

## AGENDA

A REGULAR MEETING OF THE PORTFOLIO RISK COMMITTEE

AND THE BOARD OF INVESTMENTS\*

LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION

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

8:00 A.M., WEDNESDAY, MAY 9, 2018\*\*

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

- I. CALL TO ORDER
- II. APPROVAL OF THE MINUTES
  - A. Approval of the Minutes of the Special Meeting of March 5, 2018.
- III. PUBLIC COMMENT
- IV. REPORTS
  - A. Public Market Search Process  
Vache Mahseredjian, Principal Investment Officer – Fixed Income  
Ted Wright, Principal Investment Officer – Global Equity  
(Memo dated April 27, 2018)
- V. REPORT ON STAFF ACTION ITEMS
- VI. GOOD OF THE ORDER  
(For Information Purposes Only)
- VII. ADJOURNMENT

May 9, 2018

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\*The Board of Investments has adopted a policy permitting any member of the Board to attend a standing committee meeting open to the public. Members of the Board of Investments who are not members of the Committee may attend and participate in a meeting of a Committee but may not vote, make a motion, or second on any matter discussed at the meeting. The only action the Committee may take at the meeting is approval of a recommendation to take further action at a subsequent meeting of the Board.

\*\*Although the meeting is scheduled for 8:00 a.m., it can start anytime thereafter, depending on the length of the Board of Investment meeting preceding it. Please be on call.

***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.***

MINUTES OF THE SPECIAL MEETING OF THE PORTFOLIO RISK  
COMMITTEE AND THE BOARD OF INVESTMENTS  
LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION  
300 N. LAKE AVENUE, SUITE 810, PASADENA, CA 91101

MONDAY, MARCH 5, 2018

PRESENT: Joseph Kelly, Chair  
David Muir, Vice Chair  
Shawn R. Kehoe  
Wayne Moore  
Ronald Okum, Alternate

MEMBERS AT LARGE: Herman Santos  
Michael Schneider  
Gina Sanchez

STAFF, ADVISORS, PARTICIPANTS

Jonathan Grabel, Chief Investment Officer

Jude Perez, Principal Investment Officer

Esmeralda Del Bosque, Investment Officer

Meketa Investment Group  
Stephen McCourt, Managing Principal  
Tim Filla, Vice President

I. CALL TO ORDER

The Special Meeting was called to order by Chair Kelly at approximately 8:30 a.m., in the Board Room of Gateway Plaza.

## II. APPROVAL OF MINUTES

### A. Approval of the Minutes of the Special Meeting of November 2, 2017.

Mr. Kehoe made a motion, seconded by Mr. Muir, to approve the minutes of the Special meeting of November 2, 2017. The motion carried by unanimous vote.

## III. PUBLIC COMMENT

There were no requests from the public to speak.

## IV. REPORTS

### A. Risk and Analytic Systems Review Jon Grabel, Chief Investment Officer (Memo dated February 22, 2018)

Messrs. Grabel, Perez and Ms. Bosque were present and answered questions from the Committee.

## V. REPORT ON STAFF ACTION ITEMS

There were no items to report.

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

There was nothing to report.

## VII. ADJOURNMENT

There being no further business to come before the Committee, the meeting was adjourned at 9:05 a.m.




April 27, 2018

TO: Each Member  
Portfolio Risk Committee

FROM: Vache Mahseredjian, CFA, CAIA, FRM, ASA   
Principal Investment Officer – Fixed Income & Commodities

Ted Wright, CFA, FRM, PRM, CAIA   
Principal Investment Officer – Global Equity

Esmeralda V. del Bosque   
Investment Officer – Fixed Income & Commodities

FOR: May 9, 2018 Portfolio Risk Committee Meeting

SUBJECT: **LACERA'S PUBLIC MARKET SEARCH PROCESS**

At the November 2017 BOI meeting, the Board directed staff to present a review of LACERA's RFP and due diligence procedures at a future Risk Committee meeting. The attached slides are for that review.

