NOTICE OF MEETING AND AGENDA

SPECIAL MEETING OF THE FIXED INCOME/HEDGE

FUNDS/COMMODITIES COMMITTEE

OF THE BOARD OF INVESTMENTS

LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION

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

*8:00 A.M., MONDAY MARCH 5, 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 MINUTES

A. Approval of the Minutes of the Special Meeting of January 10, 2018.

III. PUBLIC COMMENT

IV. CONSENT ITEMS

V. NON-CONSENT ITEMS

A. Recommendation as submitted by James Rice, Senior Investment Officer – Hedge Funds: That the Committee approve/advance the Fund of Funds Guidelines.
(Memo dated February 22, 2018)

B. Recommendation as submitted by Vache Mahseredjian, Principal; Investment Officer: Cash Program Review.
(Memo dated February 23, 2018)

VI. REPORT ON STAFF ACTION ITEMS

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

VIII. ADJOURNMENT

*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 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.

The Chair of the Board of Investments may appoint alternate voting members if absences result in less than 3 voting members.

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 day notice before the meeting date.

MINUTES OF THE SPECIAL MEETING OF THE

FIXED INCOME/HEDGE FUNDS/COMMODITIES COMMITTEE

OF THE BOARD OF INVESMENTS*

LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION

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

*8:00 A.M., WEDNESDAY, JANUARY 10, 2018

PRESENT: Herman Santos, Vice Chair

Ronald Okum

Joseph Kelly

David Green, Alternate

MEMBERS AT LARGE: Michael Schneider

Shawn Kehoe

Wayne Moore

David Green

Gina Sanchez

David Muir

STAFF, ADVISORS, PARTICIPANTS

Jonathan Grabel, Chief Investment Officer

Vache Mahseredjian Principal Investment Officer, Fixed Income

Meketa Investment Group
Leandro Festino, Managing Principal
Tim Filla, Vice President

I. CALL TO ORDER

The meeting was called to order at 8:35 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. Kelly made a motion, seconded by Mr. Santos to approve the minutes of the special meeting of November 2, 2017. The motion passed unanimously.

III. PUBLIC COMMENT

There were no requests from the public to speak.

IV. CONSENT ITEMS

There were no items to report.

V. NON – CONSENT

A. Recommendation as submitted by Vache Mahseredjian, Principal Investment Officer: That the Committee approve the Fixed Income Structure Review (memo dated December 20, 2017)

Mr. Santos made a motion, seconded by Mr. Muir to approve/advance the Fixed Income Structure Review. The motion passed unanimously.

VI. REPORT

A. None

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

There was nothing to report.

VIII. ADJOURNMENT

There being no further business to come before the Committee, the meeting was adjourned at approximately at 9:07 a.m.

The Board of Retirement and Board of Investments have adopted a policy permitting any member of the Boards to attend a standing committee meeting open to the public. In the event five (5) or more members of either Board of Retirement and/or the Board of Investments (including members appointed to the Committee) are in attendance, the meeting shall constitute a joint meeting of the Committee and the Board of Retirement and/or Board of Investments.

February 22, 2018

TO: Each Member
Fixed Income/Hedge Funds/Commodities Committee

FROM: James Rice, CFA
Senior Investment Officer–Hedge Funds

FOR: March 5, 2018 Fixed Income/Hedge Funds/Commodities Committee

SUBJECT: **HEDGE FUNDS OF FUNDS PORTFOLIO GUIDELINE CHANGES RECOMMENDATION**

RECOMMENDATION

Advance the changes to the guidelines for the two diversified hedge fund of funds portfolios managed by Grosvenor Capital Management and Goldman Sachs Asset Management to the Board of Investments for approval.

BACKGROUND

LACERA's Hedge Funds Program ("Program") includes two diversified fund of fund portfolios that are each managed separately by Grosvenor Capital Management ("GCM") and Goldman Sachs Asset Management ("GSAM"). As part of the agreement with each manager, each portfolio is subject to its own written investment guidelines covering such areas as portfolio risk, return and diversification objectives, strategy allocations, liquidity constraints, leverage limits by strategy category, and downside risk expectations.

As part of the review of the Annual Investment Plan and the Objectives, Policies and Procedures at the end of 2017, the Committee advanced and the Board of Investments approved certain changes to the direct hedge fund portfolio guidelines, generally allowing for a more illiquid portfolio. Similar to the changes approved in 2017 for the direct portfolio, staff is recommending additional changes to the guidelines that govern the funds of funds portfolios so that additional latitude is also allowed to invest in a modestly more illiquid portfolio. Even with the proposed changes, both portfolios and the overall Program would still comply with the broad illiquidity risk mitigation policies established in LACERA's Investment Policy Statement. Staff brings these investment guideline changes for Committee advancement and Board approval as the proposed changes allow for modestly greater risk in the management of the portfolios for which commensurate returns are expected.

DISCUSSION

Both sets of guidelines have been updated to propose changes to the liquidity profile of each diversified hedge fund portfolio. In general, both managers will be expected to maintain 65% of the portfolio capital to be available within 12 months, down from 80%.

Individual hedge funds fall on a spectrum of varying levels of liquidity. LACERA's guidelines attempt to mitigate some of the risks of illiquidity while still acknowledging the inherent illiquid nature of many hedge funds assets. Fund illiquidity is often a component of hedge fund structures so that, during market downturns, managers can acquire lower priced positions or avoid selling positions in that environment by preventing possibly steep demands from fund investors to redeem capital at the same time. With more illiquid positions, realized portfolio volatility may decrease modestly as less liquid securities also exhibit lower volatility because their market values are less tied to the higher volatility associated with securities priced in more active markets.

As part of the potential expansion of less liquid investments in the GCM portfolio, the proposed guideline (**Attachment 1**) change is increasing the maximum investment in the Grosvenor Special Opportunities Fund ("GSOF") from 5% of the portfolio to 10%. This Grosvenor-managed fund is a less liquid fund that invests in higher-returning, lower-market-correlation, co-investment type hedge fund opportunities. Currently, LACERA is not charged any additional fee for investments in GSOF beyond the fund of funds management fee that is paid on the entire portfolio. LACERA has a consent right before any new investment is made into GSOF, enabling an evaluation should any fee terms change for future allocations to GSOF.

