

LIVE VIRTUAL COMMITTEE MEETING



TO VIEW VIA WEB



TO PROVIDE PUBLIC COMMENT

You may submit a request to speak during Public Comment or provide a written comment by emailing PublicComment@lacera.com. If you would like to remain anonymous at the meeting without stating your name, please let us know.

Attention: Public comment requests must be submitted via email to PublicComment@lacera.com.

LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION
300 N. LAKE AVENUE, SUITE 650, PASADENA, CA

A SPECIAL MEETING OF THE REAL ASSETS COMMITTEE OF THE
BOARD OF INVESTMENTS*
LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION
300 N. LAKE AVENUE, SUITE 810, PASADENA, CA 91101
8:00 A.M., WEDNESDAY, SEPTEMBER 8, 2021

This meeting will be conducted by teleconference under the Governor's Executive Order No. N-29-20.

Any person may view the meeting online at
<http://lacera.com/leadership/board-meetings>

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 Real Assets Committee Meeting of August 11, 2021.

III. PUBLIC COMMENT

(Written Public Comment - You may submit written public comments by email to PublicComment@lacera.com. Correspondence will be made part of the official record of the meeting. Please submit your written public comments or documentation as soon as possible and up to the close of the meeting.

Verbal Public Comment - You may also request to address the Committee. A request to speak must be submitted via email toPublicComment@lacera.com. We will contact you with information and instructions as to how to access the meeting as a speaker. If you would like to remain anonymous at the meeting without stating your name, please let us know.)

IV. REPORTS

- A. StepStone Real Estate Initial Review
James Rice, Principal Investment Officer
Margaret McKnight, Partner
Tom Hester, Managing Director
Anja Ritchie, Principal
(Memo dated August 27, 2021)

V. ITEMS FOR STAFF REVIEW

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

VII. 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. In the event five or more members of 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 Investments. 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.***

Documents subject to public disclosure that relate to an agenda item for an open session of the Board of Retirement that are distributed to members of the Board of Retirement 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 Retirement 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.

Requests for reasonable modification or accommodation of the telephone public access and Public Comments procedures stated in this agenda from individuals with disabilities, consistent with the Americans with Disabilities Act of 1990, may call the Board Offices at (626) 564-6000, Ext. 4401/4402 from 8:30 a.m. to 5:00 p.m. Monday through Friday or email PublicComment@lacera.com, but no later than 48 hours prior to the time the meeting is to commence.

MINUTES OF THE SPECIAL MEETING OF THE REAL ASSETS COMMITTEE AND
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 11, 2021

This meeting was conducted by teleconference pursuant to the Governor's Executive Order N-29-20. The public may attend the meeting at LACERA's offices.

PRESENT: Patrick Jones, Chair
Alan Bernstein, Vice Chair
Keith Knox
Gina Sanchez
Elizabeth Greenwood

ABSENT: David Green, Alternate

MEMBERS AT LARAGE:

Herman Santos
Elizabeth Greenwood
Joseph Kelly

STAFF, ADVISORS, PARTICIPANTS:

James Rice, Principal Investment Officer
Mark White, Head of Real Assets, Albourne

I. CALL TO ORDER

The meeting was called to order by Chair Jones at 11:50 a.m. in the Board Room of Gateway Plaza.

II. APPROVAL OF MINUTES

A. Approval of the Minutes of the Meeting of June 9, 2021.

Mr. Knox made a motion, Mr. Bernstein seconded, to approve the minutes of the regular meeting of June 9, 2021.

The motion passed unanimously (roll call) with Messrs. Knox, Bernstein, Jones and Ms. Sanchez, Ms. Greenwood voting yes.

III. PUBLIC COMMENT

There were no requests from the public to speak.

VI. REPORT

A. Overview of Mining Allocation

James Rice, Principal Investment Officer

Mark White, Head of Real Assets-Albourn

Mr. White of Albourn provided a presentation and answered questions from the Committee.

IV. ITEMS FOR STAFF REVIEW

There were no items to report.

V. GOOD OF THE ORDER

(For information purposes only)

There was nothing to report.

September 8, 2021


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VI. ADJOURNMENT

There being no further business to come before the Committee, the meeting was adjourned at approximately at 12:21 p.m.

August 27, 2021

TO: Trustees – Real Assets Committee

FROM: James Rice 
Principal Investment Officer

FOR: September 8, 2021 Real Assets Committee Meeting

SUBJECT: **STEPSTONE REAL ESTATE INITIAL REVIEW**

Stepstone, as LACERA's new Real Estate consultant, has conducted an initial assessment of LACERA's Real Estate Portfolio. Presenting for Stepstone at the Meeting are Margaret McKnight, Partner, Thomas Hester, Managing Director, and Anja Ritchie, Principal. This presentation is being made as a report and any recommendations to be advanced from the committee to the Board are expected to be addressed in further discussions including the Structure Review scheduled for December.

Attachment

Noted and Reviewed:



Jonathan Grabel
Chief Investment Officer



Real Estate Portfolio Initial Assessment

SEPTEMBER 8, 2021

L//CERA



Disclosure



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Prospective investors should inform themselves and take appropriate advice as to any applicable legal requirements and any applicable taxation and exchange control regulations in the countries of their citizenship, residence or domicile which might be relevant to the subscription, purchase, holding, exchange, redemption or disposal of any investments. Each prospective investor is urged to discuss any prospective investment with its legal, tax and regulatory advisors in order to make an independent determination of the suitability and consequences of such an investment.

An investment involves a number of risks and there are conflicts of interest. Please refer to the risks and conflicts disclosed herein.

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All data is as of August 2021 unless otherwise noted.

PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS. ACTUAL PERFORMANCE MAY VARY.