Attachment

Noted and Reviewed:



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Jonathan Grabel  
Chief Investment Officer

# **LACERA's Public Market Manager Search Process**

**Board of Investments Risk Committee  
May 9, 2018**

**Vache Mahseredjian  
Principal Investment Officer  
Fixed Income & Commodities**

**Ted Wright  
Principal Investment Officer  
Global Equity**

**Esmeralda V. del Bosque  
Investment Officer  
Fixed Income & Commodities**

**LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION**

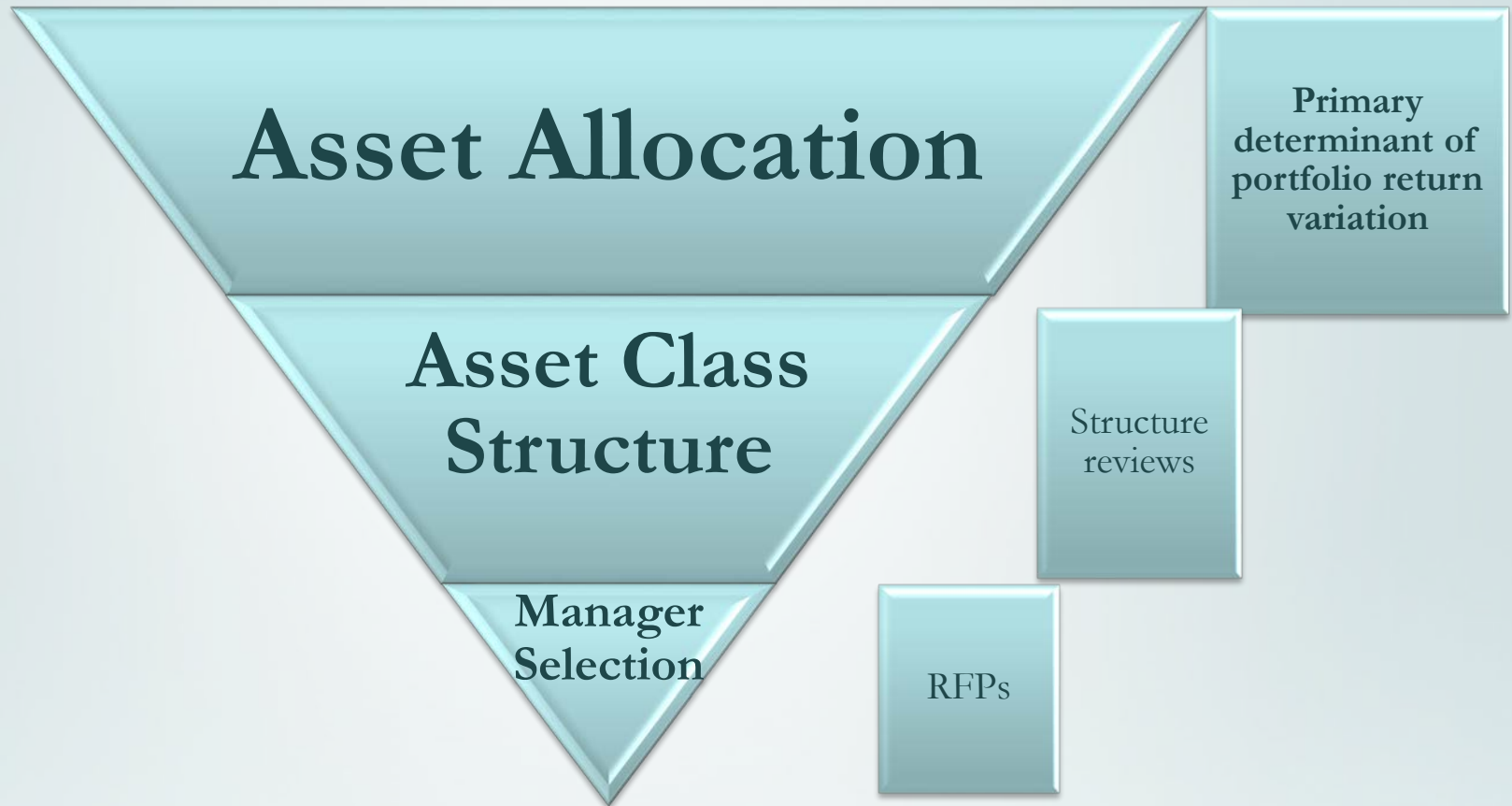
# Overview

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At the November 2017 BOI meeting, the Board requested a review of LACERA's search process

