

COMMITTEE MEETING VIRTUAL & IN PERSON



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.

AGENDA

A REGULAR 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

8:00 A.M., WEDNESDAY, DECEMBER 14, 2022

This meeting will be conducted by the Real Assets Committee both in person and by teleconference under California Government Code Section 54953(e).

Any person may view the meeting in person at LACERA's offices or online at https://members.lacera.com/lmpublic/live_stream.xhtml

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 June 8, 2022.

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 at PublicComment@lacera.com. Before and during the meeting at any time up to the end of the Public Comment item. 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. CONSENT ITEM

- A. Recommendation as submitted by Steven P. Rice, Chief Counsel: That, under AB361 and Government Code Section 54953(e)(3) of the Brown Act, the Real Assets Committee consider whether to find that the Governor's COVID-19 State of Emergency continues to directly impact the ability of the Committee to meet safely in person and that the County of Los Angeles and other agencies still recommend social distancing such that the Committee shall hold teleconference meetings for the next 30 days, subject to continuation of the State of Emergency, and if so, direct staff to comply with the agenda and public comment requirements of the statute.
(Memo dated December 5, 2022)

V. NON-CONSENT ITEM

- A. Recommendation as submitted by James Rice, Principal Investment Officer, Pushpam Jain, Investment Officer, and Cindy Rivera, Senior Investment Analyst: That the Committee advance to the Board of Investments for approval the Real Assets Emerging Manager Program Discretionary Separate Account Manager Request for Proposal-Minimum Qualifications. (Memo dated November 16, 2022)

VI. REPORT

- A. Core Real Estate Implementation Update
James Rice, Principal Investment Officer
Amit Aggarwal, Investment Officer
(Memo dated November 29, 2022)

VII. ITEMS FOR STAFF REVIEW

(This item summarizes requests and suggestions by individual trustees during the meeting for consideration by staff. These requests and suggestions do not constitute approval or formal action by the Board, which can only be made separately by motion on an agenda item at a future meeting.)

VIII. ITEMS FOR FUTURE AGENDAS

(This item provides an opportunity for trustees to identify items to be included on a future agenda as permitted under the Board's Regulations.)

IX. GOOD OF THE ORDER

(For information purposes only)

X. 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 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.

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 REGULAR MEETING OF THE REAL ASSETS COMMITTEE
AND BOARD OF INVESTMENTS

LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION

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

8:00 A.M., Wednesday, June 8, 2022

This meeting was conducted by teleconference pursuant to the California
Government Code Section 54953(e).

PRESENT: Patrick Jones, Chair

Shawn Kehoe

Gina V. Sanchez

ABSENT: Joseph Kelly

Keith Knox

MEMBERS AT LARGE:

Herman Santos

Onyx Jones

David Green

STAFF, ADVISORS, PARTICIPANTS:

Jonathan Grabel, Chief Investment Officer

James Rice, Principal Investment Officer

Scott Zdrazil, Principal Investment Officer

STAFF, ADVISORS, PARTICIPANTS (Continued):

Cindy Rivera, Senior Investment Analyst

Steven Rice, Chief Legal Counsel

I. CALL TO ORDER

The meeting was called to order virtually by Chair Jones at 8:00 a.m.

II. APPROVAL OF MINUTES

A. Approval of the Minutes of the Regular Real Assets Committee Meeting of January 12, 2022.

Mr. Kehoe made a motion, Ms. Sanchez seconded, to approve the minutes of the regular meeting of January 12, 2022. The motion passed unanimously (roll call) with Messrs. Kehoe, Jones and Ms. Sanchez voting yes. Messrs. Kelly and Knox were absent for the vote.

III. PUBLIC COMMENT

There were no requests from the public to speak.

IV. NON-CONSENT ITEM

A. Global Real Estate Sustainability Benchmark (GRESB)

James Rice, Principal Investment Officer
Scott Zdrzil, Principal Investment Officer
Cindy Rivera, Senior Investment Analyst
(Memo dated May 24, 2022)

Messrs. Rice, Zdrzil and Ms. Rivera provided a presentation and answered questions from the Committee.

IV. NON-CONSENT ITEM (continued)

Mr. Kehoe made a motion, Ms. Sanchez seconded, to advance to the Board of Investments for approval that LACERA affiliate to the Global Real Estate Sustainability Benchmark (GRESB). The motion passed unanimously (roll call) with Messrs. Kehoe, Jones and Ms. Sanchez voting yes. Messrs. Kelly and Knox were absent for the vote.

B. Responsible Contract Policy Review

James Rice, Principal Investment Officer
Scott Zdrazil, Principal Investment Officer
(Memo dated May 23, 2022)

Messrs. Rice and Zdrazil provided a presentation and answered questions from the Committee.