Additionally, the GSAM guidelines (**Attachment 2**) have been modified to allow for more investment in funds that have longer locked structures. In the proposed revision, up to 10% of the portfolio may be subject to locks greater than two years, but in no cases may GSAM invest in funds with locks that exceed three years. Currently, lock-ups are limited to two years. This proposed change is intended to allow this hedge fund portfolio more flexibility to invest in less liquid funds which may be expected to have higher returns than other more liquid hedge funds. Additionally, allowing for less liquid fund structures may also allow for lower fees as funds sometimes offer a tradeoff of lower fees for a longer lock-up period.

Elsewhere in the GCM document, a number of other changes have been proposed that are intended to modify the guidelines to reflect GCM's current strategy definitions, to reflect a desired portfolio with slightly more concentration and to modify some practices for measuring objectives or risk constraints while still operating within LACERA's higher level policies.

A redline version of the proposed guidelines with highlighted changes from the current guidelines are attached for each portfolio.

CONCLUSION

Staff and its hedge fund of funds managers have proposed modifications to the guidelines that govern the two diversified fund of funds portfolios. Staff recommends the Committee to advance both of these to the Board for approval.

Attachments

Noted and Reviewed:

Jonathan Grabel
Chief Investment Officer

JR:jr:mm

Grosvenor Capital Management

San Gabriel Fund, L.P. (the "Fund")

INVESTMENT OBJECTIVES, INVESTMENT STRATEGY AND APPROACH, PERFORMANCE OBJECTIVES AND PORTFOLIO CONSTRAINTS (THE "GUIDELINES")

~~April 2015~~February 2018 - PROPOSED

May only be amended with the consent of the Fund's sole investor.

I. INVESTMENT OBJECTIVES

The Fund's investment objectives are: (i) to generate a superior absolute and risk-adjusted rate of return, with low performance volatility and low correlation with global equity and fixed-income markets, over a full market cycle; and (ii) to preserve capital during challenging market environments.

II. INVESTMENT STRATEGY AND APPROACH

Grosvenor Capital Management, L.P. ("**Grosvenor**"), in its capacity as the Fund's general partner, seeks to achieve the Fund's investment objectives by allocating the Fund's assets to the discretionary investment authority of third-party investment management firms (each, an "**Investment Manager**") that invest, both long and short, in a wide range of "alternative" investment strategies[1]. Grosvenor's investment approach for the Fund is designed to achieve broad diversification across global capital markets and strategies.

The Fund allocates its assets to Investment Managers by investing in limited liability private investment vehicles (each, a "**Portfolio Fund**") managed by them.

Subject to prior approval by the Fund's sole investor (which approval is required prior to any such initial or additional investment), the Fund may invest in one or more single-strategy, multi-manager investment funds or accounts for which Grosvenor serves as investment manager and which invest all or substantially all of their assets in Portfolio Funds, and may bear its *pro rata* share of the usual and customary expenses of any such investment fund or account, provided that (i) the Fund does not directly or indirectly bear any fees payable to Grosvenor or any of its affiliates in connection with any such investment; and (ii) neither Grosvenor nor any of its affiliates has an equity or other economic interest in the investment manager or investment adviser of any Portfolio Fund in which such investment fund or account invests. Each such investment vehicle or account is defined as a "**Grosvenor-Managed Portfolio Fund**" for purposes of this document and is considered a Portfolio Fund for purposes of this document.

In addition, subject to prior approval by the Fund's sole investor (which approval is required prior to any such initial or additional investment), Grosvenor may from time to time request that an Investment Manager form and/or manage a Portfolio Fund for primary or exclusive investment by accounts managed by Grosvenor, including the Fund. In the case of any such Portfolio Fund that is sponsored and/or controlled by Grosvenor (each, a "**Grosvenor-Controlled Portfolio Fund**"), such Portfolio Fund will retain the investment management or investment advisory services of a party other than Grosvenor and its affiliates. Each Grosvenor-Controlled Portfolio Fund shall be considered a Portfolio Fund for purposes of this document, except where otherwise expressly provided.

The Fund will not directly invest in the types of financial instruments in which a Portfolio Fund invests (other than in respect of any in kind distribution received by the Partnership from an underlying Portfolio Fund).

To the extent that Grosvenor does not use the Partnership's assets for the purposes discussed above, it invests such assets in: bank demand deposit accounts (which may or may not be interest bearing); and/or high-quality, short-term debt instruments (and/or commingled investment products, e.g., "money market" funds, that invest in such instruments). Such investments are expected to be minimal as the Fund expects to allocate its assets primarily to Portfolio Funds, as described above.

The Fund is denominated in US Dollars.

III. PERFORMANCE OBJECTIVES[2]

Target Annualized Return (primary):	90-Day U.S. T-Bills plus 500 basis points
Target Annualized Return (secondary):	HFRX Global Hedge Fund Index
Target Range of Annualized Standard Deviation:	5% to 7%
Beta to the MSCI World Index:	≤ 0.20
Beta to the Barclays US Aggregate Index:	≤ 0.20
Sharpe Ratio:	≥ 1.0
Fund-Level ROR Impact of Severe Case Loss (at market)[3]:	Not more than 10%

IV. PORTFOLIO CONSTRAINTS[4]

Target number of Investment Managers[5]: ~~20 to 40~~15 to 35

Target allocation and compliance ranges to the following strategies, based on Grosvenor's definitions of strategies[6] and its classification of Portfolio Funds as pursuing such strategies[7], expressed as a % of Fund capital (at market):

Strategy	Target Allocation[8]	Compliance Range[8]
Credit:	30%	10% - 40%
Equities:	20%	5% - 40%
Multi-Strategy:	15%	0% - 30%
~~Event Driven:~~	~~2%~~	~~0% - 25%~~
Relative Value:	~~15%~~14%	0% - 30%
Macro:	13%	0% - 20%
Commodities:	~~4%~~2%	0% - 15%
Quantitative:	5%	0% - 15%
Portfolio Hedges:	1%	0% - 10%

% ROR Impact of Severe Case Loss to a single sub-strategy[9] (at market): Not more than ~~6%~~7%

Maximum allocation to a single Portfolio Fund[10], expressed as:

% of Fund capital (at market): ~~7%~~10%
% ROR Impact of Severe Case Loss[11] (at market): Not more than ~~3%~~4%

Leverage[12]:

Maximum leverage limits for the following exposure categories, based on Grosvenor's definitions of exposure categories[13] and its estimates of the Fund's leverage to such exposure categories[14]:

Exposure Category	Maximum
Credit:	~~3.0x~~4.0x
Event Driven:	~~3.0x~~4.0x
Equities:	4.0x
Relative Value:	~~7.0x~~8.0x
Macro:	20.0x
Other:	5.0x

Borrowing:

The Fund may not borrow for any purpose.

