*
- The Wharton School | MBA, *with honors*
- CFA Charterholder | NFA Series 3 Certified
- CPA (expired)

**Nili Gilbert, CFA,CAIA**  Co-Founder | Portfolio Manager

- 15 years experience constructing global macro strategies for accounts with $7 billion+, including development of proprietary factor combinations for U.S. stock and bond markets, commodities, currencies, money markets at Matarin and Invesco
- Designed macro and industry factors in stock selection model and led work on a Financial Futures Hedge Fund
- Synergos Institute | Chair of Finance and Investment Committees of the Board | World Economic Forum | Young Global Leader | Council on Foreign Relations Member | Int’l Affairs Fellows Selection Committee, Economic Club of New York Member | Membership Committee
- Columbia Business School | MBA, Toigo Fellowship
- Harvard University | BA, *magna cum laude*
- CFA and CAIA Charterholder | NFA Series 3 Certified
- Toigo Foundation *Bridge to Business* $100,000 Award Recipient (2011)

**Ralph Coutant, CFA**  Principal | Portfolio Manager

- 19 years experience in quantitative strategies including conducting research on stock selection factors, style and industry modeling, factor weighting and timing strategies, and transactions cost modeling at Matarin and Invesco
- Member of the inaugural Research Coordination Committee at Invesco tasked with developing and prioritizing the research agenda for team of 15 global analysts.
- Member of Invesco Global Management Team responsible for oversight and strategic direction of 40+ member team
- Whittemore School of Business and Economics at The University of New Hampshire | BS
- CFA Charterholder | NFA Series 3 Certified
- Chartered Market Technician (CMT)
**Matarin Team**

**Valerie Malter, CFA  Co-Founder | Managing Principal**
- 32 years investment management experience at Matarin, J.P. Morgan Inv. Mgmt, Scudder Kemper and Chancellor Capital Mgmt.
- Developed, drove investment strategy and ran team for Private Equity Distribution Management Program
- Built large cap growth mutual fund program to $6 billion in assets
- Proven business / new program builder; experience managing all functional departments, including research, marketing, and operations
- Start Small Think Big | Board Member; Strategic Planning Committee
- Darden School of Business, The University of Virginia | MBA
- Boston University | BSBA, *magna cum laude*
- CFA Charterholder | NFA Series 3 Certified

**Marta Cotton, CAIA  Principal | Director of Client Development**
- 26 years sales and client relationship management experience at Matarin, Goldman Sachs, and Gerson Lehrman
- 100 Women in Hedge Funds | Advisory Council, Leader of Senior Practitioner Committee
- Harlem Educational Activities Fund (HEAF) | Board of Directors
- University of Chicago | MBA
- University of Florida | BSBA, *with honors*
- Series 65 | NFA Series 3 Certified
- CAIA Charterholder

**Cheryl Fustinoni - Head of Operations and CCO**
- 12 years operations experience, most recently at an alternative mutual fund at Matarin, Lake Partners and CFA Capital Partners
- University of North Texas | BBA

**Eli Rietti – Investment Team Member**
- 4 years analytical experience at technical research provider Milton Berg and Associates
- Thomas Edison University | BA
- Israeli Defense Forces Veteran
Verification and Performance Examination Report

Matarin Capital Management, LLC
420 Lexington Avenue, Suite 2255
New York, NY, 10170

We have verified whether Matarin Capital Management, LLC (the "Firm") (1) has complied with all the composite construction requirements of the Global Investment Performance Standards (GIPS®) on a firm-wide basis for the periods from January 1, 2011 through December 31, 2017, and (2) designed its policies and procedures to calculate and present performance in compliance with the GIPS standards as of December 31, 2017. We have also conducted a performance examination of the Firm's North America Small Cap Equity Composite for the periods from January 1, 2011 through December 31, 2017. The Firm's management is responsible for compliance with the GIPS standards and the design of its policies and procedures and for the North America Small Cap Equity Composite's compliant presentation. Our responsibility is to express an opinion based on our verification and performance examination. We conducted this verification and performance examination in accordance with the required verification and performance examination procedures of the GIPS standards. We also conducted such other procedures as we considered necessary in the circumstances.

In our opinion, the Firm has, in all material respects:

- Complied with all the composite construction requirements of the GIPS standards on a firm-wide basis for the periods from January 1, 2011 through December 31, 2017; and
- Designed its policies and procedures to calculate and present performance in compliance with the GIPS standards as of December 31, 2017.

Also, in our opinion, the Firm has, in all material respects:

- Constructed the North America Small Cap Equity Composite and calculated the North America Small Cap Equity Composite's performance for the periods from January 1, 2011 through December 31, 2017 in compliance with the GIPS standards; and
- Prepared and presented the North America Small Cap Equity Composite's accompanying compliant presentation for the periods from January 1, 2011 through December 31, 2017 in compliance with the GIPS standards.

This report does not relate to or provide assurance on any composite compliant presentation of the Firm other than the Firm's North America Small Cap Equity Composite.

ACA Performance Services, LLC
May 8, 2018
Matarin Capital Management (Matarin) claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Matarin has been independently verified for the periods January 1, 2011 to December 31, 2017.

Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm’s policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. The North America Small Cap Equity Composite has been examined for the periods January 1, 2011 through December 31, 2017. The verification and performance examination reports are available upon request.

1. Matarin is an independent investment advisor headquartered in New York, NY. Matarin manages equity strategies for its clients both long only and long-short. As of December 31, 2017, firm assets under management are $1.303 billion. Matarin was founded in July 2010.

2. The objective of the North America Small Cap Equity Composite is to outperform the S&P SmallCap 600® Index and the Russell 2000® Index by taking active long-only positions in U.S. traded small-capitalization equities. Accounts in this strategy are usually invested over 99% in equities. The composite creation date is 1/1/11. The composite included one non-fee paying account from 2011 to 2014. The account was the account of one of the principals of Matarin and represented <2% of the composite assets as of 12/31/2014 and 12/31/2013, 10% of the composite assets as of 12/31/2012, and represented 100% of the composite assets as of 12/31/2011.

3. The benchmarks for the North America Small Cap Equity Composite are both the S&P SmallCap 600® Index and the Russell 2000® Index. The returns of the benchmarks are provided to represent the investment environment existing during the time period shown and are not covered by the report of the independent verifiers. For comparison purposes the index includes the reinvestment of income and other earnings but does not include any transaction costs, management fees, or other costs.

4. Returns reflect the deduction of all trading expenses and include the reinvestment of income and other earnings. Gross returns do not reflect the deduction of investment advisory fees. Net returns reflect the deduction of a model fee, and are calculated by deducting 1/12th of the highest advisory fee of 0.75% (the model fee) from the monthly gross composite returns. Actual fees may vary depending on, among other things, the applicable fee schedule and portfolio size. The

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</thead>
<tbody>
<tr>
<td>2011</td>
<td>2.40</td>
<td>1.64</td>
<td>1.02</td>
<td>(4.18)</td>
<td>-N/A-</td>
<td>-N/A-</td>
<td>&lt;5</td>
<td>1</td>
<td>13</td>
</tr>
<tr>
<td>2012</td>
<td>19.29</td>
<td>18.42</td>
<td>16.33</td>
<td>16.35</td>
<td>-N/A-</td>
<td>-N/A-</td>
<td>&lt;5</td>
<td>17</td>
<td>30</td>
</tr>
<tr>
<td>2013</td>
<td>38.49</td>
<td>37.48</td>
<td>41.32</td>
<td>38.82</td>
<td>14.9</td>
<td>15.6</td>
<td>7</td>
<td>158</td>
<td>192</td>
</tr>
<tr>
<td>2014</td>
<td>10.69</td>
<td>9.88</td>
<td>5.77</td>
<td>4.89</td>
<td>0.28</td>
<td>11.6</td>
<td>7</td>
<td>184</td>
<td>251</td>
</tr>
<tr>
<td>2015</td>
<td>(1.08)</td>
<td>(1.81)</td>
<td>(1.98)</td>
<td>(4.42)</td>
<td>0.13</td>
<td>12.5</td>
<td>10</td>
<td>355</td>
<td>678</td>
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<td>2016</td>
<td>26.30</td>
<td>25.37</td>
<td>26.56</td>
<td>21.31</td>
<td>0.26</td>
<td>14.9</td>
<td>15</td>
<td>571</td>
<td>907</td>
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<tr>
<td>2017</td>
<td>9.71</td>
<td>8.90</td>
<td>13.23</td>
<td>14.65</td>
<td>0.22</td>
<td>13.5</td>
<td>18</td>
<td>753</td>
<td>1303</td>
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</table>
firm’s fees are available on request and may be found in Part 2A of Form ADV. The current fee schedule for the strategy is as follows: 1.00% on the first $10 million, 0.70% on the next $50 million, and 0.60% thereafter.

5. Internal dispersion is calculated using the equal-weighted standard deviation of the annual gross returns of those accounts included in the composite for the full year. If less than five accounts are included in the composite for the full year, no dispersion measure is presented as it is not considered meaningful (N/M).

6. The three-year annualized standard deviation measures the variability of the composite and the benchmark over the preceding 36-month period. This measure is not required to be presented when 36 monthly composite returns are not yet available.

7. Since inception, the composite has had a policy to temporarily remove accounts from the composite when a significant cash flow occurs. A significant cash flow is defined as a cash flow of 10% or more of the portfolio value at the beginning of the month. The portfolio is removed from the composite for the month in which the significant cash flow occurred.

8. Valuations and returns are stated in U.S. dollars. Past performance is not indicative of future results. As with any investment there is always potential for gains as well as the possibility of losses. A list of composite descriptions and policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request.
Disclosures

For the avoidance of doubt, this information is confidential and proprietary and is neither an offer to sell nor a solicitation of any offer to buy any securities, investment product or investment advisory services, including interests in the Matarin Market Neutral U.S. Plus LP fund (the “Fund”) or an account deploying the Matarin Large Cap Core, North America Small Cap, or MicroCap strategy. This presentation is subject to a more complete description and does not contain all of the information necessary to make an investment decision, including, but not limited to, the risks, fees and investment strategies of the Fund. Any offering is made only pursuant to the relevant information memorandum, together with the current financial statements of the Fund, if available, and a relevant subscription application, all of which must be read in their entirety. No offer to purchase interests will be made or accepted prior to receipt by an offeree of these documents and the completion of all appropriate documentation. All investors must be “accredited investors” and “qualified purchasers” as defined in the securities laws before they can invest in the Fund.

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Hypothetical or simulated performance results have certain inherent limitations. Unlike an actual performance record, simulated results do not represent actual trading. Also, since the trades have not actually been executed, the results may have under- or over-compensated for the impact, if any, of certain market factors, such as lack of liquidity. Simulated trading programs in general are also subject to the fact that they are designed with the benefit of hindsight. No representation is being made that any account will or is likely to achieve profits or losses similar to those shown.

The forecasts (qualitative or quantitative) stated in the presentation are the result of statistical modeling, based on a number of assumptions. Forecasts are subject to a high level of uncertainty regarding future economic and market factors that may affect actual future performance. These forecasts are provided to you for information and discussion purposes only. Our assumptions may change materially with changes in underlying assumptions that may occur, among other things, as economic and market conditions change. We assume no obligation to provide you with updates or changes to this data as assumptions, economic and market conditions, models or other matters change.

The strategies discussed herein comprise those currently available to external investors. Matarin may deploy other strategies from time to time; a full list is available upon request.

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FUNDAMETRICS® SMALL CAP VALUE EQUITY

J. Cannon Carr, Jr.  
*Chief Investment Officer*

Jeffrey P. Moeller, CFA  
*Director of Research*

Presentation to:  

Los Angeles County Employees Retirement Association  
(LACERA)

August 8, 2018
Agenda

Firm Overview

People: Management, Organization, and Research

Commitment to Diversity

Investment Approach: Philosophy and Process

Performance

Appendix

- Infrastructure and Risk Management
- Biographies
- GIPS Compliance
- Disclosures
CornerCap: Overview
Boutique investment manager with expertise in US Small Cap stocks

CornerCap AUM at 6/30/18
$1.2 billion
$170 million
US Small Cap Strategy

Firm Highlights:
• 100% employee-owned, with detailed succession plan in place
• Size and independence support methodical product development and capacity control
• Core competency in quantitative equity solutions
  – Fundametrics® research system
  – Small, SMID and Large Cap Strategies
Management & Organization:
Leadership has evolved from the founders to an Executive Team and clearly defined functional areas.

Thomas Quinn, CFA
CEO

CornerCap Funds
Board of Trustees

Compliance / Operations
John Hackney
Chief Compliance Officer
MD Solutions
Outsourced Trade and Account Reconciliations
Outside Counsel
Kilpatrick Townsend

Information Technology
Kevin Keeney
Chief Technology Officer

Investments
(Details on Page 5)

Sales & Marketing
Richard Bean, CFA
Wealth Management
Private Client PMs

Client Service / Client Administration
Cannon Carr
Institutional Derek Tubbs

Providyn
Outsourced Infrastructure and Technology Support
Investment Committee: The Fundametrics® Small Cap Equity Investment Team

<table>
<thead>
<tr>
<th>Investment Committee</th>
<th>Portfolio Managers</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CANNON CARR</strong></td>
<td><strong>CANNON CARR</strong></td>
</tr>
<tr>
<td>Chief Investment Officer</td>
<td>Chief Investment Officer</td>
</tr>
<tr>
<td><strong>TOM QUINN, CFA, CPA</strong></td>
<td><strong>JEFF MOELLER, CFA</strong></td>
</tr>
<tr>
<td>Chief Executive Officer</td>
<td>Director of Research / Portfolio Manager</td>
</tr>
<tr>
<td><strong>RICHARD BEAN, CFA, CPA</strong></td>
<td><strong>DEREK TUBBS</strong></td>
</tr>
<tr>
<td>Portfolio Manager</td>
<td>Associate Portfolio Manager</td>
</tr>
<tr>
<td><strong>JEFF MOELLER, CFA</strong></td>
<td><strong>CHARLES BETTINGER</strong></td>
</tr>
<tr>
<td>Director of Research / Portfolio Manager</td>
<td>Director of Trading</td>
</tr>
<tr>
<td><strong>MARK TUCKER, CFA</strong></td>
<td><strong>JOHN HACKNEY, III</strong></td>
</tr>
<tr>
<td>Portfolio Manager</td>
<td>Chief Compliance Officer</td>
</tr>
<tr>
<td><strong>JOSHUA TUCKER, CFA</strong></td>
<td></td>
</tr>
<tr>
<td>Research Analyst</td>
<td>Operations Manager</td>
</tr>
</tbody>
</table>

** Dedicated primarily to institutional research
Commitment to Diversity: A Strategic Long-Term Imperative for Us

Women are shareholders and key employees, but none are yet in executive management.

What are we doing to improve diverse representation within our firm?

• Recognize its strategic priority, with open discussion internally

• Circulating in important forums and associations to gain contacts
  – Member of NASP
  – Support Emerging Manager events
  – Discuss openly with emerging manager platform providers

• Actively volunteer to improve our community through diversity
  – Sponsor of ESPN’s HBCU National Championship (the “Celebration Bowl”) since 2015
  – CIO serves on Advisory Board to promote the event (since 2015)
Investment Approach:
Our investment philosophy and distinguishing characteristics

**INVESTMENT PHILOSOPHY:**

Minimize Human Emotion and Seek Regression to the Mean through a Systematic, Relative Value Discipline

**DISTINGUISHING CHARACTERISTICS**
of our Investment Process

- Extensive factor library at the individual stock-level since 2002
- Substantial investment in proprietary programming and software
- Diversified factor profiling of stocks to drive objective, unbiased decisions
Investment Process:
Overview

1. **Investable Universe**
   - Minimum investment criteria: 1500 stock universe

2. **Fundamentals® Rankings by Decile**
   - Alpha Composite identifies favorable characteristics
   - Only purchase top-ranked stocks

3. **Financial Warnings Overlay**
   - Risk management tool to avoid costly mistakes

4. **Diversification**
   - Objective is to match composition of the “Internal Benchmark”

5. **Qualitative Review**
   - “Eyes on” to ensure data is accurate

6. **Client Portfolio**
   - 200 - 250 Equally weighted positions
   - Fully invested
Investment Process:
The Alpha Composite brings a diversified factor approach

ALPHA COMPOSITE

Universe Ranking

- Earnings Momentum
- Price Momentum
- Earnings Revision
- Sales Revision
- Growth to Value Ratio
- Relative Price to Earnings
- Relative Value
- GARP
- Acceleration
- Value

+ Sector Specific Ranking

- Price to Earnings
- Normalized Price to Earnings
- Price to Free Cash Flow
- Enterprise Multiple
- Acceleration
- GARP
- Relative Value
- Value
Investment Process: The Risk Composite Overlay helps us avoid stocks with a profile of excess risk.

Risk Composite Financial Warnings Overlay

- **Safe to Purchase**
  - Financial Warning Score = **PASS**
- **Avoid or Sell**
  - Financial Warning Score = **FAIL**
### Investment Approach: Some examples

<table>
<thead>
<tr>
<th></th>
<th>Alpha Composite</th>
<th>Details</th>
<th>Risk Overlay</th>
<th>Details</th>
<th>Qualitative Review</th>
<th>DECISION</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Timken Company</strong></td>
<td>✔</td>
<td>Universe &amp; Sector Value &amp; GARP</td>
<td>✔</td>
<td>Suitable capital structure, margin profile, and earnings quality</td>
<td>✔</td>
<td>Purchased</td>
</tr>
<tr>
<td><strong>Carbonite, Inc.</strong></td>
<td>✔</td>
<td>Strong sector score; weaker value but strong fundamental trends</td>
<td>✗</td>
<td>High peer leverage; Growing accruals; Rising short interest</td>
<td></td>
<td>Not purchased</td>
</tr>
<tr>
<td><strong>Advansix, Inc.</strong></td>
<td>✔</td>
<td>Strong value despite weaker earnings growth</td>
<td>✔</td>
<td>Minor ding on inventory growth</td>
<td>✗</td>
<td>Not purchased</td>
</tr>
<tr>
<td><strong>Schnitzer Steel Industries</strong></td>
<td>✔</td>
<td>Strong scores in all areas</td>
<td>✗</td>
<td>High margins; Growing accruals; High short interest</td>
<td>✗</td>
<td>Sold from portfolio</td>
</tr>
</tbody>
</table>

**DECISION**

- Purchased
- Not purchased
- Sold from portfolio

**Notes**

- Carbonite, Inc.
  - Strong sector score; weaker value but strong fundamental trends
  - Confirmed

- Advansix, Inc.
  - Strong value despite weaker earnings growth
  - Emissions violations

- Schnitzer Steel Industries
  - Strong scores in all areas
  - Confirmed
Summary: “Quant” or Fundamental?

**FUNDAMENTAL**
- Concentrated portfolios
- Focused expertise
- Intangible inputs
- *Weakness: human bias*

**QUANTITATIVE**
- Broad portfolios
- Programming expertise
- Measurable inputs
- *Weakness: “black box”*

---

**How are we Different?**

1. **Automated “Super Analyst”**
   - Measurable, repeatable, scalable process
   - “Eyes on” for data accuracy

2. **Rich Historical Database**
   - Drives Key Elements
   - Minimizes back-testing traps

3. **Emphasis on Longevity of Firm**
   - 100% employee owned
   - Succession plan
   - Protected investment R&D
# Performance

**FUNDAMETRICS® SMALL CAP STRATEGY COMPOSITE**

For the periods ended June 30, 2018. Returns over 1 year are annualized.

<table>
<thead>
<tr>
<th>Period</th>
<th>CornerCap (Net)</th>
<th>Russell 2000</th>
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<tbody>
<tr>
<td>QTD</td>
<td>6.42%</td>
<td>7.75%</td>
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<tr>
<td>YTD</td>
<td>3.54%</td>
<td>7.66%</td>
</tr>
<tr>
<td>1 Year</td>
<td>12.76%</td>
<td>17.57%</td>
</tr>
<tr>
<td>3 Years</td>
<td>11.78%</td>
<td>10.96%</td>
</tr>
<tr>
<td>5 Years</td>
<td>14.05%</td>
<td>12.46%</td>
</tr>
<tr>
<td>10 Years</td>
<td>13.35%</td>
<td>10.60%</td>
</tr>
<tr>
<td>Inception *</td>
<td>11.03%</td>
<td>8.70%</td>
</tr>
</tbody>
</table>

* Inception = 8/31/2006

(a) Past performance is no guarantee of future results, and all investments are subject to risk of loss.  
(b) **Please read the notes and disclosures that follow as they are an integral part of this presentation.**  
(c) For a complete list and descriptions of composites, send a request to info@cornercap.com  
(d) Net performance is based on the negotiated fee schedule proposed to LACERA
Research Insights:
Our Fundametrics® System reveals a narrow market in small caps

Factor Returns by Style
Relative to the Universe benchmark
For the trailing two quarters (6/29/18)

MESSAGES:
1. Momentum and Expectations for Growth are dominating
2. Most factors, especially Value, are currently lagging…
3. … but Value is very effective over time

Since inception (2010)
Appendix
Infrastructure and Risk Management

Institutional Infrastructure

• Substantial investment in technology and software development
• Moxy Trading Platform with trader from floor of NYSE
• Third party outsourced daily reconciliation
• Chief Technology Officer with third party outsourced help desk support
• Redundant data center and daily/hourly systems back-up

Risk Controls

• Independent Chief Compliance Officer that reports to Mutual Fund Board
• Comprehensive Compliance program and staff training (SMARSH, Compliance11)
• Thorough Risk Matrix with each section reviewed annually
• Electronic trade order system to minimize human error
• Third party outsourced daily reconciliation
• Third party outsourced technology infrastructure support and help desk
• Detailed Disaster Recovery plan
Biographies: Investment Team

PORTFOLIO MANAGERS

JEFFREY P. MOELLER, CFA  Director of Research and Portfolio Manager
Jeff is CornerCap's Director of Research, overseeing the day-to-day execution of Fundametrics® and research of the firm’s investment products. He is a member of the investment committee and Portfolio Manager. He co-manages the three CornerCap mutual funds (Small Cap Value, Large/Mid Cap Value, and Balanced). Jeff joined CornerCap in 2000 and served as the firm’s trader for three years. He returned in 2004 as a research analyst. Jeff is a Chartered Financial Analyst (CFA) Charterholder and a member of the CFA Institute and the Atlanta Society of Finance and Investment Professionals. He has a BS in Finance from Oklahoma State University.

J. CANNON CARR, JR.  Chief Investment Officer
Cannon is CornerCap's Chief Investment Officer. He leads the firm’s investment committee and oversees the firm’s investment strategies and process, stock and asset class research, and portfolio management. He also co-manages the three CornerCap mutual funds (Small Cap Value, Large Cap Value, and Balanced). He joined CornerCap in June 2007, after being a client for over seven years. Prior to joining CornerCap, Cannon was a senior equity analyst at CIBC World Markets (formerly Oppenheimer), covering IT business services (2006-07), wireless services (2001-05), and emerging telecom (1998-05). Cannon has provided commentary on CNBC, CNN, Lou Dobbs MoneyLine, and Bloomberg News. He has also been quoted in the New York Times, Wall Street Journal, Financial Times, and Fortune, among other publications. He was rated a five-star analyst by Zachs Research in 2006. Cannon has an MBA from Columbia Business School and a BA from Princeton University in Political Economy.

RESEARCH ANALYST

JOSHUA G. TUCKER, CFA  Research Analyst
Josh is a Research Analyst and a member of the investment committee. He joined CornerCap in January 2014 after completing a research internship with the firm in 2013. Josh holds an MBA from the Scheller College of Business at Georgia Institute of Technology and a BS in Business Administration with a major in Finance from Mississippi State University. Prior to business school, Josh worked as a research associate where he was responsible for individual stock analysis as well as macroeconomic research. He is a Chartered Financial Analyst (CFA) Charterholder and a member of the CFA Institute and the Atlanta Society of Finance and Investment Professionals.
Biographies: Investment Team (Continued)

**INVESTMENT COMMITTEE**
*(IN ADDITION TO PMs AND ANALYST)*

**Thomas E. Quinn, CFA  Chief Executive Officer**
Tom is CEO of CornerCap Investment Counsel and is a member of the investment committee. He and Gene Hoots co-founded the firm, which was incorporated in 1989. Tom is also President and Treasurer of the CornerCap Group of Funds. His previous positions included being Chief Investment Officer of RJR Investment Management, Inc., the investment advisory subsidiary of RJR Nabisco, and a consultant for Arthur Andersen & Co. He is a Chartered Financial Analyst (CFA) Charterholder and a member of the CFA Institute and the Atlanta Society of Finance and Investment Professionals. He is a certified public accountant (CPA) and a member of the American Institute of Certified Public Accountants (AICPA). He has an MS in Industrial and Systems Engineering from Ohio University and an MBA from the University of North Carolina at Greensboro.

**Richard T. Bean, CFA  Senior Vice President and Portfolio Manager**
Richard is a Senior Vice President of CornerCap Investment Counsel and member of the investment committee. He oversees our wealth advisory practice. Prior to joining the firm in 1996 he worked for an employee benefits and actuarial firm. He is a Chartered Financial Analyst (CFA) Charterholder and a member of the CFA Institute and the Atlanta Society of Finance and Investment Professionals. He is also a certified public accountant (CPA) and a member of the American Institute of Certified Public Accountants (AICPA). Richard has a BS in Finance from the University of Southern Mississippi.

**Mark H. Tucker, CFA  Portfolio Manager**
Mark is a Portfolio Manager and a member of the investment committee. He also oversees our statistical modeling and analysis tools. Prior to joining CornerCap in 2009, Mark served as a portfolio manager and securities analyst at a local Atlanta investment advisory firm. He previously worked in the equity research department of SunTrust Robinson Humphrey. He is a Chartered Financial Analyst (CFA) Charterholder and a member of the CFA Institute and the Atlanta Society of Finance and Investment Professionals. He has a BA in Economics from The University of the South–Sewanee.
Biographies: Investment Team (Continued)

TRADING

**CHARLES E. BETTINGER**  *Director of Trading and Portfolio Manager*

Charlie oversees all equity, fixed income and mutual fund trading at CornerCap. He is also responsible for managing all broker/dealer relationships and the various technology that supports the trading function. He is a portfolio manager and a non-voting member of the Investment Committee. Prior to joining CornerCap in 2008, Charlie was an equity trader on the New York Stock Exchange for 10 years with Goldman Sachs. During his time on the trading floor, Charlie was a market maker in such names as AIG, Pfizer, Hewlett Packard and Best Buy as well as being actively involved in numerous IPO’s. Charlie received his bachelor’s degree in Liberal Arts from Boston University and has held the FINRA Series 7 and 63 licenses.

COMPLIANCE

**JOHN A. HACKNEY, III**  *Chief Compliance Officer and Operations Manager*

John is Chief Compliance Officer and Operations Manager of CornerCap Investment Counsel. John and his staff’s broad responsibilities include administering CornerCap’s compliance with federal and state regulatory authorities, and maintaining and reporting accurate client account data. Prior to joining the firm in 1995, John worked in risk management at an Atlanta broker/dealer. John has a BA from the University of Virginia and an MAR from Yale Divinity School.

SALES / CLIENT SERVICE

**DEREK M. TUBBS**  *Associate Portfolio Manager and Vice President Institutional Development*

Derek is an Associate Portfolio Manager and the Vice President of Institutional Development for CornerCap. He joined in 2013 with over 16 years of institutional investor experience and is a non-voting member of the investment committee. His primary responsibility is to expand CornerCap’s reach with institutional investors. Prior to joining CornerCap, Derek was a Senior Relationship Manager with a $15 billion equity team at Wells Capital Management where he was the primary point of contact for institutional clients. Derek started his investment career in 1996 and spent the next 12 years in institutional sales with both CIBC World Markets (formerly Oppenheimer) and Prudential Equity Group. He has an MBA from the Kelley School of Business at Indiana University and earned his BA with honors from Texas A&M University.
Disclosures

**Fundametrics® Small-Capitalization Strategy Composite**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>(35.74%)</td>
<td>(36.13%)</td>
<td>(33.79%)</td>
<td>(28.92%)</td>
<td>N.A.</td>
<td>5 or fewer</td>
<td>2</td>
<td>--</td>
<td>445</td>
</tr>
<tr>
<td>2009</td>
<td>38.47%</td>
<td>37.55%</td>
<td>27.17%</td>
<td>20.58%</td>
<td>N.A.</td>
<td>5 or fewer</td>
<td>3</td>
<td>--</td>
<td>586</td>
</tr>
<tr>
<td>2010</td>
<td>30.54%</td>
<td>30.34%</td>
<td>26.83%</td>
<td>24.50%</td>
<td>N.A.</td>
<td>5 or fewer</td>
<td>3</td>
<td>--</td>
<td>701</td>
</tr>
<tr>
<td>2011</td>
<td>1.59%</td>
<td>1.27%</td>
<td>(4.18%)</td>
<td>(5.50%)</td>
<td>N.A.</td>
<td>5 or fewer</td>
<td>3</td>
<td>--</td>
<td>678</td>
</tr>
<tr>
<td>2012</td>
<td>18.88%</td>
<td>18.53%</td>
<td>16.35%</td>
<td>18.05%</td>
<td>N.A.</td>
<td>5 or fewer</td>
<td>4</td>
<td>--</td>
<td>740</td>
</tr>
<tr>
<td>2013</td>
<td>49.58%</td>
<td>47.94%</td>
<td>38.82%</td>
<td>34.52%</td>
<td>N.A.</td>
<td>5 or fewer</td>
<td>65</td>
<td>--</td>
<td>912</td>
</tr>
<tr>
<td>2014</td>
<td>6.97%</td>
<td>5.70%</td>
<td>4.89%</td>
<td>4.22%</td>
<td>N.A.</td>
<td>5 or fewer</td>
<td>78</td>
<td>4%</td>
<td>966</td>
</tr>
<tr>
<td>2015</td>
<td>(0.95%)</td>
<td>(2.14%)</td>
<td>(4.41%)</td>
<td>(7.47%)</td>
<td>N.A.</td>
<td>5 or fewer</td>
<td>100</td>
<td>3%</td>
<td>879</td>
</tr>
<tr>
<td>2016</td>
<td>30.27%</td>
<td>28.76%</td>
<td>21.31%</td>
<td>31.74%</td>
<td>N.A.</td>
<td>5 or fewer</td>
<td>123</td>
<td>3%</td>
<td>962</td>
</tr>
<tr>
<td>2017</td>
<td>9.26%</td>
<td>8.09%</td>
<td>14.65%</td>
<td>7.84%</td>
<td>N.A.</td>
<td>5 or fewer</td>
<td>157</td>
<td>2%</td>
<td>1223</td>
</tr>
</tbody>
</table>

N.A. - Information is not statistically meaningful due to an insufficient number of portfolios in the composite for the entire year.

---

3-Year Annualized Standard Deviation

<table>
<thead>
<tr>
<th>Year</th>
<th>Composite Gross</th>
<th>Russell 2000</th>
<th>Russell 2000 Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>26.16%</td>
<td>24.99%</td>
<td>26.05%</td>
</tr>
<tr>
<td>2012</td>
<td>21.32%</td>
<td>20.20%</td>
<td>19.89%</td>
</tr>
<tr>
<td>2013</td>
<td>18.35%</td>
<td>16.45%</td>
<td>15.82%</td>
</tr>
<tr>
<td>2014</td>
<td>14.16%</td>
<td>13.12%</td>
<td>12.79%</td>
</tr>
<tr>
<td>2015</td>
<td>14.61%</td>
<td>13.96%</td>
<td>13.46%</td>
</tr>
<tr>
<td>2016</td>
<td>15.47%</td>
<td>15.76%</td>
<td>15.50%</td>
</tr>
<tr>
<td>2017</td>
<td>14.05%</td>
<td>13.91%</td>
<td>13.97%</td>
</tr>
</tbody>
</table>

**DISCLAIMERS**

(a) Past performance is no guarantee of future results, and all investments are subject to risk of loss.

(b) Please read the notes and disclosures that follow as they are an integral part of this presentation.

CONTINUED ON NEXT PAGE
Disclosures (Continued)

(1) THE FIRM
For the purpose of complying with the Global Investment Performance Standards (GIPS®), the “Firm” is defined as CornerCap Investment Counsel, Inc. ("CornerCap"), an independent investment advisor registered under the Investment Advisers Act of 1940, specializing in equity management for mutual funds, separate clients, wrap accounts, and institutional clients.

(2) GIPS® PERFORMANCE STANDARDS
CornerCap claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. CornerCap has been independently verified for the periods January 1, 2002 through December 31, 2014. The verification report(s) is/are available upon request.
Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm’s policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. Verification does not ensure the accuracy of any specific composite presentation.
Policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request. A list of composite descriptions is available upon request.

(3) BASIS OF COMPOSITE PRESENTATION
CornerCap includes all fee-paying, discretionary equity portfolios with a market value greater than $100,000 in its composite performance calculations.
Accounts no longer under management are included in the historical composites for the periods they were under management and are excluded in the month of termination.
The annual composite dispersion presented is an asset-weighted standard deviation calculated for the accounts in the composite the entire year.

(4) SIGNIFICANT ACCOUNTING POLICIES
Performance calculations have been prepared on a monthly basis for each portfolio. The monthly returns are linked and asset weighted to calculate annual composite total returns.

Valuations and returns are computed and stated in U.S. dollars. The rates of return are not indicative of future performance. The qualitative circumstances surrounding the financial securities environment should be considered.

(5) FUNDAMETRICS® SMALL-CAPITALIZATION EQUITY COMPOSITE
The Fundametrics® Small-Capitalization Equity Composite was created August 31, 2006, and contains fully discretionary accounts (excluding WRAP accounts) that invest primarily in small-cap equity securities, following a buy and sell philosophy driven by a strict adherence to the advisor’s quantitative research. For comparison purposes it is measured against the Russell 2000 and the Russell 2000 Value indices.
As of June 30, 2010, the Quantitative Small-Cap Composite has been renamed the Fundametrics® Small-Cap Composite.

(6) MANAGEMENT FEES
Gross performance results for the Fundametrics® Small-Capitalization Equity Composite have been calculated before management fees. Net performance results have been calculated using actual management fees.

Standard Private Accounts
1.00% on the first $3,000,000 of assets under management
0.75% on the next $7,000,000 of assets under management
0.50% over $10,000,000 of assets under management
(Non-Profit Fee Schedule: 0.85% on the 1st Tier)
(Sub-Advisor Fee Schedule: 0.75% on the 1st Tier)

Fundametrics® Small-Cap Institutional Accounts
1.00% on the first $10,000,000
0.85% on the next $10,000,000
0.75% on the balance over $20,000,000

Investment Company Accounts
1.31% on Investment-Company small-cap accounts
1.00% on Institutional Investment-Company small-cap accounts
(Combined investment management fees and administrative fees)
Actual investment fees incurred by clients may vary.
Returns are presented gross and net of management fees and include the reinvestment of all income.

August 8th, 2018

Los Angeles County Employees Retirement Association
WHY GLOBAL ALPHA

FIRM
• Small cap specialist with assets under management of over US$ 1.2 billion
  » Global Small Cap: over US$ 642 million
  » International Small Cap: over US$ 621 million
• Client servicing and communication directly from the portfolio management team
• Founded in 2008, in partnership with the Connor, Clark & Lunn Financial Group (over US$ 58B AUM)

TEAM
• 5 investment team members are partners of the firm
• Average of 15+ years in asset management
• No investment team turnover since inception

STRATEGY
• Quality Growth – True Small Cap – High Conviction – Long Term
• Value add through security selection - mitigating style, currency and industry risk
• Rigorous portfolio construction and risk management
• Strong, consistent performance through various market cycles and periods of volatility
• Environmental, Social & Governance (ESG) integrated into investment process

*Progress Manager of Managers Program: California State Teachers’ Retirement System.
GLOBAL ALPHA TEAM

GLOBAL

Robert Beauregard  
CIO and Portfolio Manager  
Energy / Utilities

EUROPE

David Savignac  
Portfolio Manager  
Technology / Industrials / Real Estate

Qing Ji  
Portfolio Manager  
Consumer Discretionary / Consumer Staples

ASIA-PACIFIC

Serge Depatie  
Portfolio Manager  
Materials / Health Care

Sain Godil  
Associate Portfolio Manager  
Financials / Telecommunications

NORTH AMERICA

Anthony Sutton  
Analyst, Trader  
Industrial / Materials

Tracy Li  
Analyst  
Consumer Discretionary / Consumer Staples

COMPLIANCE & CLIENT SERVICES

Janine Tran Lam  
Manager, Client Relationships, Risk and Compliance  
[21]

Diverse Backgrounds – Significant Experience – Unique Insights

[?] Years of Industry Experience as of 2018

* Speaks multiple languages
INVESTMENT PHILOSOPHY

• Earnings growth per share drives stock prices

• Secular growth themes support outperformance

• Identify good companies with growth potential not yet recognized by the market

• 3-5 year investment horizon for value realization
RESEARCH PRIORITIZATION

INVESTMENT TEAM RESEARCH
- Companies in different geographies
- Business models early in growth cycle
- Research company suppliers & customers
- Identify strong competitors

COMPANY ENGAGEMENT
- On-site company visits
- Industry conferences and trade shows
- Company roadshows through Montreal
- Prioritize companies on watch & approved list
- Around 1,000 management meetings per year

UNIVERSE DATA ANALYSIS
- All 11,000 companies twice per year
- USD 100M – 3.5B market cap
- Sales growth
- Operating margins & debt level

DETAILED ANALYSIS ON 250-300 COMPANIES
GLOBAL INVESTMENT THEMES

CONSUMER
• Emerging market consumer
• E-commerce
• Leisure society
• Millennial consumer

DEMOGRAPHICS
• Aging population
• Urbanization
• Infrastructure
• Safety and comfort

ENVIRONMENT
• Pollution control
• Waste/water management
• Alternative energy
• Energy savings

INNOVATION
• Miniaturization
• Connectivity
• Sensor Technology
• Mobility

OUTSOURCING
• Company focus
• Balance sheet optimization
• Efficiency
• Consolidation

A good company with a secular tailwind is a great investment.
BOTTOM-UP FUNDAMENTAL RESEARCH

RIGOROUS FUNDAMENTAL ANALYSIS
• Target market, competitive advantage, growth strategy, ESG, financial / operating model, supplier & customer due diligence

ON-SITE MANAGEMENT TEAM ASSESSMENTS
• Stability of team, track record of execution, insider ownership & compensation

APPROVED LIST OF 150 HIGH CONVICTION NAMES

INTRINSIC VALUE CALCULATIONS
• Cash flow, discount rate, replacement value & comparables
### STOCK EXAMPLE

**DMG MORI**

<table>
<thead>
<tr>
<th>QUALITY METRICS</th>
<th>Market Cap: JPY 244B</th>
<th>P/E (2018): 11.4x</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales:</td>
<td>JPY 430B</td>
<td>Dividend yield: 2.1%</td>
</tr>
<tr>
<td>5 yr sales growth:</td>
<td>27.2%</td>
<td>Net Debt/EBITDA: 2.5x</td>
</tr>
</tbody>
</table>

**THEME**

Innovation

**FUNDAMENTAL ANALYSIS**

- **Target market:** Global machine tool market EUR73 billion
- **Competitive advantage:** Niche market leader, vertically integrated, direct sales overseas
- **Growth strategy:** Product, distribution, acquisition

**MANAGEMENT TEAM ASSESSMENT**

- Stable and experienced management team
- Mori family owns 8%
- Good ESG practice

**INTRINSIC VALUE**

- Intrinsic value: JPY 3,316
- Currently trading: JPY 1,941
### STOCK EXAMPLE

#### QUALITY METRICS

<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Market Cap:</td>
<td>€ 2.0B</td>
<td></td>
</tr>
<tr>
<td>Sales:</td>
<td>€ 1.6B</td>
<td></td>
</tr>
<tr>
<td>5 yr sales growth:</td>
<td>11.3%</td>
<td></td>
</tr>
<tr>
<td>P/E (2018):</td>
<td>14.1x</td>
<td></td>
</tr>
<tr>
<td>Dividend yield:</td>
<td>1.6%</td>
<td></td>
</tr>
<tr>
<td>Net debt / ebitda:</td>
<td>0.8x</td>
<td></td>
</tr>
</tbody>
</table>

#### THEME

- Outsourcing, Innovation

#### FUNDAMENTAL ANALYSIS

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Target market:</td>
<td>Global Aerospace fasteners: $9B by 2021, CAGR 7%</td>
</tr>
<tr>
<td>Competitive advantage:</td>
<td>High barriers to entry, strong relationship with OEM, well-diversified customer base</td>
</tr>
<tr>
<td>Growth strategy:</td>
<td>Innovation, higher content per aircraft, bolt-on acquisitions</td>
</tr>
</tbody>
</table>

#### MANAGEMENT TEAM ASSESSMENT

- Solid management team, good track record
- Family own 54%
- Good ESG practice

#### INTRINSIC VALUE

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Intrinsic value:</td>
<td>€ 57</td>
</tr>
<tr>
<td>Currently trading:</td>
<td>€ 33</td>
</tr>
</tbody>
</table>
PORTFOLIO CONSTRUCTION & RISK MANAGEMENT

~70% OF RISK IS STOCK SPECIFIC

Stock Risk
• Maximum individual stock weight 5%
• Most names between 1% and 2.5%

~30% OF RISK IS INDUSTRY GROUP AND CURRENCY

Sector/Industry Risk
• Minimum of 9 out of 11 sectors
• Minimum of 18 out of 24 GIC industry groups
• No GIC industry > 10%

Country/Currency Risk
Region Constraints
• Benchmark weight
  » Region <25% + / - 10%
  » Region ≥ 25% + / - 1/3rd of the weight

PORTFOLIO OF 50-70 STOCKS

ADDED VALUE TARGET OF 3% PER YEAR
TRACKING ERROR OF 3-6% PER YEAR
PORTFOLIO COMPOSITION: INTERNATIONAL SMALL CAP PORTFOLIO

MARKET CAP ALLOCATION (%)\(^1\)

<table>
<thead>
<tr>
<th>Region</th>
<th>Portfolio</th>
<th>Benchmark</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than $1 Billion</td>
<td>10.0%</td>
<td>16.2%</td>
</tr>
<tr>
<td>$1 - $3 Billion</td>
<td>50.7%</td>
<td>47.4%</td>
</tr>
<tr>
<td>$3 - $5 Billion</td>
<td>31.0%</td>
<td>25.1%</td>
</tr>
<tr>
<td>Over $5 Billion</td>
<td>7.1%</td>
<td>11.2%</td>
</tr>
</tbody>
</table>

REGION WEIGHTS (%)

<table>
<thead>
<tr>
<th>Region</th>
<th>June 29, 2018</th>
<th>Portfolio</th>
<th>Benchmark*</th>
<th>Over/Under</th>
</tr>
</thead>
<tbody>
<tr>
<td>North America</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td></td>
</tr>
<tr>
<td>Europe &amp; Middle East</td>
<td>59.3</td>
<td>57.5</td>
<td>1.9</td>
<td></td>
</tr>
<tr>
<td>Japan</td>
<td>26.3</td>
<td>31.0</td>
<td>-4.7</td>
<td></td>
</tr>
<tr>
<td>Asia (ex-Japan)</td>
<td>14.4</td>
<td>11.5</td>
<td>2.9</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td></td>
</tr>
</tbody>
</table>

SECTOR BREAKDOWN (%)