Mr. Kehoe made a motion, Ms. Sanchez seconded, to advance a revised Responsible Contractor Policy to the Board of Investments for approval with a request to incorporate modifications to language addressing freedom of association and reporting with the input of legal review. The motion passed unanimously (roll call) with Messrs. Kehoe, Jones and Ms. Sanchez voting yes. Messrs. Kelly and Knox were not present for the vote.

VII. ITEMS FOR STAFF REVIEW

There were no items to report.

June 8, 2022

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VIII. GOOD OF THE ORDER

(For information purposes only)

There was nothing to report.

IX. ADJOURNMENT

There being no further business to come before the Committee, the meeting was adjourned at 8:53 a.m.

December 5, 2022

TO: Each Trustee,
Real Assets Committee

FROM: Steven P. Rice, *SPR*
Chief Counsel

FOR: December 14, 2022 Real Assets Committee Meeting

SUBJECT: Approval of the Use of Teleconference Meeting Technology Under AB 361 and Government Code Section 54953(e), including as Part of Hybrid Committee Meetings

RECOMMENDATION

That, under AB 361 and Government Code Section 54953(e)(3) of the Brown Act, the Real Assets Committee (Committee) consider whether to find that the Governor's COVID-19 State of Emergency continues to directly impact the ability of the Committee to meet safely in person and that other public agencies still recommend social distancing such that the Committee shall hold teleconference meetings for the next 30 days as part of hybrid meetings also in person, so long as the State of Emergency remains in effect, and direct staff to comply with the agenda and public comment requirements of Section 54953(e)(3).

Pursuant to the action of the Board of Investments on September 23, 2022, starting with the November 2022 Board and Committee meetings, teleconference meetings, if approved, will be agendized as hybrid meetings where Trustees may attend by teleconference or in person in the boardroom at LACERA's offices at 300 N. Lake Avenue, Pasadena, California 91101, with adequate provision being made for public comment via teleconference, in person, and in writing and for public attendance via teleconference and in person. Real Assets Committee meetings are also agendized as meetings of the Board of Investments.

LEGAL AUTHORITY

Under Article XVI, Section 17 of the California Constitution, the Board of Investments has plenary authority and exclusive fiduciary responsibility for the fund's investments, actuarial matters, and related issues. This authority includes the ability to manage Board and Committee meetings and evaluate and act on legal options for the conduct of such meetings, such as whether to invoke teleconferencing of meetings under the terms and conditions provided in AB 361 and Government Code Section 54953(e) of the Brown Act to protect the health and safety of Trustees, staff, and the public. It is necessary for the Committee to take separate action at this meeting because the limit of a determination

under Section 54953(e)(3) is 30 days, the Board of Investments' November 9, 2022 action invoking the statute will be more than 30 days ago at the time of the December 14, 2022 Committee meeting, and that meeting will take place before the Board of Investments meeting at which the Board will again consider the issue. The Committee is a separate legislative body under the Brown Act and may properly take this action.

DISCUSSION

A. Summary of Law.

On September 16, 2021, the Governor signed AB 361 which enacted new Government Code Section 54953(e) of the Brown Act to put in place, effective immediately and through December 31, 2023, new teleconferencing rules that may be invoked by local legislative bodies, such as the Real Assets Committee, upon making certain findings and following certain agenda and public comment requirements.

Specifically, Section 54953(e)(3) provides that the Committee may hold teleconference meetings without the need to comply with the more stringent procedural requirements of Section 54953(b)(3) if a state of emergency under Section 8625 of the California Emergency Services Act impacts the safety of in person meetings or state or local officials have imposed or recommended social distancing rules, provided that the Committee makes the following findings by majority vote:

- (A) The Committee has considered the circumstances of the state of emergency; and
- (B) Any of the following circumstances exist:
 - (i) The state of emergency continues to directly impact the ability of the Trustees to meet safely in person; or
 - (ii) State or local officials continue to impose or recommend measures to promote social distancing.

If the Real Assets Committee makes the required findings, the Committee may hold teleconference meetings for the next 30 days without the need to comply with the regular rules of Section 54953(b)(3) provided that: agendas are prepared and posted under the Brown Act; members of the public are allowed to access the meeting via a call-in option or an internet-based service option; and the agenda provides an opportunity for public comment in real time and provides notice of the means of accessing the meeting for public comment. Upon making the required findings, the Committee has discretion to hold meetings either entirely by teleconference or as hybrid meetings with individual trustees and the public able to attend either by teleconference or in person.

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B. Information Supporting the Required Findings and Process if the Committee Determines to Invoke Section 54953(e).