Portfolio Fund Liquidity Constraints[15]:

The Fund may invest in Portfolio Funds that permit voluntary redemptions/withdrawals ("**Evergreen Portfolio Funds**"),~~ and ~~Portfolio Funds that do not permit voluntary redemptions/withdrawals ("**Self-Liquidating Portfolio Funds**"), and GCM Grosvenor Special Opportunities Fund, L.P., a Grosvenor-managed portfolio fund, from which Grosvenor and its affiliates receive fees and other compensation and which offers periodic liquidity ("**GCM Special Opportunities Fund**"). GCM Special Opportunities Fund's offering documents, which will be provided to the Fund's sole investor upon each investment in the GCM Special Opportunities Fund, describe the fee and liquidity terms offered to investors, including the Fund.

Subject to prior approval by the Fund's sole investor (which approval is required prior to any such initial or additional investment), the Fund may allocate a maximum of ~~5%~~20% of its capital to Self-Liquidating Portfolio Funds. For purposes of determining the ~~5%~~20% limitation, a combination of an "at cost" and "at market" test is to be applied as follows: if the current "at cost" allocation to Self-Liquidating Portfolio Funds is less than ~~5%~~20% but the corresponding "at market" allocation is greater than ~~5%~~20%, no additional allocations to Self-Liquidating Portfolio Funds may be made until the "at market" allocation is less than ~~5%~~20%. An "at market" allocation of greater than ~~5%~~20% but an "at cost" allocation of less than ~~5%~~20% is not considered to be an exception for purposes of applying this constraint. For the avoidance of doubt, GCM Special Opportunities Fund is not considered a Self-Liquidating Portfolio Fund for purposes of confirming compliance with this constraint.

Subject to prior approval by the Fund's sole investor (which approval is required prior to any such initial or additional investment), the Fund may allocate a maximum of 10% of its capital to GCM Special Opportunities Fund. This 10% limitation shall be measured exclusively "at market" and only at the time of the initial investment or any additional investments: specifically, if the "at market" allocation is greater than 10%, no additional allocation to GCM Special Opportunities Fund may be made until the "at market" allocation is less than 10%.

The Fund may not allocate more than ~~20%~~35% of its capital to Portfolio Funds that impose "lock-ups" (measured either from the time the Fund first invests in such a Portfolio Fund or on an investment-by-investment basis in such a Portfolio Fund, as applicable, and not from the time of any capital commitment to a Portfolio Fund) of more than 12 months. For purposes of applying this constraint, the Fund's total allocation to Self-Liquidating Portfolio Funds (at market) and GCM Special Opportunities Fund (at market) is considered to be "locked-up" for more than 12 months.

With regard to the capital allocated to Evergreen Portfolio Funds, the Fund may not allocate any of its capital to Evergreen Portfolio Funds that impose "lock-ups" (measured either from the time the Fund first invests in such an Evergreen Portfolio Fund or on an investment-by-investment basis in such an Evergreen Portfolio Fund, as applicable, and not from the time of any capital commitment to an Evergreen Portfolio Fund) of more than 24 months.

Minimum ~~capital invested with~~liquidity available within one year in Portfolio Funds (after applicable "lock-ups" expire): 65%

- ~~with quarterly or more frequent liquidity: 50%~~
- ~~with annual or more frequent liquidity: 85%~~

For purposes of applying the aforementioned ~~50% and 85%~~65% on-going liquidity constraint~~s~~, the Fund's aggregate allocation to ~~both~~ Evergreen Portfolio Funds, ~~and~~ Self-Liquidating Portfolio Funds (at market), GCM Special Opportunities Fund (at market), and Side Pocket Investments (at market) (as defined below) are to be taken into consideration. Specifically:

- Evergreen Portfolio Funds' mandatory investor-level "gates" are taken into consideration (but all other types of "gates" (*e.g.,* mandatory share-class and Portfolio Fund-level "gates," and any discretionary "gates") are not).
- Self-Liquidating Portfolio Funds, GCM Special Opportunities Fund, and Side Pocket Investments are considered to have liquidity less frequent than annual. However, to the extent any portion of any such Portfolio Fund has known or stated liquidity within one year or less, such portion of such Portfolio Fund shall be considered to have annual or more frequent liquidity.

Additionally, portfolio liquidity may be subject to redemption charges and certain other considerations (see footnote 15).

<u>Portfolio Fund Investment Restrictions</u>:

- <u>Transparency</u>: Grosvenor will not invest the assets of the Fund in a Portfolio Fund unless Grosvenor reasonably determines that such Portfolio Fund provides ongoing disclosure of either position-level data or risk-exposure-level data. Position-level data includes all of a Portfolio Fund's security holdings and their amounts. Examples of risk-exposure-level data include net equity exposure, sector level net equity allocation, and net fixed income allocation by credit rating. Additionally, Grosvenor will communicate with each Portfolio Fund to understand the largest positions in such funds.

- <u>Quantitative Risk Assessment</u>: Grosvenor will seek to estimate and measure the quantitative risks of the Fund using a risk measurement system. Risk will be evaluated at both the Portfolio Fund level and Fund level in seeking to maintain a program that continues to operate within this policy (e.g., beta and volatility levels). Grosvenor will seek to use the system to attempt to identify unintentional risks in the Fund which are, in its reasonable opinion, designed to be reduced through diversification and to identify portfolio changes which would be designed to reduce risk while maintaining program objectives.

  Grosvenor will use other risk analyses, including scenario analysis to determine the manner in which the Fund might behave in certain unfavorable market environments, and value-at-risk type analysis to identify the potential for losses in severe downside cases.