<table>
<thead>
<tr>
<th>Sector</th>
<th>Portfolio at June 2018</th>
<th>Benchmark*</th>
<th>Under/Over</th>
<th>Portfolio at March 2018</th>
<th>Change in Period**</th>
</tr>
</thead>
<tbody>
<tr>
<td>Energy</td>
<td>2.5</td>
<td>2.8</td>
<td>-0.3%</td>
<td>1.8</td>
<td>0.7</td>
</tr>
<tr>
<td>Materials</td>
<td>7.9</td>
<td>9.0</td>
<td>-1.1%</td>
<td>7.8</td>
<td>0.1</td>
</tr>
<tr>
<td>Industrials</td>
<td>26.1</td>
<td>21.6</td>
<td>-1.6%</td>
<td>24.0</td>
<td>2.2</td>
</tr>
<tr>
<td>Consumer Discretionary</td>
<td>17.6</td>
<td>15.0</td>
<td>2.6%</td>
<td>19.0</td>
<td>-1.4</td>
</tr>
<tr>
<td>Consumer Staples</td>
<td>8.4</td>
<td>6.8</td>
<td>1.6%</td>
<td>7.2</td>
<td>1.2</td>
</tr>
<tr>
<td>Health Care</td>
<td>6.6</td>
<td>7.3</td>
<td>-0.7%</td>
<td>6.2</td>
<td>0.4</td>
</tr>
<tr>
<td>Financials</td>
<td>7.5</td>
<td>11.7</td>
<td>-4.2%</td>
<td>7.2</td>
<td>0.2</td>
</tr>
<tr>
<td>Information Technology</td>
<td>11.2</td>
<td>11.6</td>
<td>-0.4%</td>
<td>10.2</td>
<td>1.0</td>
</tr>
<tr>
<td>Telecommunication Services</td>
<td>1.1</td>
<td>1.4</td>
<td>-0.3%</td>
<td>0.6</td>
<td>0.5</td>
</tr>
<tr>
<td>Utilities</td>
<td>1.5</td>
<td>2.1</td>
<td>-0.6%</td>
<td>1.4</td>
<td>0.1</td>
</tr>
<tr>
<td>Real Estate</td>
<td>8.6</td>
<td>10.8</td>
<td>-2.2%</td>
<td>8.3</td>
<td>0.3</td>
</tr>
<tr>
<td>Cash</td>
<td><strong>1.1</strong></td>
<td><strong>0.0</strong></td>
<td><strong>-2.2%</strong></td>
<td><strong>6.4</strong></td>
<td><strong>-5.3</strong></td>
</tr>
</tbody>
</table>

*Benchmark: MSCI EAFE Small Cap (Net)(USD). ** Value may differ due to rounding.
1 All data in US Dollars as of June 29, 2018.
SELL DISCIPLINE

RULES-BASED
- Stock has reached upper market capitalization limit of the index
- Portfolio maximum of 70 names

RESEARCH-BASED
- Loss of competitive advantage
- Change in business strategy
- Stock valuation
- Better stock alternative
PERFORMANCE INTERNATIONAL SMALL CAP PORTFOLIO

ANNUALIZED RETURNS (USD)

<table>
<thead>
<tr>
<th></th>
<th>MTD</th>
<th>QTD</th>
<th>YTD</th>
</tr>
</thead>
<tbody>
<tr>
<td>International Small Cap Composite</td>
<td>-2.5%</td>
<td>-1.9%</td>
<td>0.5%</td>
</tr>
<tr>
<td>MSCI EAFE Small Cap (Net)</td>
<td>-1.9%</td>
<td>-1.6%</td>
<td>-1.3%</td>
</tr>
<tr>
<td>Added Value</td>
<td>-0.6%</td>
<td>-0.3%</td>
<td>1.8%</td>
</tr>
<tr>
<td>Composite Net Returns</td>
<td>-2.6%</td>
<td>-2.1%</td>
<td>0.1%</td>
</tr>
<tr>
<td>1 Year</td>
<td>2 Year</td>
<td>3 Year</td>
<td>4 Year</td>
</tr>
<tr>
<td>11.3%</td>
<td>20.0%</td>
<td>14.1%</td>
<td>12.3%</td>
</tr>
<tr>
<td>12.4%</td>
<td>17.7%</td>
<td>10.1%</td>
<td>7.3%</td>
</tr>
<tr>
<td>-1.2%</td>
<td>2.3%</td>
<td>4.0%</td>
<td>5.0%</td>
</tr>
<tr>
<td>10.5%</td>
<td>19.2%</td>
<td>13.3%</td>
<td>11.5%</td>
</tr>
</tbody>
</table>

ANNUAL RETURNS (USD)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>International Small Cap Composite</td>
<td>36.9%</td>
<td>5.0%</td>
<td>19.0%</td>
<td>-1.0%</td>
<td>29.6%</td>
<td>23.0%</td>
<td>-15.3%</td>
<td>29.6%</td>
</tr>
<tr>
<td>MSCI EAFE Small Cap (Net)</td>
<td>33.0%</td>
<td>2.2%</td>
<td>9.6%</td>
<td>-4.9%</td>
<td>29.3%</td>
<td>20.0%</td>
<td>-15.9%</td>
<td>22.0%</td>
</tr>
<tr>
<td>Added Value</td>
<td>3.8%</td>
<td>2.8%</td>
<td>9.5%</td>
<td>4.0%</td>
<td>0.3%</td>
<td>3.0%</td>
<td>0.6%</td>
<td>7.6%</td>
</tr>
<tr>
<td>Composite Net Returns</td>
<td>35.9%</td>
<td>4.3%</td>
<td>18.2%</td>
<td>-1.7%</td>
<td>28.7%</td>
<td>22.2%</td>
<td>-16.0%</td>
<td>28.7%</td>
</tr>
</tbody>
</table>

*Inception Date: December 31, 2009. **Net Performance reflects negotiated fees with LACERA; blended 71.25bps
All returns are gross of fees except where noted. Gross performance figures are stated after trading fees and before management fees, performance fees and operating expenses. Operating expenses include items such as custodial fees for segregated accounts and for pooled vehicles would also include charges for valuation, audit, tax and legal expenses. Such additional operating expenses would reduce the actual returns experienced by investors in segregated accounts and pooled vehicles. Added value may differ due to rounding to 1 decimal place. Benchmark’s performance is net of foreign dividend withholding taxes.
Sources: Connor, Clark & Lunn Financial Group, Thomson Datastream.
PARTicipates in upsiDe MARKets
With effecTi Ve Down siDe PROTeCti On
International Small Cap Portfolio

Up/DOWN MARKET CAPTURE RATIOS

PERCENTAGE OF TIME ADDING VALUE

Sources: Connor, Clark & Lunn Financial Group, MSCI Barra.
Since December 31, 2009 to June 29, 2018 (USD)
Added Value vs. MSCI EAFE Small Cap (Net)(USD) (Quarterly Observations)
## ATTRIBUTION
### International Small Cap Portfolio

<table>
<thead>
<tr>
<th>Cumulative return from Inception* to June 29, 2018 (USD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global Alpha Small Cap EAFE Portfolio</td>
</tr>
<tr>
<td>MSCI EAFE Small Cap</td>
</tr>
<tr>
<td>Added Value</td>
</tr>
<tr>
<td>Security Selection</td>
</tr>
<tr>
<td>Sector Allocation</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Security Selection</th>
<th>Sector Allocation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Energy</td>
<td>9.5%</td>
<td>2.9%</td>
</tr>
<tr>
<td>Materials</td>
<td>-2.4%</td>
<td>2.6%</td>
</tr>
<tr>
<td>Industrials</td>
<td>8.6%</td>
<td>0.4%</td>
</tr>
<tr>
<td>Consumer Discretionary</td>
<td>5.6%</td>
<td>-1.1%</td>
</tr>
<tr>
<td>Consumer Staples</td>
<td>19.3%</td>
<td>2.0%</td>
</tr>
<tr>
<td>Health Care</td>
<td>-0.2%</td>
<td>-0.3%</td>
</tr>
<tr>
<td>Financials</td>
<td>11.7%</td>
<td>2.4%</td>
</tr>
<tr>
<td>Information Technology</td>
<td>18.0%</td>
<td>2.4%</td>
</tr>
<tr>
<td>Telecommunication Services</td>
<td>-1.4%</td>
<td>-0.1%</td>
</tr>
<tr>
<td>Utilities</td>
<td>2.0%</td>
<td>-0.1%</td>
</tr>
<tr>
<td>Real Estate</td>
<td>1.4%</td>
<td>1.0%</td>
</tr>
<tr>
<td>Cash</td>
<td>0.7%</td>
<td>-1.4%</td>
</tr>
</tbody>
</table>

*Inception Date: December 31, 2009
Note: Performance has been calculated on a monthly basis. Performance is stated in US dollars.
The benchmark as noted on the performance page is net of the foreign dividend withholding taxes. The attribution is calculated using the gross return index.
Gross performance figures are stated after trading fees and before management fees, performance fees and operating expenses. Net performance figures are stated after management fees, estimated performance fees and transaction costs and before operating expenses. Operating expenses include items such as custodial fees for segregated accounts and for pooled vehicles would also include charges for valuation, audit, tax and legal expenses. Such additional operating expenses would reduce the actual returns experienced by investors in segregated accounts and pooled vehicles. Sector performance shown is net of trading fees but gross of management fees, performance fees and operating expenses. Added value may differ due to residual.
Source: Connor, Clark & Lunn Financial Group.
WHY GLOBAL ALPHA

- **Small Cap Specialist**: partner-owned firm with a singular focus on delivering performance and serving clients

- **Experienced & Stable Team**: a seasoned group of portfolio managers hailing from different backgrounds; no investment team turnover since inception; 5 team members are material owners of the firm

- **Unique Investment Approach**: finding undiscovered value in companies exhibiting strong EPS growth, and who are benefiting from prevailing global themes and secular trends

- **Environmental, Social & Governance (ESG)**: actively integrates ESG into securities analysis and decision-making process

- **Rigorous Portfolio Construction**: building high conviction, concentrated portfolios driven by security selection and mitigating sector, country and currency risk

- **Strong Results**: Consistently adding value through various market cycles and periods of volatility
## Global Alpha International Small Cap Composite

### Compliance Statement

Global Alpha Capital Management Ltd. (Global Alpha) claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Global Alpha has been VERIFICATION assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm’s policies and procedures are designed to calculate and present performance in accordance with the GIPS standards. The report was prepared and presented by Global Alpha Capital Management Ltd.

### Definition of Firm

Global Alpha is an independent and privately owned Canadian investment management firm focused exclusively on managing global and EAFE small-cap strategies. Their ‘core’ style combines growth and value characteristics, while their approach focuses on bottom-up security selection through fundamental research.

### Definition of Discretion

Discretion is the ability of Global Alpha to implement its intended strategy. This also includes any sub-advised accounts in which Global Alpha has discretionary authority. A portfolio would be defined as non-discretionary if an account contains investment guidelines significantly restricting the ability to manage the assets according to the investment firm’s strategy (i.e., liquidity requirements that limit the manager's discretion, significant client holding restrictions). Accounts would also be defined as non-discretionary if Global Alpha only provides "Model Portfolio" services to those portfolios and does not directly execute trades.

### Global Alpha International Small Cap Composite

This composite consists of portfolios invested in international small-cap equities in both developed and emerging markets. The benchmark is the MSCI EAFE Small Cap Net Index. The investment objective is to maximize long-term total return through prudent investment in international small-capitalization stocks and generate returns equal to the return of the MSCI EAFE Small Cap Net Index (USD$) plus 3.0% over a full market cycle. The Global Alpha International Small Cap Composite typically invests in 50 - 70 international small-capitalization stocks. Tracking error is targeted at between 3% and 6% relative to the benchmark.

### Benchmark

The composite benchmark is calculated monthly based on the market-value-weighted current benchmark is 85.3% MSCI EAFE Small Cap Net & 12.4% MSCI EAFE Small Cap + Canada Net & 2.2% MSCI ACWI ex USA Small Cap Net Index. Prior to the addition of a new composite member portfolio in June 2016, the benchmark was 100% MSCI EAFE Small Cap Net.

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Return (Gross of Fees)</th>
<th>Total Return (Net of Fees)</th>
<th>Benchmark*</th>
<th># of Portfolios</th>
<th>Market Value</th>
<th>% of Firm Assets</th>
<th>Internal Dispersion</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>36.8%</td>
<td>35.73%</td>
<td>32.62%</td>
<td>9</td>
<td>$504,495,362</td>
<td>48.50%</td>
<td>N/A</td>
</tr>
<tr>
<td>2016</td>
<td>5.02%</td>
<td>4.14%</td>
<td>2.29%</td>
<td>5</td>
<td>$170,616,926</td>
<td>33.82%</td>
<td>N/A</td>
</tr>
<tr>
<td>2015</td>
<td>19.04%</td>
<td>18.05%</td>
<td>9.59%</td>
<td>3</td>
<td>$77,153,110</td>
<td>22.20%</td>
<td>N/A</td>
</tr>
<tr>
<td>2014</td>
<td>-0.98%</td>
<td>-1.82%</td>
<td>-4.95%</td>
<td>3</td>
<td>$30,570,246</td>
<td>16.79%</td>
<td>N/A</td>
</tr>
<tr>
<td>2013</td>
<td>29.64%</td>
<td>28.57%</td>
<td>29.30%</td>
<td>1</td>
<td>$2,549,511</td>
<td>1.72%</td>
<td>N/A</td>
</tr>
<tr>
<td>2012</td>
<td>23.02%</td>
<td>21.99%</td>
<td>20.00%</td>
<td>1</td>
<td>$2,074,434</td>
<td>2.57%</td>
<td>N/A</td>
</tr>
<tr>
<td>2011</td>
<td>-15.34%</td>
<td>-16.07%</td>
<td>-15.94%</td>
<td>1</td>
<td>$2,453,598</td>
<td>4.15%</td>
<td>N/A</td>
</tr>
<tr>
<td>2010</td>
<td>29.63%</td>
<td>28.56%</td>
<td>22.04%</td>
<td>1</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
</tbody>
</table>

*The benchmark is a combination of the MSCI EAFE Small Cap Net and MSCI EAFE Small Cap + Canada Net Index. Current benchmark is 85.3% MSCI EAFE Small Cap Net & 12.4% MSCI EAFE Small Cap + Canada Net & 2.2% MSCI ACWI ex USA Small Cap Net Index.

### Calculation of Performance Returns

Client securities and pooled fund net assets are valued on a daily basis using market prices and foreign exchange rates obtained from independent sources. Performance returns are presented gross of management fees and net of trading costs. Foreign income is accrued net of withholding taxes. Reclaimable withholding taxes are recognized if and when received by the custodian. Benchmark returns are net of withholding taxes. Performance returns are calculated daily.

### Currency

Performance is reported in U.S. Dollar ($).

### Measure of Risk

Internal dispersion is calculated using the asset-weighted standard deviation of annual gross returns of those portfolios that were included in the composite for entire year. For those years when less than six portfolios were included in the composite for the full year, no dispersion measure is presented. Three-year volatility measures are not calculated where the composite has under 3 years of performance.

### Standard Fee Schedule

85 bps of ending net assets annually

### Composite Creation Date

Composite creation date: December 2009

### List and Description of the Firm’s Composites

A complete list of composites and their descriptions (including composites that have been terminated within the last five years) is available on request.

### Additional Information

A copy of Global Alpha’s GIPS Policies & Procedures for valuing portfolios, calculating performance and preparing compliant presentations is available on request.

### Presence, Use and Extent of Leverage or Derivatives

The composite may invest in derivatives for hedging purposes or other non-speculative purposes. No leveraged investments are permitted. The composite may partly hedge its currency exposure from time to time. Hedging transactions will not perfectly offset the composite’s currency exposure, such that the composite will be subject to active currency exposure which will vary depending on the securities held at any time and the currency in which those securities are denominated.

### Composite Name Change

On May 1, 2015, the composite name changed from Global Alpha EAFE Small Cap Composite to Global Alpha International Small Cap Composite.

### Minimum Account Size

Minimum portfolio size for the composite is $1,000,000.

### Other Disclosures

Prices and exchange rates for valuation purposes are consistent across all portfolios utilizing WM/Reuters 4:50 p.m. London exchange rates and Thompson Reuters valuation sources. Global Alpha Capital Management Ltd. is a Canadian corporation registered with the securities regulators in Ontario, Quebec and British Columbia as Portfolio Manager, as Investment Fund Manager in Ontario and Quebec and registered as an Investment Adviser with the US Securities & Exchange Commission. We are not aware of any conflict between the laws and/or regulations of these jurisdictions and the GIPS standards. The firm has not used subjective unobservable inputs for valuing portfolio investments. Prior to 2017, Tracking error target was 4% - 6.5% relative to the benchmark.}

### Ownership

Global Alpha Capital Management Ltd. is 49% owned by the Connor, Clark & Lunn Financial Group Ltd. Other affiliated companies are:

- Baker Gilmore & Associates Inc.
- Banyan Capital Partners
- Connor, Clark & Lunn Infrastructure Ltd.
- Crestpoint Real Estate Investments Ltd.
- Connor, Clark & Lunn Investment Management Ltd.
- MidStar Capital Corp.
- NS Partners Ltd
- PCJ Investment Counsel Ltd.
- Scheer Rowlett & Associates Investment Management Ltd.
July 26, 2018

TO: Each Member
Board of Investments

FROM: Adam Cheng, CFA
Senior Investment Analyst

FOR: August 8, 2018 Board of Investments Meeting

SUBJECT: SEARCH FOR TREASURY INFLATION PROTECTED SECURITIES (TIPS) MANAGER

RECOMMENDATION

Authorize a targeted search for a Treasury Inflation Protected Securities (TIPS) manager.

BACKGROUND

On May 9, 2018, LACERA’s Board of Investments approved a new strategic asset allocation mix with a functional overlay consisting of four new categories: Growth, Credit, Real Assets and Inflation Hedges, and Risk Mitigation. Within Real Assets and Inflation Hedges, an allocation of 3% to Treasury Inflation Protected Securities (TIPS) was approved. In an effort to expedite the new Strategic Asset Allocation implementation, staff is presenting this recommendation directly to the full BOI.

MANDATE DESCRIPTION

TIPS, as the name suggests, are securities issued by the U.S. Treasury that are designed to provide inflation protection by increasing the bond’s principal in proportion to increases in the Consumer Price Index (CPI). The entire U.S. TIPS market is roughly $1.1 trillion and is comprised of 38 securities. In contrast, the U.S. treasury market is approximately $7.6 trillion and consists of 256 securities. Given the limited size of the U.S. TIPS market and the relatively low return dispersion among managers within the space (see the accompanying presentation by Meketa), staff recommends that LACERA look to gain passive exposure to TIPS through a separate account. As with any index strategy, low cost, scale, tenure, systems, and trading will be major factors in evaluating potential managers.

Given that the new asset allocation calls for a 3% allocation to TIPS, the mandate size will be approximately $1.5 billion. Based on LACERA’s Investment Manager Search Process for Public Markets, one of the selection criteria is that LACERA’s portfolio should represent no more than 25% of the manager’s assets in the particular strategy. This requirement narrows the investable universe to managers above $4.5 billion in TIPS assets. Staff utilized the eVestment database and
worked with Meketa to identify the handful of managers that meet this selection criterion. The managers will be scored on both qualitative and quantitative criteria such as:

- Organization
- Professional Staff
- Investment Process
- Trading, Operations and Risk Management

**PROPOSED TIMELINE**

Staff recommends conducting a targeted search by sending these managers an RFP for a TIPS mandate. The goal is to expedite the search, while maintaining a thorough, fair, and transparent process. LACERA’s standard due diligence procedures would be used, consisting of a questionnaire, followed by interviews. Here is an anticipated timeline:

<table>
<thead>
<tr>
<th>Phase</th>
<th>Steps</th>
<th>Timing</th>
</tr>
</thead>
<tbody>
<tr>
<td>I</td>
<td>Draft and Issue RFP</td>
<td>Aug/18</td>
</tr>
<tr>
<td>II</td>
<td>RFP Evaluation</td>
<td>Sep/18</td>
</tr>
<tr>
<td>III</td>
<td>Manager Diligence &amp; Finalist Recommendation</td>
<td>Oct-Nov/18</td>
</tr>
<tr>
<td>IV</td>
<td>Board Interviews</td>
<td>Dec/18</td>
</tr>
</tbody>
</table>

Based on this timeline, the Board will interview candidates and make its final selection in December.

Attachment

Noted and Reviewed:

Jonathan Grabel
Chief Investment Officer
Los Angeles County Employees Retirement Association

Treasury Inflation Protected Securities (TIPS)
A Refresher and a Recommendation
Characteristics of Inflation Linked Bonds: Overview

- Treasury Inflation Protected Securities
- 5-, 10-, and 30-year maturities issued
- Offer a return guaranteed by the U.S. government based on inflation (a real rate of return)
- Principal is adjusted at the rate of inflation
- In the case of deflation, the principal will not fall below the initial investment (nominal amount)
- The majority of a TIPS investor’s return is compensation for taking two types of risks:
  - Interest Rate Risk
  - Inflation Risk
- Market value fluctuates
- Prices rise when higher inflation is perceived
- High quality security backed by the U.S. Government
- Highly liquid security
Nominal versus Real: U.S. Treasury

- Distinguishing between nominal and real return is a way of accounting for the effects of inflation.
- For example, if a basket of goods costs $1.00 today and next year it costs $1.02, then inflation has been 2%.
- Another way to think of this could be that the $1.00 you have today will only be worth about 98 cents next year.
- This real versus nominal return is highlighted in the difference between Treasury (nominal) and TIPS (real) cash flows. The charts below show a constant nominal coupon paid each year, but due to inflation that dollar amount is worth less each year in real terms.
Nominal versus Real: U.S. TIPS

- The previous U.S. Treasury charts showed a constant nominal coupon paid each year, but due to inflation that dollar amount was worth less each year in real terms.
- In the charts below for the TIPS example, the nominal amount increases each year to offset the inflation effect, and therefore maintains a constant value in real terms.
Why should investors own TIPS?

- **Inflation Protection**
  - As illustrated above, if inflation rises the real value of TIPS remains constant, as opposed to other assets whose real value may depreciate.

- **Diversification**
  - As previously discussed, TIPS investors are compensated for taking two types of risk (interest rate, and inflation).
  - Investing in TIPS can diversify the risk profile of a portfolio (e.g. puts “some eggs” in a different basket).

- **Safety**
  - Like other U.S. government backed bonds, TIPS are relatively low risk, especially when compared with equities.

- TIPS can improve a fund’s long-term risk-reward relationship
Duration of TIPS

- The duration of a bond portfolio estimates how much the price of the bond portfolio will change due to movements in its yield.
- A duration of 10 implies that the price of a bond will drop about 10% with a 1% increase in interest rates.
- Longer duration bonds are more sensitive to interest rate changes.
- Shorter duration bonds are less exposed to interest rate risk.
- The Barclays U.S. TIPS Index has a duration that significantly exceeds that of the Barclays Aggregate Bond Index.

<table>
<thead>
<tr>
<th>6/30/2018</th>
<th>Duration (Years)¹</th>
<th>Yield to Maturity² (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Barclays U.S. TIPS</td>
<td>7.9</td>
<td>3.0</td>
</tr>
<tr>
<td>Barclays Aggregate Bond</td>
<td>6.4</td>
<td>3.3</td>
</tr>
<tr>
<td>Barclays 1-5 Year TIPS</td>
<td>3.0</td>
<td>2.8</td>
</tr>
</tbody>
</table>

- The longer duration of the Barclays U.S. TIPS Index has several implications that investors should consider.

¹ The duration for TIPS cannot be precisely calculated as the exact size of future cash flows is unknown (since future inflation is unknown). Hence, duration is estimated based upon market expectations for future inflation. Duration estimate from Bloomberg.
² TIPS are quoted in terms of their real yield. The yield to maturity quoted here adds in the market expectations for inflation.
Inflation Protection

- The interest rate duration of bonds is a widely used metric.
- However, assets may have similar risk exposures relative to other factors.
- Perhaps most important among these factors for TIPS is inflation sensitivity.
- The table below shows how TIPS with different levels of duration would have performed during the highest and lowest annual inflation periods since 1971.

<table>
<thead>
<tr>
<th>1971-2018¹</th>
<th>U.S. TIPS 1-5 Year (%)</th>
<th>U.S. TIPS 5 Year Constant Maturity (%)</th>
<th>U.S. TIPS 10 Year Constant Maturity (%)</th>
<th>Inflation (CPI) (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top 20% of Inflation Periods²</td>
<td>7.8</td>
<td>6.0</td>
<td>3.2</td>
<td>9.5</td>
</tr>
<tr>
<td>Bottom 20% of Inflation Periods²</td>
<td>1.9</td>
<td>2.7</td>
<td>3.8</td>
<td>1.3</td>
</tr>
</tbody>
</table>

- TIPS are exposed to inflation and duration, and lower duration TIPS tend to outperform during high inflation scenarios.
- Over the historical period since 1971, high inflation tended to be associated with rising rates and vice-versa.

¹ One traditional difficulty in analyzing TIPS returns is their relatively short history, as the first TIPS was issued in 1997. To compensate for this drawback the results above use simulated TIPS returns based on an internal Meketa Investment Group model that is built upon industry and academic research.
² Represents ranked rolling 12-month inflation. Performance represent average of rolling 12-month returns during these periods.
Historical Performance

<table>
<thead>
<tr>
<th>Period</th>
<th>Barclays U.S. TIPS (%)</th>
<th>Barclays U.S. TIPS 1-5 Years (%)</th>
<th>Barclays Aggregate (%)</th>
<th>CPI (inflation) (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>One Year</td>
<td>0.7</td>
<td>1.1</td>
<td>-0.4</td>
<td>2.8</td>
</tr>
<tr>
<td>Three Year</td>
<td>1.5</td>
<td>0.9</td>
<td>1.4</td>
<td>1.9</td>
</tr>
<tr>
<td>Five Year</td>
<td>0.9</td>
<td>0.4</td>
<td>2.0</td>
<td>1.6</td>
</tr>
<tr>
<td>Ten Year</td>
<td>4.1</td>
<td>1.7</td>
<td>4.7</td>
<td>1.5</td>
</tr>
<tr>
<td>Longest Common Period</td>
<td>5.4</td>
<td>4.2</td>
<td>4.9</td>
<td>2.2</td>
</tr>
<tr>
<td>Q3 2007 – Q1 2009</td>
<td>5.4</td>
<td>4.5</td>
<td>5.6</td>
<td>1.3</td>
</tr>
<tr>
<td>Standard Deviation</td>
<td>5.8</td>
<td>3.4</td>
<td>3.5</td>
<td>1.4</td>
</tr>
</tbody>
</table>

- The Barclays U.S. TIPS Index has had strong long-term performance, but underperformed the Barclays Aggregate Index over the trailing 10-year time period.
- The Barclays U.S. TIPS Index has been almost twice as volatile as the Barclays Aggregate Index.
- The Barclays U.S. TIPS Index has outperformed the Barclays Aggregate over the past year, a period of rising interest rates.
- Unsurprisingly, because the shorter term TIPS index is less volatile and less exposed to changes in interest rates, it tends to return less than either the longer term TIPS index or the broader bond market.

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1 Longest common time period is from August 1997, inception of the Barclays 1-5 year TIPS Index, to June 2018.
During the Financial Crisis, longer duration assets performed relatively better at a time when most portfolios needed this protection. The S&P 500 was down 50% over this period.¹

¹ Source: Thomson Reuters.
We compared the universe of 28 actively managed US TIPS strategies to the Barclays US TIPS Index.

While the median actively managed US TIPS manager outperformed the index by 10 basis points over the five and ten-year periods, the median annual fee for actively managed accounts with a $1 billion mandate was 11 basis points.

After taking fees into account, strategies in the 50th percentile and below underperformed the index for the five and ten-year periods.

There is a limited universe of offerings for TIPS, with only 38 issues available since the late 1990s.

Of the 28 active strategies, there are only six that would be able to accommodate LACERA’s needs, having assets under management of $5 billion or above.

We found little evidence to support LACERA’s use of active management for TIPS.
Summary

- Meketa Investment Group believes that investors should allocate a portion of their bond portfolios to TIPS.
- TIPS offer protection against inflation, as well as a diversification benefit. They are a high quality, liquid asset that can be incorporated as part of a safety reserve for intermediate spending needs.
- The diversification benefit of any asset is portfolio dependent, but increasing inflation exposure could offer a diverse source of risk for some portfolios.
- Meketa recommends that LACERA consider a passive allocation to TIPS.
July 27, 2018

TO: Each Member
Board of Investments

FROM: James Rice, CFA
Senior Investment Officer
Shelly P. Tilaye, CAIA
Senior Investment Analyst

FOR: August 8, 2018 Board of Investments Meeting

SUBJECT: REAL ASSETS COMPLETION PORTFOLIO MANAGER SEARCH
PROPOSED MINIMUM QUALIFICATIONS

RECOMMENDATION

1. Approve the minimum qualifications (“MQs”) for the Real Assets completion portfolio\(^1\) manager search, and
2. Authorize staff to initiate the Request for Information (“RFI”) process for a separate account manager for the Real Assets completion portfolio.

BACKGROUND

On May 9, 2018, the Board of Investments (“BOI”) approved a strategic asset allocation policy which included a Real Assets and Inflation Hedge category. This category included sub-strategy allocations of 3% to Infrastructure and 4% to Natural Resources and Commodities. While many investment opportunities in these sub-strategies are illiquid, a completion portfolio, invested in liquid securities can benefit LACERA by getting exposure to the sub-strategies relatively quickly. This approach was described in the Strategic Asset Allocation implementation presentation at the July 2018 Board of Investment Offsite meeting.

In an effort to expedite the new Strategic Asset Allocation implementation, staff is presenting this recommendation directly to the full BOI.

\(^1\) Completion portfolio will initially invest in listed infrastructure, public market natural resources equities, and master limited partnerships. At a later time, this portfolio may also invest in REITS and commodities futures. The manager may be expected to invest directly in liquid securities in a custody account in LACERA’s name or through a liquid commingled fund structure.
MANDATE DESCRIPTION

Under this implementation plan, staff will conduct a search for a completion portfolio manager. This manager will be responsible for investing in a portfolio of liquid securities to maintain Infrastructure and Natural Resources sub strategy allocations within Real Assets.

The portfolio will later be drawn down over time to provide proceeds for private fund investments in Infrastructure and Natural Resources sub strategies. These private investments will be considered beginning in 2019 subject to Board approval. In general, the completion portfolio will be used to maintain a consistent allocation to these sub strategies as cash flows to and from private fund investments occur in the future.

The portfolio will require a manager(s) with a demonstrated ability of investing in liquid Real Assets, managing institutional capital, and providing client services. For that purpose, staff has developed a set of MQs for the BOI’s consideration. Subject to BOI approval of these MQs, staff will issue a Request for Information and begin the search process.

The objective for this portfolio will be to provide total returns at or above the benchmarks for the sub strategies using either a passive or active management style.

Meketa has reviewed the completion portfolio implementation approach and MQs for this search and has provided a memorandum (Attachment) that supports this recommendation.

PROPOSED TIMELINE

The proposed RFI timeline (Table 1) seeks to ensure a process that enables LACERA to evaluate suitable candidates who can effectively manage a real assets completion portfolio.

<table>
<thead>
<tr>
<th>Phase</th>
<th>Steps</th>
<th>Actions</th>
<th>Firms in Process (Est.)</th>
<th>Timing</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>I</td>
<td>RFP Launch</td>
<td>- Publish the RFP document</td>
<td>N/A</td>
<td>Sept/18</td>
<td>In process</td>
</tr>
<tr>
<td>II</td>
<td>RFP Evaluation</td>
<td>- Staff to review and rank RFI responses, select semi-finalists</td>
<td>8-12</td>
<td>Nov/18</td>
<td>Not started</td>
</tr>
<tr>
<td>III</td>
<td>Semi-Finalist Evaluation</td>
<td>- Staff conducts in-person interviews</td>
<td>3-5</td>
<td>Dec/18</td>
<td>Not started</td>
</tr>
<tr>
<td>IV</td>
<td>Finalist Recommendations</td>
<td>- Staff presents to Board a review of RFI process, finalist selections</td>
<td>1-3</td>
<td>Jan-Feb/19</td>
<td>Not started</td>
</tr>
</tbody>
</table>
PROPOSED MINIMUM QUALIFICATIONS

Each respondent to the RFI must meet all MQs to be given further consideration.

Minimum Qualifications – Completion Portfolio Mandate

1. The organization must be registered with the U.S. Securities and Exchange Commission as an investment adviser, unless the organization is exempt from registration due to its status as a bank or insurance company.

2. As of June 30, 2018, the investment manager must have a minimum $5 billion in total assets under management in similar products as the mandate for which the manager is being hired by LACERA. These assets under management must include the three Real asset strategy categories of listed Infrastructure, Master Limited Partnerships, and Natural Resources equity securities.

3. The organization must have at least a three-year performance track record as of June 30, 2018 for the proposed product(s) or comparable product(s) provided to institutional investors through liquid Real Assets portfolio strategies.

4. The organization must have at least one client for which it manages a customized Real Assets completion portfolio which includes at least two of the following asset categories: listed Infrastructure, Master Limited Partnerships, Natural Resources equity securities, REITS, and commodity futures.

5. The organization must conform to Global Investment Performance Standards for performance reporting.

CONCLUSION

Staff anticipates that the proposed MQs for the Real Assets completion portfolio manager will attract qualified candidates. Therefore, with the Board’s approval of the MQs, staff will issue an RFI for a Real Assets completion portfolio manager. Finally, Meketa Investment Group, LACERA’s general consultant, has reviewed the completion portfolio implementation approach and MQs, and concurs with staff’s recommendations.

Attachment

Noted and Reviewed:

[Signature]
Jonathan Grabel
Chief Investment Officer
To: LACERA Board of Investments
From: Stephen McCourt, Leandro Festino, Tim Filla
Meketa Investment Group
Date: July 26, 2018
Re: Real Assets Completion Portfolio Manager Search

BACKGROUND

At the May 2018 Board of Investments meeting, the Trustees approved a new asset allocation, which includes a variety of Real Assets investment categories. Private allocations to some of these categories would be advantageous to LACERA. However, private allocations take time to reach a fund’s target allocation. As such, public investments in these asset categories can be a solution to bridge the gap and provide broad exposure. At the recent Board of Investments Retreat in July 2018, LACERA Staff discussed a proposed timeline and approach to allocate capital to Real Assets. The first phase of the implementation will utilize a completion portfolio to acquire exposure in certain asset categories. The first step in conducting a search for a completion portfolio manager is to define the parameters (Minimum Qualifications) of the upcoming search.

RECOMMENDATION

We have reviewed the Minimum Qualifications (MQs) Staff is proposing. These are listed below:

1. The organization must be registered with the U.S. Securities and Exchange Commission as an investment adviser, unless the organization is exempt from registration due to its status as a bank or insurance company.

2. As of June 30, 2018, the investment manager must have a minimum $5 billion in total assets under management in similar products as the mandate for which the manager is being hired by LACERA. These assets under management must include the three Real asset strategy categories of listed Infrastructure, Master Limited Partnerships, and Natural Resources equity securities.

3. The organization must have at least a three-year performance track record as of June 30, 2018 for the proposed product(s) or comparable product(s)
provided to institutional investors through liquid Real Assets portfolio strategies.

4. The organization must have at least one client for which it manages a customized Real Assets completion portfolio, which includes at least two of the following asset categories: listed Infrastructure, Master Limited Partnerships, Natural Resources equity securities, REITS, and commodity futures.

5. The organization must conform to Global Investment Performance Standards for performance reporting.

The Minimum Qualifications are reasonable for the intended search. We note, however, that the universe of Real Assets Managers capable of providing the customized solution LACERA seeks may be relatively narrow.

Overall, we believe a Real Asset Completion portfolio would be beneficial for LACERA and we support the search. Should the one-stop solution fail to provide a high conviction qualified manager, the Board could consider breaking the mandate into multiple managers, each a specialist in a certain area. Passive mandates should be entertained as well.

We look forward to discussing this topic at the upcoming August 8th meeting.

SM/TF/LF/srt
July 30, 2018

TO: Each Member
    Board of Investments

FROM: Christopher J. Wagner
    Principal Investment Officer

    David Chu
    Senior Investment Officer

    David E. Simpson, CFA
    Investment Officer

FOR: August 8, 2018 Board of Investments Meeting

SUBJECT: CONSULTANT SEARCH MINIMUM QUALIFICATIONS,
         EVALUATION CRITERIA, AND SCOPE OF WORK

RECOMMENDATION

Approve the proposed Minimum Qualifications ("MQs"), Evaluation Criteria, and Scope of Work ("SOW") (Attachment) thereby authorizing staff to initiate the Request for Proposal ("RFP") process for specialized consultant services in Hedge Funds, Illiquid Credit, and Real Assets.

BACKGROUND

As previewed at the July 9, 2018 Board of Investments ("BOI") offsite, staff proposed the hiring of additional consultants in the areas of Hedge Funds, Illiquid Credit, and Real Assets excluding Real Estate (i.e., infrastructure and natural resources). In an effort to expedite the new Strategic Asset Allocation implementation, staff is presenting this recommendation directly to the full BOI.

Staff hereby proposes the MQs, Evaluation Criteria, and SOW for inclusion in the 2018 Hedge Fund, Illiquid Credit and Real Assets Consultant Search RFP. In the RFP, potential candidates will be encouraged to bid on one, two, or all three mandates.

PROPOSED TIMELINE

The proposed RFP timeline (Table 1) seeks to ensure a thorough and thoughtful process that efficiently enables LACERA to engage market-leading illiquid investment consultants.
Table 1
Proposed RFP Timeline

<table>
<thead>
<tr>
<th>Phase</th>
<th>Steps</th>
<th>Actions</th>
<th>Firms in Process (Est.)</th>
<th>Timing</th>
<th>Status</th>
</tr>
</thead>
</table>
| I     | RFP Design and Launch        | - Codify and gain Board approval of Minimum Qualifications, Evaluation Criteria, and Scope of Work  
|       |                              | - Publish the RFP document                                              | N/A                     | Aug-Sep/18  | In process   |
| II    | RFP Evaluation               | - Staff to review and rank RFP responses, select semi-finalists         | 8-12                    | Nov/18      | Not started  |
| III   | Semi-Finalist Evaluation     | - Staff and BOI conduct in-person interviews, complete reference calls  | 3-5                     | Dec/18      | Not started  |
| IV    | Finalist Recommendations      | - Staff presents to Board a review of RFP process, finalist selections  
|       |                              | - Finalists present to BOI                                             | 1-3                     | Jan-Feb/19  | Not started  |

EVALUATION PROCESS

As is the LACERA BOI practice for selecting consultants, the BOI will be involved in the final diligence of the consultant search. Accordingly, the BOI leadership will determine which BOI members will engage with staff in selecting the finalists who will present to the BOI at a future date to be determined.

Attachment

NOTED AND REVIEWED:

Jonathan Grabel  
Chief Investment Officer
2018 Consultant Search

MINIMUM QUALIFICATIONS

1. Must be a SEC-registered investment advisor or exempt from registration. If exempt, must explain the nature of this exemption.

2. Must have at least five (5) defined benefit pension plan clients, of which three (3) are public pension plans each with total plan assets of at least $10 billion as of June 30, 2018.

3. Must have five (5) years of experience in providing direct investment and due diligence investment consulting services to U.S. tax-exempt clients with total plan assets of at least $10 billion as of June 30, 2018.

4. Must currently advise on a portfolio of at least $500 million of hedge funds, credit, and/or real assets.

5. Must acknowledge that in the event it is awarded a contract under this RFP, candidate firm(s) will be disqualified from serving as an active manager of any portfolio, including without limitation a hedge fund or fund of funds, a credit fund or fund of funds, or a real assets fund or fund of funds for LACERA.

6. Must agree to be a fiduciary to LACERA under California and other applicable law.

EVALUATION CRITERIA

All responses received shall be subject to evaluation on the following six categories.

1. **Organization**
   (Ownership structure, lines of business, global staffing and office location, company management, firm evolution since inception, and signatory status to the Principles for Responsible Investment)

2. **Professional Staff**
   (Staffing depth, capability, experience, turnover, compensation, diversity, and alignment)

3. **Technology**
   (Approach and efficacy in the use of technology, such as proprietary databases, research analytics, and portfolio and manager risk analytics)

4. **Research Capabilities**
   (Research philosophy, commitment to research, fund and manager evaluation tools, depth and breadth of manager strategy research, research department structure, including but not limited to capacity to incorporate material environmental, social, and governance factors into research and due diligence)

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1 Real Assets includes infrastructure and natural resources and excludes real estate.
5. **Conflicts of Interest**
   (Policies and procedures in place to manage identified conflicts of interest between varying business activities, i.e., discretionary asset management and advisory services)

6. **Fees**

**SCOPE OF WORK**

1. **Strategic Consulting**
   - Provide recurring recommendations concerning long-term investment policy, objectives, and strategy for the applicable Asset Category (i.e., hedge funds, illiquid credit, or real assets) that is consistent with LACERA’s Investment Policy Statement.
   - Prepare special analyses and/or research, as requested, to define goals and objectives, monitor portfolio risk, and model program cash flows/commitment pacing/liquidity scheduling for the applicable Asset Category.
   - Provide a rolling 24-month forward calendar for high conviction general partners, open-ended funds, and opportunistic structures by sub-strategy and geography.
   - Provide a comprehensive analysis of the current hedge fund, credit, and/or real asset categories, including risk analysis, manager evaluations, and an action plan, if appropriate.
   - Provide performance attribution analysis on an as needed basis.
   - Conduct and prepare comprehensive written research, analysis, and advice on specific investment issues, special projects or other activities, as requested, including but not limited to environmental, social, and governance matters relevant to the applicable Asset Category.
   - Appear as needed at Board meetings or other meetings to: (i) present research, analyses, written reports and recommendations; and (ii) respond to questions relating to the applicable Asset Category portfolio or market.
   - Attend meetings with staff, in order to provide advice and counsel on matters related to the applicable Asset Category portfolio, as needed.
   - Provide other consulting services ancillary to identification, analysis, and evaluation of goals, strategies, and objectives of the applicable Asset Category.

2. **Sourcing and Due Diligence**
   - Develop a proactive, structured process to: (i) analyze the full universe of available investments; and (ii) efficiently identify investments most advantageous to LACERA. This process will include detailed analysis of prospective investments identified by staff.
   - Conduct due diligence on prospective investments that consultant or staff recommend for consideration. Due diligence will include evaluation of the prospective investment fund’s history, team, performance, and strategy. Present written recommendations which will include: (i) the results of consultant’s due diligence; (ii) a discussion of strategic considerations; (iii) an analysis regarding how the recommendation fits within the relevant asset category; and, (iv) a detailed business review of the
investment opportunity’s terms and governing documents.

- Due diligence must also include operational evaluation of a prospective fund or manager’s governance, organization, back office, accounting, external relationships (e.g., prime brokers, counterparties, etc), risk systems, cash controls, and valuation methodologies. Due diligence should incorporate environmental, social, and governance factors that may impact the value of the investment strategy during its investment time horizon.

3. **Physical Presence at Meetings**

Consultant’s representatives may be required to attend:

- One Board and (relevant) Committee meeting per month (second Wednesday) or more frequently as may be directed by the Board;
- Annual Board Off-site (typically 2-3 days in July); and
- Meetings related to investment manager searches and site visits (as needed).