The Governor's State of Emergency for the COVID-19 pandemic as declared in the Proclamation of a State of Emergency dated March 4, 2020 remains active. The Proclamation was issued under the authority of Section 8625 of the California Emergency Services Act. It is unclear when the State of Emergency will end, although over the past year the Governor actively terminated many emergency provisions. See, e.g., Order No. N-21-21, issued November 10, 2021, Order No. N-04-22, issued February 25, 2022. Very recently, the Governor terminated additional COVID provisions. See Order No. N-11-22, issued June 17, 2022. In the press release for the June 17 Order, the Governor's Office stated that, after June 30, 2022, "only 5 percent of the COVID-19 related executive order provisions issued throughout the pandemic will remain in place."

On October 17, 2022, the Governor announced that the COVID State of Emergency will end on February 28, 2023. However, the State of Emergency remains in effect until then. The Governor's press release stated that one of the purposes of deferring the end of pandemic until 2023 was to "provid[e] state and local partners the time needed to prepare for this phaseout and set themselves up for success afterwards." Among the transition items reasonably interpreted as included for local agencies such as LACERA is a phaseout of teleconference meetings.

The Los Angeles County Department of Public Health still maintains guidance, even if not a requirement, to "Keep your distance. Use two arms lengths as your guide (about 6 feet) for social distancing with people you don't live with." <http://publichealth.lacounty.gov/acd/ncorona2019/reducingrisk/>. The County Public Health Department also maintains guidance for employers: "Reduce indoor crowding. A few example strategies to decrease crowding include, but are not limited to: • Host larger meetings outdoors or virtually. • Reduce occupancy and spread-out seating in meeting rooms and other small spaces such as locker rooms, weight rooms, restrooms, and saunas. Ensure good ventilation . . . • Establish procedures to prevent crowding among persons waiting to enter or exit a large event. Limiting attendance, establishing unidirectional foot traffic patterns, reservations, online waiting lists, timed entry or exit, and using staff to help direct traffic and limit access if the area becomes too crowded can help." <http://publichealth.lacounty.gov/acd/ncorona2019/bestpractices/>.

Despite this County Health Department guidance, the Board of Supervisors recently resumed in person meetings on September 27, 2022. The County provides enhanced air filtration, limits attendance, and provides a designated media area. All persons in attendance must be masked. Telephonic public comment and livestreaming are still be provided. The Real Assets Committee, like the Board of Investments, is not required to

Re: Approval of Teleconference Meetings

December 5, 2022

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follow the Board of Supervisors' decision with regard to how meetings are conducted, but the County's change in practices is instructive.

The City of Pasadena (City), where LACERA's offices are located and Committee meetings are held, has substantially revised its guidance to give more flexibility. The City still offers guidance that businesses recognize that COVID-19 continues to pose a risk to communities, and it is important for employers to continue to take steps to reduce the risk of COVID-19 transmission among their workers and visitors. <https://www.cityofpasadena.net/economicdevelopment/covid-19-business-resources/>.

Earlier guidance promoting physical distancing by business in certain circumstances also remains posted on the City's COVID web page as a reference. As of the date of this memo, the City Council continues to hold its meetings by videoconference/teleconference, although some council members attend in person in the council chambers. At its November 21, 2022 meeting, the City Council voted to extend the video and teleconference meeting process through December 21, 2022.

The Centers for Disease Control and Prevention (CDC) recently updated its guidance, but the CDC still advises the public that they can "Prevent the Spread of COVID-19." Among the methods cited by CDC is "Keeping a Safe Distance Helps Stop COVID-19: Stay away from people who are sick. Stay away from people who have COVID-19. Stay away from people with COVID-19 even if they don't feel sick. Stay away from crowds. Stay away from inside places with lots of people." <https://www.cdc.gov/coronavirus/2019-ncov/easy-to-read/prevent-getting-sick/how-covid-spreads.html>.

Under these circumstances, the Real Assets Committee may reasonably conclude and find that teleconferencing under Section 54953(e) is appropriate for Committee meetings, including on a hybrid basis, during the next 30 days, so long as the State of Emergency remains in effect, because (1) the State of Emergency continues to impact the ability of the Trustees to meet safely in person, or (2) the County and other authorities continue to recommend measures to promote a safe workplace, including physical distancing, as required by the statute. Either finding is sufficient under Section 54953(e) to support continued teleconference meetings.

If the Committee makes these findings and directs teleconferencing under Section 54953(e), procedures exist and will be implemented to ensure compliance with the agenda and public comment requirements of the statute, as stated above. Starting with the November meetings, hybrid in person and teleconference meetings will be implemented in accordance with procedures required by the Brown Act.

Finally, due to a reduction in transmission levels, LACERA management continues to support hybrid office/telework procedures.

Re: Approval of Teleconference Meetings

December 5, 2022

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CONCLUSION

Based on the above information, staff recommends that, under AB 361 and Government Code Section 54953(e)(3) of the Brown Act, the Real Assets Committee consider whether to find that the Governor's COVID-19 State of Emergency continues to directly impact the ability of the Committee to meet safely in person and that the other agencies still recommend social distancing such that the Committee shall hold teleconference meetings for the next 30 days as part of hybrid meetings also in person, so long as the State of Emergency remains in effect, and if so, direct staff to comply with the agenda and public comment requirements of the statute.