- Elements of the Investment Process
- Reasons to Conduct a Search
- Policies Regarding Manager Searches
- LACERA's Current Manager Selection Process
- Searches and the Manager Due Diligence Lifecycle
- Conclusion

# Elements of the Investment Process



## LACERA Investment Belief:

“Long-term strategic asset allocation will be the primary determinant of LACERA’s risk/return outcomes”



# Reasons to Conduct a Search

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- Requests For Proposal (RFP)/Requests for Information (RFI) are issued:
  - Subsequent to asset allocation revisions
  - As a result of a structure review
  - For manager substitution
    - Graduation
    - Termination

# Policies Regarding Manager Searches

## BOI Powers Reserved

- Board approves selection of managers
- Board relies on consultants for independent due diligence

## LACERA Code of Ethics

- Contracting & vendor relationships – Quiet Period
- Avoid perceived & actual:
  - Conflicts of interest
  - Exertion of improper influence or being improperly influenced

## LACERA Procurement Policy

- Responsibility for purchasing best goods & services at reasonable cost lies with the Board
- BOI approves the release of RFPs & may waive formal solicitation for alternative assets
- Selection should be transparent, objective, impartial, & free from bias
- Identify & avoid conflicts of interest
- Quiet period standards for trustees, staff, and candidates: Limits communication, prohibits gifts, & requires reporting - candidates in violation may be disqualified

## Investment Policy Statement

- Duties of the general investment consultant include providing independent reviews via reports to the Board on staff projects & recommendations



# LACERA's Current Search Process: A 9 - 12 month project



- RFP and Minimum Qualifications (MQs) developed
- BOI approves search
- BOI approves MQ's, if necessary
- RFP issued
- Quiet period begins
- Qualified RFPs scored
- Managers selected for in-house interviews
- In-House interviews
- Managers selected for on-site interviews
- On-Site interviews
- Additional due diligence performed
- Manager affirms best & final fee quote
- Final scores assigned
- Search book produced for BOI
- Search book with staff recommendation & consultant memo presented to BOI
- Board authorizes finalist interviews
- Board makes selection decision at subsequent meeting
- Contract negotiation and execution, including investment guidelines
- Mandate funded



# LACERA's Current Search Process: RFP Sections

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## Sections of an RFP Questionnaire