4. **Collaboration with Board and Staff**

Consultant must:

- Provide educational workshops to the Board on specific issues designated by LACERA and/or recommended by the consultant.
- Provide comments and analysis on proposed federal and state legislation affecting the related asset category.
- Meet with staff quarterly, or as may be necessary from time to time, to review the relevant portfolio(s), update staff regarding the current market/new issues, and advise regarding improvements to the relevant portfolio(s).

5. **Collaboration with General Consultant Regarding Formulation and Review of Investment Goals, Objectives, Policies, and Procedures**

The consultant(s) shall collaborate with LACERA’s general consultant in regards to providing ongoing advice and technical support in the establishment and refinement of portfolio strategic asset allocation, investment goals and objectives, and Investment Office policies and procedures. The consultant(s) will use asset allocation models, as requested by staff, to determine the influence of differing asset mixes and investment style strategies on the projected return to LACERA and the projected risk resulting from differing asset mixes and strategies.

LACERA periodically engages the services of the general consultant and actuary to conduct an asset/liability modeling study. While the general consultant will take the lead on asset liability studies, the specialist consultant(s) shall assist in any matter necessary and applicable. A consultant selected for this assignment must have demonstrated capabilities in this area.

6. **Other**

Conduct such services under the contract as may be reasonably asked of an asset category consultant by a public pension plan.
July 25, 2018

TO: Each Member
    Board of Investments

FROM: Amit Aggarwal
    Investment Officer – Real Estate

FOR: August 8, 2018 Board of Investments Meeting

SUBJECT: INTERNATIONAL REAL ESTATE COMMINGLED FUND
          Aermont Capital Real Estate Fund IV

RECOMMENDATION

Approve a commitment of up to €50 million to Aermont Fund IV.¹

¹ €50 million is approximately U.S. $58.3 million as of July 16, 2018.
**Investment Recommendation Memorandum**

**To:** Each Member of the Board of Investments  
**For:** August 8, 2018 Board of Investments Meeting  
**From:** Amit Aggarwal - Investment Officer

**Portfolio as of 3/31/18**  
**Total Fund:** LACERA Pension  
- Asset Category: Real Estate  
- Portfolio: International Real Estate

**Current Total Fund:** $56b

<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>3%</td>
</tr>
<tr>
<td>Public Equity</td>
<td>46%</td>
</tr>
<tr>
<td>Real Estate</td>
<td>11%</td>
</tr>
<tr>
<td>Hedge Funds</td>
<td>2%</td>
</tr>
<tr>
<td>Fixed Income</td>
<td>25%</td>
</tr>
<tr>
<td>Private Equity</td>
<td>10%</td>
</tr>
<tr>
<td>Commodities</td>
<td>9%</td>
</tr>
</tbody>
</table>

**Overview**
- Aermont is targeting €1.6B in total aggregate commitments to the Fund  
- The Fund will make opportunistic real estate investments in Western European markets  
- Aermont has invested in Europe since 2007, and has developed a strong track record with modest leverage and realizations to date have been strong  
- The Fund is a continuation of Aermont Fund I, II and III with an aggregate commitment of €4 billion (€1.2 billion, €1.3 billion and €1.5 billion, respectively)

**Main objective of the Fund will be to:**
- Generate net returns of 15% to investors  
- Target investments in core markets of Western Europe such as Germany, Spain, France, The Netherlands, United Kingdom, and Italy  
- Focus on prime assets or projects and leading businesses through direct asset, corporate and credit investments  
- Create long-term value in order to achieve attractive risk-adjusted returns

**Strategic and Portfolio Fit**
- This would be LACERA's third European real estate fund investment since the adoption of the Real Estate International Implementation Plan  
- The Fund would increase real estate's international portfolio from 8.5% to 9.3%  
- The Fund will help achieve the goal of committing $600M internationally over the next 4 years  
- LACERA's target for Growth real estate is 2.0% of the Total Fund  
  - Growth real estate is currently 1.4% of the Total Fund  
  - Total real estate exceeds 10% target by 1.2% but sales are underway to reduce exposure  
  - Proposed commitment of €50M will be deployed over a four year period  
  - $557 million is currently committed internationally, with $319M of that in Europe  
  - €50M Euros (approximately $58.3 million) commitment to the Fund would increase LACERA's international investment exposure to $616 million*  

*based on actual plus committed capital

**The Fund's Target IRR Returns Compared to Typical Return Rates**
- The Fund is targeting a net of 15%, which exceeds typical high return/opportunistic returns from real estate in the U.S. by 100 to 200 basis points for funds with a similar risk profile

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* $616 million in international RE (includes potential Aermont IV)
Due Diligence Process
A) Determined that Europe presented attractive opportunity
B) Surveyed the landscape of funds that meet LACERA’s high return criteria
C) Consulted with the Townsend Group on potential investments
D) Identified ten funds in Europe, including Aermont over the last 24 months
E) Conducted independent due diligence of Aermont over the last 8 months
F) Site inspections of Aermont properties in the United Kingdom
G) Reviewed any potential conflicts

Terms and Other Considerations
- Annual management fee of 1.5% of committed capital during the investment period and 1.5% of invested capital thereafter
- 9% preferred return and return of capital
- 50 LP / 50 GP catch-up; 80 LP / 20 GP split thereafter
- Fully-pooled waterfall
- Investment period is four-years from the initial closing
- The Fund has a four-year term from the expiration of the investment period
- The final close of the Fund is expected to take place in September 2018
- Aermont and its employees will commit at least €20 million to the Fund

Strengths and Merits
- Aermont has assembled a seasoned team of professionals
- The Aermont team has an established track record of successfully executing investment strategies under various market conditions
- Aermont provides portfolio diversification in the high return sector
- Aermont has a well-established and thorough investment process
- Aermont will compliment LACERA’s existing international portfolio as it will provide exposure to investing in operating platforms

Concerns and Mitigating Factors
- The Managing Director may retire during the life of the Fund
  ✓ A succession plan was created with four remaining partners at the firm
  ✓ The Managing Director's dedication to the Fund is partly reflected by a significant personal investment he is making to the Fund, alongside the other partners
- The Fund could be €500 larger than the predecessor fund
- Aermont has enough investment professionals to handle the allocation
- The Fund will invest in the UK, concerns with Brexit
- Aermont will seek caution when investing in the UK and carefully monitor market conditions. Aermont believes there will be unique opportunities

Performance Track Record
(all figures in €millions, where applicable)

<table>
<thead>
<tr>
<th>Fund</th>
<th>Vintage Year</th>
<th>Aggregate Capital Commitments</th>
<th>Aggregate Capital Invested</th>
<th>Realized Gross</th>
<th>Realized IRR</th>
<th>Gross Multiple</th>
<th>Unrealized Gross</th>
<th>Unrealized IRR</th>
<th>Gross Multiple</th>
<th>Total Gross</th>
<th>IRR</th>
<th>Multiple</th>
<th>Net Realized Gross</th>
<th>Net IRR</th>
<th>Net Multiple</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fund I</td>
<td>2007</td>
<td>€ 1,170</td>
<td>€ 1,083</td>
<td>€ 1,917</td>
<td>22%</td>
<td>1.8x</td>
<td>€ 0</td>
<td></td>
<td></td>
<td>€ 1,917</td>
<td>15%</td>
<td>1.5x</td>
<td>€ 0</td>
<td>15%</td>
<td>1.5x</td>
</tr>
<tr>
<td>Fund II</td>
<td>2012</td>
<td>€ 1,316</td>
<td>€ 849</td>
<td>€ 253</td>
<td>60%</td>
<td>2.0x</td>
<td>€ 1,203</td>
<td>21%</td>
<td>2.2x</td>
<td>€ 1,456</td>
<td>20%</td>
<td>1.5x</td>
<td>€ 1,253</td>
<td>24%</td>
<td>2.2x</td>
</tr>
<tr>
<td>Fund III</td>
<td>2015</td>
<td>€ 1,500</td>
<td>€ 575</td>
<td>€ 124</td>
<td>23%</td>
<td>2.4x</td>
<td>€ 780</td>
<td>23%</td>
<td>1.7x</td>
<td>€ 903</td>
<td>47%</td>
<td>1.5x</td>
<td>€ 780</td>
<td>47%</td>
<td>1.5x</td>
</tr>
</tbody>
</table>

Target Markets

Noted and Reviewed:

Jonathan Grabel, Chief Investment Officer
July 25, 2018

TO: Each Member
    Board of Investments

FROM: Amit Aggarwal
    Investment Officer – Real Estate

FOR: August 8, 2018 Board of Investments Meeting

SUBJECT: INTERNATIONAL REAL ESTATE COMINGLED FUND
    Aermont Capital Real Estate Fund IV

RECOMMENDATION

Approve a commitment of up to €50 million to Aermont Fund IV.1

EXECUTIVE SUMMARY

Aermont Capital ("Aermont" or "AC") is seeking investors to commit €1.6 billion (with a cap of €2 billion) to Aermont Capital Real Estate Fund IV (the “Fund” or “AC IV”). AC will focus on making opportunistic real estate investments in the Pan-European region.

Aermont is an independent real estate asset management business with operational expertise.2 The Fund is a private investment vehicle being established to invest in real estate and related opportunities in Europe. The Fund will seek to invest in situations where it can capitalize on Aermont’s investment proficiency, operational expertise and widespread relationships to generate attractive risk-adjusted returns.

Aermont seeks to identify key themes that can be employed at the property and/or business level. Investments are made under direct asset, corporate and credit situations. They typically feature prime assets or projects in some of Western Europe’s most prominent cities or leading operating platforms in compelling sectors. Business plans are proactive, emphasizing major value-creation initiatives, operational leverage and/or value arbitrage.3 As such, Aermont seeks to avoid relying on external factors or financial engineering as primary performance drivers. With that approach, Aermont intends to create significant real estate and operational value throughout real estate cycles.

The Fund will target an overall gross IRR of around 20%, expected to correspond to a net IRR

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1 €50 million is approximately U.S. $58.3 million as of July 16, 2018.
2 Operational expertise refers to Aermont’s investment team’s direct experience in assets and corporate repositioning, including change of use and complex capital upgrade programs. The operational expertise is complemented by principal investment expertise.
3 Operational leverage and value arbitrage are defined in further detail on Page 7 of 13.
of 15%. Investments will be made with a focus on certain core markets of Western Europe.

Staff believes Aermont is a good fit for LACERA’s real estate portfolio. The proposed commitment is consistent with LACERA’s Real Estate International Implementation Plan which calls for up to 15% of LACERA’s real estate allocation to be invested/committed internationally over the three-year period of 2017-2019. The Fund is targeting net returns of 15%. This return, if achieved, would exceed returns U.S.-based strategies with similar risk profiles by 100 to 200 basis points. This performance, if realized, should help improve LACERA’s high return/opportunistic returns, which have historically underperformed the benchmark. The Fund strategy should also improve LACERA’s geographical diversification while staying within key countries that represent the more stable and relatively transparent regions of Europe.4 Risk should be further constrained by partnering with a strong, disciplined partner that has a good track record executing the same strategy. An investment of €50 million will ensure LACERA a seat on Aermont’s Advisory Board. The Fund is Euro-denominated, and Aermont may elect to hedge currency though it is not obliged to do so.

Staff notes that although currently over-allocated to real estate, restrained new investment pace and recent and planned dispositions within the United States are expected to reduce LACERA’s asset class allocation to get closer to the new real estate target allocation of 10%. A commitment to the Fund would be expected to be deployed over an approximate four-year period, thus, it should not exacerbate LACERA’s over-allocation to real estate.

This investment, which would represent LACERA’s first investment with Aermont, was sourced directly by LACERA; no placement agent was utilized.

LACERA’s consultant, The Townsend Group (“Townsend”), conducted an independent review of the opportunity and concurs with staff’s assessment. Townsend’s investment memorandum is attached (ATTACHMENT 1).

The remainder of this memorandum discusses: (i) Process; (ii) Background; (iii) Portfolio Fit; (iv) Investment Evaluation; (v) Fund Terms; and (vi) Observations.

**PROCESS**

The Board approved the Real Estate International Implementation Plan (“the Plan”) in October 2016, which outlined Asia, Europe and Latin America as regions that merited further consideration. Since the Plan was approved, staff has continued to monitor and evaluate core and non-core fund opportunities in those regions. Staff’s review process for Aermont is outlined below:

- Surveyed the landscape of funds that meet LACERA’s opportunistic criteria, including:

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4 “Transparency” within real estate investment refers to the availability and accuracy of information relating to transaction processes, regulatory and legal frameworks, corporate governance, performance measurement and data availability. Higher real estate transparency is associated with stronger investor and corporate activity. Source: JLL Global Real Estate Transparency Index 2016.
Each Member, Board of Investments  
July 25, 2018  
Page 3 of 12

- Pan-Europe
- Multiple property types
- A net return greater than returns for U.S. high return/opportunistic of similar risk levels. Current U.S. high return/opportunistic net return expectations are ranging 10%-14% whereas Aermont is targeting net returns of 15%, exceeding the U.S. return expectations of similar risk levels by 100 to 200 basis points.

- Identified ten funds in Europe, including Aermont, Angelo Gordon Europe Fund II, which was approved by the Board in March 2018 and CapMan Nordic Fund II, which was approved by the Board in May 2017.

- Consulted with The Townsend Group to seek input on available funds as well as risk profile recommendations.

- Conducted an independent due diligence of Aermont and Aermont IV over the last 8 months, including a review of:
  - Organizational structure and key professional profiles
  - Track record and underwriting assumptions
  - Investment strategy and structure of the investments
  - Portfolio management, operations and process
  - Risk management processes
  - Potential conflicts
  - References
  - Annual and quarterly reporting and budgets
  - Litigation and regulatory issues
  - Site inspections of asset investments in London

Completion of this process has culminated in this recommendation.

**BACKGROUND**

Europe and Asia each contain a large investable universe for real estate. Each nearly equals the size of the investable universe for real estate within the U.S. at $8.8 trillion. Europe offers opportunities to buy distressed assets from lenders and other unintended owners. The European market lags the U.S. market and represents alternative buying opportunities.

International activity is expected to diversify commitments across multiple vintage years, risk categories and general partners. As of March 31, 2018, LACERA’s current international real estate investments are 5.8% of the total real estate. The international policy limit is set at 20%. The international exposure is approximately 8.5% including the remaining unfunded commitments to previous investments internationally. The proposed commitment to Aermont
IV would increase the international exposure modestly to 9.3% over an estimated four-year investment period. It would increase the total LACERA fund by 10 basis points.

Staff continues to evaluate additional opportunities in Asia, Europe and Latin America in an effort to increase the international exposure to as high as 15%. One or more Asian-domiciled funds may be presented for Board consideration later in 2018.

PORTFOLIO FIT

The new asset allocation plan adopted by the Board of Investments in May 2018 resulted in real estate contributing to three functional asset class overlays. TABLE I illustrates the current and targeted allocations. As of March 31, 2018, total real estate represents 11.3% of the total fund portfolio, 1.3% or $713 million over the new asset allocation target of 10%. However, the current allocation to Real Assets and Inflation Hedges is above its’ 7.0% target while Growth is below the 2.0% target. The proposed commitment to Aermont of €50 million (approximately $58.3 million) would help get closer to the Growth target. Significant portfolio rebalancing efforts are underway to reduce exposure to Real Assets and Inflation Hedges.

TABLE I

FUNCTIONAL ASSET CLASS OVERLAY and REAL ESTATE ASSET ALLOCATION TARGETS

(as of March 31, 2018)

<table>
<thead>
<tr>
<th>Functional Asset Class Overlay</th>
<th>Target Allocation</th>
<th>Target $</th>
<th>Current Allocation</th>
<th>Current Market Value $</th>
<th>Change in Market Value Targeted</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real Assets and Inflation Hedges</td>
<td>7.0%</td>
<td>$3,892</td>
<td>9.6%</td>
<td>$5,361</td>
<td>($1,469)</td>
</tr>
<tr>
<td>Growth</td>
<td>2.0%</td>
<td>$1,112</td>
<td>1.4%</td>
<td>$793</td>
<td>$319</td>
</tr>
<tr>
<td>Credit</td>
<td>1.0%</td>
<td>$556</td>
<td>0.2%</td>
<td>$119</td>
<td>$437</td>
</tr>
<tr>
<td>Total</td>
<td>10.0%</td>
<td>$5,560</td>
<td>11.3%</td>
<td>$6,273</td>
<td>($713)</td>
</tr>
</tbody>
</table>

The proposed commitment to Aermont will result in LACERA’s international commitments to increase from 8.5% to 9.3% as illustrated in CHART 1 below. This includes the unfunded commitments to previous international commingled funds. LACERA's exposure to real estate located in Europe will increase by approximately $58.3 million, which would result in Europe representing 61% of the international real estate exposure. The 61% exposure is outside the range of 0-50% for Europe. This is anticipated during the assembly of the international real estate portfolio. However, the exposure will be lowered to 50% or less for Europe before reaching a 15% allocation for international investments since additional investments are expected to be made in Asia. CHART 1 shows the current real estate exposure by geography and the proposed exposure with a potential commitment to Aermont IV. The commitment would be LACERA’s third investment to Europe after the adoption of the International Real Estate Implementation Plan. This is consistent with a desire for vintage year diversification.
Aermont IV is a euro-denominated fund. Most of the investments are expected to be in either Euros or Great British Pounds. Aermont may hedge the currency depending upon the circumstances and the costs associated with hedging.

INVESTMENT EVALUATION

Staff evaluated Aermont IV in three broad categories: 1) Organization and Investment Team, 2) Investment Strategy and 3) Performance Track Record.

1. Organization and Investment Team

Aermont is an independent European real estate asset management business wholly owned by its Partners. The firm was founded in 2007. Since inception it has solely focused on investing in the Pan-European opportunistic strategies of Funds I, II and III.

Aermont has 31 employees, with 21 investment professionals (including the partners), with collective expertise across real estate principal investment, corporate and asset operations, finance, tax and law. Many investment team members have been with Aermont long enough to have contributed to various stages of the value creation programs for each of Funds I, II and III. On average, the partners have been working together for over ten years, with four joining around the inception of the business. The firm is headquartered in London with associated offices in Luxembourg and Paris.

Aermont’s Investment Committee is presently comprised of the partners, being Léon Bressler, Paul Golding, Vincent Rouget, Nathan Shike and Alison Trewartha:

- Léon Bressler has been the Managing Partner of Aermont since its inception. He has been a key person of each fund. Léon has over 44 years of experience.
- Paul Golding is a partner responsible for coverage of investment activities in the UK and Nordic regions. Paul is a key person of Fund III and the Fund. Paul joined in 2010 and has over 32 years of experience.
- Vincent Rouget is a partner responsible for coverage of investment activities in Continental Europe. Vincent is a key person of Fund III and the Fund. Vincent joined in...
2007 as has over 15 years of experience.

- Nathan Shike is a partner responsible for strategy, risk and finance. Nathan is a key person of Fund III and the Fund. Nathan joined in 2007 and has over 15 years of experience.

- Alison Trewartha is a partner responsible for legal matters, compliance, tax and structuring. Alison is a key person of the Fund. Alison joined in 2008 and has over 14 years of experience.

LACERA reviewed diversity as part of its due diligence. The team includes: (i) ten different nationalities represented and (ii) various positions held by female professionals in key departments (including the Chief Legal & Compliance Officer who is also a partner and member of the Investment Committee). However, Aermont has only four women out of a team of 21 members. Staff has discussed this with Aermont as an area for improvement, and management has confirmed they will address this issue.

2. Investment Strategy

The strategy is to invest in situations where major value-creation initiatives, operational leverage and/or value arbitrage may be implemented to generate attractive risk-adjusted returns. Aermont’s intention is to add long-term value for the Fund’s assets and businesses, rather than relying on external factors or financial engineering as the primary performance drivers, or on third-parties to provide the primary strategic expertise.

Aermont will seek to develop focused strategies and proactively target large, complex investments consistent with those strategies. Aermont’s typical investment size is around €100 million per transaction. Through intensive work and expertise, Aermont will pursue the creation, transformation, restructuring or growth of the Fund’s investments so that they are attractive as prime properties or leading businesses to institutional investors upon exit.

Aermont seeks to create long-term value under a thesis that includes:

- **Real estate value creation:** Implement intensive asset management and capital improvement programs to transform non-optimized or distressed properties into institutional prime real estate; address demand for modern assets in primarily urban areas through repositioning, redevelopment and development projects requiring creative vision and hands-on management;\(^5\),\(^6\)

- **Operational leverage:** Create, restructure and grow real estate related businesses and platforms, as well as the operations of large, complex assets, in order to improve cash flow, competitiveness, efficiency and operating resilience, thereby enhancing value in the underlying assets; and

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\(^5\) Institutional prime real estate are core properties or leading businesses that are attractive to institutional investors due to the income, quality of platform for businesses, high barriers to entry and location for real estate assets.

\(^6\) The Fund cannot invest in excess of 25% of total commitments in ground up development projects and/or land without any existing planning consents, of which no more than 12.5% of total commitments may be invested in land without any existing planning consents.
• **Value arbitrage:** Target yields-on-cost above market conditions; capitalize on property and capital market stress to access real estate at discounts to intrinsic value; exploit pricing differentials between investor bases; target exit premiums through scale, resilient cash flows and / or integrated operations.

In applying that thesis, investments reflecting the following themes will be targeted:

• **Direct asset** - Investments targeting the ownership or creation of prime assets or projects, primarily at top locations in prominent cities:
  
  Strategies may feature value creation through repositioning, change of use, redevelopment and / or development.

• **Corporate** - Investments in real estate related companies and platforms, targeting the creation or growth of a leading business in a compelling sector with strong fundamentals, often related to structural themes:
  
  For such investments, Aermont seeks to capitalize on its expertise in both real estate and corporate operations in generating asset and corporate value; and

• **Real Estate Credit** - Investments in real estate backed credit, typically secured by one or several assets rather than large, granular portfolios:
  
  Strategies target discounts to intrinsic value of underlying assets, capitalizing on real estate, credit and related legal expertise.

The Fund’s leverage is limited to 70% loan-to-value on a portfolio basis, although historic leverage utilized by Aermont has been lower. The average maximum loan-to-cost ratio across the portfolio for Fund I was around 50%, the average maximum loan-to-cost ratio across the portfolio is projected to be 62% for Fund II and 55% for Fund III.

### 3. Performance Track Record

A summary of The Fund’s real estate performance is included in the appendix as **ATTACHMENT 2**.

Aermont performance has been consistent across their funds and the different vintages.

Fund I, a 2007 vintage investment vehicle, is 100% realized (€1.2 billion in aggregate commitments). Fund I generated a fully realized net 15% IRR and 1.5x multiple.

Fund II is a 2012 vintage year fund (€1.3 billion in aggregate commitments) and fully committed. Fund II is currently generating (based on unrealized gains) a net 20% IRR and 1.5x multiple. This Fund is projected to generate a net 18% IRR and 1.9x multiple. Three investments of €151 million of equity have been fully realized, generating an aggregate gross IRR of 60% and a 2.0x multiple.7

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7 Although the typical hold periods for investments are 4-5 years, the three realized investments were completed more rapidly resulting in a higher than expected return.
Fund III is a 2015 vintage year fund (€1.5 billion in aggregate commitments). To date, investments have been made representing 84% of Fund III’s commitments. This fund is currently generating a net 47% IRR or 1.5x multiple. Once it is fully invested and fully realized, it is projected to generate a net 18% IRR and a 1.7x multiple.

FUND TERMS

The annual management fee is expected to be 1.5% of the committed amount. Distributions will be made first to investors until a return of capital plus a 9% compounded preferred return has been achieved. Subsequent distributions will be shared 50/50 between the Investors and the special limited partner until the special limited partner has received 20% of profits. Thereafter, distributions will be shared 80% to the investors and 20% to the special limited partner.

The investment period of the Fund will extend from the initial closing date to the fourth anniversary of the initial closing date, the Fund’s term extends from the initial closing date to the eighth anniversary of the final closing date, with two consecutive one-year extension options. The Fund aims to hold its initial closing in late July 2018.

Aermont’s partners will make commitments of no less than €20 million to the Fund, which will be funded out of each respective partner’s personal cash resources.

The Fund is targeting an overall gross IRR of around 20%, expected to correspond to a net IRR of 15%.

The principal investment terms of the Fund are summarized in the appendix as ATTACHMENT 3.

OBSERVATIONS

Staff’s independent due diligence process revealed the following noteworthy merits and concerns.

Investment Merits:

- **Aermont IV provides LACERA:**
  - An investment that will help further diversify the real estate portfolio by risk category; LACERA currently has only one core industrial fund investment in Europe (Prologis Targeted European Logistics Fund), one value-added Nordic fund investment (CapMan Nordic Fund II), and four opportunistic / high return funds (Carlyle Europe Fund III, Europa Fund III, Europa Fund IV and Angelo Gordon Europe Fund II). Both Carlyle Europe Fund III and Europa Fund III are in the process of winding down.
  - The ability to achieve higher returns in the opportunistic / high return sector than comparable funds in the U.S.
• **Aermont has a strong track record of prior performance**

Aermont has made 30 investments representing €3.6 billion of equity, of which investments of €1.4 billion have been realized, including all the investments made in Fund I. Since inception, Funds I, II and III are projected to generate a composite net return of 18% IRR and 1.5x multiple.

• **Aermont has assembled a seasoned team of professionals**

The General Partner has a team of 21 investment professionals. Leon Bressler is the Managing Partner and has over 44 years of real estate investment experience. The partners have been working together on average of over ten years, with four joining around the formation of the business.

The Aermont team has an established track record of successfully executing investment strategies under a variety of market conditions. This team possesses acquisition, disposition, structuring, financing, and asset and portfolio management skills. This enables the Fund to access investment opportunities and execute the Fund’s investment strategy and objective.

Aermont’s success has primarily been due to the quality of its team that has contributed to its track-record performance to date with two particular features: (i) an operator-oriented investment culture of discipline, creativity and expertise; and (ii) a rigorous process focused on integrity and risk management, emphasizing preservation of investor capital.

• **Aermont has a well-established and thorough investment process**

The Aermont due-diligence process includes a disciplined acquisition process and an investment process which identifies risks and returns. The process involves key personnel from across the firm and requires a unanimous investment committee approval for any investment. The clarity and repeatability of the process, along with its transparency, are viewed favorably. All processes contain checks and balances at every step and are well documented, with detailed due diligence checklists completed for each transaction.

• **Aermont will invest in some of Western Europe’s most prominent cities and employs a focused investment strategy in these markets**

Aermont will target investments in the most prominent regions of Western European markets such as the United Kingdom, The Netherlands, Germany, France, Spain and Italy. Within these countries, Aermont focuses on cities such as Paris, Berlin, Frankfurt, London, Milan and Lisbon. These markets are some of the most transparent and have institutionally-held real estate. The Fund will have an urban focus and will engage in major development, change of use, redevelopment and ground up development (25% limit on Fund).
• *Aermont will complement LACERA’s existing international portfolio as it will provide LACERA with exposure to investing in operating platforms*

Aermont typically pursues up to 50% in operating platforms. The operating platforms should have around 90% of the assets in real estate. Aermont will focus on businesses with high barriers to entry, sectors with strong growth fundamentals and with platforms that have highly functional real estate. Aermont typically does not use joint ventures and will try to pursue investments wholly.

• *Aermont is actively engaged in ESG*

Aermont seeks to incorporate environmental, social and governance (ESG) priorities across its activities and on behalf of the Funds. Aermont tries to incorporate into its analysis and recommendations for all new investments where economically feasible with an emphasis on attaining high environmental performance and/or on achieving certain specific environmental accreditations.

Aermont has hired an ESG consultant to help formalize a more substantive ESG policy and integrate it further into Aermont’s investment process/other business areas.

Concerns:

• *Léon Bressler, the Managing Partner, may retire during the life of the Fund, and this would not trigger the Key Person provision*

Mr. Bressler is now 71 years old and has been proactive about succession planning. Succession planning has always been key for Mr. Bressler and when he left his last firm, Unibail (now Unibail-Rodamco), they were able to continue operating successfully due to his succession planning efforts.\(^8\) Mr. Bressler has similarly created a succession plan at Aermont. He has no intention of leaving Aermont in the foreseeable future. But, the other four partners have the collective and personal responsibilities for all key functions to lead the firm without him if needed. There is also a mechanism in place so that if something unexpected were to happen to Mr. Bressler, there would be an immediate and automatic transfer of his governance rights to the other four partners, which would prevent operational disruptions. Mr. Bressler’s personal and professional dedication to Fund IV is partly reflected by a significant personal investment he is making in Fund IV, alongside the other partners.

• *AC IV could be €500 million larger than the predecessor fund if the hard cap of €2 billion is reached*

Aermont has typically grown in size since the team started to invest in Europe back in 2007. Fund I was €1.2 billion, Fund II €1.3 billion and the predecessor Fund III was €1.5 billion.

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\(^8\) Unibail-Rodamco is Europe’s leading public real estate company, which Mr. Bressler led for 14-years, prior to establishing Aermont in 2007.
billion. The Fund however does not want to grow exponentially and takes into account the: (i) size of their team; (ii) strategy; (iii) market opportunity and (iv) discipline. Aermont seems to have enough investment professionals to handle a €2 billion allocation as that would amount to €500 million of investment per year (4-year investment term), which Aermont has been able to accomplish for Fund III under the same mandate. In addition, Aermont typically targets around 4-5 transactions a year (5%-10% of the fund per transaction). The investment team has also grown from nine investment professionals in Fund I to 21 investment professionals for Fund III.

Aermont is planning on hiring two more individuals at the Associate level within the next six months. The corporate culture is to grow the team and provide more upward mobility. Aermont feels they can double in fund size given their current staffing.

- **This will be the first fund that Aermont will be marketing under the “Aermont” name**

  The platform was originally established by Mr. Bressler as Managing Partner in 2007 with the original name Perella Weinberg Real Estate UK LLP, as a joint-venture with Perella Weinberg Partners Group LP (“PWP”). In July 2015, Aermont became formally independent under an agreement to restructure PWP’s interest in several entities. PWP no longer has any interest in Aermont. PWP will only retain an interest in the GPs of Funds I and II and entitled to certain participations in carried interest of Funds I, II and III.

  Aermont retained the same people and platform as Funds I, II and III and has always been a “stand-alone” entity. It always operated independently of PWP. In this regard, there was no change to its personnel resulting from the Aermont independence.

- **No guarantee AC IV will be able to deliver the target returns for the Fund**

  Aermont has been investing for over 11 years in different market environments and under various political and financial challenges. The overall performance has been consistent as the team has remained relatively stable with the partners working together for over 10 years. In addition, the team has become more experienced after each fund’s completion.

  Aermont believes that there are attractive investment opportunities in Europe as there is solid growth, low interest rates and an imbalance in supply and demand of real estate assets. The prices for core assets remain high. However, Aermont will be targeting assets or opportunities in prominent Western European cities, which are growing faster than Europe in general. Aermont will not be targeting core assets but assets that require major value creation initiatives, operational leverage and/or value arbitrage. Aermont will therefore not rely on external factors or financial engineering as primary performance drivers. Hence, Aermont expects to create significant real estate and operational value throughout real estate cycles, and should be able to meet or exceed target returns for the Fund.
• *Brexit concerns*

There is currently a lot of uncertainty around Brexit. Aermont will use caution when investing in the UK, especially in the residential, office and retail sectors. In addition, Aermont does not feel that there is currently enough distress in the market in the UK. Aermont will carefully monitor the UK markets and believes there will be unique opportunities over the investment period for AC IV.

**CONCLUSION**

The Fund is a commingled fund that will pursue opportunistic real estate investments in the Pan-European region, and will seek to provide attractive risk-adjusted returns through thoughtfully selecting and managing investments. The General Partner has demonstrated a proven history of sourcing, managing and realizing income and gains in a disciplined and timely manner in order to maximize investor returns.

Aermont’s prior performance in the Pan-European region is impressive both in terms of the absolute returns and its consistency. The current Aermont IV team appears to be well positioned to continue delivering strong performance in Fund IV.

LACERA is actively looking for opportunities to increase its real estate exposure to Europe due to the continued high level of distress in the region, particularly outside the UK, as well as the attractive returns that appear to be available. Up to 15% of the real estate portfolio is expected to be deployed internationally over the next three years.

Following completion of its independent due diligence process, staff concludes that a commitment of €50 million would be an appropriate continuation to LACERA’s International Investment Plan. LACERA’s real estate consultant, The Townsend Group, concurs with staff’s conclusion.

Therefore, staff recommends an investment of €50 million in Aermont IV.

Attachments

Noted and Reviewed:

Jonathan Grabel
Chief Investment Officer
MEMORANDUM

TO: LACERA Board of Investments
DATE: August 2018
SUBJECT: €50 million to Aermont Capital Real Estate Fund IV
FROM: The Townsend Group

Overview

The Townsend Group has completed an investment review of Aermont Capital Real Estate Fund IV (“Aermont IV”). After conducting Due Diligence, Townsend recommends that LACERA proceed with a €50 million investment in Aermont IV. The following attachments are included in this due diligence review:

A.) LACERA Compliance Matrix, as of December 31, 2017,
B.) LACERA Flash Report, for the period ending December 31, 2017,
C.) Aermont Capital Real Estate Fund IV Due Diligence Memo.

The investment aligns with LACERA’s International Real Estate Implementation Plan, adopted in October 2016, which provided for up to $240 million in annual commitments to ex-US markets. Though LACERA has capital available to deploy internationally, LACERA has demonstrated patience and selectivity when considering international investments. Under the Plan, the first approved European investment is CapMan Nordics Fund II, which was approved in September 2017 as a €50 million commitment. The second approved European investment to date is AG Europe Realty Fund II ($50 million). LACERA’s Board of Investments has also approved two $50 million commitments in Asia: AEW Value Investors Asia Fund III and Heitman Asia-Pacific Property Fund. Additional international investments are under consideration. The progress of international commitments relative to the proposed annual commitments in the International Implementation Plan is illustrated below.

Figure 1 – LACERA International Implementation Plan Progress

![Image of graph showing international deployment progress]

The progress of international commitments is illustrated in the graph above. The planned annual commitments to different regions are compared with the actual commitments made. This provides a clear visualization of how LACERA is progressing towards its international investment strategy.
Aermont IV is a closed-ended, diversified real estate investment vehicle targeting a leveraged net IRR of 15%. Aermont IV will invest in direct assets, corporates/platforms and credit situations across Developed Europe, while utilizing leverage below 70%. Aermont is targeting a €1.6 billion raise and a First Close in late July 2018. Investments typically feature prime assets or projects in prominent European cities, or leading operating platforms in compelling sectors. Geographically, the Fund will mostly focus on Germany, France, Spain, Portugal, Italy, Benelux, U.K., Nordics, Switzerland, and Austria. See Attachment C for a detailed due diligence report on Aermont IV.

Client Profile

All information is as of December 31, 2017:

1. **LACERA Portfolio Structure & Funding Status.** The LACERA Target Real Estate exposure is 10.0% of Total Plan Assets, which equates to a $5.6 billion Target Real Estate allocation on $55.6 billion of Total Plan Assets. As of December 31, 2017, LACERA’s Real Estate market value totaled $6.3 billion in Real Estate which is above target.

Real Estate is categorized into three ‘buckets,’ each with their own set of investment parameters: Core Real Estate, Non-Core Real Estate and Public Real Estate Securities. A snapshot of the LACERA Real Estate Portfolio is shown as Figure 2 (see also LACERA Compliance Matrix, Attachment A).

**Figure 2 – LACERA Real Estate Strategic Limits and Current Status**

<table>
<thead>
<tr>
<th>Portfolio Composition</th>
<th>Strategic Limit</th>
<th>Current Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Core:</td>
<td>≥ 50%</td>
<td>75.4%</td>
</tr>
<tr>
<td>Non-Core:</td>
<td>≤ 50%</td>
<td>24.6%</td>
</tr>
<tr>
<td>Value:</td>
<td>≤ 40%</td>
<td>11.7%</td>
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<tr>
<td>High Return:</td>
<td>≤ 40%</td>
<td>12.9%</td>
</tr>
<tr>
<td>Public REITs:</td>
<td>≤ 15%</td>
<td>N/A</td>
</tr>
<tr>
<td>Total Portfolio:</td>
<td>N/A</td>
<td>N/A</td>
</tr>
</tbody>
</table>


a. **LACERA Core Portfolio.** LACERA has a strategic limitation of ≥50.0% to Core Real Estate. Including unfunded commitments, LACERA’s Core Portfolio accounted for 74.5% of the Total Portfolio (as of 12/31/17). Although Townsend does not provide Capital Projections for LACERA, we
anticipate that the Core Portfolio will trend down to 72.3% as a result of recent investments into Non-Core funds and assuming a €50 million investment in Aermont IV. However, LACERA is expected to remain well above its permissible range for Core Real Estate without any new Core commitments.

LACERA continues to investigate further options to reduce total Real Estate exposure and to rebalance the Core Portfolio closer to the lower end of the strategic range. The LACERA Custom Core Benchmark is a blend of NPI-50 bps (since inception through 2Q-2013) and the Net ODCE (from 3Q-2013 onward). As of 4Q-2017, the LACERA Core Portfolio underperformed its benchmark on a 3, 5, and 10-year basis.

b. **LACERA Non-Core Real Estate Portfolio.** Non-Core Real Estate includes Value Added and High Return (Opportunistic) investments. This bucket has a strategic limitation of ≤50%. The Non-Core Portfolio was below its established upper limitation, representing 25.5% on a market value plus unfunded basis (as of 12/31/17).

Benchmarking is categorized according to strategy: Value Added and High Return. The LACERA Custom Value Added Benchmark is a blend of NPI+25 bps (since inception through 2Q-2013) and the Net ODCE+100 bps (from 3Q-2013 onward). The LACERA Custom High Return Benchmark is a blend of NPI+225 bps (since inception through 2Q-2013) and the Net ODCE+300 bps (from 3Q-2013 onward). LACERA’s Value Added and High Return Portfolios have underperformed each respective benchmark over the short and long term, with the exception of the High Return one and three year periods whereby actual performance was ≥ 100 bps over the High Return Custom Benchmark. See Attachment B, Performance Measurement Flash Report.

Including recently approved Non-Core commitments, the €50 million commitment to Aermont IV is projected to increase LACERA’s Non-Core Real Estate Portfolio to 27.7% on a market value plus unfunded commitment basis. This is well within the permissible limit of ≤50.0%.

2. **Diversification by Geography.** The LACERA real estate portfolio is diversified across geographies. However, notable positions that differ from the ODCE benchmark include the North East (underweight 4.5%), Pacific (overweight 8.0%) and Ex-US (overweight 5.4%). However, LACERA does not intend to mirror this benchmark’s diversification. Assuming previously approved ex-US commitments and a €50 commitment to Aermont IV, LACERA’s Ex-US exposure is projected to increase from 5.4% to 9.7%. See Figure 3 on the next page.
3. **Diversification by Property Type.** The LACERA real estate portfolio is diversified across property types. However, notable positions that differ from the ODCE benchmark include Apartment (overweight 11.3%), Office (underweight 14.9%), Retail (underweight 6.6%), Hotel (overweight 3.2%) and Other (overweight 7.4%). The anticipated commitment to Aermont IV is not projected to have a material impact on LACERA’s property type diversification, as the strategy is expected to be diversified across property types.

![LACERA Geographic Diversification - 4Q17 v. Projections](image)

**Source:** 4Q-2017 LACERA Performance Measurement Report

![LACERA Property Type Diversification - 4Q17 v. Projections](image)

**Source:** 4Q-2017 LACERA Performance Measurement Report
Rationale for LACERA to invest in Aermont IV

1. Consistent with LACERA’s International Real Estate Implementation Plan. The International Real Estate Implementation Plan adopted in 2016 seeks to increase LACERA’s allocation to Ex-US real estate to 15% by 2021. The key objectives are to diversify away from the US, to provide exposure to growth and to diversify by vintage year. A €50 million commitment to Aermont IV would be consistent with LACERA’s international real estate investment goals.

2. Return Profile Accretive to LACERA’s High Return Objectives. LACERA’s custom High Return Benchmark is a blend between NPI + 225bps and ODCE (Net) + 300 bps. The benchmark was 9.8% over the one-year period, 8.9% over the ten-year period and 12.3% Since Inception. Aermont IV is targeting a net return of 15%, which would be in excess of the LACERA benchmark.

3. Diversification across Non-Core Strategy, Manager and Vintage Year. An investment in Aermont IV would provide complimentary exposure to LACERA’s current high return portfolio which is heavily invested via domestic separate accounts, and which has several liquidated or liquidating positions. Aermont would be a new manager for LACERA, and would provide diversification to existing Ex-US exposure and vintage year exposure.

4. Compliant with LACERA High Return Leverage and International Guidelines. Aermont IV caps leverage at 70% LTV. This limitation is compliant with LACERA’s High Return Leverage Limit of 80%. Furthermore, a potential €50 million investment would not cause LACERA to exceed its 20% International Real Estate Limit.

Issues for LACERA to Consider regarding Aermont IV

1. Reduced Allocation to Real Estate & New Program Structure. LACERA’s reduced allocation to Real Estate (from 11% to 10%) will require LACERA to be a net seller of assets over the next three years. The International Implementation Plan was approved by LACERA’s Board in 2016 and thus, the capital estimated for deployment annually was based on the assumption that the Real Estate allocation would remain at 11%. Townsend notes the following considerations when choosing new Non-Core funds:

   a. Reducing the Real Estate Allocation Requires LACERA to be a Net Seller of Real Estate in the foreseeable future.

   b. LACERA’s Reduced Real Estate Allocation may decrease the amount of capital available for investment compared to past levels. However, additional High Return investments will be required to meet the higher target of 20% (of the Private Real Estate Portfolio), a change
driven by the 2018 asset allocation study completed by the Board’s General Consultant, Meketa. LACERA will patiently deploy this capital and has flexibility to do so given the permissible range is 0-40% for High Return investments.

c. LACERA’s Approved International Implementation Plan called for commitments to ex-US Real Estate and was based on the 11% allocation level. This is partially mitigated by the fact that LACERA has not deployed the full amount of capital called for in the Plan (see Figure 1 on page 1).

d. Maintaining vintage year diversification in Non-Core strategies is crucial to performance success.

e. LACERA has adequate exposure to Europe through recent commitments, which will call capital over a 3 Year period.

f. In the Real Estate Structure Review adopted by the Board, Townsend and Staff recommended inclusion of US commingled fund strategies in the program going forward.

2. **Vintage Year Concentration Risk.** Between 2007 and 2016, LACERA predominantly invested in Non-Core real estate through its US separate accounts and “fund of one” structures, mostly refraining from investment in commingled fund structures. Doing so limited LACERA’s investment activity by strategy, geography and property type, making it difficult to outperform the index during a recovering period. Now, at a more mature stage in the market cycle, LACERA is choosing to deploy capital in commingled fund investments. Though Townsend broadly agrees with this shift, especially in the ex-US markets, deployment of capital will be concentrated in peak pricing vintages. For this reason, we advise LACERA to remain selective when pursuing opportunities that help to meet the goals set forth in the 2016 International Implementation Plan.

Further, LACERA should be mindful of the low growth expectations and political uncertainty characterizing Europe. High Return strategies that take on material risk (leasing/rehab/development), and require strong rental growth and/or cap rate compression are not straightforward to underwrite.