If the required findings are made, teleconference technology will be used as part of hybrid Committee meetings conducted by teleconference and in person at LACERA's Pasadena offices, so long as permissible under applicable law.

c: Santos H. Kreimann
Jonathan Gabel
Luis A. Lugo
James Rice

November 16, 2022

TO: Trustees - Real Assets Committee

FROM: James Rice ^{JR}
Principal Investment Officer

Pushpam Jain, Ph. D. ^{PJ}
Investment Officer

Cindy Rivera ^{CR}
Senior Investment Analyst

FOR: December 14, 2022 Real Assets Committee Meeting

SUBJECT: **REAL ASSETS EMERGING MANAGER PROGRAM
DISCRETIONARY SEPARATE ACCOUNT MANAGER REQUEST FOR
PROPOSAL – MINIMUM QUALIFICATIONS**

RECOMMENDATION

Advance the Real Assets emerging manager program discretionary separate account manager search Request for Proposal minimum qualifications to the Board of Investments for approval.

BACKGROUND

The Board of Investments (“BOI”) approved the structure reviews for Real Estate in January 2022 and Real Assets in February 2022, which included a provision for emerging manager programs (the “Programs”). The goal of the Programs, in alignment with LACERA’s Towards Inclusion Diversity and Equity (“T.I.D.E.”) initiative, is to increase the prospects for better risk-adjusted returns through exposure to smaller, private investment managers in real estate and real assets, including infrastructure and natural resources. The Programs will have a target allocation of up to 8-10% of the Real Estate and Real Assets expected commitment pacing in the asset classes over the next three years, with allocation amounts of up to \$400 million for each of the two categories. The search will be jointly conducted for Real Estate and Real Assets, and the Programs could be managed by a single manager or could be split between Real Estate and Real Assets across two different managers. Staff believes the potential for a single manager for both real estate and real assets warrants conducting the search jointly.

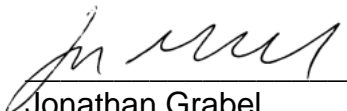
A key objective of the emerging manager program in private markets is to position LACERA as a significant investor to firms and funds early in their organizational

development, which in Real Estate and Real Assets can help foster graduation into the core programs.

Staff prepared materials related to the RFP for discussion with the Real Assets Committee. **Attachment I** describes the recommended search criteria in compliance with the Procurement Policy for Investment-Related Services. This includes: (i) evaluation process; (ii) evaluation criteria; (iii) search timeline; (iv) minimum qualifications; and (v) scope of services. **Attachment II** provides additional details to the Minimum Qualifications, which are consistent with LACERA's T.I.D.E. initiative within the Capital Formation pillar, which focuses on widening the opportunity set to diverse managers. Following this discussion, staff will incorporate any recommended changes before presenting the revised documents to the BOI for consideration.

Attachments

Noted and Reviewed:



Jonathan Grabel
Chief Investment Officer

The list of criteria for minimum qualifications below is based on experiences from recent emerging manager request for proposals in private equity and the OPEB private markets program.

Minimum Qualifications

1. **The firm must have a five-year performance track record of committing capital to emerging managers.**
Five years of performance history in real assets and real estate allows for assessment of the quality of partnership selection by a separate account manager and covers a range of economic environments. Firms with a longer successful track record and audited performance returns will be considered more favorably.
2. **The firm, or founding team, must have committed a minimum of \$100 million to emerging managers within the past 36 months.**
By requiring a firm to have a recent history of investing with emerging managers, LACERA will be able to hire a separate account manager that is actively investing and is familiar with the marketplace and the various investment strategies employed by emerging managers.
3. **The firm, or founding team, must have at least three institutional clients, with a minimum of one public pension fund with a plan size of at least \$10 billion.**
This ensures that the firm is not dependent on just a few clients to sustain the business and understands the specialized requirements of public pension funds.
4. **The firm, or founding team, must have at least \$400 million of real estate or real assets investments under management as a fiduciary; or \$750 million combined.**
Increases the potential that the amount of capital that LACERA commits to the firm does not represent a disproportionate amount of the firm's assets under management and that the firm has operational capabilities to manage a large program.
5. **Must agree to be a fiduciary to LACERA under California and other applicable laws.**
Formally establishes a duty of loyalty to require the firm to put the interest of LACERA ahead of its own interest and a duty of care, which requires that fiduciaries perform their functions with a high level of competence and in LACERA's best interest.
6. **The firm must be in good standing with the SEC and regulatory authorities in applicable jurisdictions.**
This confirms that the firm is not in violation of any SEC regulation or respective regulatory authority for firms outside of the U.S.