Table of Contents

- I. Executive Summary
- II. Total Portfolio
- III. Non-Core Portfolio
- IV. Core Portfolio
- V. Next Steps

I. EXECUTIVE SUMMARY

- **LACERA's Real Estate Portfolio has consistently under-performed against the custom benchmark and peers**
 - High level sector allocations are generally favorable, however investment selection and execution have undermined returns
- **Portfolio risk is high due to high concentration and asset level issues**
 - Tracking error is estimated at over 4.4%
 - The 'core' portfolio includes non-core risk
 - There is high operational risk
- **Given the underperformance, this higher risk is uncompensated**
 - Both underperformance and risk can be meaningfully reduced

- Throughout this presentation:
 - Performance data is as of March 31, 2021, with a one quarter lag
 - Exposure data is as of June 30, 2021, with a one quarter lag
- Recordkeeping is presently in transition. These time points reflect the most complete data sets available
- Portfolio organization is forward looking
 - Value added exposures are now included with opportunistic (formerly high return) strategies in the non-core category
 - The credit portfolio is not included in this review other than on page 8, due to the fact that it has been transferred to the credit functional asset category

II. TOTAL PORTFOLIO

PORTFOLIO ROLES & OBJECTIVES



REAL ASSETS AND INFLATION HEDGES (85.4%)

To help produce income as well as hedge against inflation, while diversifying the Fund due to the assumed low correlation of returns between these assets and other asset classes



GROWTH (11.7%)

To be the primary driver of long-term returns for the Fund



CREDIT (2.9%)

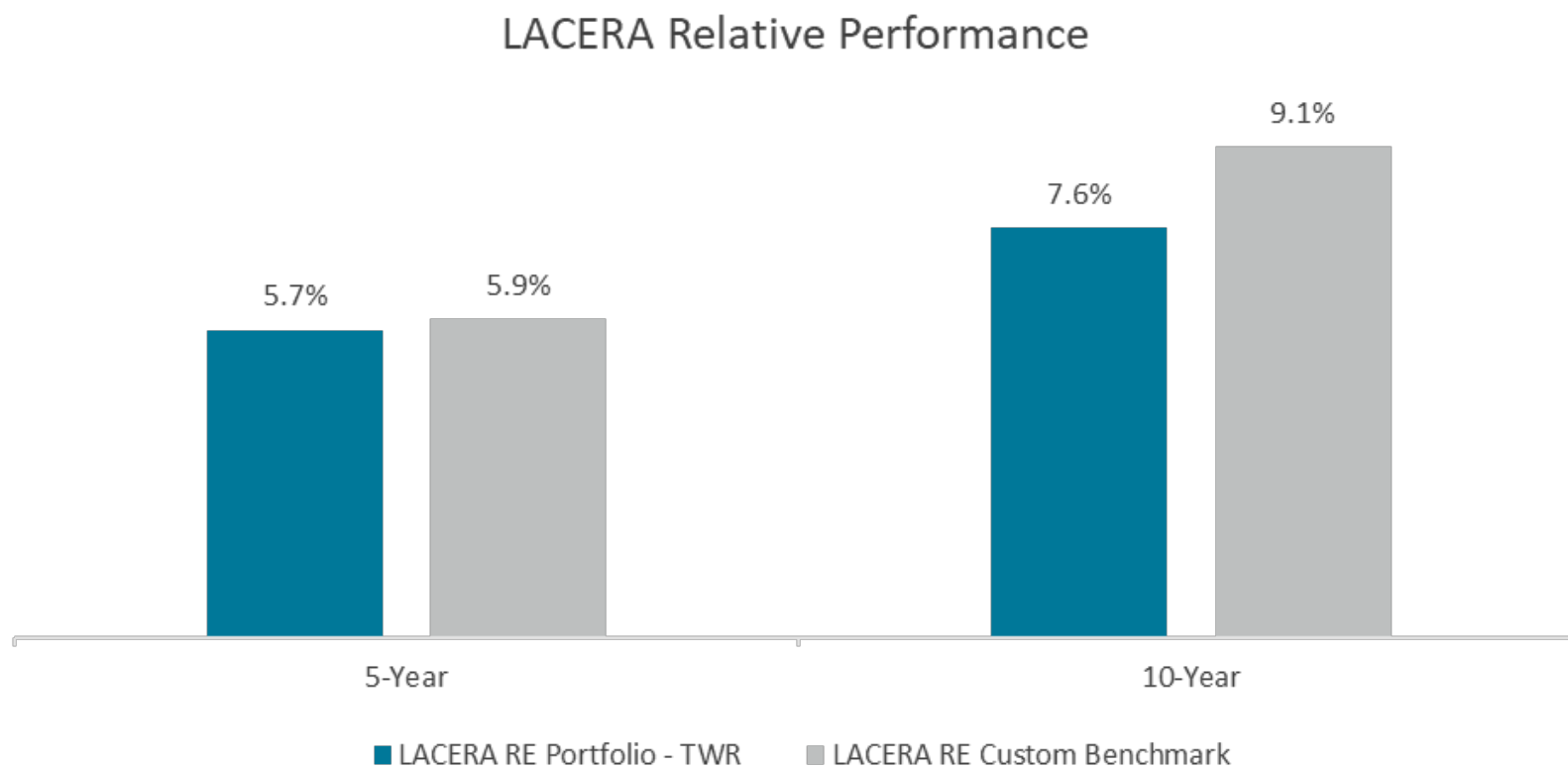
To help produce current income and moderate long-term returns