3. **Off Benchmark Currency Risk.** Aermont IV is a Euro denominated fund. According to the LACERA International Real Estate Implementation Plan, currency hedging may be considered for non-core strategies if feasible and cost-effective. LACERA should consider the cost-benefit implications of hedging.

**Alternatives Considered**

Townsend has reviewed and provided all best-idea fund recommendations to LACERA Staff. Additionally, the global underwriting pipeline is distributed to LACERA Staff on a monthly basis which outlines all client-specific
approvals for full disclosure practices. Pramerica Real Estate Capital VI was one vehicle in particular that Townsend recommended to LACERA as a Best Idea in 2016/2017. However, due to timing LACERA was unable to pursue this opportunity. CapMan Nordic Real Estate Fund II was recommended as a Best Idea and approved in 2017. An investment in Europa Fund V was also considered in 2017, but Townsend recommended against proceeding with a commitment at that time due to high risks associated with certain strategies, such as land entitlements and developments that have resulted in significant capital losses in the past.

Conclusion/Recommendation

Townsend recommends that LACERA Board of Investment approve a €50 million commitment in Aermont IV. This commitment would help increase international exposure as targeted in LACERA’s International Real Estate Implementation Plan and diversify existing Ex-US exposure.

Attachments

A.) LACERA Compliance Matrix, as of December 31, 2017,
B.) LACERA Flash Report, for the period ending December 31, 2017,
C.) Aermont Capital Real Estate Fund IV Due Diligence Memo.
ATTACHMENT A.  LACERA Compliance Matrix as of December 31, 2017
### LACERA Compliance Matrix

<table>
<thead>
<tr>
<th>Allocation</th>
<th>Current Guidelines</th>
<th>Proposed Guidelines</th>
<th>As of December 31, 2017 vs. Current</th>
</tr>
</thead>
<tbody>
<tr>
<td>Core Real Estate Target</td>
<td>Target: 70% &lt;br&gt;Range: 260%</td>
<td>Target: 60% &lt;br&gt;Range: ±50%</td>
<td>In Compliance w/ Ranges (Core 75.4%)</td>
</tr>
<tr>
<td>Core Real Estate Ranges</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-Core Real Target</td>
<td>Target: 25% Value/5% High Return &lt;br&gt;Range: Value Add ≤ 40% &lt;br&gt;Range: High Return ≤ 20%</td>
<td>Target: 20% Value/20% High Return &lt;br&gt;Range: Value Add ≤ 40% &lt;br&gt;Range: High Return ≤ 40%</td>
<td>In Compliance w/ Ranges (Value 11.7%, High Return 12.9%)</td>
</tr>
<tr>
<td>Non-Core Real Estate Ranges</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Return Targets</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>LACERA Custom Core Benchmark</td>
<td>NPI -50 bps: inception through 2Q 2013, ODCE (Net): from 3Q 2013 thereafter.</td>
<td>NPI -50 bps: inception through 2Q 2013, ODCE [Net]: from 3Q 2013 thereafter.</td>
<td>Out of Compliance (5.2% net Actual vs. 5.9% Custom Benchmark over 10 years)</td>
</tr>
<tr>
<td>LACERA Custom Value Added Benchmark</td>
<td>NPI +25 bps: inception through 2Q 2013, ODCE (Net) +100 bps: from 3Q 2013 thereafter.</td>
<td>NPI +25 bps: inception through 2Q 2013, ODCE (Net) +100 bps: from 3Q 2013 thereafter.</td>
<td>Out of Compliance (-2.8% net Actual vs. 6.8% Custom Benchmark over 10 years)</td>
</tr>
<tr>
<td>LACERA Custom High Return Benchmark</td>
<td>NPI +225 bps: inception through 2Q 2013, ODCE (Net) +300 bps: from 3Q 2013 thereafter.</td>
<td>NPI +225 bps: inception through 2Q 2013, ODCE (Net) +300 bps: from 3Q 2013 thereafter.</td>
<td>Out of Compliance (-5.4% net Actual vs 8.9% Custom Benchmark over 10 years)</td>
</tr>
<tr>
<td>LACERA Total Portfolio Benchmark (recommend tying this going forward to only private equity RE in new OPP)</td>
<td>NPI – 25 bps through 2Q2013 ODCE (Net) + 40 bps</td>
<td>NPI – 25 bps through 2Q2013 ODCE (Net) + 40 bps through TBD ODCE (Net) + 60 bps through TBD + 6 mo ODCE (Net) + 80 bps from TBD + 12 mo</td>
<td>Out of Compliance (3.1% net vs. 6.2% over 10 years)</td>
</tr>
<tr>
<td>Debt Investments</td>
<td>NPI Income</td>
<td>NPI Income</td>
<td></td>
</tr>
<tr>
<td>Public REITs</td>
<td>Domestic NAREIT &lt;br&gt;International FTSE/EPRA/NAREIT</td>
<td>Domestic NAREIT &lt;br&gt;International FTSE/EPRA/NAREIT</td>
<td></td>
</tr>
<tr>
<td>Private Portfolio Risk Policies</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property Location Diversification</td>
<td>- No more than 20% of the total real estate allocation may be invested in any Metropolitan Statistical Area (“MSA”) &lt;br&gt;- No more than 40% of the total real estate allocation may be invested in any one of the four NCREIF regions &lt;br&gt;- No more than 20% of the total real estate portfolio will be invested in international real estate</td>
<td>- No more than 20% of the Core/Core Plus Portfolio may be invested in any Metropolitan Statistical Area (“MSA”) &lt;br&gt;- LACERA Core/Core Plus Portfolio will be measured ODCE +/-10% &lt;br&gt;- No more than 20% of the total real estate portfolio will be in international real estate</td>
<td>Overweight Pacific Region &lt;br&gt;(40.1%) &lt;br&gt;(This will be In Compliance with the new guidelines, if adopted)</td>
</tr>
<tr>
<td>Property Type Diversification</td>
<td>No single property type (apartments, hotels, industrial, office, and retail) will exceed 40% without Board approval.</td>
<td>- LACERA Core Portfolio measured ODCE +/- 10% &lt;br&gt;- Up to 20% in “Other”</td>
<td>In Compliance</td>
</tr>
<tr>
<td>Leverage</td>
<td>- 50% LTV ratio maximum for any single Core Investment, &lt;br&gt;- 65% LTV ratio maximum for any single Value Added Investment, &lt;br&gt;- 80% LTV ratio maximum for any single High Return Investment.</td>
<td>- 50% LTV ratio maximum for any single Core Investment, &lt;br&gt;- 65% LTV ratio maximum for any single Value Added Investment, &lt;br&gt;- 80% LTV ratio maximum for any single High Return Investment.</td>
<td>In Compliance</td>
</tr>
</tbody>
</table>
ATTACHMENT B.  LACERA 4th Quarter 2017 Performance Measurement Flash Report
## Portfolio Composition ($)

<table>
<thead>
<tr>
<th>Total Plan Assets</th>
<th>Allocation</th>
<th>Market Value</th>
<th>Unfunded Commitments</th>
<th>Remaining Allocation</th>
</tr>
</thead>
<tbody>
<tr>
<td>55,607,461,171</td>
<td>6,116,820,729</td>
<td>6,331,575,966</td>
<td>870,255,825</td>
<td>-1,085,015,062</td>
</tr>
</tbody>
</table>

## Performance Summary

<table>
<thead>
<tr>
<th></th>
<th>Quarter (%)</th>
<th>1 Year (%)</th>
<th>5 Year (%)</th>
<th>10 Year (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>TGRS</td>
<td>TNET</td>
<td>TGRS</td>
<td>TNET</td>
</tr>
<tr>
<td>LACERA</td>
<td>1.8</td>
<td>1.5</td>
<td>7.6</td>
<td>6.8</td>
</tr>
<tr>
<td>NFI-ODCE + 40 BPS</td>
<td>2.2</td>
<td>1.9</td>
<td>8.0</td>
<td>7.1</td>
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</tbody>
</table>

## Funding Status ($)

### Core Portfolio

<table>
<thead>
<tr>
<th>Investment Year</th>
<th>Commitment Amount</th>
<th>Funded Amount</th>
<th>Unfunded Commitments</th>
<th>Capital Returned</th>
<th>Market Value</th>
<th>Market Value (%)</th>
<th>Market Value + Unfunded Commitments (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>0</td>
<td>164,022,744</td>
<td>0</td>
<td>141,339,296</td>
<td>30,150</td>
<td>0.0</td>
<td>0.0</td>
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<tr>
<td>2011</td>
<td>500,000,000</td>
<td>928,305,233</td>
<td>352,555,837</td>
<td>886,679,992</td>
<td>161,713,448</td>
<td>2.6</td>
<td>7.1</td>
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<tr>
<td>2011</td>
<td>314,316,952</td>
<td>145,591,332</td>
<td>312,830,932</td>
<td>4.9</td>
<td>4.3</td>
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<tr>
<td>2014</td>
<td>305,692,733</td>
<td>12,300,000</td>
<td>314,920,990</td>
<td>5.0</td>
<td>4.4</td>
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<tr>
<td>2014</td>
<td>200,652,076</td>
<td>44,397,096</td>
<td>208,528,713</td>
<td>3.3</td>
<td>2.9</td>
<td></td>
<td></td>
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<tr>
<td>2016</td>
<td>97,192,866</td>
<td>7,574,559</td>
<td>110,746,447</td>
<td>1.7</td>
<td>1.5</td>
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<tr>
<td>2016</td>
<td>441,211,794</td>
<td>24,748,300</td>
<td>458,349,908</td>
<td>7.2</td>
<td>6.4</td>
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<tr>
<td>2014</td>
<td>1,581,984,021</td>
<td>1,786,958,744</td>
<td>713,247,226</td>
<td>11.3</td>
<td>9.9</td>
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<tr>
<td>2016</td>
<td>0</td>
<td>0</td>
<td>133,829,772</td>
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<td>1.9</td>
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<tr>
<td>2014</td>
<td>100,000,000</td>
<td>117,161,718</td>
<td>1,786,958,744</td>
<td>11.3</td>
<td>9.9</td>
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<tr>
<td>2017</td>
<td>118,147,448</td>
<td>140,449,602</td>
<td>1,725,459</td>
<td>2.3</td>
<td>2.0</td>
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<tr>
<td>2013</td>
<td>300,000,000</td>
<td>88,219,940</td>
<td>242,250,000</td>
<td>0.9</td>
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<tr>
<td>2011</td>
<td>1,732,010,576</td>
<td>2,790,824,160</td>
<td>803,311,210</td>
<td>12.7</td>
<td>11.2</td>
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<tr>
<td>2017</td>
<td>125,000,000</td>
<td>125,000,000</td>
<td>2,631,847</td>
<td>2.1</td>
<td>1.9</td>
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<tr>
<td>2013</td>
<td>533,132,312</td>
<td>265,665,662</td>
<td>352,849,464</td>
<td>5.6</td>
<td>4.9</td>
<td></td>
<td></td>
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<tr>
<td>2012</td>
<td>1,817,695,455</td>
<td>1,230,708,200</td>
<td>862,107,475</td>
<td>13.6</td>
<td>12.0</td>
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</tr>
</tbody>
</table>

## Total Core Separate Accounts

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990</td>
<td>800,000,000</td>
</tr>
<tr>
<td>2017</td>
<td>50,000,000</td>
</tr>
<tr>
<td>2003</td>
<td>518,036,377</td>
</tr>
<tr>
<td>2017</td>
<td>59,206,631</td>
</tr>
<tr>
<td>2011</td>
<td>50,000,000</td>
</tr>
<tr>
<td>2007</td>
<td>21,488,047</td>
</tr>
<tr>
<td>2007</td>
<td>28,905,508</td>
</tr>
<tr>
<td>2008</td>
<td>150,000,000</td>
</tr>
<tr>
<td>2013</td>
<td>11,479,310</td>
</tr>
<tr>
<td>2007</td>
<td>29,833,366</td>
</tr>
<tr>
<td>2010</td>
<td>285,437,163</td>
</tr>
<tr>
<td>2012</td>
<td>98,639,245</td>
</tr>
<tr>
<td>2017</td>
<td>104,797,096</td>
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<tr>
<td>2007</td>
<td>25,000,000</td>
</tr>
<tr>
<td>2014</td>
<td>56,675,145</td>
</tr>
<tr>
<td>2003</td>
<td>59,914,350</td>
</tr>
<tr>
<td>2006</td>
<td>390,796,54</td>
</tr>
</tbody>
</table>

## Value Added

- **AEW Value Investors Asia III** 2017: 50,000,000
- **CapMan Nordic Real Estate Fund II** 2017: 59,206,631
- **CBRE Asia Value Fund L.P.** 2011: 50,000,000
- **CBRE Strategic Partners European Fund III** 2007: 21,488,047
- **Cornerstone Hotel Income Equity Fund II** 2008: 150,000,000
- **Hunt UK Realty Partners LP** 2007: 29,833,366
- **Invesco Value I.M.A. Vintage 2010** 2010: 0
- **Invesco Value I.M.A. Vintage 2012** 2012: 0
- **Invesco Value I.M.A. Vintage 2017** 2017: 0
- **LaSalle Medical Office Fund II** 2007: 25,000,000
- **Stockbridge Value I.M.A. Vintage 2014** 2014: 0
- **Vanbarton Value I.M.A. Vintage 2003** 2003: 0
- **Vanbarton Value I.M.A. Vintage 2006** 2006: 0
- **Value Added** 1986: 414,586,548

## Value Total Addendums

- **Total Value Separate Accounts** 1994: 0
- **Total Core Separate Accounts** 1990: 800,000,000

## Funding Status
## Portfolio Composition ($)

<table>
<thead>
<tr>
<th>Total Plan Assets</th>
<th>Allocation</th>
<th>Market Value</th>
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</table>

## Performance Summary

<table>
<thead>
<tr>
<th>LACERA</th>
<th>TGRS</th>
<th>Quarter (%)</th>
<th>1 Year (%)</th>
<th>5 Year (%)</th>
<th>10 Year (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.8</td>
<td>1.5</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.2</td>
<td>1.9</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>NFI-ODCE + 40 BPS</th>
<th>TGRS</th>
<th>Quarter (%)</th>
<th>1 Year (%)</th>
<th>5 Year (%)</th>
<th>10 Year (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>8.0</td>
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</tbody>
</table>

## Funding Status ($)

<table>
<thead>
<tr>
<th>High Return</th>
</tr>
</thead>
<tbody>
<tr>
<td>Baring High I.M.A. Vintage 2007</td>
</tr>
<tr>
<td>2007</td>
</tr>
<tr>
<td>Capri Capital High I.M.A. Vintage 2006</td>
</tr>
<tr>
<td>2006</td>
</tr>
<tr>
<td>Capri Urban Investors</td>
</tr>
<tr>
<td>2008</td>
</tr>
<tr>
<td>Carlyle Europe Real Estate Partners III</td>
</tr>
<tr>
<td>2007</td>
</tr>
<tr>
<td>CityView Bay Area Fund II</td>
</tr>
<tr>
<td>2012</td>
</tr>
<tr>
<td>CityView LA Urban Fund I</td>
</tr>
<tr>
<td>2007</td>
</tr>
<tr>
<td>CityView Southern California Fund II</td>
</tr>
<tr>
<td>2013</td>
</tr>
<tr>
<td>CityView Western Fund I, L.P.</td>
</tr>
<tr>
<td>2016</td>
</tr>
<tr>
<td>Clarion High I.M.A. Europa Fund III</td>
</tr>
<tr>
<td>2009</td>
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<tr>
<td>Europa Fund IV</td>
</tr>
<tr>
<td>2014</td>
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<td>INVESTCO Asian Real Estate Partners II (USD Vehicle)</td>
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<td>1995</td>
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### Funding Status
- **Funded amount may be greater than the Commitment Amount due to recallable capital.** Some distributions made during the Investment Period may be reinvested by the manager, which increases the Funded Amount to a sum greater than Committed Capital.
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<tr>
<th>Returns (%)</th>
<th>Market Value ($)</th>
<th>Quarter 1</th>
<th>3 Year</th>
<th>5 Year</th>
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<td>30,150</td>
<td>3.0 0.8 3.9 3.6</td>
<td>10.7 0.3 11.0 9.8</td>
<td>10.0 1.0 11.0 9.8</td>
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<td>Barings Debt I.M.A.</td>
<td>161,713,448</td>
<td>1.3 0.1 0.3 0.0</td>
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<td>Cityview Core I.M.A.</td>
<td>314,920,990</td>
<td>0.3 0.0 0.3 0.3</td>
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<td>3.0 1.0 1.0 0.2</td>
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<td>Gateway I.M.A. (Avison Young)</td>
<td>110,746,447</td>
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<td>Invesco Core I.M.A.</td>
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<td>4.5 4.8 9.4 9.0</td>
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<td>Prologis European Logistics Fund (PELF)</td>
<td>146,699,521</td>
<td>1.9 4.8 6.7 5.6</td>
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Returns
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<th>3 Year</th>
<th>5 Year</th>
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<td>APP</td>
<td>TGRS</td>
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*Hardcoded Data*
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<td>INC APP TGRS TNET</td>
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<td>6.8</td>
<td>-1.7</td>
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<td>9.9</td>
<td>9.3</td>
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Returns
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<th>TWR Calculation</th>
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<td>3Q85</td>
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* Hardcoded Data
Los Angeles County Employees Retirement Association Real Estate
Fourth Quarter 2017
Returns (%)
Commingled Fund Portfolio
CapMan Nordic Real Estate Fund II (10)
Capri Urban Investors
Carlyle Europe Real Estate Partners III (3)
CBRE Asia Value Fund L.P. (3) (9)
CBRE Strategic Partners European Fund III (9)
CBRE Strategic Partners UK Fund III (9)
CityView Bay Area Fund II (4)
CityView LA Urban Fund I (9)
CityView Southern California Residential Fund II (4)
CityView Western Fund I, L.P.
Cornerstone Hotel Income Equity Fund II (4) (9)
Europa Fund III (3)
Europa Fund IV (3)
Genesis Workforce Housing Fund II (4)(9)
Hunt UK Realty Partners LP
INVESCO Asian Real Estate Partners II (USD Vehicle) (9)
Invesco Real Estate Asia Fund
LaSalle Medical Office Fund II (9)
Prologis European Logistics Fund (PELF)
RREEF Core Plus Industrial Fund L.P.
Starwood Brandco
Starwood Capital Hospitality Fund II
Total Commingled Fund Portfolio

Market Value
($)

684,244
44,942,145
2,712,043
0
428,782
0
73,311,169
535,446
109,692,275
18,907,312
220,657
3,085,039
36,078,023
‐66,752
1,952,607
245,838
133,829,772
0
146,699,521
135,063,827
2,431,059
45,455,028
756,208,035

Total Separate Account Portfolio
Barings Debt I.M.A
Barings I.M.A.
Capri Capital I.M.A.
Cityview Core I.M.A.
Clarion I.M.A.
Gateway I.M.A.
Heitman I.M.A.
Invesco I.M.A.
Quadrant I.M.A
RREEF I.M.A.
Stockbridge I.M.A.
TA Associates I.M.A.
TriPacific (LERI/LERP) (4,6,9)
Vanbarton I.M.A.
Total Separate Accounts

161,713,448
218,193,529
368,242,384
314,920,990
329,905,206
110,746,447
471,638,593
1,134,708,625
57,877,867
943,200,696
440,092,894
862,107,475
22,328
161,997,450
5,575,367,932

Total Portfolio
LACERA
LACERA Portfolio without LERI & TriPacific

6,331,575,966
6,331,553,638

Quarter
INC

APP

1 Year

TGRS TNET

INC

APP

3 Year

TGRS TNET

INC

APP

TGRS TNET

2.3
‐0.2

‐7.8
21.4

‐5.7
21.2

‐7.6
19.2

INC

APP

TGRS TNET

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7.0

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9.3

‐1.1
9.2

‐1.3
8.2

‐0.1

7.3

7.2

6.8

2.1

7.5

9.6

8.1

0.5

19.2

19.8

17.9

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19.9

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18.5

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16.5
24.9

15.9
24.1

19.6
25.2

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3.7
8.9

8.3

2.8

13.4

9.3

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2.0

‐1.9

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3.3

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6.1

11.7

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23.4

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27.5

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13.7

11.1

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15.7
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12.0 10.8

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2.3
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11.1

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9.8
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12.7
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10.4
10.7
7.6

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1.2

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0.2

0.9
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0.8
1.1

4.9
5.1

‐1.0
1.7

3.9
6.9

3.1
6.2

4.4
5.3

1.5
4.3

6.0
9.8

5.3
9.1

1.1
1.1

0.7
0.7

1.8
1.8

1.6
1.6

‐1.1 ‐26.4 ‐27.1 ‐28.7
‐0.3
53.2
52.8
48.6

5 Year

4.9
4.9

2.7
2.7

7.7
7.7

6.8
6.8

5.3
5.3

16.0
34.6
15.7
‐14.5
2.4
4.9
6.4
11.7 10.0

4.7
4.6

10.2
10.1

9.3
9.3

7.4
12.1
6.8

16.9
25.6
17.0
‐3.7
8.9
8.0
5.5
12.6 10.4

9.5
6.3
2.9

0.0
4.5
8.2

9.5
11.1
11.3

8.4
10.5
10.2

7.5

3.9

11.6

11.5

3.9
7.6
6.0

6.1
‐0.2
5.5

10.2
7.3
11.7

9.4
6.8
11.2

6.9

1.0

8.0

7.4

5.7
5.6

1.3
4.4

7.1
10.1

6.3
9.4

5.7
5.7

4.3
4.5

10.2
10.4

9.3
9.5

Indices
Total Custom Benchmark
ODCE + 40 BPS

1.9
2.2

1.9

Returns by Vehicle

7.1
8.0

7.1

9.9
10.9

9.9

10.7
12.0

10.9


### Returns (%)

<table>
<thead>
<tr>
<th>Fund Description</th>
<th>Market Value ($)</th>
<th>7 Year</th>
<th>10 Year</th>
</tr>
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<tbody>
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<td></td>
<td>INC APP TGRS TNET</td>
<td>INC APP TGRS TNET</td>
<td>TGRS TNET</td>
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<tr>
<td>CapMan Nordic Real Estate Fund II (10)</td>
<td>684,244</td>
<td>6.4%</td>
<td>8.0%</td>
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<tr>
<td>Capri Urban Investors</td>
<td>44,942,145</td>
<td>-0.3%</td>
<td>1.2%</td>
</tr>
<tr>
<td>Carlyle Europe Real Estate Partners III (3)</td>
<td>2,712,043</td>
<td>1.5%</td>
<td>1.2%</td>
</tr>
<tr>
<td>CBRE Asia Value Fund L.P. (3) (9)</td>
<td>0</td>
<td>0.0%</td>
<td>0.0%</td>
</tr>
<tr>
<td>CBRE Strategic Partners European Fund III (9)</td>
<td>428,782</td>
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<td>1.2%</td>
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<tr>
<td>CBRE Strategic Partners UK Fund III (9)</td>
<td>0</td>
<td>0.0%</td>
<td>0.0%</td>
</tr>
<tr>
<td>CityView Bay Area Fund II (4)</td>
<td>73,311,169</td>
<td>2.5%</td>
<td>2.5%</td>
</tr>
<tr>
<td>CityView LA Urban Fund I (9)</td>
<td>535,446</td>
<td>2.6%</td>
<td>3.3%</td>
</tr>
<tr>
<td>CityView Southern California Residential Fund II (4)</td>
<td>109,692,275</td>
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<td>2.2%</td>
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<tr>
<td>CityView Western Fund I, L.P.</td>
<td>18,907,312</td>
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<td>7.5%</td>
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<tr>
<td>Cornerstone Hotel Income Equity Fund II (4) (9)</td>
<td>220,657</td>
<td>1.1%</td>
<td>1.1%</td>
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<tr>
<td>Europa Fund III (3)</td>
<td>3,085,039</td>
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<td>5.0%</td>
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<tr>
<td>Europa Fund IV (3)</td>
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<td>1.6%</td>
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<tr>
<td>Genesis Workforce Housing Fund II (4)(9)</td>
<td>-66,752</td>
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<td>0.0%</td>
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<tr>
<td>Hunt UK Realty Partners LP</td>
<td>1,952,607</td>
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<td>0.0%</td>
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<tr>
<td>INVECSO Asian Real Estate Partners II (USD Vehicle) (9)</td>
<td>245,838</td>
<td>0.0%</td>
<td>0.0%</td>
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<tr>
<td>Invesco Real Estate Asia Fund</td>
<td>133,829,772</td>
<td>6.2%</td>
<td>6.2%</td>
</tr>
<tr>
<td>I.M.A.</td>
<td>862,107,460</td>
<td>4.5%</td>
<td>4.5%</td>
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<tr>
<td>RREEF I.M.A.</td>
<td>57,638,593</td>
<td>4.0%</td>
<td>4.0%</td>
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<tr>
<td>Vanbarton I.M.A.</td>
<td>1,134,708,625</td>
<td>0.0%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Total Separate Accounts</td>
<td>5,575,367,932</td>
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<td>0.0%</td>
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### Inception TWR Calculation

<table>
<thead>
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<th>Fund Description</th>
<th>Inception TWR Calculation</th>
<th>Net Equity</th>
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<tr>
<td>CapMan Nordic Real Estate Fund II (10)</td>
<td>4Q17 548.6 1.6</td>
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<tr>
<td>Capri Urban Investors</td>
<td>3Q08 -4.4 0.7</td>
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<tr>
<td>Carlyle Europe Real Estate Partners III (3)</td>
<td>2Q08 -2.9 0.9</td>
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<tr>
<td>CBRE Asia Value Fund L.P. (3) (9)</td>
<td>3Q11 8.9 1.3</td>
<td></td>
</tr>
<tr>
<td>CBRE Strategic Partners European Fund III (9)</td>
<td>2Q08 -1.7 0.3</td>
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<tr>
<td>CBRE Strategic Partners UK Fund III (9)</td>
<td>2Q08 -2.4 0.2</td>
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</tr>
<tr>
<td>CityView Bay Area Fund II (4)</td>
<td>n/a n/a 1Q13 15.5 1.5</td>
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<tr>
<td>CityView LA Urban Fund I (9)</td>
<td>4Q07 11.9 1.2</td>
<td></td>
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<tr>
<td>CityView Southern California Residential Fund II (4)</td>
<td>n/a n/a 1Q14 14.3 1.3</td>
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<tr>
<td>CityView Western Fund I, L.P.</td>
<td>n/a n/a 1Q17 -11.8 0.8</td>
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<tr>
<td>Cornerstone Hotel Income Equity Fund II (4) (9)</td>
<td>4Q08 9.2 1.4</td>
<td></td>
</tr>
<tr>
<td>Europa Fund III (3)</td>
<td>4Q09 8.5 1.3</td>
<td></td>
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<tr>
<td>Europa Fund IV (3)</td>
<td>2Q14 11.7 1.2</td>
<td></td>
</tr>
<tr>
<td>Genesis Workforce Housing Fund II (4)(9)</td>
<td>2Q07 8.6 1.5</td>
<td></td>
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<tr>
<td>Hunt UK Realty Partners LP</td>
<td>1Q08 7.6 1.3</td>
<td></td>
</tr>
<tr>
<td>INVECSO Asian Real Estate Partners II (USD Vehicle) (9)</td>
<td>2Q14 10.5 1.2</td>
<td></td>
</tr>
<tr>
<td>Invesco Real Estate Asia Fund</td>
<td>3Q17 11.5 1.1</td>
<td></td>
</tr>
<tr>
<td>I.M.A.</td>
<td>3Q07 5.8 1.3</td>
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<tr>
<td>RREEF I.M.A.</td>
<td>2Q14 10.5 1.2</td>
<td></td>
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<tr>
<td>Vanbarton I.M.A.</td>
<td>3Q17 11.7 1.2</td>
<td></td>
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<tr>
<td>Total Separate Accounts</td>
<td>4Q09 8.5 1.1</td>
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</table>

### Total Portfolio

<table>
<thead>
<tr>
<th>Fund Description</th>
<th>Returns (%)</th>
<th>Market Value ($)</th>
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</thead>
<tbody>
<tr>
<td>LACERA</td>
<td>6.3%</td>
<td>6,331,575,966</td>
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<tr>
<td>LACERA Portfolio without LERI &amp; TriPacific</td>
<td>9.0%</td>
<td>6,331,553,638</td>
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### Indices

<table>
<thead>
<tr>
<th>Index Description</th>
<th>Returns (%)</th>
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<tbody>
<tr>
<td>Total Custom Benchmark</td>
<td>11.1</td>
</tr>
<tr>
<td>ODCE + 40 BPS</td>
<td>12.5</td>
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## Los Angeles County Employees Retirement Association Real Estate
### Fourth Quarter 2017

<table>
<thead>
<tr>
<th>Core Portfolio</th>
<th>Quarterly Cash Flow Activity ($)</th>
<th>Beginning Market Value</th>
<th>Contributions</th>
<th>Distributions</th>
<th>Withdrawals</th>
<th>Gross Income</th>
<th>Manager Fees</th>
<th>Appreciation</th>
<th>Ending Market Value</th>
<th>LTV (%)</th>
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</thead>
<tbody>
<tr>
<td>Barings Core I.M.A.</td>
<td>30,190</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>-40</td>
<td>0</td>
<td>0</td>
<td>30,150</td>
<td>0.0</td>
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<tr>
<td>Barings Debt I.M.A.</td>
<td>382,773,414</td>
<td>0</td>
<td>6,447,851</td>
<td>223,706,159</td>
<td>7,734,326</td>
<td>688,847</td>
<td>2,048,565</td>
<td>161,713,448</td>
<td>66.0</td>
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<tr>
<td>Capri Capital Core I.M.A.</td>
<td>312,856,157</td>
<td>435,982</td>
<td>2,760,250</td>
<td>0</td>
<td>2,734,069</td>
<td>399,651</td>
<td>-35,375</td>
<td>312,830,932</td>
<td>39.2</td>
<td></td>
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<tr>
<td>Cityview Core I.M.A.</td>
<td>143,220,953</td>
<td>170,878,357</td>
<td>0</td>
<td>0</td>
<td>999,230</td>
<td>180,199</td>
<td>2,649</td>
<td>314,920,990</td>
<td>46.0</td>
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<tr>
<td>Clarion Core I.M.A.</td>
<td>207,466,610</td>
<td>252,087</td>
<td>1,501,000</td>
<td>0</td>
<td>2,048,652</td>
<td>250,413</td>
<td>512,785</td>
<td>208,528,721</td>
<td>44.9</td>
<td></td>
</tr>
<tr>
<td>Gateway I.M.A. (Avison Young)</td>
<td>108,930,992</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>1,857,877</td>
<td>42,422</td>
<td>0</td>
<td>110,746,447</td>
<td>0.0</td>
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<tr>
<td>Heitman Core I.M.A.</td>
<td>290,981,267</td>
<td>173,352,418</td>
<td>3,654,000</td>
<td>0</td>
<td>5,065,195</td>
<td>632,125</td>
<td>-6,762,847</td>
<td>458,349,908</td>
<td>48.1</td>
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<tr>
<td>Invesco Core I.M.A.</td>
<td>615,878,157</td>
<td>89,277,764</td>
<td>5,248,000</td>
<td>0</td>
<td>6,691,078</td>
<td>678,654</td>
<td>7,326,882</td>
<td>713,247,226</td>
<td>36.9</td>
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<tr>
<td>Invesco Real Estate Asia Fund</td>
<td>128,904,845</td>
<td>1,577,097</td>
<td>962,167</td>
<td>0</td>
<td>1,096,328</td>
<td>220,634</td>
<td>3,434,304</td>
<td>133,829,772</td>
<td>34.2</td>
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<tr>
<td>Prologis European Logistics Fund (PELF)</td>
<td>140,449,602</td>
<td>0</td>
<td>1,725,459</td>
<td>0</td>
<td>2,682,737</td>
<td>1,565,492</td>
<td>6,858,133</td>
<td>146,699,521</td>
<td>22.8</td>
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<tr>
<td>Quadrant I.M.A.</td>
<td>26,389,949</td>
<td>31,533,082</td>
<td>881,632</td>
<td>0</td>
<td>699,132</td>
<td>45,164</td>
<td>182,500</td>
<td>57,877,867</td>
<td>0.0</td>
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<tr>
<td>I.M.A.*</td>
<td>870,553,879</td>
<td>7,766,086</td>
<td>83,916,922</td>
<td>0</td>
<td>10,723,796</td>
<td>920,823</td>
<td>-894,806</td>
<td>803,311,210</td>
<td>32.1</td>
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</tr>
<tr>
<td>I.M.A.</td>
<td>913,311,659</td>
<td>39,481,556</td>
<td>107,093,392</td>
<td>0</td>
<td>14,646,202</td>
<td>1,116,166</td>
<td>2,877,615</td>
<td>862,107,475</td>
<td>24.9</td>
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<tr>
<td>Core Portfolio</td>
<td>4,631,426,395</td>
<td>655,712,256</td>
<td>218,905,532</td>
<td>375,878,488</td>
<td>64,234,751</td>
<td>7,393,583</td>
<td>23,931,141</td>
<td>4,773,126,940</td>
<td>37.4</td>
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<td>Core Separate Accounts</td>
<td>4,233,611,632</td>
<td>513,685,557</td>
<td>214,916,047</td>
<td>235,428,887</td>
<td>59,001,930</td>
<td>5,505,646</td>
<td>7,085,279</td>
<td>4,357,533,819</td>
<td>38.3</td>
<td></td>
</tr>
</tbody>
</table>

## Value Added

| Barings Value I.M.A. Vintage 2003 | 211,955,199 | 748,900 | 0 | 0 | 4,809,291 | 235,469 | 882,073 | 218,159,994 | 0.0 |
| CapMan Nordic Real Estate Fund II | 347,492 | 69,972 | 0 | 0 | 0 | 72,358 | 339,137 | 684,244 | 90.3 |
| CBRE Asia Value Fund L.P. | 1,411,627 | 1,411,617 | 0 | -10 | 0 | 0 | 0 | 0 | 0.0 |
| CBRE Strategic Partners European Fund III | 430,710 | 0 | 0 | 0 | -8,271 | 509 | 6,851 | 428,782 | 0.0 |
| CBRE Strategic Partners UK Fund III | 151,935 | 0 | 0 | 152,286 | 455 | 0 | -105 | 0 | 0.0 |
| Cornerstone Hotel Income Equity Fund II | 245,809 | 0 | 0 | 0 | 18,798 | 0 | -43,950 | 220,657 | 0.0 |
| Heitman Value I.M.A. Vintage 2013 | 12,949,503 | 41,297 | 76,500 | 0 | 261,780 | 41,297 | 153,902 | 13,288,685 | 55.6 |
| Hunt UK Realty Partners LP | 1,914,470 | 0 | 0 | 0 | -6,020 | 0 | 44,157 | 1,952,607 | 63.4 |
| Invesco Value I.M.A. Vintage 2010 | 68,126,335 | 151,734 | 1,113,450 | 0 | 1,556,265 | 151,734 | -10,381 | 68,558,769 | 43.9 |
| Invesco Value I.M.A. Vintage 2017 | 0 | 0 | 104,797,096 | 0 | -182,586 | 77,972 | -691,393 | 103,845,145 | 0.0 |
| LaSalle Medical Office Fund II | 368 | 0 | 6,229 | 0 | 5,862 | 0 | 0 | 0 | 0.0 |
| Stockbridge Value I.M.A. Vintage 2014 | 36,095,056 | 53,098 | 0 | 0 | 550,913 | 53,098 | 0 | 36,645,969 | 0.0 |
| Vanbarton Value I.M.A. Vintage 2003 | -18,314 | 0 | 0 | 0 | -2,118 | 0 | 0 | -20,432 | 0.0 |
| Vanbarton Value I.M.A. Vintage 2006 | 160,499,593 | 295,813 | 0 | 0 | 1,668,058 | 288,127 | -157,456 | 162,017,881 | 0.0 |

## Value Added

| Core Portfolio | Value Added | 625,650,637 | 109,471,832 | 2,607,796 | 152,286 | 7,510,087 | 1,201,782 | 929,368 | 739,600,059 | 18.4 |
| Core Separate Accounts | Value Added Separate Accounts | 621,148,226 | 109,401,859 | 1,189,950 | 0 | 7,499,274 | 1,128,916 | 583,277 | 736,313,770 | 17.6 |
## Quarterly Cash Flow Activity ($)

<table>
<thead>
<tr>
<th>Manager</th>
<th>Beginning Market Value</th>
<th>Contributions</th>
<th>Distributions</th>
<th>Withdrawals</th>
<th>Gross Income</th>
<th>Manager Fees</th>
<th>Appreciation</th>
<th>Ending Market Value</th>
<th>LTV (%)</th>
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</thead>
<tbody>
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<td><strong>High Return</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Barings High I.M.A. Vintage 2007</td>
<td>8,013</td>
<td>8,000</td>
<td>0</td>
<td>0</td>
<td>-12,628</td>
<td>0</td>
<td>0</td>
<td>3,385</td>
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<tr>
<td>Capri Capital High I.M.A. Vintage 2006</td>
<td>55,423,911</td>
<td>168,182</td>
<td>0</td>
<td>0</td>
<td>-483,462</td>
<td>-302,821</td>
<td>0</td>
<td>55,411,452</td>
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<tr>
<td>Capri Urban Investors</td>
<td>45,519,339</td>
<td>0</td>
<td>0</td>
<td>710,490</td>
<td>91,511</td>
<td>224,807</td>
<td>44,942,145</td>
<td>12.4</td>
<td></td>
</tr>
<tr>
<td>Carlyle Europe Real Estate Partners III</td>
<td>2,902,511</td>
<td>64,319</td>
<td>229,217</td>
<td>247,031</td>
<td>-1,664</td>
<td>27,538</td>
<td>250,663</td>
<td>2,712,043</td>
<td>19.0</td>
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<tr>
<td>CityView Bay Area Fund II</td>
<td>187,453,957</td>
<td>662,636</td>
<td>127,465,855</td>
<td>0</td>
<td>-253,310</td>
<td>662,636</td>
<td>13,576,378</td>
<td>73,311,169</td>
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<tr>
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<td>4,909,633</td>
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<td>4,479,576</td>
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<td>15,339</td>
<td>140,135</td>
<td>535,446</td>
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<tr>
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<td>18,907,312</td>
<td>48.4</td>
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<tr>
<td>CityView Western Fund I, L.P.</td>
<td>19,268,560</td>
<td>468,750</td>
<td>0</td>
<td>710,490</td>
<td>91,511</td>
<td>224,807</td>
<td>44,942,145</td>
<td>12.4</td>
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</tr>
<tr>
<td>Clarion High I.M.A.</td>
<td>227,562,253</td>
<td>2,859,878</td>
<td>0</td>
<td>103,766,849</td>
<td>1,102,691</td>
<td>6,130,139</td>
<td>121,376,485</td>
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<tr>
<td>Europa Fund III</td>
<td>4,714,638</td>
<td>223,009</td>
<td>292,055</td>
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Los Angeles County Employees Retirement Association Real Estate

Fourth Quarter 2017
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<th>Apartment</th>
<th>Office</th>
<th>Industrial</th>
<th>Retail</th>
<th>Hotel</th>
<th>Other</th>
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**Property Type Diversification (%)**

- Apartment: 35.1%
- Office: 22.1%
- Industrial: 14.9%
- Retail: 16.6%
- Hotel: 4.0%
- Other: 7.4%

**Property Type Diversification (%)**

- Apartment: 35.1%
- Office: 22.0%
- Industrial: 14.9%
- Retail: 16.6%
- Hotel: 4.0%
- Other: 7.4%

**Legend:**
- LACERA
- ODCE
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| Barings Value I.M.A. Vintage 2003 | -       | -       | -                 | -                 | -         | -         | -       | -       | 100.0     | -     |
| CapMan Nordic Real Estate Fund II | -       | -       | -                 | -                 | -         | -         | -       | -       | 100.0     | -     |
| CBRE Asia Value Fund L.P.     | -         | -       | -                 | -                 | -         | -         | -       | -       | -         |       |
| CBRE Strategic Partners European Fund III | -     | -       | -                 | -                 | -         | -         | -       | -       | -         |       |
| CBRE Strategic Partners UK Fund III | -     | -       | -                 | -                 | -         | -         | -       | -       | -         |       |
| Cornerstone Hotel Income Equity Fund II | -   | -       | -                 | -                 | -         | -         | -       | -       | -         |       |
| Heitman Value I.M.A. Vintage 2013 | -       | -       | -                 | -                 | -         | -         | -       | -       | 100.0     | -     |
| Hunt UK Realty Partners LP    | -         | -       | -                 | -                 | -         | -         | -       | -       | -         | 100.0 |
| Invesco Value I.M.A. Vintage 2010 | -       | -       | -                 | -                 | -         | -         | -       | -       | -         | -     |
| Invesco Value I.M.A. Vintage 2012 | 100.0   | -       | -                 | -                 | -         | -         | -       | -       | -         | -     |
| Invesco Value I.M.A. Vintage 2017 | -       | -       | -                 | -                 | -         | -         | -       | -       | 100.0     | -     |
| LaSalle Medical Office Fund II | -         | -       | -                 | -                 | -         | -         | -       | -       | -         |       |
| Prologis Targeted Europe Logistics Fund | -     | -       | -                 | -                 | -         | -         | -       | -       | -         | 100.0 |
| RREEF Core I.M.A.             | 20.9      | 21.7    | -                 | -                 | -         | -         | -       | -       | 7.9       | 49.5  |
| RREEF Core Plus Industrial Fund L.P. | 13.4   | -       | 20.3              | -                 | -         | -         | -       | -       | 66.3      | -     |
| RREEF Core Plus Industrial Fund L.P. | 13.4   | -       | 20.3              | -                 | -         | -         | -       | -       | 66.3      | -     |
| Stockbridge Core I.M.A.       | -         | 9.0     | -                 | 14.9              | 13.3      | 19.6      | 43.2    | -       | -         |       |
| TA Associates Core I.M.A.     | 35.6      | 12.5    | 1.6               | 2.2               | 42.7      | 2.0       | -       | 3.3     | -         |       |
| Value Added                   | 21.9      | -       | 14.0              | 8.2               | 10.4      | -         | 45.3    | 0.3     | -         |       |
| Total Value Separate Accounts | 21.9      | -       | 14.0              | 8.2               | 10.4      | -         | 45.4    | -       | -         |       |</p>
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Geographic Diversification (%)

Los Angeles County Employees Retirement Association Real Estate
Fourth Quarter 2017
Disclosures:
Trade Secret and Confidential.

Past performance is not indicative of future results.

Investing involves risk, including the possible loss of principal.

Returns are presented on a time weighted basis and shown both gross and net of underlying third party fees and expenses and may include income, appreciation and/or other earnings. In addition, investment level Net IRR's and equity multiples are reported.

The Townsend Group, on behalf of its client base, collects quarterly limited partner/client level performance data based upon inputs from the underlying investment managers. Data collection is for purposes of calculating investment level performance as well as aggregating and reporting client level total portfolio performance. Quarterly limited partner/client level performance data is collected directly from the investment managers via a secure data collection site.

1In select instances where underlying investment managers have ceased reporting limited partner/client level performance data directly to The Townsend Group via a secure data collection site, The Townsend Group may choose to input performance data on behalf of its client based upon the investment managers quarterly capital account statements which are supplied to The Townsend Group and the client alike.