- <u>Operational Risk Assessment</u>: Grosvenor will only invest the assets of the Fund in a Portfolio Fund that has been evaluated from an operational perspective, and determined by Grosvenor, in its reasonable judgment, to have sufficient control and compliance environments. In addition, unless the Fund's sole investor consents otherwise, the Fund may only invest with Portfolio Funds that are administered and custodied by independent third parties and audited by third-party auditors that are, in Grosvenor's reasonable opinion, reputable. Grosvenor will review the valuation policies of each Portfolio Fund on a periodic basis to evaluate whether such valuation policies are, in Grosvenor's reasonable judgment, sufficiently strong given the strategy and anticipated investments of the Portfolio Fund.

- <u>Use of Placement Agents</u>: Unless the Fund's sole investor consents otherwise, Grosvenor will not invest the assets of the Fund in any Portfolio Fund where, to Grosvenor's knowledge after due inquiry, a placement agent was used by such Portfolio Fund (or its general partner) in respect of the Fund's investment therein.

- <u>Economic Interest Limitation</u>: Unless the Fund's sole investor consents otherwise, Grosvenor will not invest the assets of the Fund in any Portfolio Fund where Grosvenor or any of its affiliates has an equity or other economic interest in the investment manager or investment adviser of such Portfolio Fund.

V. DESIGNATED/SIDE POCKET INVESTMENTS

Except in the following cases, the Fund is prohibited from investing with Portfolio Funds that are authorized to make illiquid or so-called "side pocket" or "designated" investments (collectively, "**Side Pocket Investments**"):

- Portfolio Fund offers the option to investors in such Portfolio Fund to not to participate in (i.e., "opt-out" of) Side Pocket Investments. In such case, Grosvenor will cause the Fund to "opt-out" of such Side Pocket Investments.
- Portfolio Fund's governing documents are silent with regard to Side Pocket Investments and Grosvenor reasonably expects that the Investment Manager of such Portfolio Fund will not make Side Pocket Investments[16].
- Although the Portfolio Fund's governing documents permit Side Pocket Investments, Grosvenor reasonably expects the Investment Manager of such Portfolio Fund will not make Side Pocket Investments[16].

VI. OTHER

The Fund generally shall invest in Portfolio Funds domiciled in the United States; provided, however, that the Fund may, with the prior consent of the Fund's sole investor, invest in a Portfolio Fund domiciled outside of the United States in the event that: (i) Grosvenor, in its reasonable judgment, believes that the terms of an investment in such non-U.S.-domiciled Portfolio Fund are superior to those of an investment in a U.S.-domiciled Portfolio Fund managed by the same Investment Manager (including with regard to investment mandate, fee and/or liquidity); (ii) a particular Investment Manager does not manage a Portfolio Fund domiciled in the United States that is equivalent to a Portfolio Fund managed by such Investment Manager that is domiciled outside of the United States; or (iii) other circumstances arise as disclosed with specificity to the Fund's sole investor.

The Fund shall not, without the prior consent of the Fund's sole investor, engage in any "transfers" of Portfolio Fund interests to or from another Grosvenor-advised fund (including, for the avoidance of doubt, "cash transfers" and "book entry transfers) in cases where investment terms (excluding capacity rights) are being transferred along with such interests. For purposes of this paragraph, "transfers," "cash transfers" and "book entry transfers" are as defined in **<u>Schedule C</u>** of the Fund's limited partnership agreement, dated September 22, 2011.

<u>Notes</u>:

[1]Grosvenor may from time to time, subject to prior consultation with and approval by the Fund's sole investor, cause the Fund to engage in hedging transactions; for example, by purchasing or selling securities or derivatives with the intent of reducing certain exposures.

[2]All performance objectives are expressed in terms of U.S. Dollars, net of all fees and expenses of the Fund and the Portfolio Funds, over a full market cycle. **NO ASSURANCE CAN BE GIVEN THAT THE FUND WILL ACHIEVE ITS PERFORMANCE OBJECTIVES OR AVOID SIGNIFICANT LOSSES**.

For purposes of the measuring the Fund's Beta objective to the MSCI World Index: if the realized Beta of the Fund on a trailing 3-year basis should exceed 0.20, Grosvenor shall seek to modify the portfolio to reduce the Forward-Looking Estimate ("FLE") Beta included in Grosvenor's Risk Based Allocation Report ("RBA") to 0.20 or less; otherwise the FLE Beta may not exceed 0.30.

[3] Fund-Level ROR Impact of Severe Case Loss is defined as the weighted sum of the Severe Case Losses of the Portfolio Funds in which the Fund invests, assuming perfect positive correlation of such Portfolio Funds that pursue a particular sub-strategy (see notes 6 and 7 below) and a 40% average correlation among the sub-strategies pursued by the Portfolio Funds in which the Fund invests. Grosvenor may from time to time modify either or both of the foregoing assumptions using its reasonable discretion, and will promptly notify the Fund's sole investor of any such modification.

For purposes of this performance objective, the Severe Case Loss of a Portfolio Fund is defined as Grosvenor's assessment of such Portfolio Fund's maximum expected potential loss over a 12- to 18-month period in the event of a debacle in the strategy(ies) pursued by such Portfolio Fund.

[4]Grosvenor will not invest the assets of the Fund in a Portfolio Fund if Grosvenor reasonably believes that, immediately after such investment, the Fund will no longer comply with these portfolio constraints.

Exceptions to these portfolio constraints are dealt with as soon as practicable, based upon the liquidity of the Portfolio Funds in which the Fund invests.

~~The portfolio constraints shall not apply during the Fund's "ramp-up" investment period (which is not expected to exceed 6 months following the date on which the Fund commences investment operations).~~

If the Fund dissolves and winds up upon the instructions of the Fund's sole investor, the investment constraints set forth in this document shall not apply during the period of such winding up.

[5]If the Fund invests in more than one Portfolio Fund managed by a particular Investment Manager, the number of Portfolio Funds managed by such Investment Manager is disregarded for purposes of determining the number of Investment Managers with which the Fund may invest; only the Investment Manager is counted for this purpose. Accordingly, if the Fund invests in more than one Grosvenor-Managed Portfolio Fund, the number of such Grosvenor-Managed Portfolio Funds is disregarded, and Grosvenor is counted as a single Investment Manager. In addition, Investment Managers of the Portfolio Funds in which the Grosvenor-Managed Portfolio Funds invest are not counted for this purpose, unless the Fund also invests directly in Portfolio Funds managed by such Investment Managers. If the Fund has submitted a request to withdraw/redeem in full from all Portfolio Funds managed by a particular Investment Manager, such Investment Manager is disregarded for purposes of determining the number of Investment Managers with which the Fund may invest.