REAL ESTATE

Mid- and Long-Term Performance Lag Benchmarks

PERFORMANCE – TOTAL REAL ESTATE PORTFOLIO

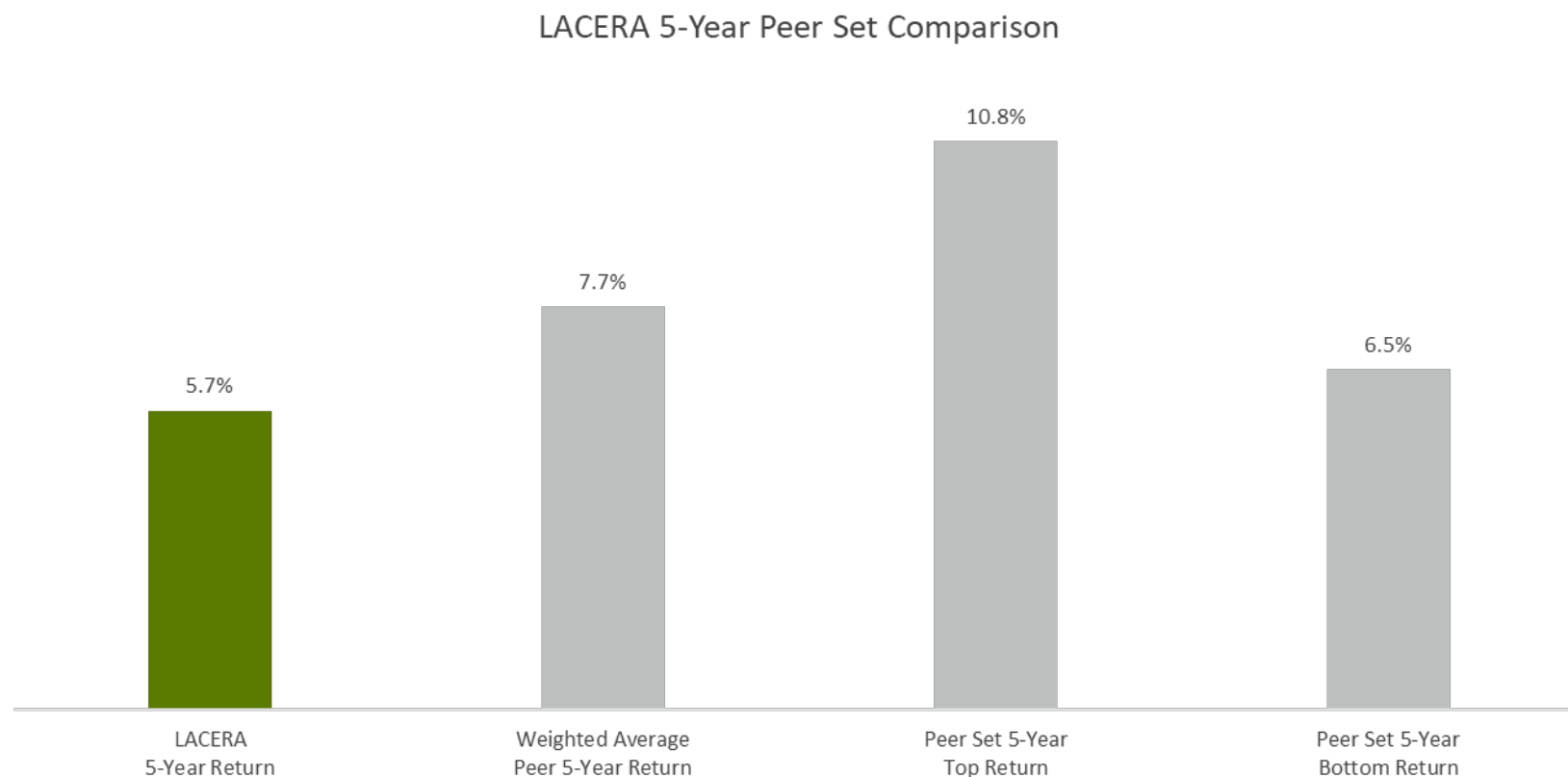


Data is as of March 31, 2021, with a 1-quarter lag. Returns provided by The Townsend Group.

Past performance is not necessarily indicative of future results and there can be no assurance that investments will achieve comparable results or avoid substantial losses.

Performance Also Lags Peers

PEER SET COMPARISON



- The grey bars compare LACERA to a set of eight StepStone public and defined benefit plan clients with similar overall real estate investment program guidelines
- The average peer portfolio is 51% core, 23% value-add, 20% opportunistic, and 5% credit
- This peer group executes primarily through funds

Data as of March 31, 2021, with a 1-quarter lag.

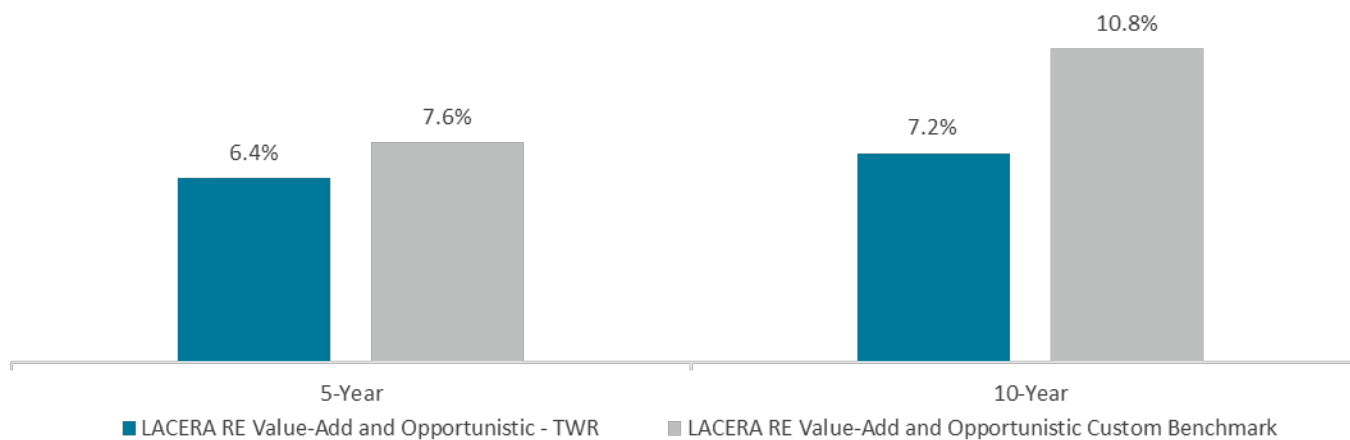
Includes investments that liquidated during the five-year performance window.

Past performance is not necessarily indicative of future results and there can be no assurance that investments will achieve comparable results or avoid substantial losses.