Benchmarks
The potential universe of available real asset benchmarks are infinite. Any one benchmark, or combination thereof, may be utilized on a gross or net of fees basis with or without basis point premiums attached. These benchmarks may also utilize a blended composition with varying weighting methodologies, including market weighted and static weighted approaches.
* Funded amount + unfunded commitments may not aggregate to commitment amount due to, but not limited to, one or more of the following reasons: (1) The reinvestment of distributions/withdrawals, (2) a redistribution of interest made between limited partners after the funds initial closing.

** The Internal Rate of Return (IRR) is the annualized implied discount rate (effective compounded rate) that equates the present value of all the appropriate cash inflows (Paid-in Capital, such as drawdowns for net investments) associated with an investment with the sum of the present value of all the appropriate cash outflows (such as Distributions) accruing from it and the present value of the unrealized residual fund (unliquidated holdings). For an interim cumulative return measurement, any IRR depends on the valuation of the residual assets. The IRR is affected by both the timing and amount of cash flows. The Xirr function in excel is used for calculation and liquidation of the whole portfolio is assumed at the end of the quarter.

*** Capital Returned is a sum of distributions and withdrawals. Distributions are further defined as any income or appreciation that is a return on capital. Withdrawals are return of capital.

1,2) The gross to net spread on a since inception basis is due to the statistical impact of two fully liquidated investments (Sarofim I and II, formerly TCEP). Without the inclusion of these funds, since inception returns for the Value Added portfolio are equal to 7.8% gross and 6.4% net, and for the Non-Core portfolio 7.6% gross and 4.8% net.

3) These funds were converted from their currency to USD by Townsend.

4) 'Broken' TWR – In a series of quarterly returns for an investment line item, a single quarter of significant volatility and/or temporary negative market value will 'break' the time weighted calculation and period returns (including since inception) may not accurately reflect performance of the investment line item. Line item data continues to be reflected in the sub-portfolio and portfolio totals, however for the individual line item, the internal rate of return ("IRR") becomes a more appropriate data point for evaluation.

5) Aggregate level returns are distorted by the previous negative market values of specific investments (TriPacific (LERI/LERP)).

6) In 3Q2013, the method to calculate TriPacific (LERI/LERP)'s Market Value was adjusted to reflect the full recourse debt amount.

7) Cornerstone High IMA is a fully liquidated fund. Cash and the transfer of a single property from the Cornerstone Value IMA (Alric) is what makes up the Fund’s residual market value.


9) Fully liquidated funds/separate accounts left with limited cash positions. Short term time-weighted returns are no longer displayed because they are not meaningful.

10) Partial periods are excluded from since inception return calculations at the investment level, but are included in the calculations of composites and the total portfolio level.

11) This separate account currently only has one asset, which is a new development project. Returns are not displayed as they are not yet meaningful.

12) New Funds early in their investment period may only call capital for management fees, creating negative returns. Short term time-weighted returns are not longer displayed because they are not meaningful.
ATTACHMENT C. Due Diligence Memorandum – Aermont Capital Real Estate Fund IV
RECOMMENDATION OF
AERMONT CAPITAL REAL ESTATE FUND IV SCSp

A Pan-European Opportunistic Fund

Date: April 2018

THE TOWNSEND GROUP
1660 W. Second Street
Suite 450
Cleveland, Ohio 44113
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**Exhibit D: Organizational Chart**
**Exhibit E: Biographies**
**Exhibit F: Fund Structure**
**Exhibit G: Detailed Track Record**
EXECUTIVE SUMMARY

OVERVIEW

Aermont Capital LLP (“Aermont”, the “Manager”, or the “Firm”) is sponsoring Aermont Capital Real Estate Fund IV SCSp (“Fund IV” or the “Fund”), its first fund since rebranding from PW Real Assets to Aermont and its second fund as an independent manager after spinning out of Perella Weinberg Partners Group (“PWP Group”). The Fund is a continuation of the investment strategy of Perella Weinberg Real Estate Fund I (“Fund I”), Perella Weinberg Real Estate Fund II (“Fund II”), PW Real Estate Fund III (“Fund III”), and has substantially similar terms to Fund III. The Fund will invest in direct assets, corporates/platforms and credit situations. Investments will typically feature prime assets or projects in some of Western Europe’s most prominent cities, or leading operating platforms in compelling sectors. The €1.6 billion Fund is targeting a 20% gross IRR/2.0x EM (15% net IRR/1.7x net EM) over an eight year term from the Final Close. Historic use of leverage has averaged 50-62% LTC across the fund series to date with similar leverage utilization expected for Fund IV but in any event subject to the Fund level leverage cap of 70%.

Aermont is now an independent, privately held real estate manager that was originally established in 2007 as part of PWP Group. Since inception the Firm has sponsored three pan-European opportunistic funds. The investment team is comprised of 21 professionals with a collective expertise across a variety of categories, including principal investment, corporate real estate and asset operations, finance, tax, and law. The investment team is led by the Firm’s five Partners, four of whom have been working together since around the inception of Fund I.

The Fund is expected to capitalize on the investment proficiency, operational expertise, and relationships of the investment team to access and invest in situations where value add activities, operational leverage, and/or value arbitrage initiatives may be implemented to generate attractive returns. Funds I, II and III feature direct-asset, corporate, and credit situations with an emphasis on prime assets or projects, top locations in core countries, and proactive business plans.

Funds I, II and III had total aggregate commitments of approximately €1.2 billion, €1.3 billion and €1.5 billion respectively. Each is operated under essentially the same mandate as the Fund. Performance to date has been strong across all three funds which are all ranked first quartile against same vintage European non-core peers on a FMV net IRR basis.

The Fund is targeting a slightly larger size (€1.6 billion) than Fund III (€1.5 billion) and has its hard cap set at €2.0 billion. The First Close is expected late July 2018 by which time Fund III is expected to have made one or two more investments and be fully committed. Aermont is now in active discussions with prior LPs and is expecting most to commit to Fund IV and has indicated firm interest for the Fund of ±€1.6 billion thereby leaving perhaps ±€400 million of capacity within the hard cap currently unaccounted for. The Manager is offering First Close fee breaks which are discussed in greater detail below. Aermont’s five Partners are investing €20 million in the Fund and in addition other Aermont team members may also invest.
COMPARATIVE ADVANTAGES

1. Track Record

Funds I, II and III had total aggregate commitments of approximately €1.2 billion, €1.3 billion and €1.5 billion respectively. Each is operated under essentially the same mandate as the Fund. Performance to date has been strong across all three funds which are all ranked first quartile against same vintage European non-core peers on a net IRR FMV basis. Across the three funds, no deal has lost money.

Dispersion analysis reveals that most deal level returns are clustered around the 17-30% gross IRR level and 1.5-3.0x gross equity multiple with a greater number of higher returning outliers than lower returning outliers (and zero capital losses).

- Fund I was raised in 2007, but was predominantly invested in the second half of 2010 and in 2011. Fund I is now fully realized and generated a 22% gross IRR and 1.8x gross equity multiple (15.2% net IRR and 1.5x net equity multiple). Fund I has generated strong returns with a moderate risk profile, with a performance supported by low levels of country risk, high-quality assets, and moderate leverage. All investments were made in core European countries, with roughly half of the portfolio in Germany, Europe’s strongest macroeconomic environment, and no exposure to peripheral countries such as Ireland or Greece.

- Fund II was raised in 2012 and shows strong performance on a FMV basis of 20% net IRR and 1.5x net equity multiple. Projected life-of-fund performance is similarly strong at 24% gross IRR / 2.2x gross equity multiple (18.0% net IRR / 1.9x net equity multiple), however, Fund II is currently only 20% realized. Fund II’s projected performance is supported by moderate levels of country risk and real estate characterized by high-quality assets and projects at prominent locations almost entirely in core European cities.

- Fund III was raised in 2015 and is currently c.84% invested/committed and showing a strong net 46.7% IRR / 1.5x multiple on a FMV basis. Projected life-of-fund performance is also strong at 23% gross IRR / 2.0x gross equity multiple (18% net IRR / 1.7x net equity multiple) however, Fund III is currently only 14% realized. Fund III’s projected performance is supported by investments in prominent positions within cities and/or sectors, resilient cashflows high barriers to entry.

2. Independent, Experienced and Aligned Platform

Aermont is aligned for several reasons: (i) the Firm is now privately owned/controlled by the Partners opposed to a larger platform; (ii) the entirety of Aermont’s revenue/profit comes from this opportunistic fund series; (iii) carried interest is allocated broadly amongst the team and is subject to a vesting schedule; (iv) the partners are committing €20 million to the Fund; and; (v) Aermont is targeting a slightly larger fund size than Fund III but is not aggressively seeking to ramp up AUM which demonstrates that the Manager is focused on raising the amount of capital it feels comfortable allocating rather than raising the largest fund possible to drive fee revenue which could put pressure on deal quality and resourcing.

Léon Bressler is the Managing Partner of Aermont, a position he has held since establishment of the Firm. Previously, Mr. Bressler served as Chairman and CEO of Unibail Rodamco, one of Europe’s leading property companies. During his 14 year tenure, Mr. Bressler employed an opportunistic strategy, which resulted in Unibail’s stock outperforming the EPRA Eurozone Index by 750 basis points on an annualized basis (20.7% versus 14.2%) utilizing modest amounts of leverage ranging between 25-50%.
The investment team has a broad cross section of experience including principal investment, asset management, law, investment banking, equity capital markets, real estate securities, debt capital markets, and accounting. The investment team also includes professionals with direct experience in asset and corporate repositioning, including transformations of use, operational overhauls, complex capital upgrade programs, strategic marketing, and tenancy optimization, among other elements. Sourcing is facilitated by the team’s market knowledge and relationship networks.

3. Compelling Strategy

There are few private equity real estate fund managers in Europe who have the in-house skills to be able to source, underwrite, and manage investments effectively across both the equity and credit markets and to execute operating company and platform deals successfully. Both Funds I and II have made investments in direct assets and projects, operating companies and platforms and credit, and Fund III has invested similarly to date apart from no credit deals thus far.

With improving sentiment in the Euro zone, the region is experiencing an increase in investor demand and capital flows. As the capital markets continue to fully price real estate, a manager needs to be able to drive NOI in order to reach its return targets. Aermont focuses on and has the necessary tools to do this. The Fund’s investment strategy focuses on value creation with an emphasis on operational leverage and value add activity as well as situations where attractive real estate can be accessed at discounts to intrinsic asset value. The investment team’s operational and direct real estate expertise will be fundamental to identifying and executing such opportunities.

Aermont is focused on downside and liquidity risk and therefore invests in high quality properties at top locations which will be desirable to large European institutions and international investors post-repositioning and are less likely to be effected by a downturn. The Manager has acquired a diverse portfolio of investments in prior funds, with significant exposure to France and Germany, as well as large operating companies and platforms spanning German shopping centres, multiplex cinemas, student accommodation, and production studios.

4. Potential Portfolio Complement

A commitment to this Fund/strategy potentially allows an investor to participate in entity investing, which may be additive to an otherwise predominantly hard asset portfolio. Platform and operating company performance and value drivers do not correlate perfectly with underlying property values and thereby introduce additional access and exit opportunities for underlying property holdings, as well as additional value creation and income growth potential at the entity level.

5. Competitive Landscape

The competitive landscape is more limited for Aermont’s target investments due to:

- The sheer size of Aermont’s investments leaves the competitive set to other large investors. Aermont can then benefit from its skill set which is different from that of other large investors in Europe.
- Aermont specializes in complex situations where many investors are not able to operate.
- A portion of the Manager’s investment strategy is targeting corporate/strategic platforms that control underlying properties which limits competition somewhat and can lead to better acquisition pricing relative to competitive bid situations on individual properties.
POTENTIAL ISSUES AND CONCERNS

1. Key Person Risk & Succession Planning

Léon Bressler, who is 70 years old, is a highly experienced and respected professional within the European investment and finance community, however, the broader team is generally less seasoned with an average 12 years experience and 5 years with the Firm. This represents considerable key man risk should Mr. Bressler not be able to devote a significant amount of time to the investment and management of the Fund as he is the driving force of the organization especially with regards to investment experience/expertise across Europe and relationship networks/sourcing. To note, the Key Person provisions for Fund IV have been altered to remove the single person trigger for departure of Mr. Bressler leaving only a majority of Key Persons (who are the five Partners) trigger. In effect this means that Mr. Bressler plus one other Partner could depart without triggering the Key Person provisions.

Discussion:

- Mr. Bressler has given consideration to succession planning, but it remains a risk for Aermont which has thrived under his leadership. However, Aermont is now an independent manager with five Partners. This helps with succession planning as other senior members are now fully vested in the Firm via ownership and directly benefit from staying.

- In response to Townsend raising the potential key person and succession planning issues Aermont has highlighted that:
  - the Key Persons are the five Partners, who have been working together for over ten years on average
  - they share collective responsibility for the investment successes achieved to date under Funds I, II and III and across all key elements of Aermont’s overall business, with major personal contributions made by each
  - each Partner will be highly committed to Fund IV personally and professionally, partly reflected in significant personal investments made by each out of his / her own cash resources
  - the Partners are further supported by a deep bench of senior investment team professionals and junior professionals, and a strong investment culture of discipline, creativity and operational expertise that they have developed together over the years.

- In the context of the above points, Aermont maintains that the proposed Key Person provisions are appropriate at this time, as opposed to a more concentrated clause that it believes would create certain risks to investors and to Aermont.

2. Vintage Year Risk / Return Profile

European real estate asset pricing according to multiple research sources present relatively less favorable investment conditions than several years ago. This can be a common situation within the progression of a cycle. Generally speaking, risks are higher later in cycles for long-only leveraged asset classes. In the event of a significant market downturn, opportunistic strategies with exposure to high levels of leverage, cross-collateralized debt, mezzanine/subordinated debt, development, illiquid assets or markets and transitional/heavy-lift type assets could be particularly exposed. While Aermont has historically focused on high quality assets, platforms and/or locations in often non-traditional real estate sectors, the Fund IV investment guidelines permit relatively wide
investment discretion. The current market is also arguably less conducive to achieving the Fund’s 20% gross IRR target given current pricing and competition for assets and over the past 12-24 months Townsend has generally been more favorably inclined towards European non-core strategies which have lower risk/return profiles, greater protections against excessive risk taking (such as leverage and concentration) and lower gross-to-net IRR slippage than the Fund. At lower gross IRR’s the impact of fees represents an increasing percentage of total returns which could potentially result in relatively modest net IRRs to LPs in Fund IV relative to the risks assumed.

**Discussion:** Aermont has significant market experience over a 10 year period including disciplined navigation and capital deployment during the post-Lehman period for Fund I. Funds I, II and III are all currently ranked as first quartile performers on a FMV basis relative to same vintage non-core European peers. The current market environment while appearing late-cycle does not exhibit the same degree of over exuberance and excessive leverage observed in the lead-up to the GFC. Furthermore, the macro economic outlook for the Euro zone is generally stable and improving and geo-political risk across the EU seem to have been easing since mid-2017 (with the notable exception of the UK vis-à-vis Brexit). Aermont has demonstrated a relatively active approach to management of certain risks including currency and interest rate risk and an ability to drive income growth and operational improvements in many cases. If there is a significant market correction or downturn during Fund IV’s investment period this may also provide an opportunity for the Fund to acquire assets on attractive terms subject to availability of ‘dry powder’ at that time.

3. Concentration Risk

Fund I made ten investments with two investments representing greater than 20% of capital with the largest position representing 29% of capital. Fund II made eleven investments with the largest investment representing 20% of the capital and the next three largest representing 18%, 16% and 14% respectively. Fund III has made nine investments to date with the largest two investments representing 22% and 17% of total fund equity commitments respectively.

There is a risk that single investment concentrated positions may result in underperformance of the Fund if a single investment in the portfolio does not meet its underwritten objectives.

**Discussion:** In the case of the largest Fund I investment, mfi, Aermont received Limited Partner Advisory Committee (“LPAC”) approval to complete the investment as it required more than 25% of commitments (Fund IV has same threshold). Mfi was Germany’s second largest shopping center manager and developer. Aermont was comfortable with the size of the investment because mfi owned in excess of 30 shopping centers across Germany reducing concentration risk of any single asset within the investment.

While Fund II is still a heavily concentrated fund, it is more diversified than Fund I. Fund II’s largest exposure is to The Student Hotel (TSH) which is performing very strongly with...
investments of a higher quality where there is less competition. Also, Aermont has historically demonstrated strong investment discipline, holding off from investing pre-Lehman for Fund I and remaining focused on downside risk mitigation throughout the deployment of Fund II and Fund III.

4. Turnover

Seven professionals have left Aermont in the last five years including one Partner, four Principals, a CFO and an Associate. This is significant turnover for a 21 person team and may signal instability for a relatively young firm.

Discussion: Mr. Bressler created the investment team from scratch in 2007, so the potential for friction between senior members and turnover to result is not improbable. Much of the turnover occurred between 2013 and 2015 which coincided with the Fund II investment period. For Fund III, more of the carried interest goes to Aermont than prior funds. For Fund IV, 100% of the carried interest goes to the Partners and broadly distributed throughout the investment team. The Manager expects to use a vesting schedule for Fund IV materially similar to Fund III, i.e. a six year vesting schedule, to help retention.

STRATEGY

SUMMARY

The Fund is a private investment vehicle being established to invest in real estate and real estate related opportunities in Europe. The Fund will seek to invest in situations where it can take advantage of Aermont’s investment proficiency, operational expertise and relationships to generate the target returns. The Fund is the successor to Funds I, II and III, which were established in 2007, 2012 and 2015, and capitalized with aggregate commitments of €4 billion (€1.2 billion, €1.3 billion and €1.5 billion, respectively). They are operated under essentially the same mandate as the Fund.

The outline below summarizes the Manager’s investment themes:

- Focused strategies for properties and businesses, often linked to structural themes.
- Investments are made under direct asset, corporate and credit situations.
- Investments typically feature prime assets or projects in prominent European cities, or leading operating platforms in compelling sectors.
- Business plans tend to be proactive, emphasizing major value-creation initiatives, operational leverage and/or value arbitrage.
- Aermont generally seeks to avoid reliance on external factors or financial engineering as primary performance drives.
- The Fund will utilize leverage to enhance returns but has historically used relatively modest leverage of 50-62% average LTC across the prior funds.

The Fund is expected to focus on the following investment types:

- Direct asset
  - Single real estate assets
  - Real estate asset portfolios
  - Redevelopment and development projects
  - “Urban evolution”
  - Corporate and government disposals
- Corporate
  - Operating platforms
• Strategic growth
• Underperforming
• Public
• Non-traditional

• Real estate credit
  o Stressed credit
  o Distressed credit
  o Recapitalization/restructuring
  o Mezzanine lending

Other key elements of the investment strategy include:

• Market Environment
  o Aermont has a generally favorably outlook on the current European macro environment and European real estate market environment but is cognizant of certain risks that remain despite the positive momentum such as Brexit, the dispute over Catalan independence, recent Italian elections favoring ant-establishment parties and structural challenges.
  o Aermont expects that the current market environment will provide opportunities for the Fund to capitalize on the investment team’s expertise, experience and proactive approach favoring major value-creation initiatives, operation leverage and/or value arbitrage, rather than relying on external factors or macro bets as primary performance drivers.

• Deployment Sizing & Pacing
  o The Fund intends to pursue large, complex investments, which are often expected to provide a greater degree of value creation opportunity consistent with the Fund’s themes of implementing business plans with major value-creative, operational leverage and/or value arbitrage initiatives with an emphasis on prime assets or projects in top locations, and leading businesses, in core countries.
  o Typical hold periods for the Fund are expected to be three to six years, consistent with the time required to execute major operational and capital intensive value-creation business plans.
  o The Fund will be operated under essentially the same mandate, strategy and objective as Funds I, II and III, and is expected to make around 15 investments (or three to five per year) with typical required Fund equity per deal of €50-250 million.

• Diversification
  o Aermont considers diversification to represent a key component of a prudent, disciplined investment process supporting a balanced risk profile. Diversification, whether reflected in overall concentration levels or in weightings to risk profiles for different exposures, is considered from various angles, including investment size, national and regional geography, situational (e.g. direct asset, corporate, credit), sector, stabilized vs. development / redevelopment, structural, business plan themes, expected liquidity timing, etc.

Further information regarding the market environment and key investment themes of the Fund are outlined in Exhibit A. An extract of Aermont’s generic fund model is also provided in Exhibit B.
LEVERAGE

- Fund level leverage is capped at 70% of the greater of (i) the FMV and (ii) the aggregate acquisition and project costs at the end of the Investment Period. There is no deal level leverage cap.
- While Aermont does not have a fund leverage target, it expects fund level leverage to be 50-60% which is in line with Funds I, II and III leverage.
  - Fund I: the average maximum LTC across the portfolio was c.50%
  - Fund II: the average maximum LTC across the portfolio is projected to be 62% and the average LTV as of year-end 2017 was 40%.
  - Fund III: the average maximum LTC across the portfolio is projected to be 55%. The average LTV as of year-end 2017 was 41%.
- The Fund is permitted to incur third-party indebtedness in connection with its investments and related activities through the use of secured or unsecured borrowings as deemed appropriate by the Manager in order to help achieve the investment objective.
- Cross-collateralization between Portfolio Companies is not permitted unless otherwise approved by the Limited Partner Advisory Committee ("LPAC").
- No cross-collateralization with other investments has been made by Funds I, II or III.
- No recourse debt has been entered into by Funds I, II or III.
- The Fund intends to utilize subscription facility financing primarily as a cash management tool. Subscription credit facility usage is not considered as a component of the leveraging strategy and it is intended to be the only debt with recourse to the Fund.

HEDGING

- Currency: The Fund is Euro denominated and the majority of investments are expected to be in either EUR or GBP. The Fund has the ability but not the obligation to hedge currency risk.
  - Aermont has demonstrated a more active approach to currency hedging than typically observed by Townsend amongst European opportunistic funds.
  - Example: Fund II's investments in One Poultry and 33 Grosvenor Place were made in GBP. They were the only non-Euro denominated investments made by Fund II. On March 31, 2015 Fund II entered into a foreign exchange hedging transaction to cover the exposure to the value of pound sterling versus the Euro, for a notional amount equivalent to (i) the equity invested to date under both investments, plus (ii) 50% of the estimated equity profit under our base case projections. The exchange rate referenced in the hedge was 1.3717 (GBP/EUR), compared to a weighted average 1.23 used for the invested equity, thereby representing a gain of approximately 11% (across both investments). The investment in 33 Grosvenor Place was realized prior to the UK's Brexit referendum in 2016. However, the investment in One Poultry was not yet realized. The currency hedge for One Poultry had been maintained in place so that Fund II was protected when the value of GBP deteriorated substantially versus the Euro after the Brexit referendum.
- Rates: The Fund may utilize both fixed and floating rate debt. If floating rate debt is used, appropriate interest rate protection measures will be considered (including caps, swaps, etc.).

INVESTMENT RESTRICTIONS

- No investments that are not European Investments
• Maximum of 25% of commitments to development projects and/or unentitled land of which a maximum of 12.5% of commitments can be in unentitled land
• No investment in a Non-Real Estate Investment

PRE-SPECIFIED ASSETS / PIPELINE

• The Fund has no pre-specified assets.
• The current pipeline is included in Exhibit C.

SPONSOR

BACKGROUND

Aermont is an independent real estate asset management business with an operator-oriented approach and current AUM of €3.3 billion (gross) as at year end 2017. Aermont was originally established by Léon Bressler as Managing Partner in 2007 with the original name Perella Weinberg Real Estate UK LLP as a joint-venture with Perella Weinberg Partners Group LP (“PWP Group”). PWP Group was founded by Joseph Perella, Peter Weinberg, and Terry Meguid, and continues to operate
as an independent financial services firm that provides asset management and corporate advisory services.

Aermont became formally independent in July 2015 under an agreement to restructure PWP Group’s interests in several entities and PWP Group no longer has any interest in Aermont. PWP Group retains an interest in the GPs of Funds I and II and is entitled to up to one-third of the carried interest of Fund III. PWP Group has no interest in other Aermont entities and will not receive any financial participation related to Fund IV.

Aermont has operated under an integrated format since inception, with dedicated professionals for all investment activities, as well as management, legal, tax, finance, investor relations and reporting functions. Its activities were exclusively related to Funds I, II and III, with no participation in other activities of PWP Group and no changes to its personnel resulted from Aermont’s independence.

Aermont is fully independent and controlled by the management team and is wholly owned by the Partners (Léon Bressler, Paul Golding, Vincent Rouget, Nathan Shike and Alison Trewartha). The Partners have been working together for an average of over ten years, with four of the five joining around the inception of the business (Paul Golding joined in 2010). The beneficial ownership and control (and all associated economics) of the relevant management and advisory entities for the Fund rests with the five Partners.

The Manager and the Advisor are controlled by Léon Bressler (Managing Partner). The other Partners (Paul Golding, Vincent Rouget, Nathan Shike and Alison Trewartha) hold non-voting economic interests in the Manager and the Advisor. The five Partners are also the Key Persons of the Fund. Any Carried Interest generated by the Fund will be 100% allocated to employees and Partners of the Advisor and the Manager.

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**ORGANIZATION**

Aermont solely manages funds focused on Europe and at this stage there is no consideration for the launch of similar funds in other international markets and no current plans for the launch of core or core-plus funds.

- Aermont has a total staff of 31 including 21 investment professionals.
- Aermont currently has offices in London, Madrid and Luxembourg and is considering opening an office in Paris, where a limited number of existing and potentially future team members may be located.
- All members of the investment team are based in London with the exception of one professional and the Chief Financial Officer in Luxembourg and one professional in Madrid.
  - The organizational chart is shown in Exhibit D.
  - Investment team biographies are provided as Exhibit E.
- The below table summarizes the senior team members and members of IC:

<table>
<thead>
<tr>
<th>Name</th>
<th>Role</th>
<th>Years in Industry</th>
<th>Years at Aermont</th>
</tr>
</thead>
<tbody>
<tr>
<td>Léon Bressler*</td>
<td>Managing Partner</td>
<td>44</td>
<td>11</td>
</tr>
<tr>
<td>Paul Golding*</td>
<td>Partner - Investments (UK &amp; Nordics)</td>
<td>32</td>
<td>8</td>
</tr>
</tbody>
</table>

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The Manager has grown substantially over the last 10 years and expects to hire two to four additional investment team members over the medium term but no substantial changes to its overall personnel structure are currently envisaged. Additional hiring is to support the general growth of Aermont and its activities, including the natural evolution of certain existing investment team members.

Aermont typically recruits more junior people and trains them up with a view to long term retention in the business.

Over the past five years, eleven professionals have joined.

Regarding compensation and retention, Aermont aims to be highly competitive in the market and pays a fixed base salary, discretionary year-end bonus and gives allocations of carried interest for each team member from the junior associate level and up (calculated on a full-pooling basis, as is the case for the Funds themselves).

Carried interest allocations are subject to a vesting schedule that defers portions of each professionals’ carried interest allocation to encourage long-term retention.

The vesting schedule for Fund IV is still being finalised, however it is expected to be materially similar schedule to Fund III. Customary good leaver / bad leaver provisions also apply.

Aermont will also establish a reserve pool of unallocated amounts and it is intended that reserve pool amounts will be allocated (i) around or after the end of the Fund’s investment period to reward existing members of the investment team for exceptional performance, or (ii) to new members of the investment team who may be recruited in the future.
In addition to financial compensation, Aermont also seeks to constantly contribute to the development of each professional by providing guidance and feedback, appropriate escalations of personal responsibility, suitable promotions and other manners of personal professional development.

INVESTMENT PROCESS

OVERVIEW

The following section outlines the primary features of the investment process. Aermont’s investment process has been established in a manner intended to maximize LP returns while safeguarding their interests through the implementation of a sound investment process intended to reflect strong governance, risk management and best-practice reporting, as well as prioritizing certain ESG practices.

The main elements of the investment process can be summarized as follows:

1. Origination/Sourcing
   - Principals are divided into regional specialists though there is flexibility to work across regions. Aermont relies on relationships the principals have built to source investments.

2. Financial Underwriting

3. Due Diligence
   - Due diligence is conducted in-house and reviewed by IC. Aermont employs a variety of third-party services including legal, technical (engineering and environmental), and tax.

4. Structuring and Financing

5. Manager Approval

6. Investment, Project and Asset Management

7. Portfolio and Risk Management

8. Accounting and Reporting

9. Realization/Dispositions
   - The investment team is responsible for dispositions, which usually occur when the business plan is completed. However, investments may be realized before final execution of the business plan if targeted returns can be realized early.

INVESTMENT COMMITTEE

- The Investment Committee (“IC”) is responsible for approving recommendations before they are made to the Manager, as well as for assessing other investment activities undertaken by the Investment Advisors.
- The Advisor is responsible for making recommendations to the Manager regarding the acquisition, structuring, financing and disposal of the Fund’s investments, as well as for coordinating all other actions related to the Fund’s investments (including deal execution support).
- The IC is presently comprised of the five Partners, being Léon Bressler, Paul Golding, Vincent Rouget, Nathan Shike and Alison Trewartha.
- The IC typically convenes on a weekly basis to discuss potential acquisitions, asset performance, and strategy.
- The IC typically operates under a consensus driven approach.
ASSET MANAGEMENT

- Aermont uses cradle to grave asset management meaning the principal that acquired the asset also manages it. They are supported by in-house legal, tax, and financial support.
- Quarterly asset management update reports will be prepared and presented to the Manager at quarterly asset management meetings. The quarterly reviews focus on key areas including budgets, short term priorities, and underwriting changes.
- Aermont will supervise third party property managers and/or other servicers that are engaged for the basic day-to-day management of the assets and for the implementation of business plans.
- For investments which are managed by partners or in place management teams, the deal team will oversee these third parties to ensure the business plan is being properly executed and will also make key decisions when necessary.
- Aermont will monitor the compensation of third parties to ensure incentives that foster performance which may include equity participation and/or promote. It has not promoted a partner to date.

JV & OPERATING PARTNERS

- Aermont does not expect to use joint venture partners for most investments that will be made by Fund IV. Accordingly, Aermont expects any JV / operating partner promote leakage to be limited and, in any event, less than that which would arise under a model more reliant on JV / operating partners.
- Investments made by Funds I, II and III have typically been originated, executed and managed by the Investment Team, without relying on operating partners for strategic decision-making or execution work. However, in several instances Aermont has acquired or established platforms to execute certain strategies and projects. While this approach does bring additional costs, Aermont maintains that these arrangements have generally exhibited greater control and considerably less costs than had Aermont worked with external operators / JV partners.

AFFILIATE TRANSACTIONS

- Aermont does not intend that the Fund will do business with any of Aermont’s affiliates, other than the General Partner, the Manager and the Advisor. Historically none of the prior three funds have paid any fees to affiliate businesses.
- Amongst other items, the LPAC is authorized to approve or reject transactions or other business arrangements that would result in a conflict of interest between the Fund and the General Partner, the Manager, the Investment Advisors or their Associates or any of their respective Related Persons, Fund I, Fund II or Fund III.
LIMITED PARTNER ADVISORY COMMITTEE ("LPAC")

• The LPAC will review and approve/disapprove proposals involving conflicts of interest, investment limit waivers, extension of the term of the Fund, and material amendments to the management agreement as well as provide guidance on other issues brought to it by the Manager.
• The Manager will select the LPAC at its discretion from the LPs that commit €50 million or more.
• All LPAC decisions will be decided by majority of votes cast.

EXCLUSIVITY & ALLOCATIONS

• The Fund will be Aermont’s exclusive vehicle for all investment opportunities consistent with the investment objective and investment criteria.
  o Aermont may not act as the manager of a new fund with similar investment objectives until the earlier of: (i) the end of Fund IV’s Full Investment Date; (ii) once 90% of Total Commitments have been invested, committed to invest (as evidenced by a letter of intent or similar) or paid or reserved for expenses and at least 75% of the Fund’s commitments have been invested, or committed for investment pursuant to a binding written agreement.

VALUATIONS

• Valuations of investments will be updated at least a quarterly internally and at least annually by external third-party independent valuers (provided that the first valuation will be produced as of the balance sheet date of the Fund’s first audited full-year financial statements).
• Valuations will typically only be updated internally to reflect changes in net cash positions, customary (mainly accounting related) balance sheet adjustments, new equity injections or distributions, or a limited range of certain major physical, operational or market events.
• The Manager will be responsible for the valuation function in accordance with Article 19 of the AIFM Directive.
• The LPAC is authorized to approve or reject the initial appointment of, reappointment of (every three years from the date of the initial appointment), or change in, the identity of an independent valuer.
• For investments in direct real estate assets (or for the underlying real estate assets within investments in corporate or credit situations), specific valuation methodology may vary, but will always be stated on the basis of 'fair value'.
The methodology may further incorporate (including in respect of certain hard-to-value assets): (i) discounted cashflow estimates; (ii) market quotes for publicly traded real estate securities; (iii) recent historical sales of comparable properties; (iv) contractual sales value of properties subject to a bona fide purchase contract; (v) the deduction of disposal costs and taxes; and (vi) historical cost valuation for properties under construction.

There have been certain structural changes to the Valuations Policy due to Fund IV being structured as a Luxembourg special limited partnership managed by an EU AIFM whereas Funds II and III were Jersey Limited Partnerships managed by a non-EU AIFM. However, overall the process is materially the same.

Audited financial statements for the Fund will be prepared annually by Ernst & Young.

Aermont is not using a placement agent for the Fund.

FUND STRUCTURE

The Fund is structured as a Luxembourg special limited partnership (société en commandite spéciale). The Manager may establish one or more partnerships, vehicles or feeder entities established to meet requirements of particular LPs. The Fund has not yet made any investments yet, however, the Fund will work closely with its tax advisors when structuring investments and considers the impact of withholding taxes, among other relevant considerations. The Fund structure is illustrated in Exhibit D.

- General Partner: Aermont Capital Real Estate Fund IV GP S. à r.l
- Investment Manager: Aermont Capital Management S. à r.l
  - The Manager is authorized and regulated by the Luxembourg supervisory authority of the financial sector, the CSSF, and authorized to act as an AIFM under the AIFM Directive.
- Investment Advisor: Aermont Capital LLP

KEY TERMS

| Target Return: | 20% gross IRR, c.15% net IRR |
| Fund Size: | €1.6B target (€2.0B hard cap) |
| Sponsor Commitment: | At least €20 million in aggregate by the Key Persons (Léon Bressler, Vincent Rouget, Paul Golding, Nathan Shike and Alison Trewartha) which equates to 1.0% assuming the Fund hits its €2B hard cap. |
| Investment Period: | 4 years from the First Close. Reinvestment permitted during the investment period if investment is realized |

Using Townsend’s fee model and the given fee structure and term, the gross-to-net IRR spread shown is accurate using like-for-like commitment size, fee breaks, deployment and hold period assumptions.

Target size is larger than Fund III which was €1.25B (with a €1.5B hard cap).

Actual Aermont team commitment may be higher if other Aermont staff elect to invest in addition to the Key Persons. Given all capital comes from the partners/owners and from personal sources, this is meaningful.

Reasonable but slightly longer than Fund III. (Fund III was 3 years from Final Close plus time between First and Final
### Fund Term:
- 8 years from the Final Close, subject to two 1-year extensions
- First extension is at GP discretion
- Second extension is at GP discretion following (i) consultation with LPAC where the Fund is <25% unrealized, or (ii) consent of the LPAC where the Fund is >25% unrealized (based on cost/commitments).

Reasonable.

### Key Person Provision:
Triggered if, during the Investment Period, a majority of the five Key Persons (who are also the five Partners of the Firm and the five members of the Investment Committee) cease to devote substantially all of their time and attention to the Fund and related activities.

Considered weaker than Fund III which also had an additional trigger in the event of Leon Bressler alone departing. Townsend recommends prospective investors consider seeking to strengthen the Key Person provisions given the significant ownership and leadership role Mr Bressler continues to hold in the Firm.

### No-Fault Provisions:
GP/Manager removal requires 50% of LP capital.
Reasonable.

### FEES AND DISTRIBUTIONS

<table>
<thead>
<tr>
<th>Organizational Expenses:</th>
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<thead>
<tr>
<th>First Closer Fee Breaks</th>
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<tr>
<td>9% preferred return and return of capital</td>
<td></td>
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<tr>
<td>50 LP / 50 GP catch-up; 80 LP / 20 GP split thereafter</td>
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<tr>
<td>Fully-pooled waterfall</td>
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<tr>
<td>Reasonable.</td>
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<th>Incentive Fees / Waterfall Distribution:</th>
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Reasonable.
PERFORMANCE
SUMMARY (4Q17)

Over ten years, Funds I, II and III have made 30 investments representing €3.6 billion of equity, of which investments representing €1.4 billion have been realized, including all investments made under Fund I. Since inception, Funds I, II and III have generated a composite net 18% IRR and 1.5x multiple. As shown below, all three prior funds are currently ranked as first quartile on a FMV net IRR basis.

<table>
<thead>
<tr>
<th>Vehicle</th>
<th>Invested Capital (M)</th>
<th>Vintage</th>
<th>Assets</th>
<th>Projected Life-of-Fund Net IRR</th>
<th>Fair Market Value</th>
<th>Realizations</th>
<th>Gross DPI</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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<td></td>
<td></td>
<td>Net IRR</td>
<td>Net EM</td>
<td>IRR Quartile</td>
<td>% of Projected</td>
</tr>
<tr>
<td>Fund I</td>
<td>€ 1,154</td>
<td>2007</td>
<td>10</td>
<td>15.0%</td>
<td>15.2%</td>
<td>1.4x</td>
<td>1Q</td>
</tr>
<tr>
<td>Fund II</td>
<td>€ 1,261</td>
<td>2013</td>
<td>11</td>
<td>18.0%</td>
<td>20.0%</td>
<td>1.5x</td>
<td>1Q</td>
</tr>
<tr>
<td>Fund III</td>
<td>€ 1,262</td>
<td>2015</td>
<td>9</td>
<td>18.0%</td>
<td>46.7%</td>
<td>1.5x</td>
<td>1Q</td>
</tr>
</tbody>
</table>

The detailed deal-by-deal track record is also provided in Exhibit G.
For relative context, the following charts illustrate the performance of each of the Manager’s prior investment vehicles to similar-vintage non-core commingled equity funds focused on Europe. Returns are based on realized performance and FMV of unrealized in the funds’ base currency.

**DISPERSION OF RETURNS**

The following displays the dispersion of Aermont’s individual investment returns using all transactions from 2007-2018. Unrealized investment returns are based on gross projected figures.

- No historic transactions are projected to produce a loss.
- Highest frequency gross IRR band is 20-29%

*Source: Townsend database and Prequin as of September 30, 2017. Range shown is 5th to 95th percentile.*
Townsend removed the pipeline from this version due to the public nature of the document.
EXHIBIT D: ORGANIZATIONAL CHART

Investment Team Organizational Chart

Investment Team & Leadership

Lion Bressler
Managing Partner
Established Airmaint in 2007

Alison Trewartha
Partner
Chief Legal & Compliance Officer
Joined in 2008

Vincent Bouget
Partner
Investments, Continental Europe
Joined in 2007

Nathan Skiere
Partner
Strategy, Risk & Finance
Joined in 2007

Paul Golding
Partner
Investments, UK & Nordics
Joined in 2010

Investment Committee
EXHIBIT E: BIOGRAPHIES

Aermont Partners & Investment Committee Members

Léon Bressler, Managing Partner
Léon has been Managing Partner since Aermont’s inception. He is a member of the Investment Committee, the key person of Funds I and II, and a Key Person of Fund III and the Fund. Prior to establishing Aermont, Léon was Chairman / Chief Executive Officer of the French property company Unibail (now Unibail-Rodamco), Europe’s leading public real estate investment and operating company. Léon led Unibail for 14 years over 1992-2006. Léon began his career at Chase Manhattan Bank successively in Paris, New York, Stuttgart, Frankfurt and London. In 1978, he joined the Midland Bank Group to participate in the establishment of Midland Bank in France. He was Chairman of the Executive Board of Midland Bank SA over 1984-1989. In 1989, Léon joined the Lanvin Group where he was Chairman and Chief Executive of Jeanne Lanvin and Lanvin Parfums. In 1991, Léon joined Worms & Cie where he remained a Managing Partner until 1996. Léon graduated from the Institut d’Etudes Politiques de Paris and from the University of Paris with a degree in Law.

Paul Golding, Partner
Paul joined in 2010. He is a Partner responsible for investment activities in the UK and Nordic regions. Paul is a member of the Investment Committee and a Key Person of Fund III and the Fund. Prior to joining, Paul was Head of Real Estate Asset Strategies at Norges Bank Investment Management (NBIM), the group which manages the Norwegian Global Pension Fund. While at NBIM, he was responsible for formulating the global investment strategy for the real estate sector and underwriting equity issuances for various UK REITs. Prior to that, Paul worked at Merrill Lynch, where he was Head of Real Estate Investment Banking in Europe and the Middle East; he advised on the successful acquisitions of various real estate companies with aggregate assets over $10 billion and raised equity for a number of public and private property companies. Paul graduated from London Business School with a Masters in Finance.

Vincent Rouget, Partner
Vincent joined in 2007. He is a Partner responsible for investment activities in Continental Europe. Vincent is a member of the Investment Committee and a Key Person of Fund III and the Fund. Prior to joining, Vincent worked with the US Convertible team at Morgan Stanley’s Global Capital Markets Division in New York. In that capacity, Vincent participated in several convertible bond offerings across a variety of industries. Prior to that, Vincent was an analyst at Morgan Stanley’s Investment Banking Division in Paris, where he participated in the execution of fairness opinions, buy-side merger and acquisition assignments and several capital markets transactions. Vincent graduated from HEC Paris with a Master of Science in Management.