**Real Assets Emerging Manager
Discretionary Separate Account Search
Request for Proposal
Minimum Qualifications**

Real Assets Committee Meeting

December 14, 2022



Recommendation and Background

Recommendation

- Advance to the Board of Investments the Request for Proposal ("RFP") search Minimum Qualifications
 - The RFP will be to manage one or more discretionary separate account emerging manager program(s) for Real Estate and Real Assets, which includes Infrastructure and Natural Resources, for up to 8-10% of capital to be deployed within Real Estate and Real Assets, for up to \$400 million each

Background

- Board approved the Real Estate structure review at the Jan 2022 meeting and the Real Assets structure review at the Feb 2022 meeting, which included launch of new separate account emerging manager program(s) for Real Estate and Real Assets
- Board approved allocation of up to 8-10% for emerging manager program(s) in Real Estate and Real Assets, for up to \$400 million each

Evaluation Process

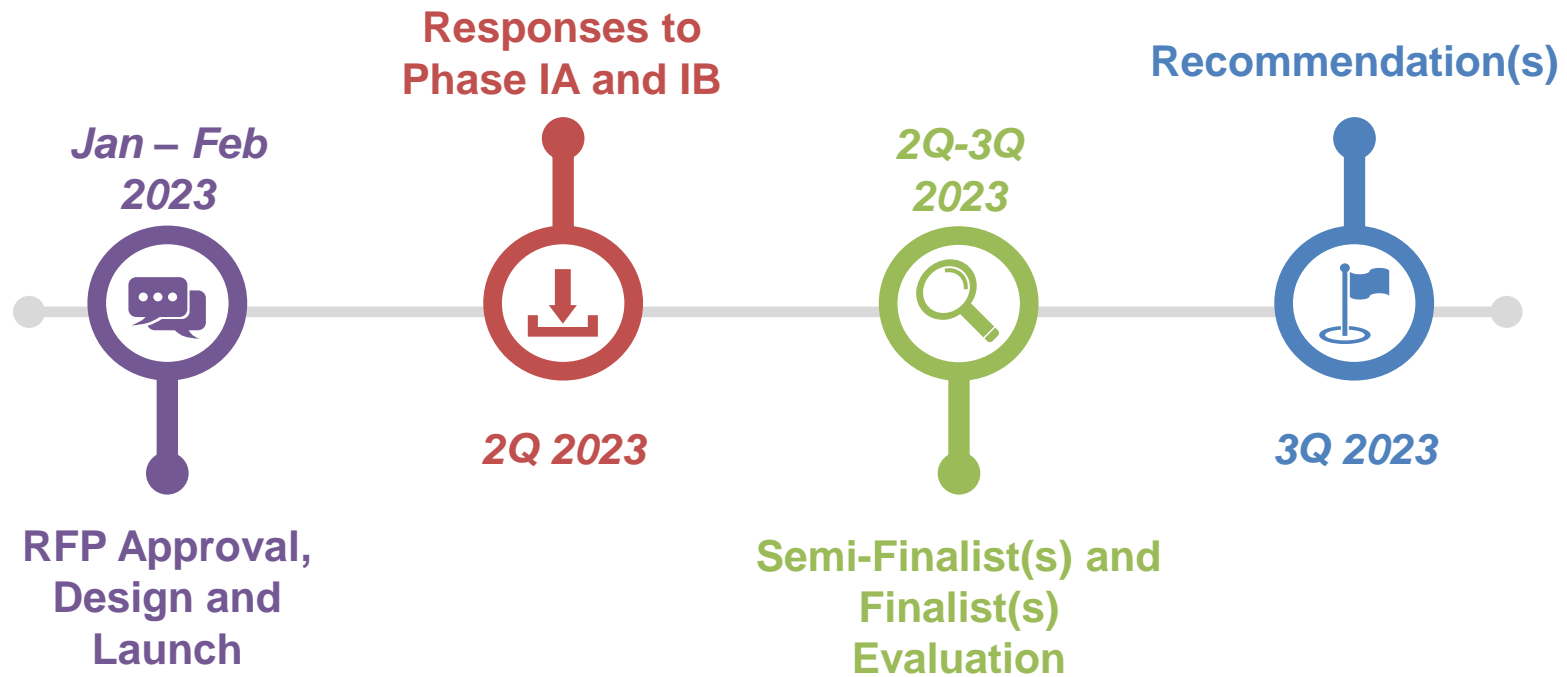
- Proposed Evaluation Team consists of six team members from Real Assets and Real Estate
- Evaluation Team will conduct the Request for Proposal process in two phases:
 - Phase I (Parts A and B): Written RFP responses evaluation
 - Phase II: Candidate interviews
- Final scores, evaluation review, and recommendation will be provided to the Board
- Selection authority for this RFP will be the Board of Investments

Evaluation Criteria

All responses received shall be subject to evaluations on the following seven categories and portfolio fit within the Real Assets and Inflation Hedges portfolio:

1. Organization
2. Professional Staff
3. Investment Process
4. Operational Process
5. Transparency and Collaboration
6. Performance and Risk Management
7. Fees

Proposed Search Timeline



Note: Timeline subject to Board approval.