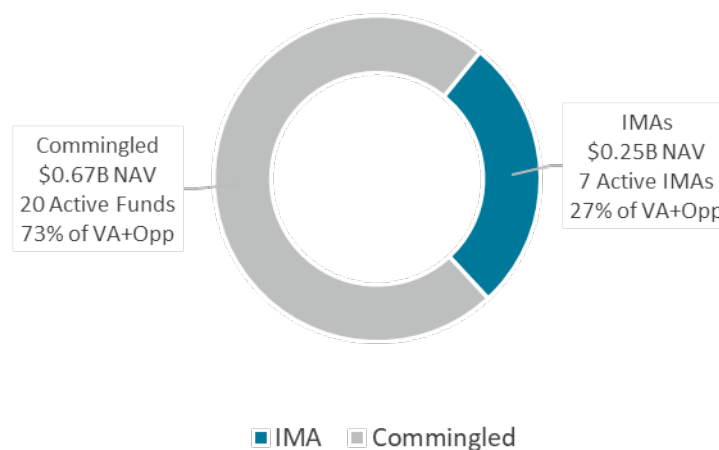
III. NON-CORE PORTFOLIO

Non-Core Portfolio Overview

LACERA Opportunistic and Value-Add Relative Performance



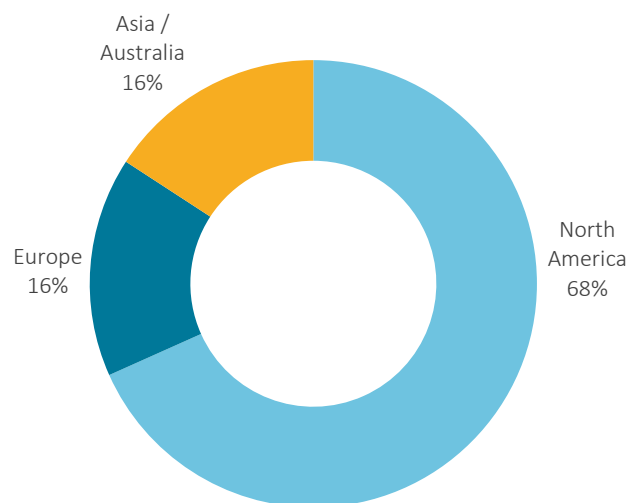
Value-Add + Opportunistic Return NAV Exposure



Non-Core High Level Exposures are Reasonable

BY GEOGRAPHY

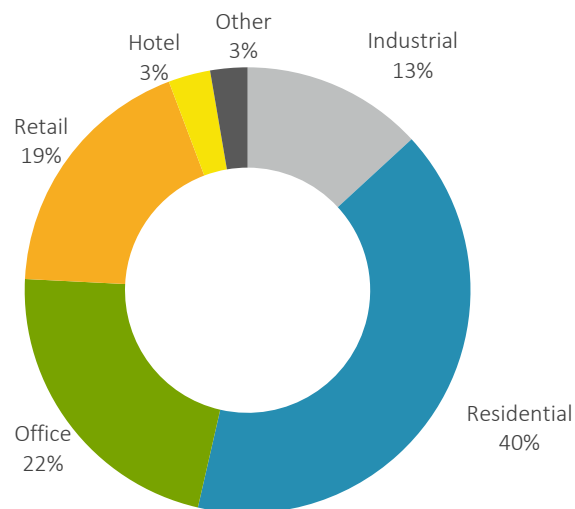
By NAV



Regionally overweight to US

BY PROPERTY TYPE

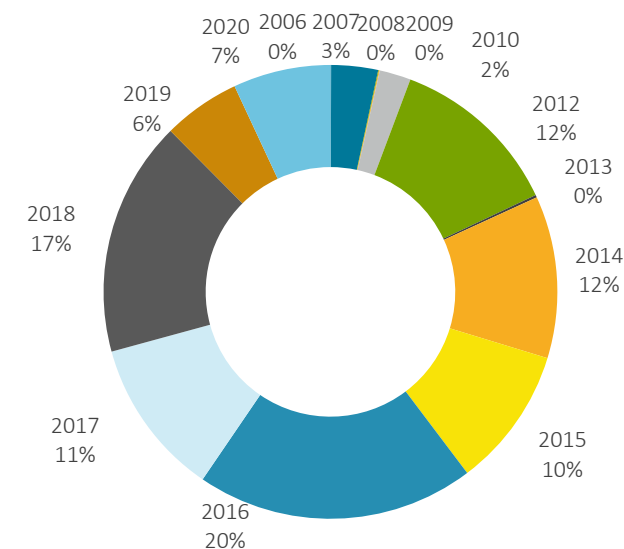
By NAV



Overweight to residential (positive) and retail (negative)

BY VINTAGE YEAR




























































By NAV



Generally steady pacing has slowed; overweight 2016 and 2018 vintages

Asset selection played a greater role in performance than exposures, though retail overweight had a negative impact on returns

Qualitative Funds Review Has Room for Improvement

| | | Top Pick/ Potential | | | | |
|---|---------------------------------|---------------------------|---|---|---|---|
| Firm Name | Fund Series | Outperformer ¹ | Organization | Strategy | Performance | Structure |
| North America | | | | | | |
| <i>Value Added</i> | | | | | | |
| Bain | Capital Real Estate | ✓ |  |  |  |  |
| <i>Opportunistic</i> | | | | | | |
| Capri | Urban Investors | |  |  |  |  |
| CityView | Bay Area Fund | |  |  |  |  |
| CityView | Western Fund | |  |  |  |  |
| Starwood | Hospitality Fund | |  |  |  |  |
| TPG | Real Estate | ✓ |  |  |  |  |
| Europe | | | | | | |
| <i>Value Added</i> | | | | | | |
| 2 Capman | Nordic Real Estate Fund | |  |  |  |  |
| Carlyle | Europe Realty | |  |  |  |  |
| CBRE | Europe Value Partners | |  |  |  |  |
| 2 Europa | Fund | |  |  |  |  |
| <i>Opportunistic</i> | | | | | | |
| Aermont | Real Estate | ✓ |  |  |  |  |
| Angelo Gordon | Europe Realty | ✓ |  |  |  |  |
| Asia | | | | | | |
| <i>Value Added</i> | | | | | | |
| AEW | Value Investors Asia | |  |  |  |  |
| Heitman | Asia-Pacific Property Investors | |  |  |  |  |
| <i>Opportunistic</i> | | | | | | |
| Angelo Gordon | Asia Realty Fund | ✓ |  |  |  |  |
|  Category Rating 3 Above Average  Category Rating 2 Average  Category Rating 1 Below Average | | | | | | |