Nathan Shike, Partner
Nathan joined in 2007. He is a Partner responsible for strategy, risk and finance. Nathan is a member of the Investment Committee and a Key Person of Fund III and the Fund. Prior to joining, Nathan was an Associate at the City Investment Fund LP, a New York City real estate fund co-sponsored by Morgan Stanley and Fisher Brothers, a New York based commercial real estate operator and developer. Nathan was a member of the acquisitions team and participated in the origination, analysis and execution of a variety of investments across real estate sectors and structural situations. Nathan graduated magna cum laude from Amherst College with a Bachelor of Arts in Economics.
Alison Trewartha, Partner

Alison joined in 2008. She is a Partner responsible for legal, compliance, tax and structuring. Alison is a member of the Investment Committee and a Key Person of the Fund. Prior to joining, Alison was an Associate in Mergers & Acquisitions at Skadden, Arps, Slate, Meagher & Flomin London where she represented and advised private and public companies in a range of mergers and acquisitions transactions including public takeovers, bank and corporate restructurings. Prior to that, Alison was an Associate at Deacons (now Norton Rose Fulbright) in Melbourne, Australia in the capital markets and corporate transactions team, where she advised on initial public offerings, rights issues for listed companies and property trusts. Alison graduated from Monash University with a Bachelor of Laws with honours and Bachelor of Business Management.
EXHIBIT F: FUND STRUCTURE

Fund IV Simplified Structure Chart
Draft March 2018

Aermont Capital LLP (UK)
Investment Advisor
PFA Regulated

Aermont Capital Real Estate Fund IV GP S.à r.l. (Luxembourg)

Aermont Capital Management S.à r.l. (Luxembourg)
Manager - AIFM CSSF Regulated

Master Luxembourg Holding Company

Investment SPV
Investment SPV
Investment SPV
Investment SPV

Investment
Investment
Investment
Investment
Townsend removed the detailed track record from this version due to the public nature of the document.
<table>
<thead>
<tr>
<th>Fund</th>
<th>Vintage Year</th>
<th>Aggregate Commitments</th>
<th>Capital Invested</th>
<th>Realized Gross</th>
<th>Realized IRR</th>
<th>Realized Multiple</th>
<th>Unrealized Gross</th>
<th>Unrealized IRR</th>
<th>Unrealized Multiple</th>
<th>Total Gross</th>
<th>Current IRR</th>
<th>Current Multiple</th>
<th>Realized / Projected IRR</th>
<th>Realized / Projected Multiple</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fund I</td>
<td>2007</td>
<td>€ 1,170</td>
<td>€ 1,083</td>
<td>€ 1,917</td>
<td>22%</td>
<td>1.8x</td>
<td>€ 0</td>
<td>15%</td>
<td>1.5x</td>
<td>€ 1,917</td>
<td>15%</td>
<td>1.5x</td>
<td>15%</td>
<td>1.5x</td>
</tr>
<tr>
<td>Fund II</td>
<td>2012</td>
<td>€ 1,316</td>
<td>€ 849</td>
<td>€ 253</td>
<td>60%</td>
<td>2.0x</td>
<td>€ 1,203</td>
<td>21%</td>
<td>2.2x</td>
<td>€ 1,456</td>
<td>20%</td>
<td>1.5x</td>
<td>24%</td>
<td>2.2x</td>
</tr>
<tr>
<td>Fund III</td>
<td>2015</td>
<td>€ 1,500</td>
<td>€ 575</td>
<td>€ 124</td>
<td>23%</td>
<td>2.4x</td>
<td>€ 780</td>
<td>23%</td>
<td>1.7x</td>
<td>€ 903</td>
<td>47%</td>
<td>1.5x</td>
<td>23%</td>
<td>2.0x</td>
</tr>
</tbody>
</table>
**Aermont Fund IV**

**SUMMARY OF FUND TERMS**

- **Fund Size**: €1.6 billion (Hard cap of €2.0 billion)
- **Fund Manager**: Aermont Capital
- **Investment Strategy**: High Return
- **Investment Period**: 4 years from the first close
- **Fund Term**: 8 years from the final closing, plus two 2-year extension options
- **Target Return**: Net IRR of 15%
- **General Partner Commitment**: At least €20 million
- **Distributions to Investors**: First, to all LPs pro-rata until each partner has received distributions in an amount equal to their unreturned contributions, together with a 9% compounded preferred return thereon; 
  
  50% LP / 50% GP catch up
  
  80% LP / 20% GP split thereafter

**Fees**

- **Management Fees**: 1.5% on committed capital during the investment period and 1.5% on invested capital thereafter

**Property Investments Profile**

- **Focus**: Focus on prime assets or projects and leading businesses through direct asset, corporate and credit investments in Europe

**Target Markets**

- **Western Europe**

**Leverage**

- **Up to 70% loan-to-value**
July 24, 2018

TO: Each Member  
Board of Investments

FROM: Jonathan Grabel  
Chief Investment Officer

John McClelland  
Principal Investment Officer-Real Estate

FOR: August 8, 2018 Board of Investments Meeting

SUBJECT: BOARD OF INVESTMENT STANDING COMMITTEES

RECOMMENDATION

Modify the Standing Committee to better match the new functional asset class overlay categories.

BACKGROUND

Since established by Board action in February 2014, there have been five standing committees. The five standing committees are:

1. Equity
2. Fixed income/Hedge Funds/Commodities
3. Real Estate
4. Risk
5. Corporate Governance

The Board has adopted a new asset allocation policy that includes utilizing the four functional asset class overlays of: 1.) Growth; 2.) Credit; 3.) Real Assets and Inflation Hedges; and 4.) Risk Reducing and Mitigating.

Staff proposes modifying the standing committees to better match the new functional asset classes. The proposed changes are intended to enhance the effectiveness of the committees.
DISCUSSION

The proposed changes to the committee structure are outlined on ATTACHMENT 1. These proposed changes were introduced to the Board during the meeting held on July 9, 2018. Each committee change and rationale is outlined below.

Equity Committee
This committee would continue to oversee public and private equity investment activity. However, responsibility for private equity distressed debt and private natural resources would be moved to other committees. The committee name would remain unchanged.

The rational for this proposed change is that private equity distressed debt is similar to and more appropriately grouped together with other debt investments that would be overseen by the Credit and Mitigation committee.

Fixed Income/Hedge Funds/Commodities
This committee would be renamed: Credit and Risk Mitigation. It would oversee activity of all credit and risk mitigation-related assets including investment grade bonds, diversified hedge funds, credit hedge funds, private equity distressed debt, real estate debt and opportunistic credit. Real estate debt and private equity distress debt would be new additions to this committee. Responsibility for commodities would be moved to another committee.

Adding real estate debt and private equity distressed debt to this committee would be beneficial since these types of investments share many of the risk and return attributes of the other debt-related instruments already covered by this committee. Moving commodity oversight to the Real Assets committee is appropriate since commodity investing shares attributes of other real assets.

Real Estate
This committee would be renamed: Real Assets. The committee would oversee real estate, TIPS (Treasury Inflation-Protected Securities), commodities, private natural resources, and infrastructure. Real estate debt would fall under the oversight of the Credit and Risk Mitigation committee.

Adding commodities, private natural resources, infrastructure and TIPS to this committee is appropriate because they each have inflation hedging characteristics. Moving real estate debt to the Credit and Risk Mitigation committee would result in investments with similar characteristics being grouped together.

Risk
This committee would be unchanged.
Corporate Governance

This committee would be unchanged. Staff is not proposing changes to the existing governance matters relating to the committees. The Board Chair would continue to appoint membership of each committee as well as designate the Chair and Vice Chair. The Chief Investment Office would continue to assign senior LACERA investment officers to liaise with each standing committee.

RECOMMENDATION

Staff proposes modifying the standing committees to better match the new functional asset class overlays adopted for the portfolio earlier this year. The proposed changes group investments with similar risk and return characteristics together. The changes are intended to enhance the clarity of each committee with respect to characteristics of broad asset categories.

It is therefore recommended that the Board modify the standing committees.

Attachment

JM/dr
### Path to New Allocation: Potential Committee Structure

<table>
<thead>
<tr>
<th>Existing Committee Names</th>
<th>New Name</th>
<th>Changes</th>
<th>Asset Oversight</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity</td>
<td>No change</td>
<td>− Private Equity Distressed Debt</td>
<td>▪ Public Equity</td>
</tr>
<tr>
<td></td>
<td></td>
<td>− Private Natural Resources</td>
<td>▪ Private Equity</td>
</tr>
<tr>
<td>Fixed Income/ Hedge Funds/ Commodities</td>
<td>Credit + Risk Mitigation</td>
<td>+ Real Estate Debt</td>
<td>▪ Investment Grade Bonds</td>
</tr>
<tr>
<td></td>
<td></td>
<td>+ Private Equity Distressed Debt</td>
<td>▪ Diversified Hedge Funds</td>
</tr>
<tr>
<td></td>
<td></td>
<td>− Commodities</td>
<td>▪ Credit Hedge Funds</td>
</tr>
<tr>
<td>Real Estate</td>
<td>Real Assets</td>
<td>+ Commodities</td>
<td>▪ Private Equity Distressed</td>
</tr>
<tr>
<td></td>
<td></td>
<td>+ TIPS</td>
<td>• Real Estate Debt</td>
</tr>
<tr>
<td></td>
<td></td>
<td>+ Private Natural Resources</td>
<td>• Real Estate</td>
</tr>
<tr>
<td></td>
<td></td>
<td>+ Infrastructure</td>
<td>• Commodities</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Real Estate Debt</td>
<td>• TIPS</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Private Natural Resources</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Infrastructure</td>
</tr>
<tr>
<td>Risk</td>
<td>No change</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Corporate Governance</td>
<td>No change</td>
<td></td>
<td></td>
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Note: New investment categories are shown in bold type
The Board of Investments  
The Los Angeles County Employee Retirement Association  
300 North Lake Avenue  
Pasadena, CA 91101  

Attention: Ms. Linda El-Farra, Secretary

Dear Ms. El-Farra:

In accordance with Board regulations that permit Board members to request items be placed on the agenda in writing no later than noon of the fifth working day prior to any scheduled Board meeting, I respectfully request placement of the following item on the Board of Investment’s Agenda for Wednesday, August 8.

IT IS RECOMMENDED THAT THE BOARD OF INVESTMENTS:

1. Reconstitute the Joint Organizational Governance Committee (JOGC) as a standing joint committee of both the Board of Retirement (BOR) and Board of Investments (BOI) and reassign to the JOGC all matters currently being considered by Ad Hoc Committees, with the exception of the Ad Hoc Committee overseeing the recruitment of the Retirement Administrator/Chief Executive Officer which will remain responsible for this recruitment at this time;

2. Revise the JOGC Charter, Section 8 Membership, Quorum, and Rules, as follows. (The revision is red-lined.)

There will be eight (8) members with no designated alternates. The JOGC will be comprised of the BOR and BOI Chairs and Vice-Chairs plus one member appointed by each Chair and one member elected by each Board. If there is one JOGC member who represents both Boards (one overlap), then an additional appointment will be made by the BOR Chair in even years and by the BOI Chair in odd years. If there is more than one overlap, the BOR and BOI Chairs will make an equal number of additional appointments; if there are an odd number of overlaps, the final appointment, after the Board Chairs make their separate appointments, will be made following the rule as stated in the preceding sentence that applies in the case of one overlap. In selecting their appointments, the Chairs will endeavor to include an overall mix of trustees who are appointed by the Board of Supervisors, elected by active employees (general and safety), elected by retired employees, and who serve in an ex-officio capacity. The Chairs will also consider continuity of service
when selecting Committee members, so that development of expertise and familiarity with the subject matters jurisdictional to the JOGC are encouraged, and to benefit Committee goals.¹

3. Elect a JOGC Member.

4. Request the Interim Chief Executive Officer (CEO) engage Funston Consultants, the consultants who assisted the BOR and the BOI Ad Hoc Committee that recommended the formation of the JOGC, to undertake an evaluation of the JOGC’s effectiveness in the fall 2019. Funston should allow for input by all trustees in the evaluation processes. When completed, the evaluation should be placed on a BOR and BOI agenda for discussion.

BACKGROUND

The formation of the JOGC several years ago was one of the most, if not the most, significant governance decisions the Boards have made. The approach the Boards took in evaluating their governance options was methodical, prudent, strategic and inclusive of professional consultant advice. In forming the JOGC, the Board did not delegate its authority for final actions on matters. The JOGC was to develop recommendations that would come before each Board for consideration. The membership of the JOGC was reasonable in number (eight trustees) and its make-up allowed for consideration of our different perspectives and experiences. The JOGC was also subject to the Ralph M. Brown Act. As a result, its deliberations and decisions were transparent to our members. Our commitment to the JOGC was a commitment to govern in an efficient, organized and transparent manner.

In our first meeting of this calendar year, the newly elected Chairs recommended dissolution of the JOGC. Each Board passed the recommended dissolution by a vote of five for and four against. Since the dissolution, the Chairs have formed three distinct Ad Hoc Committees in a row, each charged with a matter of importance. Today, we find ourselves managed through an "Ad Hoc-racy" that has questioned the Board’s authority for final actions; limited representation of our diverse experiences in decision-making; compromised our ability to meet our members’ expectation of transparency in our deliberations and decisions; and caused confusion and increased operational inefficiencies.

To be clear, in presenting these recommendations to you, I acknowledge that Ad Hoc Committees are permitted under the law, and their use in organizations is often appropriate. However, when compared against the benefits that accrue to the Board, to LACERA and to LACERA’s members by governing through the JOGC, the JOGC is a more effective, inclusive, efficient and transparent governance model.

¹ This language is sourced for the most part from the Board of Retirement’s Standing Committee Charters, v. 11, approved by the Board of Retirement on April 13, 2017.
JUSTIFICATION FOR RECOMMENDED ACTIONS

The recommended actions are justified by the following:

1. **The need for the Board to re-assert its authority over final actions.**

   Through its Charter, approved unanimously by each Board, the JOGC was to be advisory to each Board. The Charter assigned the JOGC with the responsibility to review and make recommendations to each Board. The Charter purposely did not delegate final decision making to the JOGC. "Final action can only be taken by the Boards themselves" the Charter states.

   Compare the authority of the Board under the JOGC with what we have seen with Ad Hoc Committee No. 2. After six meetings and two reports to the Board, both filed as information only on our Board agenda, Ad Hoc Committee No. 2 did not present recommendations to the Board for the Board’s deliberation and decision. Ad Hoc Committee No. 2 decided the matter itself.

2. **The need to affirm the importance of a committee’s membership relative to the committee’s objective(s).**

   This Board has a documented record of acknowledging the importance of a committee’s membership to the committee’s objective. In this Board’s *Standing Committee Charters*, the Board acknowledged this important point when the Board wrote: *The BOR Chair will consider continuity of service when selecting Committee members so that development of expertise and familiarity with the subject matter is encouraged, and to benefit Committee goals.* In the same document, the Board also acknowledged the value different types of trustees bring to deliberations and decisions when the Board wrote: *"In selecting their appointments, the Chairs will endeavor to include an overall mix of ex-officio, appointed, elected, active, and retired members.”*

   The JOGC included appointed and elected members. By revising the JOGC Charter in the manner recommended, we ensure that the factors of continuity of service and diversity of representation are considered in JOGC appointments. As well, the elected member allows each of us an opportunity to participate in a democratic process related to membership.

   By its definition, ad hoc signifies a solution designed for a specific problem or challenge. Ad Hoc Committees do not develop a solution that can be applied to another problem elsewhere. However, these matters assigned to the three Ad Hoc Committees have common threads among them. I believe that a group of eight trustees, some members of which are selected with continuity of service and diversity of representation in mind, is better suited to see the inter-connectedness of these matters and consider the inter-connectedness in their development of recommendations for consideration by the full Board.
3. **The need to be more transparent in our deliberations and decisions.**

The JOGC is a standing committee subject to the Ralph M. Brown Act, thereby ensuring the transparency of its deliberations and decisions and providing the Boards, LACERA and LACERA members with a mechanism to hold the JOGC and the Boards accountable for their deliberations and decisions.

Ad Hoc Committees are not subject to the Ralph M. Brown Act. Because of this there is no requirement that the Ad Hoc Committee post meeting agendas, allow for public comment, nor release meeting minutes. Each Ad Hoc Committee the Chairs formed in this “Ad hoc-racy” is charged with consideration of a very material matter. When faced with transparency or continued haziness, I believe the matters themselves require that we affirm transparency and give thanks that the haziness has cleared.

4. **The implementation of the Ad Hoc Committee structure has been confusing and has resulted in operational inefficiencies.**

The Chairs have revised the number of members on one Ad Hoc Committee to eight, but recently established another Ad Hoc Committee with six members. There was no explanation provided for the difference. The Chairs released meeting minutes for one Ad Hoc Committee, but not another. Further, the minutes it did release did not contain any indication that the minutes were reviewed or approved. These very recent actions were likely initiated in response to the lack of formal communication of Committee deliberations and decisions, a fact that appears to have frustrated trustees.

The Ad Hoc Committee structure has also resulted in an ever increasing number of meetings, including a significant number of Joint Board meetings. The Chairs scheduled Joint Board Meetings in four out of the five most recent months. Earlier this year, this Board’s Chair and Vice Chair cited “too many meetings” as a justification for disbanding the JOGC; yet disbanding the JOGC has actually increased the number of Joint Board meetings.

Sincerely,

![Signature]

JOSEPH KELLY
Treasurer and Tax Collector

JK:st
July 26, 2018

TO: Each Member
   Board of Investments

FROM: Jonathan Grabel
       Chief Investment Officer

FOR: August 8, 2018 Board of Investments

SUBJECT: ASSET ALLOCATION BENCHMARKS

Attached is a presentation from Meketa to discuss the benchmarks for LACERA’s Pension Trust. The topic was addressed during the July 9, 2018 Board of Investments Offsite and the current report is a continuation of that deliberation. The tentative timeline is for the Board of Investments to evaluate the benchmarks based on previous feedback. A formal recommendation will be made by Meketa and staff at a subsequent meeting.

JGjp
Los Angeles County Employees Retirement Association

Benchmark Review
1. Background

2. Benchmark Analysis

3. Appendix
   - Overview of Benchmarking
   - Equity Benchmarks
   - Fixed Income Benchmarks
Background

- The Board of Investments ("The Board") is responsible for reviewing LACERA’s investment performance. The Board shall monitor investment returns on both an absolute basis and relative to appropriate benchmarks and peer group comparisons.

- The Board of Investments approved a new asset allocation at the May 9, 2018 meeting. The new policy allocation adds several new asset classes. It also restructures the allocation into a functional framework.

- Given the addition of new asset classes and the new classification of asset classes, it is appropriate to update the Pension Trust’s Total Fund and aggregate benchmarks. In addition, it is appropriate to review the remaining asset classes’ benchmarks to ensure they are still relevant and appropriate.

- Consistent with LACERA’s Investment Belief that asset allocation will be the primary determinant of LACERA’s risk/return outcomes, LACERA’s primary focus should be matters that facilitate the implementation of the new strategic asset allocation.

- Benchmarking is an important tool for risk and performance measurement. The benchmarking process should be used to help ensure that the approved strategic asset allocation is reflected in the portfolio and not as a mechanism to determine policy.

- Over the course of the next 12 to 18 months, LACERA will conduct a structure review for each asset category, which will provide forums for detailed discussion and analysis of all LACERA benchmarks.

- Meketa believes that LACERA’s benchmarks should be reviewed on a regular basis outside of the asset allocation process to ensure that the benchmarks are appropriately aligned with the structure of the portfolio and the stages of implementation process.

- At the July LACERA off-site, Meketa made a presentation and facilitated a discussion on benchmarking.

- This presentation is designed as a follow-up to that detailed presentation. The primary goal of this report is address several questions from the offsite and to outline an approach for each category and sub-category.
Benchmark Analysis
## Current\(^1\) Policy Benchmark Components

<table>
<thead>
<tr>
<th>Current Asset Class</th>
<th>Current Policy Benchmark</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Fund</td>
<td>22.4% Russell 3000 / 21% Custom MSCI ACWI IMI net 50% Hedge / 26.6% BBgBarc US Universal TR / 10% Private Equity Target / 11% NFI ODCE +40 bps / 4.2% Hedge Fund Custom Index / 2.8% Bloomberg Commodity Index TR USD / 2% Citi 6 Month T-Bill</td>
</tr>
<tr>
<td>U.S. Equity</td>
<td>Russell 3000</td>
</tr>
<tr>
<td>Non-U.S. Equity</td>
<td>MSCI ACWI IMI ex-U.S., with 50% Developed Markets currency hedge</td>
</tr>
<tr>
<td>Fixed Income</td>
<td>Bloomberg Barclays US Universal Bond Index</td>
</tr>
<tr>
<td>Real Estate</td>
<td>NFI ODCE Index + 40 bps</td>
</tr>
<tr>
<td>Private Equity</td>
<td>Russell 3000 +500 bps, rolling 10 year</td>
</tr>
<tr>
<td>Commodities</td>
<td>Bloomberg Commodity Index TR</td>
</tr>
<tr>
<td>Hedge Funds</td>
<td>3-month U.S. T-bill + 500 bps</td>
</tr>
<tr>
<td>Cash</td>
<td>Citigroup 6-month Treasure Bill Index</td>
</tr>
</tbody>
</table>

- LACERA’s current policy utilizes a dynamic benchmark, adjusted quarterly to measure Plan level performance.
- Public Equities are divided into regional sub-components and benchmarked against relevant indexes.
- The illiquid asset categories all employ a passive index plus a premium approach for measuring performance.
- Private Equity is the only category using a benchmark with a rolling return.

\(^1\) Current benchmarks as per the standing IPS.
Forward Looking Benchmark Considerations

- Do the benchmarks from LACERA’s current Investment Policy Statement align with LACERA’s current and future implementation plans?

- The newly approved asset allocation adds several asset classes to the Trust’s portfolio. What benchmarks are most relevant for the new categories?
  - Global Equity
  - High Yield Bonds
  - Emerging Market Debt
  - Core and Value-Added Real Estate
  - Infrastructure
  - Opportunistic Real Estate
  - Bank Loans
  - Illiquid Credit
  - Natural Resources
  - TIPS

- Illiquid Asset Categories:
  - How relevant are public market benchmarks for each category?
  - What level of return premium is required to account for illiquidity?
  - How should reporting lag be handled in each category?

- The following pages will identify some of the key areas for discussion in each of the functional categories, provide potential benchmark options, and offer guidance on selecting a benchmark for each category.
Growth

<table>
<thead>
<tr>
<th>Asset Category</th>
<th>Potential Benchmark A</th>
<th>Potential Benchmark B</th>
</tr>
</thead>
<tbody>
<tr>
<td>Growth</td>
<td>Custom Blended Benchmark - Static</td>
<td>Custom Blended Benchmark - Dynamic</td>
</tr>
</tbody>
</table>

- Should the category benchmark be static based on approved targets, or dynamic?
  - A static benchmark is operationally easier but potentially has greater tracking error.
  - A dynamic benchmark does not measure allocation decisions between the sub-categories.
- Meketa believes that using a static benchmark is appropriate for LACERA at the asset category level for Growth.
**Growth – Global Equity**

<table>
<thead>
<tr>
<th>Sub Asset Class</th>
<th>% of aggregate</th>
<th>Potential Benchmark A</th>
<th>Potential Benchmark B</th>
<th>Potential Benchmark C</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global Equity</td>
<td>74.5</td>
<td>% MSCI ACWI IMI +% MSCI World IMI ex U.S. currency hedged</td>
<td>MSCI ACWI IMI</td>
<td>Custom Blended Benchmark using regional weights and incorporating the currency hedge</td>
</tr>
</tbody>
</table>

- **Global Equity:**
  - Does LACERA want to be tied to the weights of an index or customize regional exposures?
  - Should LACERA maintain the Non-U.S. Developed markets hedge and how should that be reflected in the benchmark?
### Growth – Private Equity

<table>
<thead>
<tr>
<th>Sub Asset Class</th>
<th>% of aggregate</th>
<th>Potential Benchmark A</th>
<th>Potential Benchmark B</th>
<th>Potential Benchmark C</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private Equity</td>
<td>21.3</td>
<td>MSCI ACW IMI Index + 200 bps (three month lag)</td>
<td>Custom blended benchmark + a premium bps (three month lag)</td>
<td>Peer Group Benchmark (Cambridge, Burgiss, Preqin)</td>
</tr>
</tbody>
</table>

- **Private Equity**: The MSCI World IMI Index (developed markets) aligns with LACERA’s current private equity investments. The MSCI ACWI IMI Index however, better represents the “liquid alternative” to Private Equity. Utilizing lagged performance reflects the lengthy valuation and reporting cycle of private equity.
  - What is the “right” premium over public equities?
  - Over time will LACERA increase Emerging Market exposure within Private Equity?
  - How should that be reflected in the benchmark?
  - Would a peer benchmark more accurately reflect LACERA’s performance?
Growth - Private Equity Performance

- Private equity has become more closely correlated with public equities since Cambridge started tracking private equity in the mid-80s.

Cambridge Associates PE Aggregate vs. Russell 30001

1 Quarterly returns from 6/30/1986 to 12/31/2017.
Growth - Private Equity Outperformance - “Spread”

- Relative to the public equity market, private equity had its best performance in the 2000s.
- Since the Global Financial Crisis, the outperformance of private equity has trended consistently lower.

Spread of Cambridge Associates PE Aggregate minus Russell 3000 Returns\(^1\)

1 On a rolling ten year basis.
Growth - Private Equity Outperformance - “Spread” (continued)

The outperformance investors have been able to earn through private equity (i.e. spread over public markets) has consistently decreased as the asset class has become more popular and likely more “efficient” and competitive.

**Average Spread vs. Russell 2000 Index Fund**

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>15 Year Average</td>
<td>6.1%</td>
</tr>
<tr>
<td>10 Year Average</td>
<td>4.5%</td>
</tr>
<tr>
<td>5 Year Average</td>
<td>3.6%</td>
</tr>
</tbody>
</table>

**Average Spread vs. Russell 3000 Index Fund**

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>15 Year Average</td>
<td>7.1%</td>
</tr>
<tr>
<td>10 Year Average</td>
<td>6.1%</td>
</tr>
<tr>
<td>5 Year Average</td>
<td>3.9%</td>
</tr>
</tbody>
</table>

**Average Spread vs. MSCI World Index Fund**

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>15 Year Average</td>
<td>8.6%</td>
</tr>
<tr>
<td>10 Year Average</td>
<td>6.9%</td>
</tr>
<tr>
<td>5 Year Average</td>
<td>5.8%</td>
</tr>
</tbody>
</table>
Growth – Opportunistic Real Estate

<table>
<thead>
<tr>
<th>Sub Asset Class</th>
<th>% of aggregate</th>
<th>Potential Benchmark A</th>
<th>Potential Benchmark B</th>
<th>Potential Benchmark C</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opportunistic Real Estate</td>
<td>4.2</td>
<td>NFI ODCE+300 bps(^1)</td>
<td>Premium to public equity</td>
<td>Target return</td>
</tr>
</tbody>
</table>

- **Opportunistic Real Estate**: The NCREIF Fund Index Open End Diversified Core Equity (ODCE) Index is a widely used Real Estate benchmark, which reports on 36 open-end commingled funds pursuing a core investment strategy.
  - What is the “right” premium over Core Real Estate?
  - Core Real Estate is part of the Real Assets and Inflation Hedges category. Should a somewhat defensive inflation hedge be the baseline for a Growth asset?

---

\(^1\) Per the LACERA Real Estate Objectives, Policies and Procedures.
The average return spread has been 2.9%.

There is a significant amount of variability to the spread.
Credit

<table>
<thead>
<tr>
<th>Asset Category</th>
<th>Potential Benchmark A</th>
<th>Potential Benchmark B</th>
<th>Potential Benchmark C</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit</td>
<td>Custom Blended Benchmark – Static</td>
<td>Custom Blended Benchmark - Dynamic</td>
<td>Investment Grade Bonds + premium</td>
</tr>
</tbody>
</table>

- **Credit**: Credit as an asset class has a level of risk and return between that of Growth and Risk Mitigating. Each sub-category has specific benchmarks available, but credit as a category does not.
  - Should LACERA use a blended benchmark or perhaps a premium over Investment Grade Bonds?
  - If so, how much additional return should be expected?
    - Based on Meketa’s capital market expectations, Credit is expected to produce a premium of 280 basis points over Investment Grade Bonds.

<table>
<thead>
<tr>
<th></th>
<th>Approved Policy (%)</th>
<th>Expected Volatility (%)</th>
<th>10 Year Expected Return (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit</td>
<td>12.0</td>
<td>12.5</td>
<td>5.3</td>
</tr>
<tr>
<td>High Yield</td>
<td>3.0</td>
<td>12.5</td>
<td>5.0</td>
</tr>
<tr>
<td>Bank Loans</td>
<td>4.0</td>
<td>10.0</td>
<td>5.1</td>
</tr>
<tr>
<td>EM Debt</td>
<td>2.0</td>
<td>13.3</td>
<td>5.1</td>
</tr>
<tr>
<td>Illiquid Credit(^1)</td>
<td>3.0</td>
<td>15.2</td>
<td>6.1</td>
</tr>
<tr>
<td>Core Fixed Income</td>
<td>4.0</td>
<td>2.5</td>
<td></td>
</tr>
</tbody>
</table>

- Should the category benchmark be static based on approved targets, or dynamic?

- Meketa believes that using a static benchmark is appropriate for LACERA at the asset category level for Credit.

\(^1\) Illiquid Credit contains credit hedge funds, real estate debt, and private debt strategies. The private debt composite is composed of 40% Mezzanine, 40% Distressed, and 20% Direct Lending.
Credit – High Yield

<table>
<thead>
<tr>
<th>Sub Asset Class</th>
<th>% of aggregate</th>
<th>Potential Benchmark A</th>
<th>Potential Benchmark B</th>
</tr>
</thead>
<tbody>
<tr>
<td>High Yield</td>
<td>25.0</td>
<td>Bloomberg Barclays Global High Yield</td>
<td>Bloomberg Barclays U.S. High Yield</td>
</tr>
</tbody>
</table>

- **High Yield**: The Bloomberg Barclays U.S. and Global High Yield Indexes are the most widely used indexes.
  - Will LACERA access the global market or focus on the domestic high yield market?

<table>
<thead>
<tr>
<th></th>
<th>Bloomberg Barclays Global High Yield</th>
<th>Bloomberg Barclays U.S. High Yield</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yield to Maturity</td>
<td>6.6</td>
<td>6.7</td>
</tr>
<tr>
<td>Average Duration</td>
<td>4.3</td>
<td>3.9</td>
</tr>
<tr>
<td>Average Quality</td>
<td>B</td>
<td>B</td>
</tr>
<tr>
<td>Number of Issues</td>
<td>3,396</td>
<td>1,995</td>
</tr>
<tr>
<td>Top 3 Allocation Weightings</td>
<td>US Credit 62%</td>
<td>US Corporate 100%</td>
</tr>
<tr>
<td></td>
<td>US Gov’t 21%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Euro.Credit 16%</td>
<td></td>
</tr>
<tr>
<td>Geographic Exposure</td>
<td>US 82%</td>
<td>US 100%</td>
</tr>
<tr>
<td></td>
<td>Europe 18%</td>
<td></td>
</tr>
</tbody>
</table>

1 As of June 30, 2018.
Credit – Bank Loans

<table>
<thead>
<tr>
<th>Sub Asset Class</th>
<th>% of aggregate</th>
<th>Potential Benchmark A</th>
<th>Potential Benchmark B</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank Loans</td>
<td>33.3</td>
<td>Credit Suisse Leveraged Loans</td>
<td>S&amp;P Leveraged Loan Indexes</td>
</tr>
</tbody>
</table>

- **Bank Loans**: Bank loans are typically used by firms to fund everything from working capital needs to acquisitions and have a fairly wide range of characteristics. Credit Suisse, and S&P provide widely used indexes to measure performance in the leveraged loan market and are very similar to each other.

<table>
<thead>
<tr>
<th></th>
<th>CSFB Leveraged Loan index</th>
<th>S&amp;P Leveraged Loan Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pricing</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average Dollar Price ($)</td>
<td>97.85</td>
<td>98.05</td>
</tr>
<tr>
<td>Average Spread (%)</td>
<td>3.5</td>
<td>3.6</td>
</tr>
<tr>
<td>Average Maturity</td>
<td>5.2 years</td>
<td>5.3 years</td>
</tr>
<tr>
<td>Quality Structure</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average Credit Quality</td>
<td>BB-</td>
<td>BB-</td>
</tr>
<tr>
<td>BBB &amp; Above (%)</td>
<td>9</td>
<td>9</td>
</tr>
<tr>
<td>BB (%)</td>
<td>36</td>
<td>36</td>
</tr>
<tr>
<td>B (%)</td>
<td>48</td>
<td>48</td>
</tr>
<tr>
<td>CCC (%)</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Below CCC (%)</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Non-Rated (%)</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Sector Allocation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bank Loan – 1st Lien (%)</td>
<td>96</td>
<td>96</td>
</tr>
<tr>
<td>Bank Loan – 2nd Lien, other (%)</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Number of Issuers</td>
<td>1,308</td>
<td>1,041</td>
</tr>
</tbody>
</table>

1 As of June 30, 2018.
Credit – Emerging Market Debt

<table>
<thead>
<tr>
<th>Sub Asset Class</th>
<th>% of aggregate</th>
<th>Potential Benchmark A</th>
<th>Potential Benchmark B</th>
</tr>
</thead>
<tbody>
<tr>
<td>Emerging Market Debt</td>
<td>16.7</td>
<td>50% JP Morgan EMBI Global Diversified (USD) / 50% JP Morgan GBI EM Global Diversified (LC)</td>
<td>Custom Blended Benchmark that reflects LACERA implementation</td>
</tr>
</tbody>
</table>

- **Emerging Market Debt:** JP Morgan Indexes are the most widely used benchmarks for EM Debt. The JP Morgan Global Diversified is composed of dollar-denominated debt issued by sovereign and quasi-sovereign entities. The JP Morgan GBI EM Global Diversified Index is composed of local currency sovereign bonds.
  - How much local currency exposure does LACERA intend to have?

<table>
<thead>
<tr>
<th></th>
<th>JP Morgan EMBI Global Diversified Index(^1)</th>
<th>JP Morgan GBI EM Global Diversified Index(^1)</th>
<th>50% J.P. Morgan EMBI Global Diversified / 50% J.P. Morgan GBI-EM Global Diversified(^1)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Portfolio Profile:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of Holdings</td>
<td>666</td>
<td>213</td>
<td>879</td>
</tr>
<tr>
<td>Number of Issuers</td>
<td>131</td>
<td>19</td>
<td>150</td>
</tr>
<tr>
<td>Effective Duration</td>
<td>6.6</td>
<td>5.1</td>
<td>5.9</td>
</tr>
<tr>
<td>Yield to Maturity</td>
<td>5.8</td>
<td>6.7</td>
<td>6.3</td>
</tr>
<tr>
<td><strong>Credit Quality Breakdown:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average Credit Quality</td>
<td>BB</td>
<td>BBB</td>
<td>BBB-</td>
</tr>
<tr>
<td>AAA</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>AA</td>
<td>-</td>
<td>3.9</td>
<td>1.9</td>
</tr>
<tr>
<td>A</td>
<td>9.5</td>
<td>36.0</td>
<td>22.7</td>
</tr>
<tr>
<td>BBB</td>
<td>40.0</td>
<td>39.7</td>
<td>39.8</td>
</tr>
<tr>
<td>BB &amp; below</td>
<td>50.7</td>
<td>20.5</td>
<td>35.6</td>
</tr>
</tbody>
</table>

\(^1\) As of June 30, 2018.
Credit – Illiquid Credit

<table>
<thead>
<tr>
<th>Sub Asset Class</th>
<th>% of aggregate</th>
<th>Potential Benchmark A</th>
<th>Potential Benchmark B</th>
</tr>
</thead>
<tbody>
<tr>
<td>Illiquid Credit</td>
<td>25.0</td>
<td>Bloomberg Barclays Aggregate+250 bps</td>
<td>Custom Blended Benchmark + premium that reflects LACERA implementation</td>
</tr>
</tbody>
</table>

- **Illiquid Credit**: The Bloomberg Barclays Aggregate plus a premium is widely used for illiquid credit strategies.
  - What is the “right” premium?

<table>
<thead>
<tr>
<th></th>
<th>Approved Policy (%)</th>
<th>Expected Volatility (%)</th>
<th>10 Year Expected Return (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Illiquid Credit</td>
<td>3.0</td>
<td>15.2</td>
<td>6.1</td>
</tr>
<tr>
<td>Core Fixed Income</td>
<td>4.0</td>
<td>2.5</td>
<td></td>
</tr>
</tbody>
</table>

- The table above suggest a premium of 360 basis points.
- The mix of Illiquid Credit initially likely contains a higher weight to Real Estate Debt, which would imply a significantly lower premium.

---

1. Illiquid Credit contains credit hedge funds, real estate debt, and private debt strategies. The private debt composite is composed of 40% Mezzanine, 40% Distressed, and 20% Direct Lending.
Real Assets and Inflation Hedges

<table>
<thead>
<tr>
<th>Asset Category</th>
<th>% of aggregate</th>
<th>Potential Benchmark A</th>
<th>Potential Benchmark B</th>
<th>Potential Benchmark C</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real Assets and Inflation Hedges</td>
<td>100</td>
<td>CPI + premium(^1)</td>
<td>Custom Blended Benchmark – Static</td>
<td>Custom Blended Benchmark – Dynamic</td>
</tr>
</tbody>
</table>

- Should the category benchmark be static based on approved targets, dynamic, or linked to inflation?
- Meketa believes that using CPI plus a premium is appropriate for LACERA at the asset category level for Real Assets and Inflation Hedges because it best reflects the objective of the category.

\(^1\) The level of premium will be heavily dependent on the implementation of TIPs.
Real Assets and Inflation Hedges – Core and Value-Added Real Estate

<table>
<thead>
<tr>
<th>Sub Asset Class</th>
<th>% of aggregate</th>
<th>Potential Benchmark A</th>
<th>Potential Benchmark B</th>
</tr>
</thead>
<tbody>
<tr>
<td>Core and Value-Added Real Estate</td>
<td>41.2</td>
<td>86% NFI ODCE / 14% NFI ODCE +100 bps</td>
<td>Custom Blended Benchmark</td>
</tr>
</tbody>
</table>

- **Core and Value-Added Real Estate**: The NFI ODCE Index is a widely used Real Estate benchmark, which reports on 36 open-end commingled funds pursuing a core investment strategy.
  - What is the “right” premium for Value-Added over Core?
The average annual spread between core and value-added is 1.3%.
The average was greatly impacted by negative spreads during the GFC and GFC recovery period.
Real Assets and Inflation Hedges – Natural Resources/Commodities

<table>
<thead>
<tr>
<th>Sub Asset Class</th>
<th>% of aggregate</th>
<th>Potential Benchmark A</th>
<th>Potential Benchmark B</th>
</tr>
</thead>
<tbody>
<tr>
<td>Natural Resources/Commodities</td>
<td>23.5</td>
<td>50% Bloomberg Commodity Index TR USD / 50% S&amp;P Global LargeMidCap Commodity and Resources GR USD</td>
<td>Custom Blended Benchmark that reflects LACERA implementation</td>
</tr>
</tbody>
</table>

- **Natural Resources:** The S&P Global LargeMidCap Commodity and Resources Index measures the performance of constituents that fall into three different natural resource buckets: Energy, Materials, and Agriculture.
  - LACERA’s primary exposure will be through public market strategies during phase one of the implementation plan.
  - As LACERA moves to phase two and begins gaining private market exposure, the next important question is: What is the “right” premium for private market assets?
### Real Assets and Inflation Hedges - Infrastructure

<table>
<thead>
<tr>
<th>Sub Asset Class</th>
<th>% of aggregate</th>
<th>Potential Benchmark A</th>
<th>Potential Benchmark B</th>
<th>Potential Benchmark C</th>
</tr>
</thead>
<tbody>
<tr>
<td>Infrastructure</td>
<td>17.7</td>
<td>Dow Jones Brookfield Global Infrastructure Index</td>
<td>CPI + premium</td>
<td>Peer Group Benchmark</td>
</tr>
</tbody>
</table>

- **Infrastructure**: The Dow Jones Brookfield Global Infrastructure Index is one of a few public market indexes designed to track the listed infrastructure industry.
  - LACERA’s primary exposure will be through public market strategies during phase one of the implementation plan.
  - As LACERA gains private market exposure the benchmark may require adjustment.
  - Is a peer group benchmark more appropriate or CPI plus a premium?
Real Assets and Inflation Hedges - TIPS

<table>
<thead>
<tr>
<th>Sub Asset Class</th>
<th>% of aggregate</th>
<th>Potential Benchmark A</th>
<th>Potential Benchmark B</th>
<th>Potential Benchmark C</th>
</tr>
</thead>
<tbody>
<tr>
<td>TIPS</td>
<td>17.7</td>
<td>Custom blended benchmark that reflects LACERA’s implementation</td>
<td>Bloomberg Barclays US TIPS Index</td>
<td>Bloomberg Barclays US TIPS 0-5 Year Index</td>
</tr>
</tbody>
</table>

- **TIPS**: The Bloomberg Barclays US TIPS Indexes are the most widely used.
  - What is the likely duration of LACERA’s TIPS portfolio?

<table>
<thead>
<tr>
<th></th>
<th>Bloomberg Barclays US TIPS&lt;sup&gt;1&lt;/sup&gt;</th>
<th>Bloomberg Barclays US TIPS 1-5 Yrs&lt;sup&gt;1&lt;/sup&gt;</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Issues</td>
<td>39</td>
<td>12</td>
</tr>
<tr>
<td>Yield to Maturity</td>
<td>3.0</td>
<td>2.8</td>
</tr>
<tr>
<td>Average Duration</td>
<td>7.9</td>
<td>3.0</td>
</tr>
<tr>
<td>Returns Modified Duration</td>
<td>4.8</td>
<td>1.53</td>
</tr>
<tr>
<td>Average Quality</td>
<td>AAA</td>
<td>AAA</td>
</tr>
<tr>
<td>Yield to Worst</td>
<td>3.0</td>
<td>2.7</td>
</tr>
<tr>
<td>Price</td>
<td>101.71</td>
<td>99.32</td>
</tr>
<tr>
<td>Maturity</td>
<td>8.42</td>
<td>3.03</td>
</tr>
<tr>
<td>Coupon</td>
<td>0.78</td>
<td>0.48</td>
</tr>
</tbody>
</table>

<sup>1</sup> As of June 30, 2018.
## Risk Reducing and Mitigating

<table>
<thead>
<tr>
<th>Asset Category</th>
<th>Potential Benchmark A</th>
<th>Potential Benchmark B</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk Reducing and Mitigating</td>
<td>Custom Blended Benchmark - Static</td>
<td>Custom Blended Benchmark - Dynamic</td>
</tr>
</tbody>
</table>

- Should the category benchmark be static based on approved targets, or dynamic?
- Meketa believes that using a static benchmark is appropriate for LACERA at the asset category level for the Risk Reducing and Mitigating category.
Risk Reducing and Mitigating – Investment Grade Bonds

<table>
<thead>
<tr>
<th>Sub Asset Class</th>
<th>% of aggregate</th>
<th>Potential Benchmark A</th>
<th>Potential Benchmark B</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment Grade Bonds</td>
<td>79.2</td>
<td>Bloomberg Barclays US Aggregate TR</td>
<td>Custom Blended Benchmark to reflect LACERA implementation</td>
</tr>
</tbody>
</table>

**Investment Grade Bonds:** The Bloomberg Barclays US Aggregate Bond Index is the most widely used benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market.

- Will LACERA continue to utilize Core Plus and how should Core Plus performance be measured?
- How much global exposure will LACERA have?

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Yield to Maturity</td>
<td>3.3</td>
<td>3.7</td>
<td>2.0</td>
<td>3.1</td>
</tr>
<tr>
<td>Average Duration</td>
<td>6.0</td>
<td>5.8</td>
<td>7.0</td>
<td>6.4</td>
</tr>
<tr>
<td>Average Quality</td>
<td>AA</td>
<td>AA</td>
<td>AA</td>
<td>A</td>
</tr>
<tr>
<td>Number of Issues</td>
<td>10,012</td>
<td>16,035</td>
<td>21,800</td>
<td>13,779</td>
</tr>
<tr>
<td>Top 3 Allocation Weightings</td>
<td>UST/Agency 41% MBS 30% Corporate 25%</td>
<td>UST/Agency 37% Corporate 31% MBS 25%</td>
<td>US Gov’t 22% Euro. Gov’t 24% Japan. Gov’t 20%</td>
<td>US Credit 51% Euro Credit 22% US Gov’t 16%</td>
</tr>
<tr>
<td>Geographic Exposure</td>
<td>US 100%</td>
<td>US 100%</td>
<td>US 47% Europe 32% Japan 21%</td>
<td>US 67% Europe 31% Japan 2%</td>
</tr>
</tbody>
</table>

1 As of June 30, 2018
Risk Reducing and Mitigating – Diversified Hedge Fund Portfolio

<table>
<thead>
<tr>
<th>Sub Asset Class</th>
<th>% of aggregate</th>
<th>Potential Benchmark A</th>
<th>Potential Benchmark B</th>
</tr>
</thead>
<tbody>
<tr>
<td>Diversified Hedge Fund Portfolio</td>
<td>16.7</td>
<td>Citigroup 3-month U.S. T-bill + 250 bps</td>
<td>Peer Group Benchmark</td>
</tr>
</tbody>
</table>

- **Diversified Hedge Fund Portfolio**: Cash plus a return premium is a common way to measure hedge fund performance.
  - Will the nature of LACERA’s hedge fund portfolio change in the future?
  - Does the premium reflect LACERA’s goals and is it consistent with potential returns?