Minimum Qualifications

The below listed minimum qualification rationale is explained in a memo in Attachment II

1. The firm must have a five-year track record of committing capital to emerging managers¹
2. The firm, or founding team, must have committed a minimum of \$100 million to emerging managers within the past 36 months
3. The firm, or founding team, must have at least three institutional clients, with a minimum of one public pension fund with a plan size of at least \$10 billion
4. The firm, or founding team, must have at least \$400 million of assets under management as a fiduciary in Real Assets or Real Estate investments; or \$750 million combined
5. Must agree to be a fiduciary to LACERA under California and other applicable laws
6. The firm must be in good standing with the SEC and regulatory authorities in applicable jurisdictions

¹ Emerging managers for Real Assets are defined by LACERA as first, second, or third institutional funds with capital commitments of up to \$1 billion for real estate and for real asset funds.

Scope of Services Summary

Identify and Select High-Quality Emerging Managers

- Conduct independent evaluations of investment opportunities and provide detailed written recommendations, including results of investment and operational due diligence

Investment Monitoring

- Monitor and report on investments in collaboration with LACERA's custodian bank, as well as meet all reporting requirements under California and other applicable laws
- Assess the general partner's commitment to diversity, equity, and inclusion ("DEI") and provide DEI metrics
- Evaluate the general partner's environmental, social, and governance ("ESG") policy and provide ESG metrics

Collaboration with LACERA

- Provide educational workshops and periodic Separate Account updates
- Collaborate with staff in investment diligence opportunities and future initiatives
- Facilitate LACERA's direct access and maximum allocation to co-investment and secondary opportunities offered by general partners in the emerging manager program

Favorable Terms

- Make best efforts to obtain an advisory board seat for LACERA in each fund contained in the Program
- Negotiate favorable terms in current funds, and position LACERA for favorable terms in future funds including items such as management fees, carry rates including preferred rate and catchup structure, capacity rights, and potential revenue share

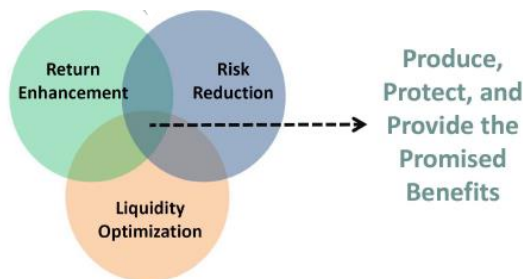
Strategic Considerations

Strategic Initiatives:



Execute Strategic Asset Allocation

while balancing...



Enhance Operational Effectiveness

Optimize Investment Model

Maximize Stewardship and Ownership Rights

Strengthen Influence on Fees and Cost of Capital

LACERA T.I.D.E.

Recommendation advances the following initiatives:

Optimize Investment Model

- Exposure to smaller managers
- LACERA could benefit from growth of smaller firms

Strengthen Influence on Fees and Cost of Capital

- Favorable terms in current funds
- Positions LACERA for favorable terms in future funds

LACERA T.I.D.E.

- Facilitate capital formation among smaller firms

Recommendation

Recommendation

- Advance to the Board of Investments the Request for Proposal search Minimum Qualifications
 - The RFP will be to manage discretionary separate account emerging manager program(s) for Real Estate and Real Assets, which includes Infrastructure and Natural Resources for up to 8-10% of allocation within Real Estate and Real Assets, for up to \$400 million each

November 29, 2022

TO: Trustees-Real Assets Committee

FROM: James Rice *JR*
Principal Investment Officer

Amit Aggarwal *AA*
Investment Officer

FOR: December 14, 2022, Real Assets Committee Meeting

SUBJECT: REAL ESTATE CORE IMPLEMENTATION UPDATE

Please find attached an update on the Core Real Estate program. The Core Real Estate allocation target weight is 6%, and as of 6/30/2022 the allocation was at 6.1%, 10 basis points above the target allocation.

As discussed in the 2021 Real Estate Structure Review, efforts are being made to reduce the separate account exposure and operational risk from the Title Holding Company (THC) structure. Staff has been focusing their attention on the review of the Open-End Core Equity Index (ODCE) Fund universe and the asset disposition plan. Staff expects to make 3-5 ODCE fund recommendations in the coming year to form the new core real estate exposure. Supplemental core and core plus funds may also be recommended in the future to complete the portfolio. LACERA intends to target certain sector and regional exposures as it implements the portfolio using funds. These efforts will need to be coordinated with dispositions in the separate account assets, which have now slowed due to rising interest rates. LACERA's consultant, Stepstone and staff will provide an update on the disposition of assets from the separate accounts at a future meeting.