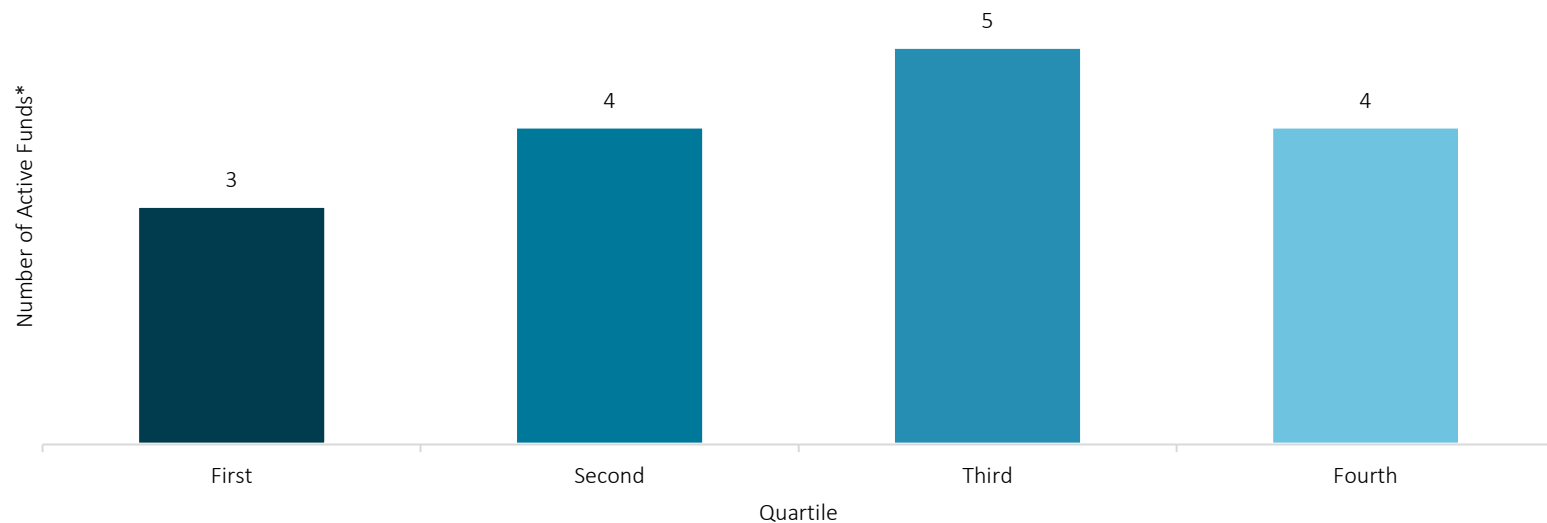
SRE ranked 5 of the 17 non-core funds as Top Pick or Potential Outperformer

¹ SRE Rankings as of July 1, 2021. "Organization" includes the team, focus & ownership of the platform and competitive advantages, "Strategy" includes market opportunity, value creation, strategy consistency, ESG, "Performance" includes benchmarking assessment, realizations and loss ratio review, assessment of track record length and attribution to the team, "Structure" includes assessment on fee levels, other terms, potential conflicts of interest; not showing Hunt UK as no info was disclosed. The opinions expressed herein reflect the current opinions of StepStone as of the date appearing in this material only. There can be no assurance that views and opinions expressed in this document will come to pass.

...as Does Non-Core Relative Performance Review

QUARTILE RANKING OF NON-CORE FUNDS

By Vintage Year Peer Group



Source: Benchmarking Analysis, StepStone, using Burgiss Private IQ Real Estate: All Types as global benchmark

*Incl. only active funds in Value-Added and Opportunistic categories, excluding Capman Fund III that was recently committed to

Most funds are performing below median, with 4 of these in the bottom quartile.

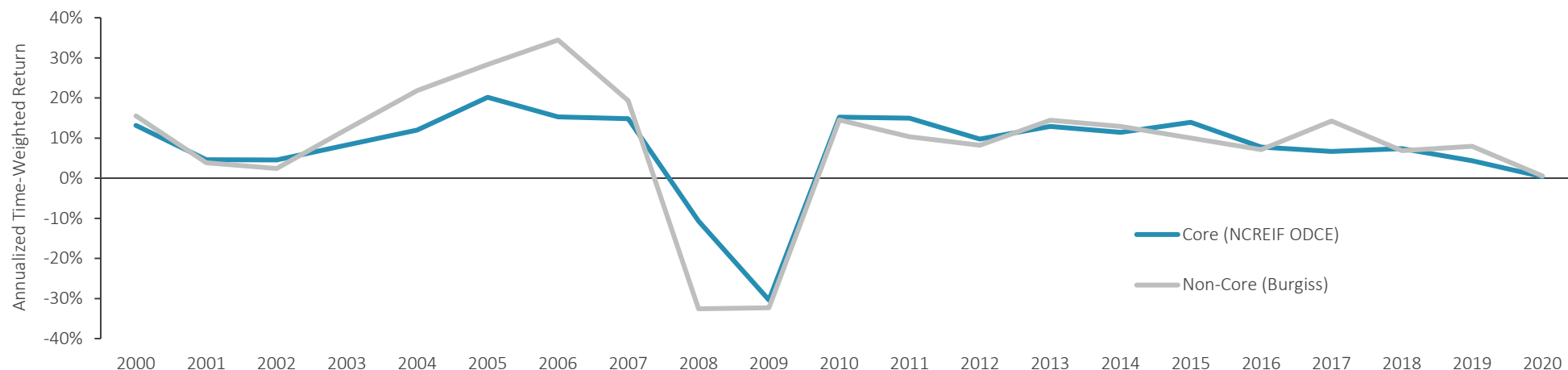
Only 3 are in the top quartile of their peer group.