<table>
<thead>
<tr>
<th></th>
<th>Expected Volatility (%)</th>
<th>10 Year Expected Return (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>LACERA Hedge Fund Composite</td>
<td>9.9</td>
<td>4.0</td>
</tr>
<tr>
<td>Long-Short</td>
<td>11.0</td>
<td>2.8</td>
</tr>
<tr>
<td>Event-Driven</td>
<td>10.0</td>
<td>4.6</td>
</tr>
<tr>
<td>Global Macro</td>
<td>8.0</td>
<td>3.3</td>
</tr>
<tr>
<td>CTA-Trend Following</td>
<td>10.0</td>
<td>3.0</td>
</tr>
<tr>
<td>Fixed Income/L-S Credit</td>
<td>10.0</td>
<td>4.0</td>
</tr>
<tr>
<td>Relative Value/Arbitrage</td>
<td>9.5</td>
<td>4.8</td>
</tr>
<tr>
<td>Cash</td>
<td>4.0</td>
<td>2.5</td>
</tr>
</tbody>
</table>

- The table above based on Meketa’s capital market expectations suggest a premium of 250 basis points to cash may be more appropriate.
- The mix of hedge fund strategies can have a meaningful impact on the expected premium.
Risk Reducing and Mitigating - Cash

<table>
<thead>
<tr>
<th>Sub Asset Class</th>
<th>% of aggregate</th>
<th>Potential Benchmark A</th>
<th>Potential Benchmark B</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>4.1</td>
<td>Citigroup 3 Month Treasury Bill</td>
<td>NA</td>
</tr>
</tbody>
</table>

- **Cash**: The Citigroup 3-month Treasury Bill Index is widely used for cash.
### Potential Total Fund Benchmark

<table>
<thead>
<tr>
<th>Total Policy Weight (%)</th>
<th>Aggregate Category</th>
</tr>
</thead>
<tbody>
<tr>
<td>47</td>
<td>Growth</td>
</tr>
<tr>
<td>12</td>
<td>Credit</td>
</tr>
<tr>
<td>17</td>
<td>Real Assets and Inflation Hedges</td>
</tr>
<tr>
<td>24</td>
<td>Risk Reducing and Mitigating</td>
</tr>
<tr>
<td><strong>Total Fund Benchmark</strong></td>
<td><strong>47% Growth Custom Benchmark / 12% Credit Custom Benchmark / 17% Real Assets and Inflation Hedges Custom Benchmark / 24% Risk Reducing and Mitigating Custom Benchmark</strong></td>
</tr>
</tbody>
</table>

- Should LACERA continue to use a dynamic policy benchmark?
- If LACERA shifts from a dynamic policy benchmark, should LACERA establish interim targets?
- Meketa believes that using a dynamic benchmark is appropriate for LACERA at the total fund level.
Overview of Benchmarks

Definition
A benchmark is a standard against which the performance of a security, mutual fund, or investment manager is measured. Generally, broad market stock or bond indexes are used for this purpose. However, the process becomes more complicated for multi-asset portfolios, illiquid assets, and unique asset classes.

Purpose
The primary purpose of a benchmark is to assist in the evaluation of an investment strategy or portfolio. For the evaluation to be meaningful, it is critical to:

- Select the correct benchmark,
- Understand what active decisions you are trying to measure.

Criteria
There are two widely accepted schools of thought for determining benchmark criteria.

- The Bailey Criteria includes six characteristics.
- The CFA Institute includes five characteristics.
- The criteria have some overlapping characteristics and concepts, which are shown in-depth on the next slide.
- Many commonly used benchmarks fail one or more of these tests, and thus the policy benchmark, made up of asset class benchmarks, will never be a perfect comparison for an institutional fund’s diversified asset allocation.
Bailey Benchmark Characteristics:

- **Unambiguous** - The individual securities and their weights in a benchmark should be clearly identifiable.
- **Investible** - It must be possible to replicate and hold the benchmark to earn its return (gross of fees).
- **Measurable** - It must be possible to measure the benchmark’s return on a reasonably frequent and timely basis.
- **Appropriate** - The benchmark must be consistent with the manager’s investment style or area of expertise.
- **Reflective of current investment options** - The manager should be familiar with the securities that constitute the benchmark and their factor exposures.
- **Specified in advance** - The benchmark must be constructed prior to the evaluation period so that the manager is not judged against benchmarks created after the fact.

CFA Benchmark Characteristics:

- **Investable** – It is possible to forgo active management and simply hold the benchmark. That is, investors can effectively purchase all securities in the benchmark.
- **Accessible** – Difficult to produce benchmarks should be avoided.
- **Transparent** – Understanding the underlying constituency of a benchmark is critical to understanding its suitability for a particular manager.
- **Independent** – A manager’s performance should not impact the prescribed benchmark return.
- **Relevant** – Spurious correlation exists between many random sets of data over various time periods. High correlation or low tracking error to a particular benchmark is not enough to conclude the benchmark is appropriate for a particular manager.
Primary Approaches to Asset Class Benchmarking

- Passive Index Benchmark
- Absolute Return Target Benchmark
- Passive Index Plus a Return Premium Benchmark
- Economic Indicator Plus a Return Premium Benchmark
- Peer Group Benchmark
Primary Approaches to Plan Level Benchmarking

- **Policy Benchmark**
  - A Policy Benchmark consists of multiple asset class indices, with the percentage allocation to each reflecting a plan’s target asset allocation.
  - A Policy Benchmark is useful for evaluating both asset allocation shifts (for example, an overweight of small cap equity and underweight of fixed income) and overall active manager performance.
  - There are two primary types of policy benchmarks, which are explained in greater detail on the next pages;
    - Static Benchmark,
    - Dynamic Benchmark.

- **Peer Group Benchmark**
  - Peer group benchmarks measure how well the Plans’ performance compares to other “similar” plans.
  - However, every Plan is unique and very few pension plans track performance at the total plan level.
  - Peer comparisons may be difficult to obtain and are only marginally useful.
Static Benchmark

- A Static Benchmark would consist of a static allocation to several broad market indices.
- A static benchmark is intended to offer a baseline comparison for both asset allocation and active management decisions.
- An example static benchmark for the Plans could be 55% domestic equity, 25% international equity and 20% fixed income.

Example

<table>
<thead>
<tr>
<th>Approximate Plan Allocation (%)</th>
<th>Index</th>
<th>December 2016 Index Performance (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment Grade Bonds 20</td>
<td>Barclays Aggregate</td>
<td>0.1</td>
</tr>
<tr>
<td>Domestic Equity 55</td>
<td>Russell 3000 Index</td>
<td>2.0</td>
</tr>
<tr>
<td>International Equity 25</td>
<td>MSCI ACWI ex-US IMI</td>
<td>2.5</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>1.7</td>
</tr>
</tbody>
</table>

- While a static benchmark uses a fairly basic construct, it can be a helpful starting point for benchmarking multi-asset portfolios.
- The Plan’s rebalancing policy will dictate how much the static benchmark’s allocation can deviate from actual plan exposures.
Dynamic Benchmark

- A Dynamic Benchmark would consist of multiple asset class indices, with the percentage allocation to each reflecting a plan’s actual asset allocation.
- A Dynamic Benchmark is useful for evaluating overall active manager performance, excluding the impact of allocation shifts.
- To calculate the Dynamic Benchmark return, the Plan’s previous period’s asset allocation percentages would be multiplied by broad index returns for each asset class to arrive at an actual allocation Plan performance number.

Example

<table>
<thead>
<tr>
<th>November 2016 Allocation (%)</th>
<th>Index</th>
<th>December 2016 Index Performance (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash / Short-Term Inv. Grade Bonds</td>
<td>5.0</td>
<td>50% Citigroup 1 mo T-Bill/ 50% Barclays US Gov/Credit 1-3 year</td>
</tr>
<tr>
<td>Investment Grade Bonds</td>
<td>13.1</td>
<td>Barclays Aggregate</td>
</tr>
<tr>
<td>Domestic Large Cap Equities</td>
<td>34.7</td>
<td>Russell 1000 Index</td>
</tr>
<tr>
<td>Domestic SMID Cap Equities</td>
<td>10.6</td>
<td>Russell 2500 Index</td>
</tr>
<tr>
<td>Domestic Small Index</td>
<td>1.2</td>
<td>Russell 2000 Index</td>
</tr>
<tr>
<td>International Equities</td>
<td>19.2</td>
<td>MSCI ACWI ex-US IMI</td>
</tr>
<tr>
<td>Real Assets</td>
<td>16.2</td>
<td>25% Bloomberg Commodity 25% FTSE NAREIT Index 25% S&amp;P Global Infrastructure 25% Barclays US TIPS</td>
</tr>
<tr>
<td>Total</td>
<td>100.0</td>
<td>1.7</td>
</tr>
</tbody>
</table>
## Equity Benchmarks

### Index Characteristics as of June 30, 2018

<table>
<thead>
<tr>
<th></th>
<th>Russell 3000</th>
<th>MSCI ACWI IMI</th>
<th>MSCI World ex U.S. IMI</th>
<th>MSCI EM IMI</th>
<th>MSCI World IMI</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>P/E Ratio</strong></td>
<td>22.8x</td>
<td>21.1x</td>
<td>16.3x</td>
<td>14.2x</td>
<td>20.1x</td>
</tr>
<tr>
<td><strong>Price to Book</strong></td>
<td>4.6</td>
<td>3.5</td>
<td>1.7</td>
<td>1.7</td>
<td>2.3</td>
</tr>
<tr>
<td><strong>Number of Holdings</strong></td>
<td>3,008</td>
<td>8,909</td>
<td>3,596</td>
<td>2,876</td>
<td>6,033</td>
</tr>
<tr>
<td><strong>Average Market Cap. ($B)</strong></td>
<td>179.9</td>
<td>587.6</td>
<td>514.8</td>
<td>206.3</td>
<td>769.3</td>
</tr>
<tr>
<td><strong>Median Market Cap ($B)</strong></td>
<td>1.9</td>
<td>108.1</td>
<td>121.0</td>
<td>44.9</td>
<td>157.3</td>
</tr>
<tr>
<td><strong>Yield</strong></td>
<td>1.8</td>
<td>2.3</td>
<td>3.0</td>
<td>2.6</td>
<td>2.3</td>
</tr>
<tr>
<td><strong>Top 3 Country Weightings</strong></td>
<td>USA 100%</td>
<td>USA 54%</td>
<td>Japan 23%</td>
<td>China 31%</td>
<td>US 60%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Euro.ex UK 14%</td>
<td>UK 17%</td>
<td>South Korea 15%</td>
<td>Japan 9%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>EM 9%</td>
<td>France 9%</td>
<td>Taiwan 13%</td>
<td>UK 7%</td>
</tr>
<tr>
<td><strong>Top 3 Sector Weightings</strong></td>
<td>Info. Tech 25%</td>
<td>Info. Tech 19%</td>
<td>Financials 20%</td>
<td>Info. Tech 27%</td>
<td>Info. Tech 18%</td>
</tr>
<tr>
<td></td>
<td>Healthcare 14%</td>
<td>Financials Cons. Disc. 17%</td>
<td>Industrials 15%</td>
<td>Financials Cons. Disc. 21%</td>
<td>Healthcare 16%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Cons. Disc. 13%</td>
<td>Cons. Disc. 12%</td>
<td>Cons. Disc. 11%</td>
<td>Cons. Disc. 13%</td>
</tr>
</tbody>
</table>
# Fixed Income Benchmarks

## Index Characteristics as of June 30, 2018

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Yield to Maturity</td>
<td>3.3</td>
<td>3.7</td>
<td>3.1</td>
<td>2.0</td>
<td>6.6</td>
<td>6.7</td>
</tr>
<tr>
<td>Average Duration</td>
<td>6.0</td>
<td>5.8</td>
<td>6.4</td>
<td>7.0</td>
<td>4.3</td>
<td>3.9</td>
</tr>
<tr>
<td>Average Quality</td>
<td>AA</td>
<td>AA</td>
<td>A</td>
<td>AA</td>
<td>B</td>
<td>B</td>
</tr>
<tr>
<td>Number of Issues</td>
<td>10,012</td>
<td>16,035</td>
<td>13,779</td>
<td>21,800</td>
<td>3,396</td>
<td>1,995</td>
</tr>
<tr>
<td>Top 3 Allocation Weightings</td>
<td>UST/Agency 41% MBS 30% Corporate 25%</td>
<td>UST/Agency 37% Corporate 31% MBS 25%</td>
<td>US Credit 51% Euro Credit 22% US Gov’t 16%</td>
<td>US Gov’t 22% Euro. Gov’t 24% Japan. Gov’t 20%</td>
<td>US Credit 62% US Gov’t 21% Euro.Credit 16%</td>
<td>US Corporate 100%</td>
</tr>
<tr>
<td>Geographic Exposure</td>
<td>US 100%</td>
<td>US 100%</td>
<td>US 67% Europe 31% Japan 2%</td>
<td>US 47% Europe 32% Japan 21%</td>
<td>US 82% Europe 18%</td>
<td>US 100%</td>
</tr>
</tbody>
</table>
TO: Each Member
Board of Investments

FROM: Jonathan Grabel
Chief Investment Officer

FOR: August 8, 2018 Board of Investments

SUBJECT: UPDATE ON CONVERSION OF DESIGNATED PUBLIC EQUITY AND FIXED INCOME COMMINGLED TRUST FUNDS TO SEPARATE ACCOUNTS

This memo is the first update on the transition of LACERA’s group trust investments to separate accounts.

At the January 10, 2018 Board meeting, the Board approved the conversion and consolidation of LACERA’s investments in certain public equity and fixed income commingled investment products managed by BlackRock Trust Company to separate accounts.

As of the end of June, the transition of LACERA’s U.S. equity investments to a separate account has been completed. This consolidated three of LACERA’s commingled indexed U.S. equity funds (approximately 18% of LACERA’s Total Fund or $10.1 billion) into a single indexed separate account fund, which is LACERA’s U.S. equity benchmark. The account conversion provides LACERA with full beneficial ownership of the underlying assets, expanded legal rights, cost savings, and enhanced transparency related to performance and risk analytics on LACERA’s U.S. equity index fund.

In the upcoming months, staff will transition the remaining commingled non-U.S. equity and fixed income fund to separate accounts. Further updates on the progress will be provided to the Board in the future.
July 24, 2018

TO: Each Member
   Board of Investments

FROM: Jonathan Grabel
       Chief Investment Officer

FOR: August 8, 2018 Board of Investments Meeting

SUBJECT: DELIVERY DATE OF 2Q2018 PERFORMANCE MATERIALS

Due to the July 4th holiday, OPEB Master Trust transition to the functional asset allocation, and the need for our custodian to have time to reconcile values for fiscal year end, performance materials for the third quarter will be delayed. The LACERA, OPEB, and Meketa performance reports will be emailed after the August Board meeting and placed on the September 2018 Board of Investments agenda.
July 17, 2018

TO: Each Member
Board of Investments

FROM: Christopher J. Wagner
Principal Investment Officer

FOR: August 8, 2018 Board of Investments Meeting

SUBJECT: PERFORMANCE REVIEW OF PRIVATE EQUITY CONSULTANT
STEPSTONE GROUP

Pursuant to the Board’s direction that each Consultant be reviewed and evaluated on an annual basis, LACERA requested the Private Equity Consultant, StepStone Group, complete a self-assessment. Attached is the self-assessment submitted by the Consultant.

Attachment

NOTED AND REVIEWED:

Jonathan Grabel
Chief Investment Officer
July 12, 2018

To:       LACERA Board of Investments
From:     Jose Fernandez, Natalie Walker, Qi Liu
           StepStone Group LP
Re:       StepStone Group Self-Evaluation

To Whom It May Concern,

Per the contract signed on October 1, 2016 between the private equity investment consultant StepStone Group LP (“StepStone” or the “Consultant”) and the Los Angeles County Employees Retirement Association (“LACERA”), StepStone is to conduct an annual self-evaluation and provide information for the Board to review and evaluate the Consultant. To facilitate the Board’s review, StepStone is providing a list of services and projects completed on behalf of LACERA between June 30, 2017 and June 30, 2018.

**Self-Assessment**

Over the course of the past year, StepStone has provided the following services and completed the following key projects on behalf of the LACERA Board of Investments (the “Board”):

- Carried out the Board’s strategic goals and initiatives and reported directly to the Board.
  
  Status: Completed.

- Provided information and research regarding significant changes in the private equity industry, including best practices, trends, and major events. StepStone serviced LACERA by leveraging over 350 professionals across StepStone’s 16 offices in 11 countries. StepStone hosted the Board and research staff in multiple offices and geographies throughout the year.

  Status: Completed.

- Reviewed the Private Equity Objectives, Policies, and Procedures (“OPP”) prepared by LACERA staff and recommended changes or modifications as appropriate considering changes in the private equity portfolio, the private equity markets, or the capital markets.

  Status: Completed.

- Worked jointly with LACERA staff in preparing the Private Equity Annual Investment Plan and recommended changes or modifications as appropriate considering changes in the OPP, the existing private equity portfolio, the private equity markets, and the capital markets.

  Status: Completed December 2017.
- Leveraged a sourcing program that incorporates LACERA staff and Consultant resources to identify investment opportunities that satisfy the Private Equity Annual Investment Plan. StepStone utilizes a highly local approach to each of the global markets, by leveraging six offices in North America, four offices in Europe and six offices in Asia and Rest of World.

  Status: Completed and ongoing.

- Introduced LACERA staff to top caliber managers and promoted direct LACERA access to funds based on size and speed to close.

  Status: Completed and ongoing.

- Accompanied LACERA Board and/or staff to meetings with general partners and industry conferences in the United States, China, Europe, South America and the Middle East.

  Status: Completed and ongoing.

- Provided LACERA staff a rolling 24-month forward calendar of high conviction general partners, presented by investment strategy and geography.

  Status: Completed and ongoing.

- Provided LACERA staff guidance and introductions to managers executing successful investment strategies in relatively hard-to-access, niche markets.

  Status: Completed and ongoing.

- Disclosed all firm research, including white papers, and provided access to research staff via StepStone’s proprietary private market information database ("SPI"). SPI tracks information on 41,000 companies, 29,000 funds, and 12,000 general partners.

  Status: Completed and ongoing.

- Conducted independent evaluations and provided Board recommendations on nine fund opportunities, totaling approximately US$1 billion in approved capital commitments, as requested by the Board and/or LACERA staff. Recommendations included a detailed memorandum outlining the results of the due diligence, strategic considerations, and fit within the LACERA portfolio, as well as merits and concerns of the investment. Between June 30, 2017 and June 30, 2018, StepStone completed an initial review on 1,591 funds, a further review on 320 funds, due diligence on 247 funds, and approved 200 funds.

  Status: Completed.

- Evaluated and provided written recommendations on 53 proposed amendments to partnership agreements.

  Status: Completed.

- Evaluated 90 Secondary Interests offered to LACERA and provided guidance on LACERA’s rights and the appropriateness of the interest for LACERA’s portfolio.

  Status: Completed.

- Presented and provided an annual review of the private equity portfolio to the Board.
Status: Completed December 2017.

- Periodically provide educational presentations to the Board on specific issues. Presented on Emerging Markets and Long-dated Funds during the May 2018 Board meeting.

  Status: Completed May 2018 and ongoing.

- Attended 10 LACERA Board of Investments and Equity Committee meetings and two off-site meetings.

  Status: Completed.

**Conclusion**

StepStone believes the past year has been an active and productive one for the private equity portfolio, investment staff and Consultant. StepStone attended 10 Board meetings and two offsite seminars. In collaboration with staff, StepStone presented the 2018 Private Equity Investment Plan and Private Equity Objectives, Policies, and Procedures, which were approved by the Board in December 2017. We completed an annual review of the private equity portfolio, including a private equity market update, a review of LACERA’s private equity program and performance, and assisted in 2018 strategic planning. At the request of the Board and staff, StepStone presented on private equity emerging markets and long-dated funds, providing an overview of the respective markets and opportunities available to LACERA. In collaboration with staff, StepStone sourced, reviewed, approved and presented nine private equity fund investments, totaling approximately US$1 billion in approved capital commitments. Year to date, LACERA is on pace to meet its target investment plan set by the board in December 2017.

Looking ahead, StepStone remains excited about the prospects for the private equity program for the remainder of 2018 and beyond. StepStone is currently working with staff on a number of projects. We look forward to working with the Board to further deepen the relationship we’ve established to date. Thank you for your continued trust and guidance. If you have any questions or comments, please feel free to contact us at (858) 558-9700.

Sincerely,

StepStone Group LP
FOR INFORMATION ONLY

July 24, 2018

TO: Each Member
   Board of Investments

FROM: John McClelland
       Principal Investment Officer

FOR: August 8, 2018 Board of Investments Meeting

SUBJECT: PERFORMANCE REVIEW OF REAL ESTATE CONSULTANT
         THE TOWNSEND GROUP

Pursuant to the Board’s direction that each Consultant be reviewed and evaluated on an annual basis, LACERA requested the Real Estate Consultant, The Townsend Group, complete a self-assessment. Attached is the self-assessment submitted by the Consultant.

Attachment

NOTED AND REVIEWED:

____________________________
Jonathan Grabel
Chief Investment Officer

JM:dr
Pursuant to the Statement of Work incorporated into the Real Estate Consulting Services Agreement between LACERA and Townsend Holdings LLC, Townsend has prepared the attached Self Assessment Questionnaire for the Board’s review. The attachment provides a list of projects over the last twelve month period and the status of completion.

**Statement of Work:**

"The Consultant will provide the Board with the necessary information to conduct an annual assessment, including but not limited to, a completed self assessment questionnaire, a list of projects and status of completion, and changes recommend by the Board at the prior evaluation, and the status of implementing those specific changes."

LACERA remains a recognized leading global investor and an important client of the firm. We thank you for the opportunity to serve LACERA and its constituents and look forward to the Board’s feedback on how Townsend can continue to improve the services provided.
**Attachment 1**

- **Client Name:** Los Angeles County Employees' Retirement Association (LACERA)
- **Consultant Name:** Townsend Group, an Aon Company
- **Asset Class(es):** Real Estate
- **Contract Inception Date:** 7/1/2016
- **Contract Expiration Date:** 7/1/2021
- **Extension Options:** Yes; Successive One-Year Extension Options Available

**Primary Consultant:** Jennifer Young Stevens  
**Secondary Consultant:** Micolyn Magee  
**Vice President:** Robert Miranda  
**Associate:** Felix Fels  
**Associate:** Ryan Skubic (New Analyst Hire Underway)

<table>
<thead>
<tr>
<th>Status/Self Assessment</th>
<th>LACERA Statement of Work</th>
<th>Presented to LACERA Real Estate Committee/Board</th>
<th>Examples/Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Complete</td>
<td>Work jointly with LACERA staff in reviewing the Real Estate Objectives, Policies and Procedures on an annual basis. Consultant shall recommend any changes or modifications as may be appropriate in light of changes in the real estate portfolio, the real estate markets, or the capital markets.</td>
<td>Yes</td>
<td>Townsend conducted a formal review of the OPP in June 2018.</td>
</tr>
<tr>
<td>Complete</td>
<td>Review the Annual Investment Plan prepared by LACERA staff and recommend any changes or modifications as may be appropriate in light of changes in the Real Estate Objectives, Policies and Procedures, the existing real estate portfolio, the real estate markets, and the capital markets. The Consultant will provide an opinion to the Board on the Investment Plan outlining any concerns or concurrence.</td>
<td>Yes</td>
<td>Townsend reviewed the LACERA Staff’s Annual Investment Plan in June 2018.</td>
</tr>
<tr>
<td>Ongoing/Fulfilled Obligation</td>
<td>Assist LACERA staff and/or the Board in conducting searches for real estate investment managers.</td>
<td>Yes</td>
<td>There were no separate account searches for real estate investment managers over the last twelve months. Regarding fund level searches (also detailed below), Townsend provides LACERA Staff with its monthly fund underwriting pipeline report. Townsend also assisted LACERA Staff with planning site visits in Europe and Asia in 2017/2018. Townsend provides a list of “Alternatives Considered” in all client-specific investment recommendations.</td>
</tr>
<tr>
<td>Ongoing</td>
<td>Provide research support related to specific investment opportunities as may be requested by LACERA staff and/or the Board.</td>
<td>Ad Hoc/As Requested</td>
<td>Townsend provides LACERA Staff with the following information, which can be available to the Board upon request: Townsend Monthly Pipeline Report, Townsend Quarterly Open-End Fund Report and Bi-Annual Core Market Review, Bi-Annual View of the World Publication, All “Firm-Wide” Investment Recommendations, Quarterly Market Overviews and ad hoc research publications. Searches are underway for US and ex-US investment opportunities.</td>
</tr>
<tr>
<td>Ongoing/Fulfilled Obligation</td>
<td>Provide information and research on real estate investment subjects which may affect LACERA’s portfolio, including a review of real estate investment materials forwarded to Consultant by LACERA staff.</td>
<td>Ad Hoc/As Requested</td>
<td>Townsend representatives attend GP annual meetings / advisory board meetings throughout the year and provide notes to LACERA Staff for overlapping exposures. Recent examples include Townsend’s participation in the ProLogis European Logistics Fund and Europa conferences in June 2018.</td>
</tr>
<tr>
<td>Ongoing/Fulfilled Obligation</td>
<td>Provide information and research regarding significant changes in the real estate investment management industry, including trends and major events.</td>
<td>Yes</td>
<td>The LACERA Staff (and Board, as requested) is provided with Townsend’s Bi-Annual View of the World, which provides an overview of Townsend’s research on the global investment markets, including trends and major events. The 2H2018 View of the World was circulated to LACERA Staff and Real Estate Committee in June 2018. Townsend’s shorter Quarterly Market Overview is also prepared and provided in conjunction with LACERA Performance Measurement Reports and included in Board materials. Finally, Townsend participated in the Real Assets conversation, covering research on Timber and Agriculture during the asset allocation study in 2018.</td>
</tr>
<tr>
<td>Ongoing/In Process</td>
<td>Report to the Board and LACERA staff with changes with existing investment managers that could affect the performance of the portfolio. The changes could include organizational and structural changes, key personnel changes, and client turnover.</td>
<td>Yes</td>
<td>Townsend believes that LACERA Staff has an efficient process for reviewing and reporting this information. The Consultant will report turnover or significant events to Staff as received and/or in the context of the quarterly report. A more formal request for information related to “Organizational Updates” was circulated to each LACERA manager in June 2018 and will be updated annually and provided to LACERA Staff upon completion.</td>
</tr>
<tr>
<td>Ongoing/Fulfilled Obligation</td>
<td>Conduct independent evaluations and provide recommendations on commingled fund opportunities as requested by LACERA staff and/or the Board. Recommendations will include a detailed memorandum outlining the results of the due diligence, strategic considerations, and fit within the LAC ERA portfolio, as well as merits and concerns of the investment.</td>
<td>Yes</td>
<td>Townsend completed fund level due diligence on the following investment recommendations for LACERA over the last twelve months, several of which were presented to the LACERA Board for approval: (1) Heitman Asia Property Investors (2) AEW Asia (3) Angelo Gordon Europe (4) ARES Europe – did not ultimately proceed with a recommendation to the BOI. Additional and/or ongoing due diligence is not named here, as it has not yet been presented to the LACERA Board.</td>
</tr>
<tr>
<td>Complete</td>
<td>Provide quarterly performance reports on the total portfolio as well as each manager’s sub-portfolio. Each manager’s performance is to be compared to the returns of the other managers and the total portfolio. The portfolio returns are to be compared to the real estate benchmark. Calculate performance metrics including internal rate of return, time weighted returns, and multiple calculations. The quarterly report should include an outline of significant events and market overview. On an annual basis, the Consultant will present and provide a full review of the real estate portfolio to the Board.</td>
<td>Yes</td>
<td>Townsend presented the performance report to the Real Estate Committee in June 2018 due to a full BOI agenda.</td>
</tr>
<tr>
<td>Completed/Ongoing</td>
<td>Assist LACERA staff in providing detailed attribution analysis on the real estate portfolio, including reasons for over/under performance compared to the benchmark.</td>
<td>Yes</td>
<td>Between June 2017 and June 2018, Townsend conducted a three-phase attribution project related to the performance of the Separate Account Portfolio. This results and key findings of this project were reported to both the LACERA REC and the BOI and resulted in considerable changes to the structure of the Real Estate program, which are now reflected in the OPP and Investment Plan. Manager meetings with each of the Separate Account managers are underway to discuss next steps.</td>
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<tr>
<td>Ongoing/Fulfilled Obligations</td>
<td>Attend Board meetings, annual off-site meeting and Real Estate Subcommittee meetings as required.</td>
<td>Yes</td>
<td>Townsend attended approximately 19 LACERA Staff/Board/REC Meetings in 12 Months, including two Off-Site meetings. Townsend presented at the February 2018 Off-Site and participated as an observer at the July 2018 Off Site. Townsend personnel were present at all required meetings over the last 12 month period.</td>
</tr>
<tr>
<td>Ongoing/Fulfilled Obligations</td>
<td>Notify the Board of any identified material issues that may impact investment performance and recommend a course of action to enhance returns or mitigate risk.</td>
<td>Yes</td>
<td>Performance Considerations – Examples of notification to the REC/BOI include the key findings of the Portfolio Attribution Project and commentary provided in the Townsend memos with respect to the OPP / Annual Investment Plan. Townsend’s client-specific investment recommendations also accompany all Staff reports for commingled funds and provide a comprehensive overview of key risks associated with investments under consideration. Portfolio Compliance - Recently identified the overweight position in the Pacific NW exposure and highlighted an increased concentration in multifamily exposure. Steps were taken to revise guidelines in June 2018 (as well as reducing this exposure) and the Portfolio is now in compliance with the OPP guidelines.</td>
</tr>
<tr>
<td>Ongoing/Fulfilled Obligations</td>
<td>The Board will review and evaluate the Consultant annually to ensure that services and communications provided by the Consultant are clear, effective, and meaningfully aligned with the Board’s overall policy objectives, and that the Board is receiving the quality services envisioned at the time of the consultant’s engagement. The Consultant will provide the Board with the necessary information to conduct an annual assessment, including but not limited to, a completed self assessment questionnaire, a list of projects and status of completion, and changes recommended by the Board at the prior evaluation, and the status of implementing those specific changes.</td>
<td>Yes</td>
<td>A self-assessment report was filed in 2017. This report assists the Board with the completion of this task for 2018.</td>
</tr>
<tr>
<td>Complete</td>
<td>Maintain historical information, including all cash flow, net asset values, commitments (total, funded, and unfunded), fee payments, cost basis, and leverage by separate account and fund.</td>
<td>Yes</td>
<td>Historical information is always available to the LACERA Staff and Board upon request. LACERA Staff and Townsend are in frequent communication on this topic, specifically with respect to the quarterly performance measurement reports.</td>
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<tr>
<td>Examples of Other Consultant Activities in 2017/2018</td>
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<tr>
<td>• Real Assets Educational Presentation - Materials presented to LACERA BOI at February Off-Site</td>
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<tr>
<td>• LACERA Staff On-Site Visits in Townsend's Hong Kong and London Offices</td>
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<tr>
<td>• Completion of Three-Phase Performance Attribution Project resulting in Structural Review and Changes to OPP</td>
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<tr>
<td>• Provided meeting notes, commentary and due diligence reports (if available) for funds LACERA met with throughout the year</td>
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<tr>
<td>• Continued review of Latin America, Asia and European opportunities - continued discussions regarding markets and strategies under consideration</td>
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<tr>
<td>• Townsend fund pipeline report provided to LACERA Staff once each month</td>
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<tr>
<td>• Townsend US Open-End Fund Data Appendix (produced quarterly) provided to LACERA Staff alongside US OECF Rankings (produced annually)</td>
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<tr>
<td>• Townsend summarized key information on all investment opportunities presented to LACERA throughout the year</td>
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<tr>
<td>• In addition to LACERA Staff, Townsend representatives attended/participated in annual meetings for several LACERA managers over the last twelve months</td>
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</tbody>
</table>
## Attachment 2 - List of Meetings Attended by Townsend

<table>
<thead>
<tr>
<th>LACERA Meetings</th>
<th>Primary Consultant in Attendance</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>6/14/2017</td>
<td>Jennifer Stevens</td>
<td>Board or REC Meeting</td>
</tr>
<tr>
<td>7/10/2017</td>
<td>Jennifer Stevens</td>
<td>LACERA Board Off-Site</td>
</tr>
<tr>
<td>8/9/2017</td>
<td>Jennifer Stevens</td>
<td>Board or REC Meeting</td>
</tr>
<tr>
<td>9/11/2017</td>
<td>Micolyn Magee</td>
<td>Board or REC Meeting</td>
</tr>
<tr>
<td>10/11/2017</td>
<td>Jennifer Stevens</td>
<td>Board or REC Meeting</td>
</tr>
<tr>
<td>11/6/2017</td>
<td>Jennifer Stevens</td>
<td>Phase 1 Attribution Presentation</td>
</tr>
<tr>
<td>12/13/2017</td>
<td>Jennifer Stevens</td>
<td>Board or REC Meeting</td>
</tr>
<tr>
<td>1/10/2018</td>
<td>Micolyn Magee</td>
<td>Board or REC Meeting</td>
</tr>
<tr>
<td>2/1/2018</td>
<td>Jennifer Stevens</td>
<td>LACERA Board Off-Site</td>
</tr>
<tr>
<td>2/14/2018</td>
<td>Jennifer Stevens</td>
<td>Board or REC Meeting</td>
</tr>
<tr>
<td>3/5/2018</td>
<td>Jennifer Stevens</td>
<td>Board or REC Meeting</td>
</tr>
<tr>
<td>4/3/2018</td>
<td>Jennifer Stevens</td>
<td>Phase 2 Attribution Presentation</td>
</tr>
<tr>
<td>4/11/2018</td>
<td>Jennifer Stevens</td>
<td>Board or REC Meeting</td>
</tr>
<tr>
<td>5/9/2018</td>
<td>Jennifer Stevens</td>
<td>Board or REC Meeting</td>
</tr>
<tr>
<td>5/30/2018</td>
<td>Jennifer Stevens</td>
<td>IMA Manager Meeting</td>
</tr>
<tr>
<td>5/31/2018</td>
<td>Jennifer Stevens</td>
<td>IMA Manager Meeting</td>
</tr>
<tr>
<td>6/13/2018</td>
<td>Jennifer Stevens</td>
<td>Board or REC Meeting</td>
</tr>
<tr>
<td>6/26/2018</td>
<td>Robert Miranda</td>
<td>IMA Manager Meeting</td>
</tr>
<tr>
<td>7/9/2018</td>
<td>Micolyn Magee</td>
<td>Off-Site</td>
</tr>
</tbody>
</table>

*Additional Townsend representatives often present at meetings, but not listed above. List does not include LACERA Staff Meetings with Townsend’s London or Hong Kong offices or other external meetings.*
FOR INFORMATION ONLY - REVISED

July 30, 2018

TO: Each Member
    Board of Investments
    Board of Retirement

FROM: Jonathan Grabel
    Chief Investment Officer

FOR: Board of Investments Meeting of August 8, 2018
     Board of Retirement Meeting of August 9, 2018

SUBJECT: STATE STREET INCIDENT REPORT – UPDATE #2

At the June 13, 2018 Board of Investments meeting, a memo was provided to inform the Board of two data security incidents that occurred at State Street Bank, as well as to provide an update on wire fraud charges related to former State Street executives (attached). This memo is to notify the Board of a third data incident that occurred at State Street as well as provide a second update on the wire fraud charges.

Data Incident

The most recent data security incident involved the unauthorized permission of a third party to access LACERA’s data. State Street initially contacted LACERA’s CEO and CIO on July 2, 2018 (with a letter dated June 22, 2018) regarding the data breach. Members of LACERA’s Executive, Legal, and Systems divisions then met for further discussion. A breakdown of the incident is as follows:

*Incident #3: A U.S. based investment firm not affiliated with LACERA was granted unauthorized access to LACERA’s holdings and trade information.*

- A State Street employee received a request from a fixed income investment manager not affiliated with LACERA to access LACERA’s data via State Street’s client portal. The State Street employee granted access to the outside firm who then viewed the position and trade activity of one of LACERA’s fixed income managers. The user contacted State Street on June 7th, 2018 and at that point, State Street revoked the user’s access.
- In response to this incident, State Street reminded employees regarding client information safeguards and user access request procedures. In addition, user access requests now require a secondary review by a member of State Street management.
Because the data included sensitive trade information, LACERA views this incident as more serious than the two that occurred earlier this year. To date, there is no evidence that the information has been misused. Nevertheless, LACERA will ask State Street to notify the manager whose data was accessed so that all relevant parties are aware of the data breach. It is notable that there have been three separate incidents since February originating from different departments within State Street. As a result, LACERA will send a letter to State Street’s senior management team (email to State Street’s CEO attached) requesting an in-person meeting to directly address the security lapses that have occurred this year.

**Fraud Charges Update**

On June 26, 2018, the former global head of State Street’s portfolio solutions group was found guilty of charges including conspiracy, securities fraud and wire fraud. To date, four former State Street executives have been charged with adding secret commissions to transition management clients. In addition to the personnel charges, State Street has paid $102.6 million in civil and criminal settlements in the United States and the United Kingdom over the claims.

It is worth repeating that as LACERA’s custodial book of record, State Street is contractually obligated to act as a fiduciary for many of its services and must maintain the confidentiality of LACERA information. LACERA will continue to convey the seriousness of these issues to State Street executive management and will revert back to both Boards, as necessary, with significant updates.

Attachments

---

c: Rob Hill
   James Brekk
   Steven Rice
   Richard Bendall
   John Popowich
   Bernie Buenafior
   Roxana Castillo
May 18, 2018

TO: Each Member
   Board of Investments

FROM: Jon Grabel
       Chief Investment Officer

FOR: June 13, 2018 Board of Investments Meeting

SUBJECT: STATE STREET INCIDENT REPORT

This memo is to inform the Board of two data security incidents that occurred at State Street Bank in the first quarter of 2018, as well as to provide an update on wire fraud charges related to former State Street executives.

Data Incidents

The two data security incidents involved the unauthorized disclosure of LACERA’s information to external email addresses. In both cases, State Street initially contacted the Investment Office who then met with LACERA’s Executive, Internal Audit, Legal, and Systems divisions for further discussion. A breakdown of each incident is as follows:

**Incident 1: Disclosure of LACERA’s market value and performance information to a U.S.-based non-financial investment consultant not affiliated with LACERA.**

- This incident was reportedly caused by human error on January 19, 2018. A State Street employee within the Performance and Analytics team was working with a third party consultant and sent that party LACERA performance data. This information is considered public; however, the data should not have been disseminated.
- Upon State Street’s request, the consultant provided an attestation letter stating that all information not relating to their client was deleted from their network server. State Street notified LACERA of this incident on February 16, 2018, 28 days after it occurred, and was documented internally.
- In response to this incident, State Street reported that it enhanced its data transmission controls and procedures.
Incident 2: Disclosure of LACERA’s demand deposit account numbers and client contact information was emailed to an external email address.

- This incident was reportedly caused by human error on March 1, 2018. A State Street employee working within the Client Onboarding team in Banking Services sent a file of client information intended for internal use, to one external email address. Upon State Street’s request, the recipient confirmed that the emailed files had been deleted and not transferred, recorded or used in any manner. State Street notified LACERA of this incident on May 10, 2018, 69 days after it occurred.

- State Street’s response to this incident is still pending.

While there is no indication that the information disseminated in the aforementioned data incidents has been or will be misused, staff informs the Board for two reasons: First, the two incidents happened in different parts of the bank within five weeks of each other; and second, State Street provided delayed notification to LACERA in both cases as noted above. Both of these points have been addressed with State Street, and our expectation is that the bank’s controls and client communication should improve. LACERA has requested additional information from State Street on both incidents and specific information as to its process changes to reduce the risk of such incidents in the future and ensure timely client communication when incidents do occur. LACERA will follow up on these issues with the bank to ensure that additional information is provided, and will take other steps as appropriate to monitor the bank’s processes.

Fraud Charges

State Street has been in the news over on-going indictments related to a secret fee scheme within its transition management business. A former State Street executive was arrested on May 4, 2018 and was charged with conspiring to commit wire fraud. To date, four former State Street executives have been charged for defrauding clients by charging secret fees and commissions on trades between 2010 and 2011. Additionally, State Street has paid $102.6 million in civil and criminal settlements in the United States and the United Kingdom over claims that State Street collected extra fees on certain transactions by six institutional clients.

Staff contacted State Street regarding the charges, and as the case is currently an active investigation with the Department of Justice and U.S. Attorney’s Office, limited information was provided.

The most recently charged individual is a current employee of BlackRock in its transition management team. However, BlackRock informed LACERA that the individual did not work on any of LACERA’s mandates and has been placed on administrative leave (Attachment). In addition, State Street noted in an email that the former employee did not work on LACERA business.

As LACERA’s book of record, State Street is held to a high standard. Furthermore, as LACERA’s pension grows in breadth and complexity, LACERA must be confident that its custodian can service the pension in its current state and well into the future. To that point, State Street must prevent and detect any circumstance that would cause LACERA to believe that there are serious systemic issues at the Bank.
Each Member, Board of Investments  
May 18, 2018  
Page 3 of 3

Under its agreement with LACERA, State Street is a fiduciary with respect to many of its services and otherwise is required to perform its services with the highest degree of due care, prudence, and skill. State Street is contractually obligated to maintain the confidentiality of LACERA information. State Street is required to notify LACERA promptly when information is disclosed or compromised and when it or its employees are subject to civil or criminal complaints in matters relating to the services it provides to LACERA or its ability to perform the services. LACERA has access and the right to inspect State Street documents, premises, and operations.

LACERA staff will continue to monitor State Street in regard to these issues and revert back to the Board with updates.

Attachment

jc: Rob Hill
   James Brekk
   Steven Rice
   Richard Bendall
   John Popowich
   Bernie Buenaflor
   Roxana Castillo
Mr. Jude Perez  
Los Angeles County Employees' Retirement Association  
Via Email

On Friday, May 4, 2018, BlackRock learned via press reports that Kevin Walker, a Director on our Transition Management Team in Boston, was arrested in connection with activities that relate solely to his prior employment at State Street.

Prior to Mr. Walker's arrest, BlackRock had not been aware that he was being investigated in connection with his prior work at State Street, where the alleged misconduct took place.

Mr. Walker joined BlackRock in our Boston office in April 2015. He has now been placed on administrative leave.

There is no indication that Mr. Walker engaged in any wrongful activity at BlackRock and Mr. Walker was not assigned to and did not complete work on behalf of LACERA transitions. While the alleged misconduct took place prior to his joining our firm, we are taking this matter seriously.