[6]Grosvenor determines the "strategy" classification of a particular Portfolio Fund by reference to the general category of investment strategy pursued by such Portfolio Fund, as defined by Grosvenor ~~(currently, for example: "Credit", "Equities", "Multi-Strategy", "Relative Value", "Event Driven", "Macro", "Commodities", and "Portfolio Hedges")~~. Portfolio Funds are further categorized in: (i) a specific sub-category, or "sub-strategy" of such general category, as defined by Grosvenor and, if applicable, (ii) a specific ~~specialty and/or~~ region within such specific sub-category, as defined by Grosvenor. Grosvenor may modify "strategy" or "sub-strategy" classifications from time to time, using its reasonable discretion, and will promptly notify the Fund's sole investor of any such modification.

[7]Grosvenor classifies Portfolio Funds as pursuing particular "strategies" or "sub-strategies" using its reasonable discretion and may from time to time reclassify Portfolio Funds as pursuing particular "strategies" or "sub-strategies" using its reasonable discretion. Grosvenor may classify a particular Portfolio Fund as pursuing a particular "strategy" or "sub-strategy" even though such Portfolio Fund may not invest all of its assets in such "strategy" or "sub-strategy."

[8]The target allocation and compliance range for a particular strategy is the Fund's expected average long-term allocation to such strategy based on relatively "normal" market environments. Grosvenor will use discretion to opportunistically manage the Fund to achieve the Fund's performance objectives, subject to the Fund's portfolio constraints. Accordingly, there may be periods, perhaps extended periods, when allocations to particular strategies are not consistent with their respective target allocation or compliance range.

[9]%ROR (Rate of Return) Impact of Severe Case Loss, in the case of a sub-strategy, is defined as the capital weighted aggregate of the Severe Case Losses of the Portfolio Funds that pursue such sub-strategy, as defined by Grosvenor~~ (currently, for example: "Long/Short Credit", "Long-biased Credit", "Structured Credit", "Event Driven", "Low-directional Hedged Equity", "Long-biased Hedged Equity", "Activists", "Multi Strategy", "Convertible Arbitrage", "Volatility Arbitrage", "Statistical Arbitrage", "Fixed Income Arbitrage", "Discretionary Macro", "Systematic Macro", "Discretionary Commodities", "Systematic Commodities", "Dedicated Short Equity", "Tail Risk Protection", "Dedicated Short Credit", "Synthetic Short Equity")~~. For this purpose, the Severe Case Loss of a Portfolio Fund is defined as Grosvenor's assessment of such Portfolio Fund's maximum expected potential loss over a 12- to 18-month period in the event of a debacle in the strategy(ies) pursued by such Portfolio Fund. For Equities, the ~~aggregate~~ %ROR Impact of Severe Case Loss ~~for Low-directional Hedged Equity, Long-biased Hedged Equity, and Activists Portfolio Funds is netted against the aggregate %ROR Impact of Severe Case Loss for Dedicated Short Equity Portfolio Funds,~~ is aggregated by region.

[10]Portfolio Funds managed by the same Investment Manager are treated separately for this purpose. The restrictions set forth under "Maximum allocation to a single Portfolio Fund" do not apply to investments in Grosvenor-Managed Portfolio Funds.

[11]%ROR Impact of Severe Case Loss, in the case of a Portfolio Fund, is defined as the Severe Case Loss of the Portfolio Fund weighted by the capital allocated to such Portfolio Fund. For this purpose, the Severe Case Loss of a Portfolio Fund is defined as Grosvenor's assessment of such Portfolio Fund's maximum expected potential loss over a 12- to 18-month period in the event of a debacle in the strategy(ies) pursued by such Portfolio Fund.

[12]Leverage is defined as the total long notional exposure of the underlying Portfolio Funds plus the total short notional exposure of the underlying Portfolio Funds (excluding the short exposure relating to relative value strategies), divided by total Fund capital. Notional exposure related to tail-risk protection strategies is excluded from the calculation of leverage. Notional exposure does not necessarily equate to "at-risk" capital.

[13]Grosvenor maintains the following "exposure categories:" (1) Relative Value: for example, convertible arbitrage, credit arbitrage (correlation, credit volatility, and intra-credit), statistical arbitrage, fixed income arbitrage, volatility arbitrage, and MBS arbitrage; (2) Credit: for example, corporate credit (bank loans, distressed), mortgage securities/structured products among others, in each case across regions; (3) Event Driven: for example, merger arbitrage, special situations, and post-restructured equities; (4) Equities: for example, U.S. hedged equities, European hedged equities, Japanese hedged equities, Developed Asia ex-Japan hedged equities and emerging markets hedged equities; (5) Macro: for example, macro equities, currencies, and commodities; and (6) Other: for example, reinsurance. Grosvenor may modify "exposure categories" from time to time, using its reasonable discretion, and will promptly notify the Fund's sole investor of any such modification.

[14]Grosvenor estimates the Fund's exposure to specific exposure categories on a "look through" basis based upon the most recent exposure information provided to Grosvenor from time to time by the Investment Managers of the Portfolio Funds in which the Fund invests, which information is not necessarily current as of the time Grosvenor makes such estimates. Grosvenor receives strategy and/or asset class exposure information from all Investment Managers with which the Fund invests. Investment Managers provide such information to Grosvenor in varying levels of detail, specificity and completeness, and generally do not provide complete position level transparency to Grosvenor. In cases where Grosvenor determines that the information provided by a particular Investment Manager is not sufficiently detailed, specific and/or complete for purposes of determining the Fund's exposure to particular exposure categories, Grosvenor analyzes such information (and, where it considers it appropriate, augments such information) based on: (i) conversations with the Investment Manager regarding the information it has provided; (ii) Grosvenor's historical knowledge of the Investment Manager and the manner in which it, and/or other Investment Managers that pursue comparable strategies, has historically invested; and/or (iii) such other assumptions, estimates and factors as Grosvenor considers to be appropriate under the particular facts and circumstances (including potential sources of information provided by parties other than the Investment Managers). In these cases, Grosvenor estimates information based on Grosvenor's judgment, including good faith

consideration of factors of the types listed above. While Grosvenor does not utilize any such estimate if it has reason to believe that such estimate is inaccurate, each such estimate is inherently imprecise.