Dedicated Non-Core Benchmark Improves Visibility

LACERA's non-core benchmark is the core index plus a spread

CORE AND NON-CORE RETURNS

(20 years ended December 31, 2020)



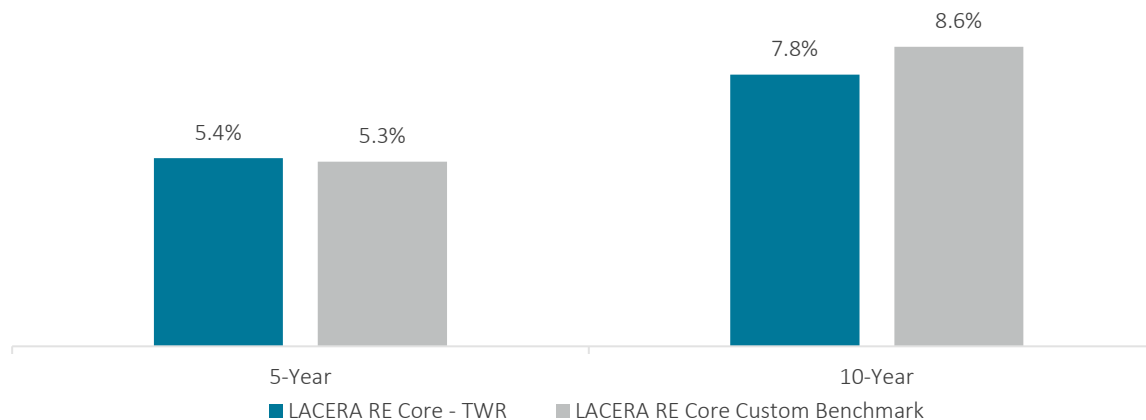
Source: NCREIF, Burgiss, as of December 31, 2021. Burgiss index includes all opportunistic, value-added and generalist real estate funds within the Burgiss universe.

- **Supplementing portfolio review with the dedicated non-core benchmark is helpful**
 - This facilitates important vintage year analysis and quartile benchmarking
- **There will be periods of mismatch (basis risk) between the non-core portfolio and LACERA's benchmark per chart above**
 - The non-core benchmark reflects buy, fix and sell strategies, whereas the core benchmark reflects buy and hold strategies
 - The mismatch is greatest for newer funds because of the j-curve, so ramping up the portfolio will lead to initial underperformance

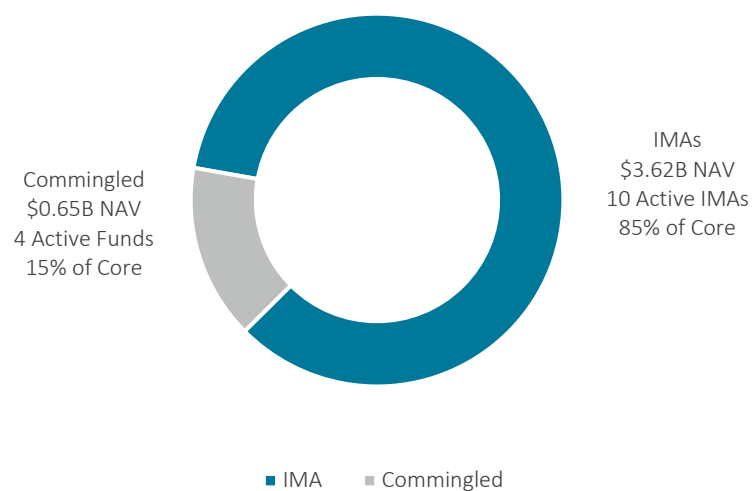
IV. CORE PORTFOLIO

Core Portfolio Overview




















LACERA Core Relative Performance



Core NAV Exposure



Qualitative Funds Review Shows a Solid Portfolio

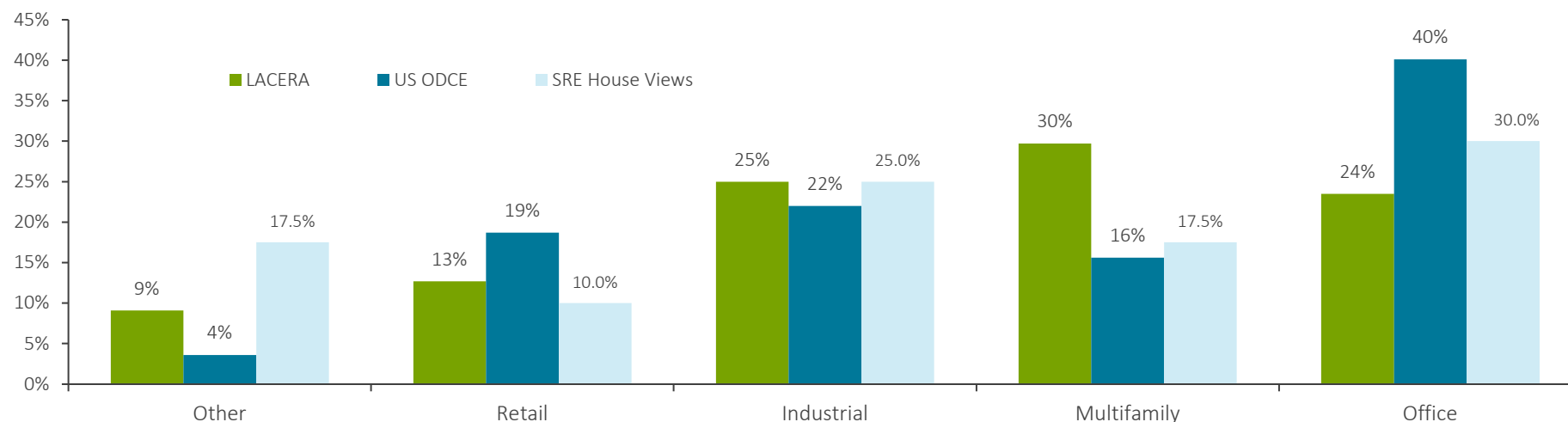
| | | Top Pick/ Potential | | | | |
|--|----------------------------|---------------------------|---|---|---|---|
| Firm Name | Fund Series | Outperformer ¹ | Organization | Strategy | Performance | Structure |
| North America | | | | | | |
| Core | | | | | | |
| IDR | Core Property Index Fund | |  |  |  |  |
| RREEF | Core Plus Industrial | ✓ |  |  |  |  |
| Europe | | | | | | |
| Core | | | | | | |
| Prologis | Pan European Logistics Fun | ✓ |  |  |  |  |
| Asia | | | | | | |
| Core | | | | | | |
| Invesco | Asia Real Estate Fund | |  |  |  |  |
| <div><div>Category Rating 3 Above Average</div><div>Category Rating 2 Average</div><div>Category Rating 1 Below Average</div></div> | | | | | | |