We're confident in our systems and processes, and while we have no reason to believe there has been any inappropriate activity in client portfolios, we are going to perform a review of Mr. Walker's activities at BlackRock. We will communicate with you throughout this process and provide LACERA the outcome of the review of Mr. Walker's activities at BlackRock when completed.

Please don't hesitate to contact us with any questions.

Kind regards,

Rajeev Ghia  
Director  
415-670-2634
Dear Mr. Hooley:

State Street is a critical business partner for the Los Angeles County Employees Retirement Association (LACERA). Our 165,000 current and retired members are dependent upon our ability to pay approximately $3 billion in annual retirement benefits while prudently growing our $56 billion trust fund to meet future obligations. We have worked with State Street as our global custodian for over five years.

Over the term of the relationship, State Street has attended to LACERA’s needs including those from our evolving treasury, custody, accounting, performance, risk, systems and compliance perspectives. Since the beginning of 2018, however, there have been a series of significant data security incidents that create concerns for the management team at LACERA as to the adequacy of State Street’s security processes. The issues began in January 2018 with State Street sending our performance and market value data to an investment consultant not affiliated with LACERA. The breaches continued in March with our demand deposit account numbers and client contact information being emailed to a party not affiliated with LACERA. Most recently, an investment firm with whom LACERA does not do business was granted access to LACERA holdings and trade information.

Such incidents are unacceptable and raise a variety of concerns. First, State Street was extremely slow in reporting these matters to LACERA. The initial notice often took over a month. Moreover, LACERA’s requests for details surrounding these issues were tardy and incomplete. Secondly, the quick succession of data security short-falls in various areas of our multi-dimensional relationship with State Street raises questions about our systemic dependence on State Street. LACERA cannot miss a benefit payment. Nor can we misplace an asset held for our members or tolerate information about our fund’s holdings to be accessed by others without LACERA’s advance knowledge and consent. The gravity associated with our fiduciary duty is of paramount importance to us. We expect the same standard of care from our global custodian. Thirdly, are these incidents indicative of three random and unrelated events or are they representative of fundamental flaws in State Street’s data security or a declining risk management culture?

The coverage team assigned to the LACERA account has tried to mitigate relationship damages and has worked to maintain the partnership with LACERA. We have not found these efforts to be entirely satisfactory, as noted above. Notwithstanding these outreach measures, the management team at LACERA would like to meet with senior executive management at State Street to discuss our business partnership. Our assets under management and benefit payments continue to rise, our OPEB trust is evolving and our investment strategies are growing in complexity. Our manifold responsibilities to our members requires that we re-underwrite the commitment and capabilities from our global custodian. We have shared these issues with our Boards (see attached). We expect a comprehensive response and the necessary attention from State Street.

I look forward to our discussions.

Regards.

Jon

Jonathan Grabel
Chief Investment Officer
LACERA
July 18, 2018

TO: Each Member
    Board of Investments

FROM: Robert Z. Santos
    Investment Officer

FOR: August 8, 2018 Board of Investments Meeting

SUBJECT: OAKTREE CAPITAL MANAGEMENT

On July 9, 2018, Oaktree Capital Management (Oaktree) notified staff (see Attachment) that the firm agreed to pay a fine of $100,000 to the Securities and Exchange Commission (SEC) in connection with campaign contributions made by three of its employees to candidates for political office. Oaktree’s policies require employees to obtain preclearance before contributing to a candidate’s campaign, but these three contributions violated the policies either by failing to preclear or by exceeding the precleared amount.

In 2016, the SEC (as part of an industry-wide sweep), asked for information on political campaign contributions made by Oaktree employees. The SEC’s initial investigation discovered that an employee failed to preclear a contribution. This prompted Oaktree to further analyze their records, uncovering two additional employee violations referenced in the attachment. In total, the three employees violated Oaktree’s policies by $2,050. None of the employees cited for a violation were associated with any of LACERA’s accounts.

Although the offenses may seem minor, Oaktree is treating the matter seriously, noting that “nothing is more important than conducting ourselves with the highest integrity.” To mitigate against future violations, Oaktree has retrained the employees involved, upgraded their procedures, and implemented new training and surveillance tools. Furthermore, Oaktree is prohibiting its 900+ employees from contributing to “candidates for or current holders of state and local office.”

Oaktree is one of LACERA’s two high yield fixed income managers. The firm has managed a high yield portfolio for LACERA since July 1997. As of June 30, 2018, Oaktree managed $405 million in high yield assets for LACERA. The firm also manages distressed assets housed in multiple funds within LACERA’s private equity asset class. As of March 31, 2018, Oaktree managed $110 million in distressed debt assets for LACERA.
Each Member, Board of Investments
July 18, 2018
Page 2

Staff has reviewed Oaktree’s new policies regarding campaign contributions and is satisfied with the enhanced controls.

Attachment

Noted and Reviewed:

____________________________
Jonathan Grabel
Chief Investment Officer

RZS:cll
Memo to: Oaktree Clients  
From: Howard Marks  
Re: SEC Settlement

I am writing to alert you that Oaktree has agreed to pay a fine of $100,000 to the Securities and Exchange Commission to reflect the fact that three of our employees made contributions to three candidates for state and local public office that violated Oaktree’s policies by a total of $2,050 and resulted in violations of SEC rules. We expect the administrative order memorializing the settlement of this matter to be issued publicly soon.

Although none of our employees intended anything improper, they should have been more attentive to our requirements and the SEC rules. We have enhanced our compliance procedures regarding political activities to help prevent a recurrence. In fact, we now prohibit all contributions to candidates for or current holders of state and local office, believing that a simple prohibition will be easier for our 900+ employees to understand and observe.

For those interested in the underlying facts, we discovered these three violations during an internal review after the SEC asked us for information in 2016 about our employees’ political contributions as part of an industry-wide sweep.

- One of the violations, which we believe triggered the SEC’s inquiry to us, was a $1,000 contribution in 2014 from one of our employees to a candidate for Governor of Rhode Island for which the employee failed to request preclearance as required under our rules at the time (and for which preclearance would have been granted, but only up to $150). The candidate’s campaign staff recognized that the contribution was impermissible and promptly returned it, but our employee failed to make us aware that the contribution had been returned.

- Another violation in 2014 involved an employee’s contribution of $500 to a candidate for State Superintendent of Public Instruction in California. The employee failed to seek preclearance of the contribution, which would have been permitted, but only up to $350 (more than the $150 above because in this case the employee was eligible to vote for the candidate).

- The third violation, which occurred in 2016, involved a $1,400 contribution to a candidate for Mayor of Los Angeles. The employee properly obtained preclearance of a contribution, but overlooked the fact that the approval had been limited to just $350. Instead, the employee contributed the full $1,400 for which approval had been sought.
These contributions, which we reported to the SEC following the review we conducted in response to their inquiry, resulted in violations of Oaktree policy and SEC rules. (We understand that the SEC was already aware of the first violation when it initially requested information from us but chose not to disclose it to us, pending our own review.)

Though one might be tempted to dismiss these violations as almost-inevitable minor missteps (given the number of our employees and the broad panoply of regulations that govern our conduct), we recognize that nothing is more important than conducting ourselves with the highest integrity, and that every little thing counts. Only by observing the details can we be sure that we’ll never step over the line.

Thus we have retrained the employees involved, overhauled and simplified our procedures, and implemented new training and surveillance tools. While this is unlikely to be our last mistake, you can be sure that all of us at Oaktree recognize the trust you place with us and strive every day to be worthy of that confidence.

As always, I hope you won’t hesitate to contact us if you have any questions or comments regarding this matter.

July 9, 2018
July 30, 2018

TO: Each Member
    Board of Investments

FROM: Steven P. Rice
      Chief Counsel

FOR: August 8, 2018 Board of Investments Meeting

SUBJECT: Mandatory Arbitration of Securities Claims

Recently, members of the Board of Investments (Board) requested information on the issue of mandatory arbitration for federal and state securities law claims against U.S. companies.

Under current law, LACERA has the opportunity to participate in court actions asserting securities claims. LACERA may assert its claims individually or as a member of a class action. In a class action, LACERA may be an unnamed class member or may seek a lead plaintiff role. LACERA has a major interest in the availability of the courts to address fraud and other misconduct in the securities markets. From the adoption of LACERA’s Securities Litigation Policy in March 2001 to December 31, 2017, LACERA recovered over $71 million in proceeds from such actions.

The importance of securities litigation as a tool to ensure the integrity of the markets has long been recognized by Congress and the courts, including the Supreme Court. In the past, the Securities and Exchange Commission (SEC) has declined to approve stock offerings by companies with bylaws providing for mandatory arbitration of securities claims and successfully caused companies to eliminate such provisions. High profile examples of companies where the SEC blocked mandatory arbitration bylaws include The Carlyle Group, Pfizer, Google (now Alphabet, Inc.), and Gannett Co.

Despite this history, there has been concern recently that the current administration may permit, and perhaps even actively promote, mandatory arbitration provisions. This concern was heightened by a July 2017 speech by SEC Commissioner Michael S. Piwowar in which he stated, “[F]or shareholder lawsuits, companies can come to us and ask for relief to put mandatory arbitration into their charters. I would encourage companies to come and talk to us about that.” Thereafter, in October 2017, the Treasury Department issued a report critical of proposed regulations, issued under Dodd-Frank, limiting mandatory arbitration for consumer financial claims. Statements such as these have heightened fears that mandatory arbitration rules may be given new
life and become an obstacle for securities claims such as those LACERA has so successfully participated in over the past two decades.

Despite these developments, there have been other signs that point away from change in the near future. In February 2018 testimony before the Senate Banking Committee, SEC Chair Jay Clayton stated, “I am not anxious to see a change in this area.” Chair Clayton further stated that, if mandatory arbitration did become an active subject of discussion at the SEC, “it would take a long time for it to be decided because it would be the subject of a great deal of debate.” In an April 2018 letter to Congresswoman Carolyn Maloney, Chair Clayton reiterated that the issue of mandatory arbitration is not a priority, while referencing the federal interest in arbitration of claims generally and communicating that it may be an issue for study in the future.

In addition, also in February 2018, the SEC’s internal Investor Advocate Rick Fleming gave a speech calling mandatory arbitration “an illusory remedy.” Mr. Fleming stated that, while there “may be some validity” to concerns underlying calls for mandatory arbitration, “stripping away the right of a shareholder to bring a class action lawsuit seems to me to be draconian, and with respect to promoting capital formation, counterproductive.” Finally, again in February 2018, SEC Commissioner Robert Jackson, Jr. said he is “concerned” about mandatory arbitration. He said that, given increasing budget constraints on the SEC’s regulatory resources, it is “hardly the time to be thinking about depriving shareholders of their day in court.”

In April 2018, ISS Securities Class Action Services issued a report opposed to mandatory shareholder arbitration.

The issue has also become a subject of discussion in press coverage of the financial markets. Such coverage has assisted in focusing attention on the issue.

To briefly summarize the arguments for and against mandatory arbitration:

- **Arguments against Mandatory Arbitration.**
  - Not a practical remedy for investors because only large institutional investors have losses sufficient to justify individual action. Even institutional investors are often reluctant to “go it alone” on securities claims because of the time, expense, and risk involved.
  - Limited discovery, thereby making it difficult to uncover the evidence to establish wrongdoing.
  - No class actions; no jury trial; no appellate rights – in short, weaker procedural protections.
  - Impairs investors’ access to the most qualified and experienced counsel.
SEC and governmental agencies do not have the resources, or sometimes the interest or desire, to comprehensively regulate fraud in the markets at the individual company level.

Experience has proven that the courts are generally fair and predictable in allowing meritorious cases to proceed while dismissing those that lack merit.

If arbitrations are fully utilized, it will lead to a scenario where issues are litigated in arbitration without the results being binding precedent, inconsistency of results, inefficiency of case and issue management, and multiple individual payouts – none of which are positive for investors or companies.

Deterrent effect of public court litigation in regulating bad conduct in the financial markets will be lost in private arbitration.

- Arguments in favor of Mandatory Arbitration.
  - Reduces costs – primarily high attorney's fees and costs – for companies and investors.
  - Because costs will go down, more money will flow to investors in meritorious cases, albeit on an individual basis.
  - Gives individual investors more control of their claims.
  - Fear of securities litigation is a disincentive for companies to become public.
  - Too easy for plaintiffs’ firms to bring dubious class action court cases and win settlements.
  - Deterrent against filing weak cases.
  - Lower barriers to access for individual investors in arbitration than in court.
  - Strong federal public policy, repeatedly recognized by the Supreme Court, in favor of arbitration of disputes.

It is also important to convey that mandatory arbitration cannot appear as the standard overnight and that there are procedural requirements that a company seeking to impose mandatory arbitration must follow.

A company could propose an IPO or other securities offering for review by the SEC that includes a mandatory arbitration clause. In reviewing such a proposal, the SEC would need to reverse longstanding interpretation of existing rules as against mandatory arbitration, as noted above in other specific cases. To date, no such proposal has been made that could prompt such consideration by the SEC. It seems companies are reluctant to become the test case on this issue, and the SEC – as noted above – is reticent to take it on, to date, despite public prodding by Commissioner Piwowar and the Treasury Department weighing in across agency lines in its own white paper, the implementation of which it does not have jurisdiction.
Alternatively, a currently public company could take unilateral action to amend its bylaws to implement a mandatory arbitration clause. That presents a host of contract law issues which various plaintiffs securities counsel have opined would likely be poorly viewed by the Delaware courts, when inevitably challenged. That is not to say that an adverse ruling on a challenge would not be taken to the Supreme Court by a motivated company, or that a party might find an alternative venue such as Maryland, which has been favorable to shareholder-unfriendly provisions in REITS.

For these reasons, on balance, it appears that, while there is no near term risk that mandatory arbitration of securities claims will become commonplace, it remains a concern on the horizon that LACERA and other investors, as well as their representatives, should carefully monitor. For example, plaintiffs’ securities law firms and investor advocacy groups are actively sharing information and analysis on the subject, arguing strongly against mandatory arbitration.

LACERA already has a defined position on mandatory arbitration in the Board-approved Corporate Governance Principles. Section II.A.9 provides:

> Litigation Rights: Robust and viable litigation rights enable investors to protect firm value, deter misconduct, and seek recourse in the event of egregious corporate malfeasance or fraud. Corporations should not curtail or otherwise diminish investors’ prospective legal recourse through governance provisions, such as exclusive forum designations for legal disputes, **mandatory arbitration clauses**, or “fee-shifting” provisions by which an investor who unsuccessfully brings legal action must bear the entirety of the corporation’s legal costs.

(Emphasis added.)

LACERA is actively working with the Council of Institutional Investors (CII) to monitor the debate on this issue and take action as appropriate. CII sent an individual letter to the SEC Division of Corporation Finance earlier in the year and hosted a member teleconference discussing the legal contours of the debate to keep members informed and ready to take action, if impactful. SEC Chair Clayton also spoke at CII’s spring conference in Washington, D.C. and underscored his lack of interest in prioritizing this issue, despite (or perhaps because of) widespread market anxiety.

LACERA staff will continue to watch the issue closely, and will pursue opportunities for engagement as provided in applicable Board policies.

c: Robert Hill    Jim Rice    Johanna Fontenot
   James Brekk    Jude Perez    Michael Herrera
   Jon Grabel    Scott Zdrazil
Vache Mahseredjian  Christine Roseland
John McClelland  John Harrington
Christopher Wagner  Cheryl Lu
Ted Wright  Barry Lew
July 27, 2018

FOR INFORMATION ONLY

TO: Each Member
Board of Investments

FROM: Barry W. Lew
Legislative Affairs Officer

FOR: August 8, 2018 Board of Investments Meeting

SUBJECT: LACERA Comment Letter on Market-Based Rules Regulation

At its meeting of June 13, 2018, the Board of Investments authorized staff to submit a letter in response to the request for comments at the Third Interested Parties Meeting on Market-Based Rules for Sales Other Than Sales of Tangible Personal Property (California Code of Regulations, Title 18, Section 25136-2). The meeting was held on May 18, 2018, and written comments could be submitted at the meeting or submitted to listed contacts at the Franchise Tax Board (FTB) by the deadline of July 19, 2018. Staff engaged tax counsel to draft the letter for submission to the FTB.

The potential impacts of the regulations to LACERA include competitive disadvantages due to a reduced investment opportunity set for California-based investors and increased fees as investment managers may seek to pass their increased costs onto LACERA. The comment letter sought to outline these concerns and proposed that further study may be advisable with respect to the effect of the regulation’s tax policy on public pension funds in California.

On July 19, 2018, in accordance with the Board’s direction, staff submitted a comment letter to the FTB. Attached are a copy of the prior Board memo authorizing submission of the letter and a copy of the comment letter.

Reviewed and Approved:

Steven P. Rice, Chief Counsel
Attachments
Memo from June 13, 2018 Board of Investments Meeting
Comment letter to FTB on Market-Based Rules Regulation

cc: Board of Retirement
    Robert Hill
    Jonathan Grabel
    James Brekk
    JJ Popowich
    Bernie Buenaflor
    Steven P. Rice
    Christine Roseland
    Vache Mahseredjian
    Christopher Wagner
    Jim Rice
    John McClelland
    Jude Perez
June 1, 2018

TO: Each Member  
    Board of Investments

FROM: Barry W. Lew  
    Legislative Affairs Officer

FOR: June 13, 2018 Board of Investments Meeting

SUBJECT: Market-Based Rules Regulation on Asset Management Services: Comment Letter to Franchise Tax Board

RECOMMENDATION
That the Board of Investments authorize staff to submit a letter in response to the request for comments at the Third Interested Parties Meeting on Market-Based Rules for Sales Other Than Sales of Tangible Personal Property (California Code of Regulations, Title 18, Section 25136-2).

LEGISLATIVE POLICY STANDARD
LACERA’s Legislative Policy provides for engagement in the state rulemaking process to advance LACERA’s mission of producing, protecting, and providing the promised benefits.

SUMMARY
The California Franchise Tax Board (FTB) provided notice of a Third Interested Parties Meeting on Market-Based Rules for Sales Other Than Sales of Tangible Personal Property to consider proposed amendments to California Code of Regulations, Title 18, Section 25136-2. The meeting was held on May 18, 2018 to solicit public input regarding proposed amendments to the regulations. Written comments could be submitted at the meeting or submitted to listed contacts at the FTB by the deadline of July 19, 2018. Specifically, part of the proposed regulations would relate to the sourcing of asset management fees with respect to LACERA’s investment managers.

BACKGROUND
Prior to January 1, 2013, sales from services (i.e., sales other than sales of tangible property) were considered to be in California if the income-producing activity was performed in California. This was known as the costs-of-performance method of sourcing income. In the case of income-producing activity performed across multiple states, sales were sourced to the state in which the greatest proportion of revenue had been earned. For example, under the costs-of-performance method, since sales were sourced based on where the service was performed, a business could reduce its California income taxes by locating its facilities and employees outside of California to perform services for a recipient client located within California.
Proposition 39 was passed in 2012 and repealed the costs-of-performance method. The ballot initiative added Section 25136 to the California Revenue and Taxation Code. Section 25136(a)(1) currently specifies that, on or after January 1, 2013, sales from services are considered to be in California to the extent the purchaser of the service received the benefit of the services in California. For example, although a business is located outside of California, its sales would be sourced to California if its services were performed for a recipient client located within California who received the benefit of the services.

Section 25136 also provides that the FTB may prescribe regulations to carry out the purposes of this provision. Before this latest round of amendments, the FTB amended the regulations on market-based sourcing rules in 2016. However, at that time, the examples relating to the issue of asset management fees were not included in the regulations since industry feedback indicated that the proposed examples were not fully examined by the industry. During the current round of amendments, the FTB intend to include the asset management fee examples in the regulations, and a series of Interested Parties Meetings was held to solicit public input on the proposed amendments.

**DISCUSSION**

LACERA’s investment program utilizes external investment managers across various asset classes. These investment managers are not necessarily all located within California. Out-of-state investment managers who previously sourced their sales from services based on the costs-of-performance method and thus to their home states may now under the proposed amendments be subject to sourcing their sales to California since LACERA is the recipient client that received the benefit of the services. This change in sourcing methods may have the effect of increasing the costs for certain investment managers of providing services in California.

The potential impacts of the proposed amendments with respect to the sourcing of asset management fees may include a reduction of the investment opportunity set since increased taxes can create a disincentive for investment managers and general partners to receive capital from California-based investors; consequently, a smaller universe of investment choices may adversely affect diversification and asset allocation strategies. It may also result in efforts by investment managers to pass on the increased costs to pension systems, which can dilute net returns.

At the previous Interested Parties Meeting held on June 16, 2017, comments regarding the sourcing of asset management fees included the difficulty of obtaining information about the location of shareholders, beneficial owners, and investors who receive the benefit of the service; degree of permissiveness in assigning sales by reasonable approximation in situations where location cannot be determined; the effective date of
the proposed amendments; and how the value of the interest of shareholders, beneficial owners, and investors should be determined.

Providing comments to the FTB related to LACERA’s role as an administrator and investor in the context of a governmental defined benefit pension plan can assist the FTB in creating regulations that provide clarity and avoid any unintended consequences on LACERA’s investment program.

Staff proposes to consult with and engage LACERA’s tax counsel, Don Wellington of Reed Smith LLP¹, to draft the letter for submission to the FTB. Mr. Wellington estimates fees and costs for preparing the letter to be $10,000 to $15,000. The letter is due no later than July 19, 2018.

IT IS THEREFORE RECOMMENDED THAT YOUR BOARD authorize staff to submit a letter in response to the request for comments at the Third Interested Parties Meeting on Market-Based Rules for Sales Other Than Sales of Tangible Personal Property (California Code of Regulations, Title 18, Section 25136-2).

Reviewed and Approved:

Steven P. Rice, Chief Counsel

¹ Mr. Wellington was previously a partner in Steptoe & Johnson LLP. However, he recently moved his practice to Reed Smith, which is one of LACERA’s current fiduciary counsels. Staff intends to continue LACERA’s longtime use of Mr. Wellington as tax counsel at his new firm. There is no conflict between his role as tax counsel and the firm’s role as fiduciary counsel. However, the Board should consider this issue in acting on the current engagement request to ensure that the Board has no concerns. Mr. Wellington has been LACERA’s tax counsel for many years, including currently on the tax withholding project and various other tax matters. Mr. Wellington’s expertise and extensive familiarity with LACERA are assets to the system in obtaining effective tax advice.
Attachment
Third Interested Parties Meeting Notice

cc: Robert Hill
    James Brekk
    JJ Popowich
    Bernie Buenaflor
    Steven P. Rice
    Christine Roseland
    Jonathan Grabel
    Vache Mahseredjian
    Christopher Wagner
    Jim Rice
    John McClelland
    Jude Perez
    Joe Ackler, Ackler & Associates
Third Interested Parties Meeting
Market-Based Rules for Sales Other Than Sales of Tangible Personal Property –
California Code of Regulations, Title 18, Section 25136-2

RSVP Requested:
To attend this meeting, please RSVP by May 11, 2018, by contacting Joanna Palisoc at (916) 845-5894 or Email: Joanna.Palisoc@ftb.ca.gov. Space is limited.

To participate in this meeting by telephone, please dial: (877) 923-3149. Enter the participant pass code 2233420, followed by the # sign.

When:  
Friday, May 18, 2018  
10:00 a.m.

Where:  
Franchise Tax Board  
Goldberg Auditorium  
9646 Butterfield Way  
Sacramento, CA 95827

Topic:
California Code of Regulations, title 18, (CCR) section 25136-2 was filed with the California Secretary of State's office on February 27, 2012, and became effective on January 1, 2011. Amendments to CCR section 25136-2 (Market-Based Rules Regulation) were filed with the California Secretary of State's office on September 15, 2016 and became effective on January 1, 2017.

Possible additional amendments to the Market-Based Rules Regulation are currently being considered. The first Interested Parties Meeting for possible additional proposed amendments to the Market-Based Rules Regulation was held on January, 20, 2017. A second Interested Parties Meeting was held on June 16, 2017. For the third Interested Parties Meeting, noticed herein, draft language and an explanation document have been developed in connection with proposed additional amendments to the Market-Based Rules Regulation. The draft language and explanation document are posted on the department's website at https://www.ftb.ca.gov/law/intParty/. Printed copies will be available at the meeting.

Purpose:
At this Interested Parties Meeting, staff will solicit public input regarding proposed amendments to the Market-Based Rules Regulation. The proposed amendments were developed after considering approaches taken in other states. Please see the 50 State Analyses documents that have been posted to the department's website at https://www.ftb.ca.gov/law/intParty/index.shtml.

Comments Deadline:
Written comments may be submitted at the meeting, or may be provided to the contacts listed immediately below, by the deadline of July 19, 2018. All written and oral comments will be considered without attribution.
Contacts: Melissa Williams
  • Email: Melissa.Williams@ftb.ca.gov
  • Telephone: (916) 845-7831
  • Address: Legal Division (MS-A260), P.O. Box 1720, Rancho Cordova, CA 95741-1720.

Amanda Smith
  • Email: Amanda.Smith@ftb.ca.gov
  • Telephone: (916) 845-2869
  • Address: Legal Division (MS-A260), P.O. Box 1720, Rancho Cordova, CA 95741-1720.

Visitors Parking Map
* This facility is architecturally accessible to persons with physical disabilities.

COST IMPACTS OF PROPOSED RULEMAKING

The department encourages submission of information from interested parties during the pre-APA process in order to assess the economic impact of a proposed rulemaking action on businesses (including small businesses), employees, jobs or occupations, competitiveness of California businesses, reporting requirements, or individuals.
July 19, 2018

Via Email

Melissa Williams
Amanda Smith
California Franchise Tax Board
Legal Division (MS-A260)
P.O. Box 1720
Rancho Cordova, CA 95741-1720
Melissa.Williams@ftb.ca.gov
Amanda.Smith@ftb.ca.gov

Re: Market-Based Rules Regulation for Sales Other Than Sales of Tangible Personal Property

Dear Ms. Williams and Smith:

The Los Angeles County Employees Retirement Association (“LACERA”) appreciates the opportunity to submit comments regarding proposed amendments to section 25136-2 of title 18 of the California Code of Regulations (the “Market-Based Rules Regulation”) following the third Interested Parties Meeting on May 18, 2018.

Background on LACERA

LACERA has the duty and authority to administer defined retirement plan benefits for the employees of Los Angeles County and outside districts. Its mission is to produce, protect, and provide promised benefits to nearly 169,000 participants, including over 63,000 benefit recipients. Fulfilling this mission requires prudent investment of the pension fund’s $56 billion in assets, which are held for the exclusive purposes of providing benefits to members and their beneficiaries, and defraying reasonable costs of administering the system. It is only through the growth of these assets that LACERA can provide retired members with promised benefits. This is because benefits are primarily funded by the plan’s earnings, and not by employer and employee contributions. As a result, prudent investment of plan assets is one of LACERA’s most important duties.

LACERA exercises authority and control over the investment management of these assets through its Board of Investments, and pursuant to an Investment Policy Statement that provides a framework for the management of the investments. LACERA recognizes that strategic asset allocation, which apportions funds between broad asset classes, is expected to have the greatest impact on the plan’s investment performance over an extended period. Accordingly, LACERA utilizes an Asset Allocation Policy which takes a strategic, long term perspective of capital markets and which provides for the diversification of assets. This Policy is intended to maximize the plan’s total return while remaining cognizant of its objectives, current market conditions, liquidity, and risk control.
LACERA’s Asset Allocation Policy is implemented by partnering with external managers who invest assets on the plan’s behalf subject to predetermined guidelines. LACERA relies on these external managers to provide active strategies to maximize gains and mitigate losses, particularly in private market asset classes. These private market asset classes—including private equity, illiquid credit, and real estate—focus on long-term, less liquid investments in which the plan makes investments that can span a decade or more. Working with external managers in these asset categories is critical to maximize returns.

Proposed Changes to the Market-Based Rules Regulation

Pursuant to section 25136 of the California Revenue and Taxation Code, sales from services are assigned to California to the extent the purchaser of the service received the benefit of the services in California. The Market-Based Rules Regulation was adopted to provide guidance on how market sourcing is to be applied in practice. However, several questions still remain unclear. For this reason, the California Franchise Tax Board (the “FTB”) has hosted three Interested Parties Meetings to address possible amendments to the Market-Based Rules Regulation.

Among other possible amendments, the FTB is considering adding rules for sourcing asset management fees. Under the proposal, the benefit of asset management services would be treated as having been received by the shareholders or investors of the assets, unless the shareholder or investor is holding title for a beneficial owner, in which case the benefit would be treated as having been received by the beneficial owner. The proposal would also assign management fees to the domicile of the shareholder, beneficial owner, or investor. If the taxpayer does not know the domicile, and it cannot be reasonably approximated, sales to California would be based upon a ratio of the population in California compared to the population of the United States.

Concerns and Suggestions Regarding the Proposed Amendments

1. Potential Competitive Disadvantage

The proposed amendments could put California public pension funds at a distinct disadvantage among other institutional investors. Institutional investors are increasingly utilizing alternative investments to produce returns that are not expected from traditional asset classes. As a result, high performing asset managers often have their pick of investors. California public pension funds arguably are already at a disadvantage. In some cases, state transparency rules and open meetings laws can create a disincentive for investment managers and general partners to receive capital from public pension funds. For example, public pension funds are often excluded from venture capital funds because of concerns that proprietary data may have to be disclosed. Similarly, some managers have concerns about disclosure of fees and expenses. In other words, the public status of these funds in some cases already limits the investment opportunities available to them.
The potential for increased taxes on asset managers contemplated by the proposed amendments may result in further reduction in investment opportunities available to LACERA. This could lock LACERA out of some of the best funds. In turn, a smaller universe of investment choices could adversely affect the fund’s diversification and asset allocation strategies. This could make it harder for LACERA to fulfill its obligation to provide retired members with promised benefits.

2. Potential Increased Costs for Public Pension Systems

In addition to potentially losing investment opportunities, the proposed amendments could increase LACERA’s costs. As investment managers’ tax liability increases, it may result in efforts to pass on the increased costs to public pension funds in the form of increased fees. LACERA has a duty to defray costs of administering the system, including payments to external managers. The proposed amendments could frustrate this duty and make it more difficult for LACERA to manage costs.

Increased costs could also dilute net returns, which could ultimately increase the contributions required by public employers that sponsor the plans, as well as their employees. As noted above, public pension benefits are primarily funded by plan earnings. The remainder is funded by employer and employee contributions. However, if earnings are eroded through increased fees, it may make it necessary to increase public employer and employee contributions to ensure that benefits can be paid.

3. Opportunity to Further Study Impact on State of California and its Governmental Entities

Given that limited investment opportunities and increased costs could dilute public pension fund earnings, and potentially increase required contributions, the FTB should carefully consider the consequences of applying the proposed amendments in instances where the investor is a California public pension fund. In these instances, the increased tax revenue gained by the state may be offset by the increased pension costs faced by the state, as well as its counties, cities and other public entities. In other words, if the cost of increased tax liability is ultimately passed on to public pension funds in California, which then have to pass that cost on to public employers in the form of an increased contribution, the proposed amendments may not be as effective as intended.

For this reason, we ask the FTB to further study the impact of the Market-Based Rules Regulation on public pension funds in California. Delaying implementation of the amendments in instances where the services are provided to public pension funds would give the FTB time for such a study, and allow the FTB to more fully address the concerns noted above. It is important that all of the potential impacts on the state, both direct and indirect, be surfaced and evaluated before the amendments are adopted. The FTB might even consider excluding from the scope of the rule for some period of time (or even permanently) services that are provided to public pension funds.
Conclusion

In order to provide promised benefits to public employees, LACERA uses diversification and asset allocation strategies that require strategic partnerships with external managers. For the reason described above, the Market-Based Rules Regulation could create a disincentive for external managers to work with LACERA, which could be particularly challenging given the competitive disadvantages already faced by public pension funds. For these reasons, we encourage the FTB to proceed with caution before adopting the proposed amendments. Based on the materials that the FTB has provided in connection with the proposed amendments, there is a trend to source asset management fees to the domicile of the investor, but this approach is far from universal and many states have not adopted it. Further, even in states that have adopted this approach, the guidance appears to be limited. In light of the potential disadvantages to public pension funds, the FTB may determine it is best to wait before moving forward with the amendments to see how the rules develop in other states, and/or to delay implementation with respect to asset management services provided to public pension funds in order to more fully study the impact.

We appreciate your consideration of these issues, and would welcome further discussion. If you have any questions, please contact me at (626) 564-6000, extension 4490 or rhill@lacera.com.

Very truly yours,

Robert R. Hill
Interim Chief Executive Officer

c: LACERA Board of Investments
   LACERA Board of Retirement
   Jonathan Grabel, LACERA Chief Investment Officer
   Steven P. Rice, LACERA Chief Counsel
   Barry W. Lew, LACERA Legislative Affairs Officer
FOR INFORMATION ONLY

July 27, 2018

TO: Each Member, Board of Investments

FROM: Beulah S. Auten, CPA, CGFM, CGMA
Chief Financial Officer

FOR: August 8, 2018 – Board of Investments Meeting

SUBJECT: Semi-Annual Interest Crediting for Reserves as of June 30, 2018 (UNAUDITED)

Pursuant to the County Employees Retirement Law Section 31591, regular interest shall be credited semi-annually on June 30 and December 31 to all contributions in the retirement fund, which have been on deposit six months immediately prior to such date at an interest rate of 2.5% per annum, until otherwise determined by your Board.

The semi-annual interest crediting rate applicable for June 30, 2018, was 3.625% (i.e., 7.25% annual rate). You may recall that in December 2016, your Board approved a reduction in the assumed actuarial earnings rate from 7.50% to 7.25%. The new rate was implemented with your Board’s adoption of the June 30, 2016 actuarial valuation. To provide ample time for both the plan sponsor and LACERA to prepare for the rate change implementation, the new 7.25% rate became effective July 1, 2017, which was also when the corresponding employer and employee contribution rates as recommended in the June 30, 2016 valuation report, took effect. Going forward, this annual rate of 7.25% will remain in effect unless your Board adopts a different rate.

The Retirement Benefit Funding Policy stipulates that interest credits for Reserve accounts are allocated in the same priority order as the allocation of actuarial assets. Such interest credits are granted based on Realized Earnings for the period. The allocation of Realized Earnings is performed twice each year on June 30 and December 31.

As of June 30, 2018, there were sufficient Realized Earnings to meet the required interest credit rate of 3.625%, applied to Priorities 1 and 3, the Member Reserve and Employer Reserve. Inasmuch as there were no Advanced Employer Contributions and County Contribution Credit Reserve balances, the remaining Realized Earnings were applied to Priority 5, Employer Reserve. The table below depicts the actual interest credit allocations for the six-month period ended June 30, 2018.

<table>
<thead>
<tr>
<th>Priority Order</th>
<th>Reserve Account</th>
<th>Interest Credit Rate Applied</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Member</td>
<td>3.625%</td>
</tr>
<tr>
<td>2</td>
<td>Advanced Employer Contributions</td>
<td>N/A</td>
</tr>
<tr>
<td>3</td>
<td>Employer</td>
<td>3.625%</td>
</tr>
<tr>
<td>4</td>
<td>County Contribution Credit</td>
<td>N/A</td>
</tr>
<tr>
<td>5</td>
<td>Employer</td>
<td>1.788%</td>
</tr>
</tbody>
</table>

Please note the financial data presented in this report is unaudited. Plante Moran is expected to issue the audited financial report in mid-October, in time for the October 31st filing deadline with the County Board of Supervisors.

REVIEWED AND APPROVED:

ROBERT R. HILL
Interim Chief Executive Officer

Interest Credit Rate Jun 2018 (unaudited)_final.doc
RH BSA:tg

c: Board of Retirement, LACERA
Sachi A. Hamai, CEO, Los Angeles County
FOR INFORMATION ONLY

July 30, 2018

TO: Each Member
    Board of Investments

FROM: Jonathan Grabel
    Chief Investment Officer

FOR: August 8, 2018 Board of Investments

SUBJECT: IMPLEMENTATION UPDATE ON LACERA PENSION TRUST
          STRATEGIC ASSET ALLOCATION

At the May 9, 2018 Board of Investments meeting (BOI), the Board approved a new Strategic
Asset Allocation (SAA) for LACERA’s Pension Trust. At the July 9, 2018 BOI Offsite, a
prospective implementation plan was reviewed.

During the BOI Offsite, staff noted that the SAA could be prudently implemented in the next 12
to 24 months. Table 1 below summarizes the status of the actions and reports as well as the
timeline for transitioning to the new SAA targets. Future items that require BOI approval will be
placed on the agenda of subsequent meetings along with supporting documentation.

### Table 1
Strategic Asset Allocation Implementation Timeline

<table>
<thead>
<tr>
<th>Implementation Steps</th>
<th>Target Dates for Completion or Discussion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Determine the appropriate policy ranges for the Pension Trust Asset Allocation</td>
<td>Completed</td>
</tr>
<tr>
<td>Identify the appropriate benchmarks for the Pension Trust Asset Allocation</td>
<td>August 2018 – Report</td>
</tr>
<tr>
<td>Update Governance Documents</td>
<td>September 2018 - Report 4th Quarter of 2018</td>
</tr>
<tr>
<td>• Investment Policy Statement</td>
<td>1st Quarter of 2019</td>
</tr>
<tr>
<td>• Policies</td>
<td></td>
</tr>
<tr>
<td>• Procedures manual</td>
<td></td>
</tr>
<tr>
<td>Align Management and Oversight</td>
<td>August 2018 - Recommendation</td>
</tr>
<tr>
<td>• Align Committees to new SAA</td>
<td>In Process</td>
</tr>
<tr>
<td>• Staffing</td>
<td>4th Quarter of 2018</td>
</tr>
<tr>
<td>• Real Assets – PIO</td>
<td>Complete</td>
</tr>
<tr>
<td>• Real Assets – FA-III</td>
<td>In Process</td>
</tr>
<tr>
<td>• Portfolio Analytics – SIO</td>
<td>4th Quarter of 2018</td>
</tr>
<tr>
<td>• Portfolio Analytics – FA-II</td>
<td>1st Quarter of 2019 - Completion</td>
</tr>
<tr>
<td>• Portfolio Analytics – FA-I</td>
<td></td>
</tr>
<tr>
<td>• Consultant searches</td>
<td></td>
</tr>
<tr>
<td><strong>Growth</strong></td>
<td>August 2018 - Recommendation</td>
</tr>
<tr>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>• Public Equities</td>
<td></td>
</tr>
<tr>
<td>• Structure review</td>
<td></td>
</tr>
<tr>
<td>• Reduce public equity exposure</td>
<td></td>
</tr>
<tr>
<td>• Possible manager consolidation</td>
<td></td>
</tr>
<tr>
<td>• Rebalance passive exposure to Board approved benchmark</td>
<td></td>
</tr>
<tr>
<td>• Private Equity</td>
<td></td>
</tr>
<tr>
<td>• Investment plan</td>
<td></td>
</tr>
<tr>
<td>• Potential secondary sale</td>
<td></td>
</tr>
<tr>
<td>• Opportunistic Real Estate</td>
<td></td>
</tr>
<tr>
<td>• Implement structure review and investment plan</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Credit</strong></td>
<td>August 2018 - Recommendation</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>• Conduct consultant search – Credit</td>
<td></td>
</tr>
<tr>
<td>• Structure review</td>
<td></td>
</tr>
<tr>
<td>• Realign weights with targets</td>
<td></td>
</tr>
<tr>
<td>• Resize current liquid managers</td>
<td></td>
</tr>
<tr>
<td>• Conduct new mandate searches</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Risk Reducing &amp; Mitigation</strong></td>
<td>August 2018 - Recommendation</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>• Conduct consultant search – Hedge Funds</td>
<td></td>
</tr>
<tr>
<td>• Implementation of Fixed Income structure review</td>
<td></td>
</tr>
<tr>
<td>• Potential manager rebalancing and consolidation</td>
<td></td>
</tr>
<tr>
<td>• Conduct RFI for cash overlay program</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Real Assets &amp; Inflation Hedges</strong></td>
<td>August 2018 - Recommendation</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>• Conduct consultant search – Real Assets</td>
<td></td>
</tr>
<tr>
<td>• Issue RFI for a completion portfolio</td>
<td></td>
</tr>
<tr>
<td>• Add TIPS through invitation to bid process</td>
<td></td>
</tr>
<tr>
<td>• Conduct new mandate searches</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Adapt Portfolio Analytics</strong></td>
<td>September 2018 – Completion*</td>
</tr>
<tr>
<td>• Analytics Reporting</td>
<td></td>
</tr>
<tr>
<td>• Performance Reporting</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Complete operational updates at State Street</strong></td>
<td>September 2018 – Completion*</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Transition to updated asset allocation</strong></td>
<td>4th Quarter of 2018</td>
</tr>
</tbody>
</table>

*Dependent on BOI approved IPS

This timeline allows for a comprehensive review and revision of LACERA’s Pension Trust Investment Policy Statement as well as pertinent operational changes including composite structure, custodian accounts, investment management agreements and new target allocations. Barring any unforeseen circumstances, staff expects to complete the transition by June 2020. This document will be updated monthly, communicating the progress of individual steps and provided to the BOI throughout the implementation process.
August 1, 2018

TO: Each Member
    Board of Investments

FROM: Steven P. Rice
      Chief Counsel

FOR: August 8, 2018 Board of Investments Meeting

SUBJECT: Monthly Status Report on Board of Investments Legal Projects

Attached is the monthly report on the status of Board-directed investment-related projects handled by the Legal Division as of August 1, 2018.

Attachment

c: Robert Hill
   James Brekk
   John Popowich
   Bernie Buenafior
   Jon Grabel
   Vache Mahseredjian
   John McClelland
   Christopher Wagner
   Ted Wright
   Jim Rice
   Jude Perez
   Scott Zdrazil
   Christine Roseland
   John Harrington
   Cheryl Lu
   Barry Lew
   Margo McCabe
   Lisa Garcia
<table>
<thead>
<tr>
<th>Project/Investment</th>
<th>Description</th>
<th>Amount</th>
<th>Board Approval Date</th>
<th>Completion Status</th>
<th>% Complete</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>J P Morgan Investment</td>
<td>Private Equity Emerging Manager Separate Account Investment Management Agreement</td>
<td>$300,000,000.00</td>
<td>December 13, 2017</td>
<td>In Progress</td>
<td>50%</td>
<td>Recently received JPM comments to draft investment management agreement. JPM comments currently under legal review and agreement is being revised accordingly. Final agreement is not expected until fourth quarter given manager is still investing funds from prior commitment.</td>
</tr>
<tr>
<td>Greenhill Capital Advisory</td>
<td>Secondary Advisor Engagement Letter</td>
<td>n/a</td>
<td>May 9, 2018</td>
<td>Complete</td>
<td>100%</td>
<td>Engagement letter signed.</td>
</tr>
<tr>
<td>Storm Ventures Fund VI, L.P.</td>
<td>Subscription</td>
<td>$50,000,000.00</td>
<td>June 13, 2018</td>
<td>In Progress</td>
<td>25%</td>
<td>Legal review and negotiations in progress.</td>
</tr>
</tbody>
</table>
Documents not attached are exempt from disclosure under the California Public Records Act and other legal authority.

For further information, contact:
LACERA
Attention: Public Records Act Requests
300 N. Lake Ave., Suite 620
Pasadena, CA 91101
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