[15]Except as otherwise expressly described above (including, for the avoidance of doubt, in Section IV), for purposes of testing and verifying the Fund's compliance with Portfolio Fund Liquidity Constraints, Grosvenor shall base such testing and verification exclusively on those provisions of the governing documents of the Portfolio Funds in which the Fund invests that specify the liquidity available to the Fund, as an investor in such Portfolio Funds, under ordinary circumstances, and Grosvenor shall not take into account any of the following considerations in connection with such testing and verification: (i) the payment of withdrawal/redemption proceeds is subject to the settlement provisions of the governing documents of such Portfolio Funds from which withdrawals/redemptions are made (a Portfolio Fund's governing documents may provide, for example, that the Portfolio Fund will pay a substantial portion of withdrawal/redemption proceeds within a particular number of days after the effective date of a withdrawal/redemption but may hold back the remaining proceeds until the Portfolio Fund is able to finalize its net asset value as of such effective date (which finalization may not take place until completion of such Portfolio Fund's annual audit for the year in which the withdrawal/redemption took place); (ii) withdrawals/redemptions from such Portfolio Funds may be subject to suspension; (iii) withdrawals/redemptions from such Portfolio Funds may be subject to withdrawal/redemption charges; (iv) notice deadlines with respect to withdrawals/redemptions from such Portfolio Funds; and (v) the Fund, as a withdrawing/redeeming investor from such Portfolio Funds, may be required to continue to participate in certain illiquid investments and/or so-called "side pocket" or "designated investments" held by such Portfolio Funds from which the Fund has otherwise determined to withdraw/redeem until such Portfolio Funds determine to distribute the proceeds of such investments.

[16]In making such determinations, Grosvenor relies exclusively on conversations with and/or reports provided by the Investment Manager of the relevant Portfolio Fund. Grosvenor ordinarily assumes that an Investment Manager of a Portfolio Fund will not make Side Pocket Investments for such Portfolio Fund unless the governing documents of such Portfolio Fund expressly authorize such Investment Manager to make such investments for such Portfolio Fund. Furthermore, in cases where the governing documents for a Portfolio Fund authorize the Investment Manager to make Side Pocket Investments, Grosvenor may, after speaking with such Investment Manager, assume that such Investment Manager will not make such Side Pocket Investments. In either case, the Investment Manager of a Portfolio Fund may maintain that it has the authority to make, and may in fact make, Side Pocket Investments for such Portfolio Fund regardless of whether the governing documents of such Portfolio Fund expressly authorize such Investment Manager to make such investments.

The sole investor hereby consents and agrees to the above Guidelines:

LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION

By:______________________________________
Name:
Title:

Acknowledged By:

Grosvenor Capital Management, L.P.

By:______________________________________
Name: Paul Meister
Title: Vice Chairman

ATTACHMENT 2

Goldman Sachs Asset Management

Liquidity Guidelines

Manager will select Portfolio Funds for the Account subject to the following liquidity guidelines (measured at the time of investment and based on Manager's available estimates of the net asset values of the Portfolio Funds in the Account):

(i) No more than 20% of the Account's net asset value to be made up of Portfolio Funds with an unexpired "hard" lock-up period of one year or greater based on the offering documentation provided to Manager with respect to such Portfolio Funds or as otherwise agreed to in writing by the applicable Advisors. For the avoidance of doubt, Manager may select Portfolio Funds with "soft" lock-ups (i.e., with early redemption penalties).

(ii) At least 75% of the Account's net asset value to be made up of Portfolio Funds that provide for ~~regular~~full or partial redemptions ~~dates~~ at least quarterly under normal circumstances, based on the offering documentation provided to Manager with respect to such Portfolio Funds or as otherwise agreed to in writing by the Advisors. The right of an Advisor to impose mandatory investor-level gates shall be considered for purposes of compliance with this liquidity guideline. Lock-ups with respect to such Portfolio Fund, and the right of an Advisor to impose fund-level gates or suspend redemptions, distribute assets in kind, segregate assets, or otherwise limit redemptions, shall not be considered for purposes of compliance with this liquidity guideline.

(iii) At least ~~80~~65% of the Account's net asset value to be made up of Portfolio Funds that can be liquidated within one year based on the offering documentation provided to Manager with respect to such Portfolio Funds or as otherwise agreed to in writing by the Advisors. Redemption notice periods, payment periods and the right of an Advisor to impose mandatory investor-level gates shall be considered for purposes of compliance with this liquidity guideline. Lock-ups with respect to such Portfolio Fund, and the right of an Advisor to impose fund-level gates or suspend redemptions, distribute assets in kind, segregate assets, or otherwise limit redemptions, shall not be considered for purposes of compliance with this liquidity guideline.

(iv) No more than 10% allocated~~tions~~ to Portfolio Funds with a "hard" lock-up period of greater than two years based on the offering documentation provided to Manager with respect to such Portfolio Funds or as otherwise agreed to in writing by the applicable Advisors. Lock-up periods for Portfolio Funds are not to exceed three years.

LACERA

February 23, 2018

TO: Fixed Income/Hedge Funds/Commodities Committee:
Wayne Moore, Chair
Herman Santos, Vice Chair
Ronald Okum
Joseph Kelly
David Green, Alternate

FROM: Vache Mahseredjian, CFA, CAIA, FRM, ASA, P.I.O.
Robert Santos, Investment Officer
Esmeralda Del Bosque, Investment Officer
Adam Cheng, CFA, Sr. Investment Analyst

FOR: March 5, 2018 Committee Meeting

SUBJECT: **CASH PROGRAM REVIEW**

RECOMMENDATION

Change the cash sweep vehicle from the State Street Institutional Liquid Reserves Fund to the State Street Institutional U.S. Government Money Market Fund.