1. Company and General Information

2. Assets Under Management

3. Professional Staff

4. Investment Philosophy and Process

5. Performance and Risk

6. Fees

# LACERA's Current Search Process: Questionnaire

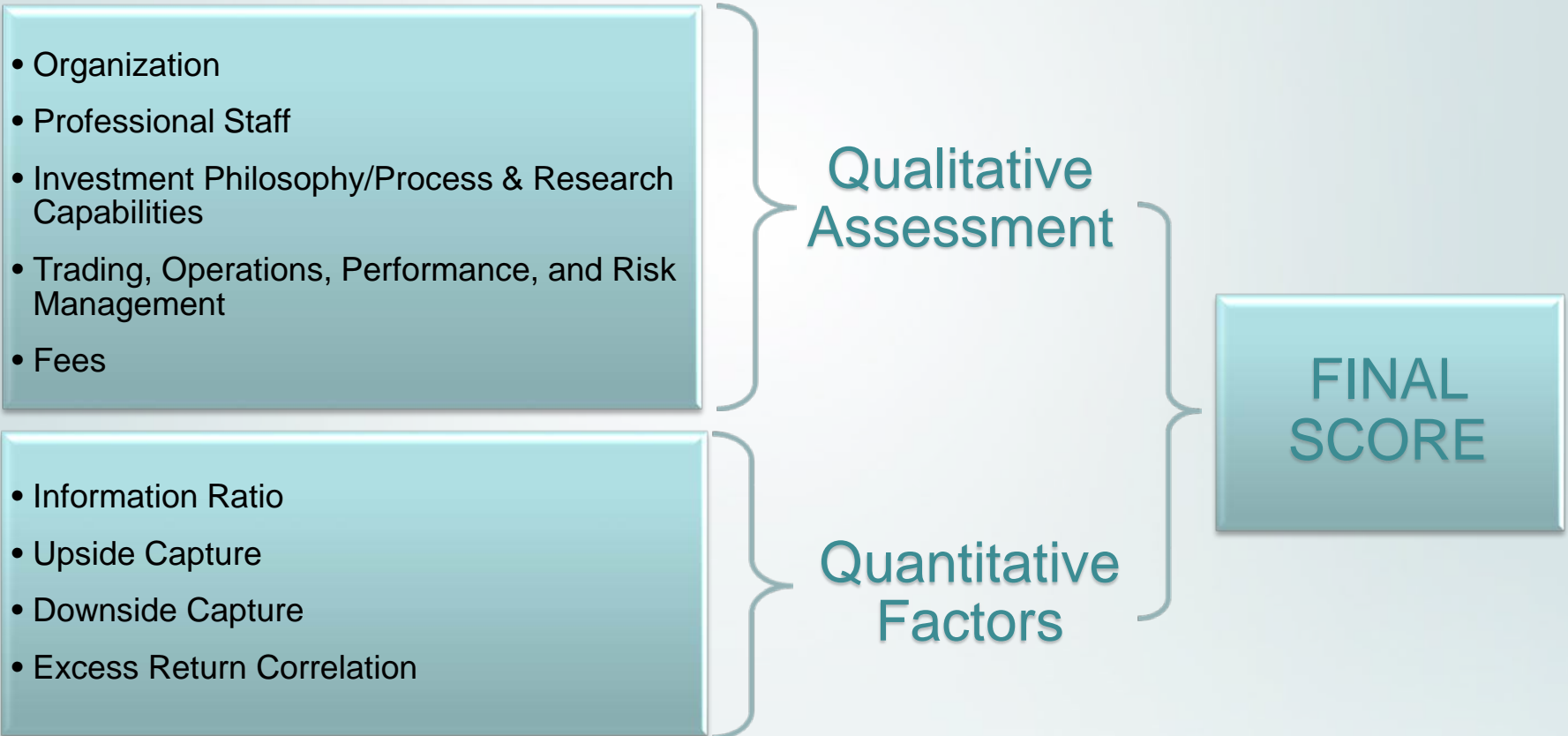
## Sample RFP Questions

### COMPANY INFORMATION AND GENERAL INFORMATION

1. Over the past ten years, has your organization, affiliates, parent, any officer or principal been involved in any inquiry/investigation by a federal or state governmental agency and/or business litigation or other legal proceedings related to your investment activities? If so, provide a brief explanation and indicate the current status.
2. Has your firm been audited by the Securities and Exchange Commission (SEC) or any regulatory agency in the last ten years? If yes, please provide a summary of findings.
3. Does your firm have a responsible investment (RI) or environmental, social, and governance (ESG) policy? If so, please provide.

# LACERA's Current Search Process: Scoring

## Sample Scoring Methodology



# Searches and the Manager Due Diligence Lifecycle

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- After a manager is hired, there is on-going due diligence
  - Performance & Attribution vs. Benchmark
  - Exposures (geography, sector, issue, currency)
  - Custodian reconciliation
  - Risk management
  - Investment guideline compliance
  - Contract guideline compliance
  - Periodic on-site manager due diligence
  - Investment fee validation
  - Formal manager reviews with BOI (as needed)
  - Biennial structure reviews

# Conclusion

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- RFPs are a long-standing public fund practice
- The public market search process is:
  - deliberate and time intensive
  - designed to be impartial, but larger firms with greater resources may have an advantage
- Next step - codify procedures across various investment-related searches