SRE ranked 2 of the 4 core funds as Top Pick or Potential Outperformer and 1 is an index fund

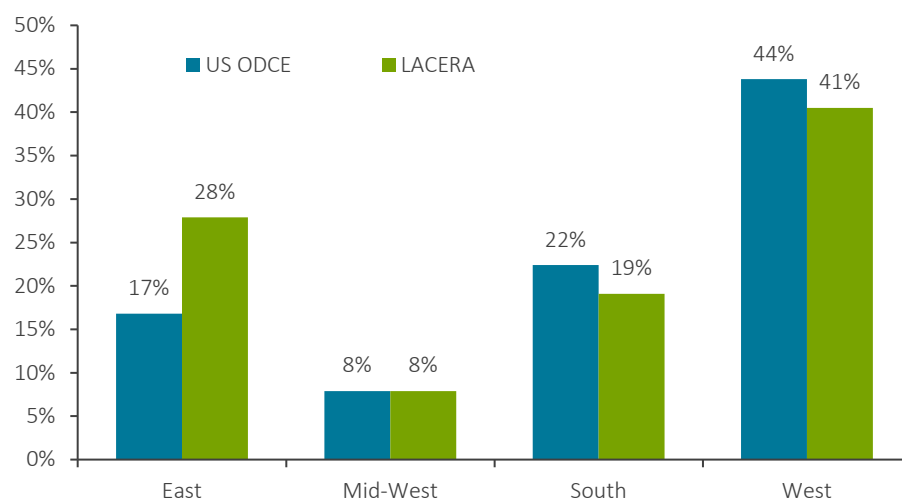
¹ SRE Rankings as of July 1, 2021. "Organization" includes the team, focus & ownership of the platform and competitive advantages, "Strategy" includes market opportunity, value creation, strategy consistency, ESG, "Performance" includes benchmarking assessment, realizations and loss ratio review, assessment of track record length and attribution to the team, "Structure" includes assessment on fee levels, other terms, potential conflicts of interest. The opinions expressed herein reflect the current opinions of StepStone as of the date appearing in this material only. There can be no assurance that views and opinions expressed in this document will come to pass.

High level Core IMA Exposures are Generally Attractive

PORTFOLIO WEIGHTINGS BY PROPERTY TYPE



PORTFOLIO WEIGHTINGS BY REGION



Asset selection played a greater role in performance than property type or geographic category exposures.

Core IMA Portfolio Risk is High

- **SRE calculations estimate LACERA Portfolio Tracking Error to be 4.4%**
 - This is high compared to NFI-ODCE performance of 6.7% for the 20 years ended 3/31/21
 - Approximately 80% is due to high portfolio concentration in a few assets
 - Approximately 20% is from higher leverage than the benchmark
 - Leverage should be return-enhancing
- **Tracking error and risk are likely higher than this**
 - Analysis assumes all asset are truly core
 - This does not factor in unusually high operational risk across IMAs

High tracking error combined with performance history implies significant uncompensated risk

LACERA “Core” Assets Are Not All Core Quality

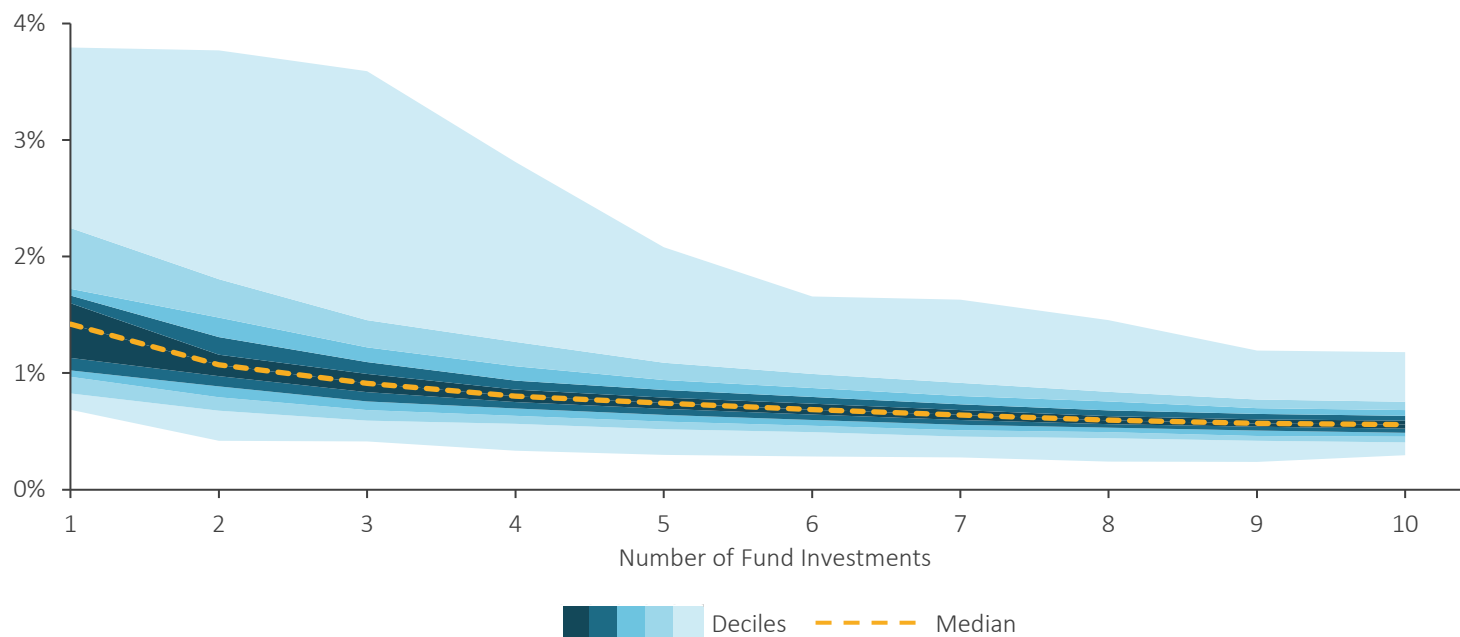
| | NUMBER OF ASSETS | NAV (US\$ Billion) |
|-----------------------------|------------------|--------------------|
| LACERA Core IMAs | 69 | \$3.6 |
| SRE Initial Risk Estimates: | | |
| Core | 25 | 1.8 |
| Core Plus | 25 | 1.0 |
| Value Added | 12 | 0.5 |
| Opportunistic | 7 | 0.3 |
| TOTAL | 69 | \$3.6 |