EXECUTIVE SUMMARY

Staff reviewed the cash management program to ensure that it continues to comply with LACERA's Cash Investment Policy. The review consisted of an examination of the cash portfolio's strategic objectives, performance, and guidelines—with particular emphasis on parameters relating to liquidity, interest rate risk, credit risk, and diversification. This review is part of staff's ongoing evaluation of portfolios and investment managers. Staff is in discussions with JP Morgan (JPM) to fine-tune the cash investment guidelines.

In light of recent regulations governing money market funds, staff recommends changing the sweep vehicle used to invest cash flows that arrive after JPM's daily investment deadline. The current sweep vehicle is the State Street Institutional Liquid Reserves (ILR) Fund. Staff recommends switching to the State Street Institutional U.S. Government Money Market (GovMM) Fund. This change coincides with an earlier Meketa recommendation.

Staff considers the change in sweep vehicle to be an operational function, and LACERA's Investment Policy Statement (IPS) delegates day-to-day operational decisions to the CIO—followed up by written notification to the Board. However, the language in the IPS is unclear, so staff is taking a conservative interpretation and seeking Committee, and then Board approval. Staff will endeavor to clarify the IPS language in the next update, following the Board's asset allocation decision scheduled for May.

INTRODUCTION

LACERA's asset allocation has a 2% target weight for cash, and management of cash assets is governed by LACERA's Cash Investment Policy. Among the key objectives listed in this policy are:

- Preserve principal by investing in high quality, short-term fixed income instruments.
- Generate income and maintain adequate liquidity to: 1) pay benefits, 2) rebalance asset classes, and 3) satisfy capital calls from LACERA's investment managers.
- Diversify with respect to maturity, sector, industry, and issuer.
- Outperform the benchmark: The Citigroup 6 Month U.S. Treasury Bill Index

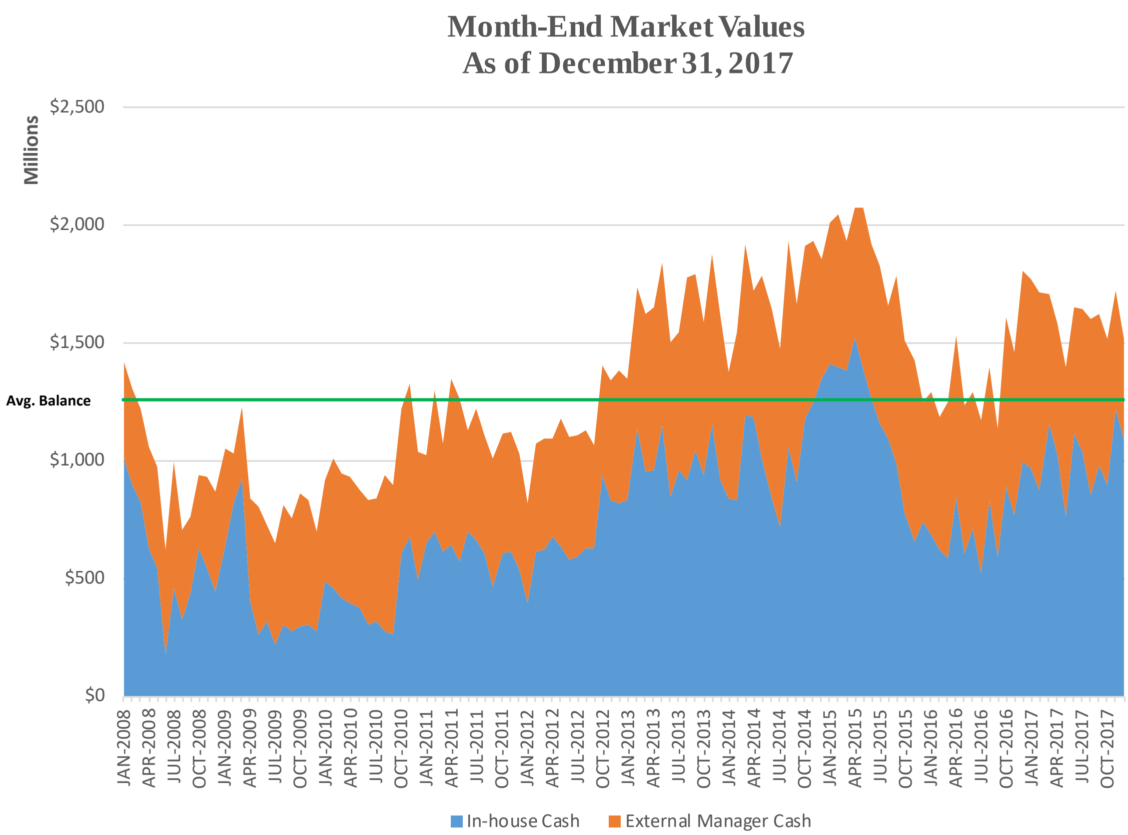
All cash activity such as employee/employer contributions, benefit payments, manager funding or liquidation, asset allocation rebalancing, and numerous operating or administrative transactions flow through the cash portfolio, so maintaining adequate daily liquidity is paramount. The primary source of cash is LACERA's 2% allocation ("In-House" cash); in addition, when LACERA's active managers have un-invested cash, that cash flows into the portfolio that is actively managed by J.P. Morgan Asset Management (JPM). JPM has a daily cutoff time of 11:30 a.m. PST, so any cash flows that arrive after that deadline are "swept" into a money market fund managed by State Street and returned the next morning. On average, the JPM portfolio has accounted for 92% of total cash, and the State Street sweep vehicle has comprised the remaining 8%.

MARKET VALUE

Over the past 10 years, the JPM portfolio's month-end market value has averaged $1.3 billion, ranging from $624 million to $2.1 billion. As of December 31, 2017, this portfolio had a market value of $1.5 billion, consisting of $1.1 billion of In-House Cash and $0.4 billion of external managers' cash.[1] **CHART 1** shows how the balances have fluctuated over the past 10 years.

[1] External manager cash by asset class: Fixed Income ($223 million), Equities ($81 million), Real Estate ($44 million), Private Equity ($29 million), Hedge Funds ($32 million), and Commodities ($19 million).

CHART 1



PERFORMANCE

TABLE 1 on the following page summarizes the JPM cash portfolio's annualized return and risk.