Attachment

Noted & Reviewed:



Jonathan Grabel
Chief Investment Officer

Real Estate Core Implementation Update

Real Assets Committee
December 14, 2022



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Initiatives - 2021 Real Estate Structure Review

- Summary slide from 2021 Structure Review
- Core Implementation, **highlighted in yellow**, focus of today's discussion

Investor

Allocator

Completed

- Terminated four under-performing separate account managers in 2018
- Invested in open-end funds
 - IDR ODCE Index fund
 - RREEF Core Plus Industrial Fund
 - Prologis European Logistics Fund
 - Invesco Core Asia Fund
- Hired an Appraisal Management Service Provider
- Created a formal quarterly reconciliation process
- Onboarded Administrator
- Onboarded new Consultant
- Transitioned performance book of record

In process

- Underwrite re-up opportunities with high conviction managers in value-add and opportunistic funds
- Cull portfolio of under-performing assets
- Review optimal structure
- Formalize desktop procedures
- Incorporate operational due diligence process
- Review of Responsible Contractor Policy
- Annual GRESB review

Upcoming

- **Underwrite new Open-End Core Equity (ODCE) funds**
- **Continue improving risk profile of core assets**
- **Ramp up pacing for underwriting Value-Add and Opportunistic funds**
- **Reduce separate account exposure and operational risk from title holding company (THC) structure**
- Launch Emerging Manager RFP
- Fill open positions
- Launch hiring of an independent fiduciary to assist in evaluation and transition in sale of directly held Real Estate assets



Recommendation Summary – 2021 Real Estate Structure Review

- Summary slide from 2021 Structure Review
- Core Implementation, **highlighted in yellow**, focus of today's discussion

Sell 1/3 of core portfolio every year

- Conduct an RFP to engage a third-party fiduciary for the transition and ultimate sale of directly held assets
- Begin sales process in 2023

Underwrite ODCE funds

- Underwrite and commit to 6-8 ODCE funds to replace separate account positions
- Timing of asset sales and entry queues will determine fund commitment pacing

Invest in Non-Core funds

- Underwrite and commit to **\$125-\$250MM** fund allocations to closed-ended funds targeting a **4%** Non-Core allocation in **4-5** years.

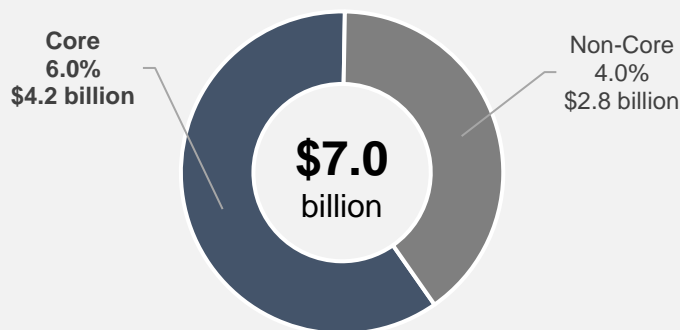
- Adopt revised guidelines on slides **27, 28, and 29**

Portfolio Structure and Investment Fit

POLICY ALLOCATION^{1,2}

TOTAL REAL ESTATE

as of 6/30/2022

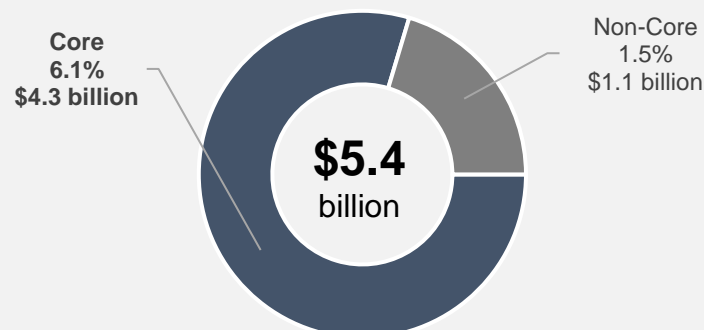


■ Core Real Estate ■ Non Core Real Estate

ACTUAL ALLOCATION²

TOTAL REAL ESTATE

as of 6/30/2022



■ Core Real Estate ■ Non Core Real Estate

PURPOSE & ROLE

REAL ASSETS

Core Real Estate

Lower risk, reliable return and income orientation

Hedge against inflation

Fund diversification due to low correlation of returns relative to other asset classes

GROWTH

Non-Core Real Estate

The primary driver of long-term returns for the fund

Asset value growth, use of development capital to enhance returns

¹ Non-Core Real Estate Strategic Asset Allocation shifted from 3% to 4% of Total Fund effective as of 7/1/2022.