Using Core Funds, Tracking Error Can Be Low

Tracking error is low with over five funds and returns approach indexation with over eight funds

- This is based on a study of the historic performance data for 36 US funds of which 23 are NFI-ODCE constituents
- A portfolio of 5 ODCE funds has tracking error of approximately 0.7%, with average exposure to 575 properties

ESTIMATED ANNUALIZED TRACKING ERROR VS. PORTFOLIO SIZE



LACERA Can Improve Core Risk/Return Parameters

| | LEGACY PORTFOLIO | POSSIBLE FUND PORTFOLIO |
|----------------|------------------|-------------------------|
| Positions | 69 | 1,602 |
| Leverage | 31% | 29% |
| Tracking Error | >4.4% | 0.7% |

The possible fund portfolio is a hypothetical investment in five of SRE's Top Pick (outperforming) open-ended core funds that is designed to provide diversified market exposure tilted to sectors more likely to outperform per SRE House Views.

Above data assumes both are comprised of core quality assets.

Transition to Funds Requires Planning

- Likely to take 3+ years to transition
- Some factors to consider
 - Market conditions and capital markets appetite
 - Quality and exposures of residual portfolio over time
- There are complexities
 - Prepayment penalties
 - Non-core assets require evaluation and strategy
 - Sell as is vs. full or partial repositioning
 - Other asset specific issues to be managed
- Portfolio planning is time consuming and requires skill to manage. A focused advisor is likely to add value
- Reinvestment in funds is straightforward
 - Open ended core fund commitments can be fully invested in 1-2 quarters

V. NEXT STEPS

Next Steps

- **Overall**
 - Perform Structure Review
 - Address manager structure
 - Refine exposure limits
- **Funds**
 - Review exposure targets, pacing and process
 - Then build corresponding pipeline
- **IMAs**
 - Re-underwrite the portfolio, with buy/sell/hold analysis and cap ex planning, evaluate options
 - Hire an advisor to assist with this process

Risks and Other Considerations

Risks Associated with Investments. Identifying attractive investment opportunities and the right underlying fund managers is difficult and involves a high degree of uncertainty. There is no assurance that the investments will be profitable and there is a substantial risk that losses and expenses will exceed income and gains.

Restrictions on Transfer and Withdrawal; Illiquidity of Interests; Interests Not Registered. The investment is highly illiquid and subject to transfer restrictions and should only be acquired by an investor able to commit its funds for a significant period of time and to bear the risk inherent in such investment, with no certainty of return. Interests in the investment have not been and will not be registered under the laws of any jurisdiction. Investment has not been recommended by any securities commission or regulatory authority. Furthermore, the aforementioned authorities have not confirmed the accuracy or determined the adequacy of this document.

Limited Diversification of Investments. The investment opportunity does not have fixed guidelines for diversification and may make a limited number of investments.

Reliance on Third Parties. StepStone will require, and rely upon, the services of a variety of third parties, including but not limited to attorneys, accountants, brokers, custodians, consultants and other agents and failure by any of these third parties to perform their duties could have a material adverse effect on the investment.

Reliance on Managers. The investment will be highly dependent on the capabilities of the managers.

Risk Associated with Portfolio Companies. The environment in which the investors directly or indirectly invests will sometimes involve a high degree of business and financial risk. StepStone generally will not seek control over the management of the portfolio companies in which investments are made, and the success of each investment generally will depend on the ability and success of the management of the portfolio company.

Uncertainty Due to Public Health Crisis. A public health crisis, such as the recent outbreak of the COVID-19 global pandemic, can have unpredictable and adverse impacts on global, national and local economies, which can, in turn, negatively impact StepStone and its investment performance. Disruptions to commercial activity (such as the imposition of quarantines or travel restrictions) or, more generally, a failure to contain or effectively manage a public health crisis, have the ability to adversely impact the businesses of StepStone's investments. In addition, such disruptions can negatively impact the ability of StepStone's personnel to effectively identify, monitor, operate and dispose of investments. Finally, the outbreak of COVID-19 has contributed to, and could continue to contribute to, extreme volatility in financial markets. Such volatility could adversely affect StepStone's ability to raise funds, find financing or identify potential purchasers of its investments, all of which could have material and adverse impact on StepStone's performance. The impact of a public health crisis such as COVID-19 (or any future pandemic, epidemic or outbreak of a contagious disease) is difficult to predict and presents material uncertainty and risk with respect to StepStone's performance.

Taxation. An investment involves numerous tax risks. Please consult with your independent tax advisor.

Conflicts of Interest. Conflicts of interest may arise between StepStone and investors. Certain potential conflicts of interest are described below; however, they are by no means exhaustive. There can be no assurance that any particular conflict of interest will be resolved in favor of an investor.

Allocation of Investment Opportunities. StepStone currently makes investments, and in the future will make investments, for separate accounts having overlapping investment objectives. In making investments for separate accounts, these accounts may be in competition for investment opportunities.

Existing Relationships. StepStone and its principals have long-term relationships with many private equity managers. StepStone clients may seek to invest in the pooled investment vehicles and/or the portfolio companies managed by those managers.

Carried Interest. In those instances where StepStone and/or the underlying portfolio fund managers receive carried interest over and above their basic management fees, receipt of carried interest could create an incentive for StepStone and the portfolio fund managers to make investments that are riskier or more speculative than would otherwise be the case. StepStone does not receive any carried interest with respect to advice provided to, or investments made on behalf, of its advisory clients.

Other Activities. Employees of StepStone are not required to devote all of their time to the investment and may spend a substantial portion of their time on matters other than the investment.

Material, Non-Public Information. From time to time, StepStone may come into possession of material, non-public information that would limit their ability to buy and sell investments.