Over the past 10 years, the portfolio has outperformed its benchmark by an average of 30 bps annually, net-of-fees.[2] Since JPM started managing the portfolio in September of 2012, the annualized standard deviation has been 0.12%, slightly above the 0.09% level of the benchmark. Note that the average standard deviation over the past 10 years is considerably higher, at 1.37%, reflecting the experience of the 2008 financial crisis. Following that experience, the Board issued an RFI for a cash manager, hired JPM, and instituted tighter guidelines to reduce risk.

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[2] JP Morgan's management fee is 5 bps per year.

TABLE 1
ANNUALIZED RETURN AND RISK[A] (Ended December 31, 2017)

PORTFOLIO	1 Yr	3 Yrs	5 Yrs	7 Yrs	10 Yrs	Incept: 9/12
LACERA Enhanced Cash (Gross)	1.18%	0.81%	0.63%	0.63%	0.84%	0.62%
LACERA Enhanced Cash (Net)	1.13%	0.76%	0.58%	0.58%	0.78%	0.57%
Citigroup 6-Month U.S. T-Bill	0.88%	0.46%	0.31%	0.26%	0.48%	0.30%
Difference (Net)	0.25%	0.30%	0.27%	0.32%	0.30%	0.27%
Standard Deviation	---	0.12%	0.13%	0.18%	1.37%	0.12%
Standard Deviation (Benchmark)	---	0.10%	0.10%	0.10%	0.20%	0.09%
[A] *Source: State Street and Zephyr StyleADVISOR*						

TABLE 2 shows the JPM portfolio's key characteristics alongside those of the benchmark, the Citigroup 6-month T-Bill Index, as of December 31, 2017. Note that the portfolio has a lower duration than the benchmark (0.31 vs. 0.49), indicating that it has less interest rate risk.

The portfolio does have greater credit risk than the benchmark, as shown by the spread duration measure. This is because the benchmark consists exclusively of Treasury Bills, whereas the portfolio also invests in high quality, short-term debt instruments such as corporate bonds, certificates of deposit, commercial paper, and asset-backed securities. The allocation to non-Treasury securities is responsible for the portfolio's 22 bps yield advantage over the Index (1.73% vs. 1.51%). Over the long run, this yield differential has been the primary source of incremental return.

TABLE 2
CHARACTERISTICS, CREDIT QUALITY, AND SECTOR ALLOCATION
(as of 12/31/17)

Portfolio Characteristics	Portfolio	Benchmark*
Duration (yrs)	0.31	0.49
Spread Duration (yrs)	0.25	0.00
Average Yield (%)	1.73	1.51
Average Life (yrs)	0.36	0.49
Average Credit Quality	A+	AAA

Credit Quality	Portfolio	Benchmark*
Treasuries	22.4%	100.0%
AAA /AA/A	77.6%	0.0%
Total	100.0%	100.0%

Sector Allocation	Portfolio	Benchmark*
Commercial Paper	36.4%	0.0%
Treasuries	22.4%	100.0%
Corporates	17.8%	0.0%
Certificates of Deposit	11.2%	0.0%
Cash	7.1%	0.0%
Agencies	3.3%	0.0%
Other **	1.8%	0.0%
Total	100.0%	100.0%

* Citigroup 6-Month US Treasury Bill Index
** Consists of Time Deposits, Non-Corporate Credit, & ABS

INVESTMENT GUIDELINES

Staff periodically revisits the cash program's investment guidelines, including the terms of the State Street cash sweep vehicle. The market environment is constantly changing and new regulations alter the landscape, so the review ensures that key investment parameters remain up-to-date and consistent with LACERA's Cash Policy.

With regard to the JPM portfolio, staff and the manager recently collaborated to streamline and update the investment guidelines in order to provide the requisite flexibility for a portfolio that requires daily liquidity. A few fine-tuning adjustments were made, but the core, conservative guidelines governing liquidity, interest rate risk, and credit risk remain unchanged.[3]

The State Street sweep vehicle, ILR, is a very short-term "prime[4]" institutional money market fund and is even more conservative than the JPM portfolio: as of December 31, 2017, its weighted average maturity was 18 days.

In October of 2016, new SEC rules governing money market funds went into effect. These rules require prime money market funds to adopt a floating net-asset-value (NAV) as opposed to the prior approach, which used a fixed $1 NAV. The floating nature of the NAV means that assets invested in the fund can decline in value. Moreover, under certain circumstances, prime funds are allowed to impose liquidation fees and redemption gates.

In contrast, money market funds such as GovMM that invest exclusively in U.S. Government securities are not subject to the new rules, so their NAVs will not fall below $1, and they are not subject to redemption fees or gates. GovMM's interest rate risk is comparable to the ILR, but GovMM has essentially no credit risk. For this reason, its yield is approximately

[3] The same guidelines apply to the OPEB cash portfolio managed by JPM.
[4] Prime funds are general purpose funds that invest in U.S. dollar-denominated money market instruments.

25 bps less than that of the ILR fund.[5] Given the added protections, staff recommends switching from ILR to GovMM. This change is in line with a Meketa recommendation made during its review of Fund operations.

Staff views the change in sweep vehicle to be an operational function, and LACERA's IPS delegates day-to-day operational decisions to the CIO, provided the Board receives written notification of such actions. However, language in different sections of the IPS is somewhat inconsistent. Therefore, staff is taking a conservative interpretation and seeking the Committee's approval. If the Committee approves, the matter will be forwarded to the Board.

Staff will endeavor to clarify the language in the IPS during the next IPS update, following the Board's asset allocation decision scheduled for May.

CONCLUSION

Staff reviewed the cash management program to ensure that it continues to comply with the Cash Investment Policy. The program is operating smoothly and performance has met expectations. JPM has achieved the objectives of preserving capital and providing liquidity while adding incremental yield, and State Street's ILR fund has been an effective late money sweep vehicle.

Given the revised rules governing money market funds, transitioning from State Street's ILR to the GovMM fund is advisable. The investment environment has been benign for the past several years, so switching to the more conservative sweep vehicle before the next market disruption is warranted.

Noted & Reviewed:

Jonathan Grabel
Chief Investment Officer

[5] The ILR fund's 7-day yield was 1.51% as of 12/31/17, versus 1.25% for the GovMM fund. Both funds have the same expense ratio of 12 bps.