

April 14, 2020

COVID-19 and the Safety of LACERA Benefits

Dear LACERA Members,

LA County employees are demonstrating tremendous professionalism and courage in the face of the COVID-19 pandemic to provide safety, security, and essential services to communities throughout Los Angeles County. We want to assure you that your LACERA benefits also remain safe and secure, despite recent turmoil in financial markets.

Your retirement security is our core objective. LACERA and the dedicated, full-time team of professionals in our Investments Division maintain a stable, long-term strategy to uphold each component of LACERA's mission statement: **"To produce, protect, and provide the promised benefits"** to members.

Promised Benefits: A Key Advantage of Your LACERA Membership is a Defined Benefit That Is Not Determined by Market Movements

As a member of a "defined benefit" pension like LACERA, your benefits do not change based on financial market performance. LACERA benefits are generally determined by your length of service and a salary formula.

LACERA receives contributions from LA County and members, and pools them in a collective investment fund. LACERA is responsible for all investment decisions and must abide by a legal doctrine known as "fiduciary duty." Fiduciary duty requires LACERA to act in the exclusive interest of you as LACERA members. Consistent with that duty, we aim to maximize risk-adjusted returns in order to minimize County and employee contributions and to pay promised benefits to current and future members.

A defined benefit plan like LACERA is different from defined contribution plans, such as 401(k) and 457(b) programs. These programs enable participants to select investment strategies in individual investment accounts. Participants in these programs may benefit in rising markets as their account balances increase, but the value of defined contribution programs may also decrease during market downturns.

To Produce and Protect: LACERA Diversifies Investment Risks and Opportunities Over a Very Long Timeframe through Strategic Asset Allocation

In order to pay defined benefits today, tomorrow, and into the future, LACERA seeks to *produce* sufficient returns while *protecting* our investments from market risks over a very long timeframe.

We balance risk and return by allocating investments across numerous investment strategies (stocks, bonds, real estate, etc.), industries, and geographies – otherwise known as strategic asset allocation. By diversifying our investments, we diversify the sources of expected returns and

mitigate investment risks across market cycles, industry and geographic exposures, and minimize the impact of market turmoil.

LACERA categorizes investments into four functional asset classes based on the role we expect them to serve in a diversified, balanced portfolio. LACERA’s asset allocation is presented below.

LACERA’s Asset Allocation as of 3/31/2020

Functional Category	Sample Investments	Role in Portfolio	Allocation
Growth	Stocks, Private Equity	Primary driver of long-term returns	47%
Risk Reduction and Mitigation	Investment-Grade Bonds, Cash, Hedge Funds	Provide current income and a modest level of return while reducing portfolio risk	27%
Real Assets and Inflation Hedges	Real Estate, Infrastructure, Treasury Inflation Protected Securities	Provide income and hedge against inflation	17%
Credit	High Yield Bonds, Emerging Market Debt, Illiquid Fixed Income	Produce current income and modest long-term returns with lower risk	9%

LACERA has taken numerous steps in recent years to further strengthen the fund’s financial stability in different market environments, including the recent market turmoil. For instance, LACERA reduced its investment in stocks from 48% of the portfolio in 2017 to 35% by early 2020, and started new investments, such as infrastructure, to further diversify the portfolio.

To Provide: LACERA Maintains a Strong Cash Balance to Pay Benefits Today and into the Future

LACERA carefully manages liquidity to ensure it has adequate cash to pay member benefits. Currently, LACERA has over \$1 billion in cash. Moreover, over 50% of LACERA’s \$55 billion portfolio is in liquid, publicly traded instruments. These investments can be easily converted to cash within a short amount of time, if necessary. LACERA’s strong cash position means we do not need to sell investments and may be able to invest in strategies that are currently trading at a discount to further generate returns over the long-term.

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LACERA remains focused on a disciplined, risk-aware approach to investing, rooted in our commitment to provide members the promised benefits. We continue to assess portfolio risks and opportunities so that whatever happens over the coming weeks and months, the necessary funds remain available for LACERA benefit payments. Detailed financial reports and periodic updates are available at www.lacera.com.

We wish you and your families good health. Please stay strong.

Best regards,



Jonathan Grabel
Chief Investment Officer