² Based on LACERA's Total Fund net asset value of \$70.4 billion as of 6/30/2022.



Core Real Estate Portfolio Guidelines

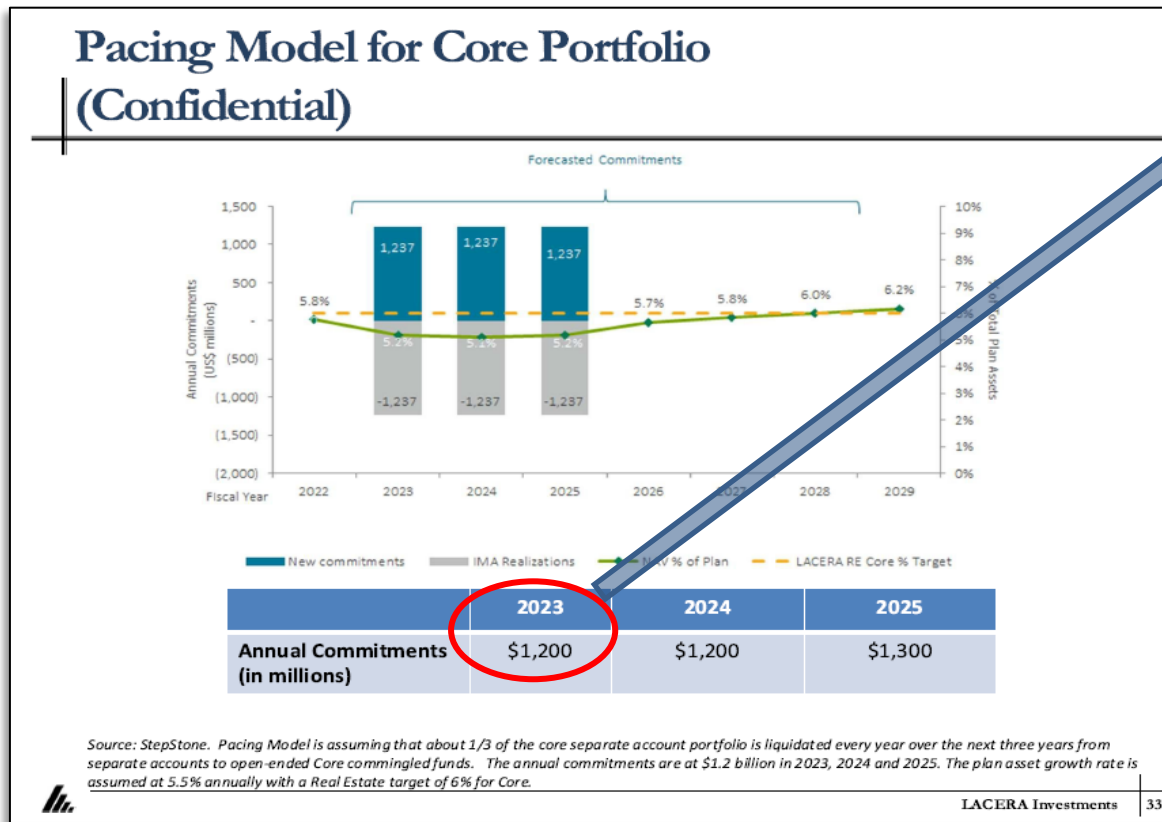
Core Real Estate, at its 6% strategic allocation policy weight, will be managed at time of fund commitment in accordance with the guidelines approved as part of the 2021 Structure Review at time

CORE REAL ESTATE INVESTMENT GUIDELINES	
POLICY TARGET	6.0% (+/-3%)
SECTOR ALLOCATION	Within +/- 15% variance relative to ODCE benchmark in Apartment, Industrial, and Office Within +/- 10% variance relative to ODCE benchmark in Retail, and Other
GEOGRAPHY	US Range: 85% - 100% (+/- 10% variance relative to ODCE benchmark) Non-US Range: Europe 0% - 10% Non-US Range: Asia 0% - 10% Non-US Range: Emerging Markets 0% - 5%
LEVERAGE	50% limit at the portfolio level
MANAGER DIVERSIFICATION	35% Limit
FUND CONCENTRATION	30% Limit
TRACKING ERROR	Long term target < 1%



Core Real Estate Portfolio Implementation

- The Core Real Estate Portfolio pacing model from 2021 Real Assets and Inflation Hedges Structure Review approved by the Board in January 2022
- Separate account structure to be sold over a projected three-year period beginning FY 2023



\$1.2 billion targeted for 2023

- Pacing for new investments in Core Funds will need to follow dispositions in separate account assets
- Market in transitional period: transaction slowdown from rising rates with some pockets of continued strength.

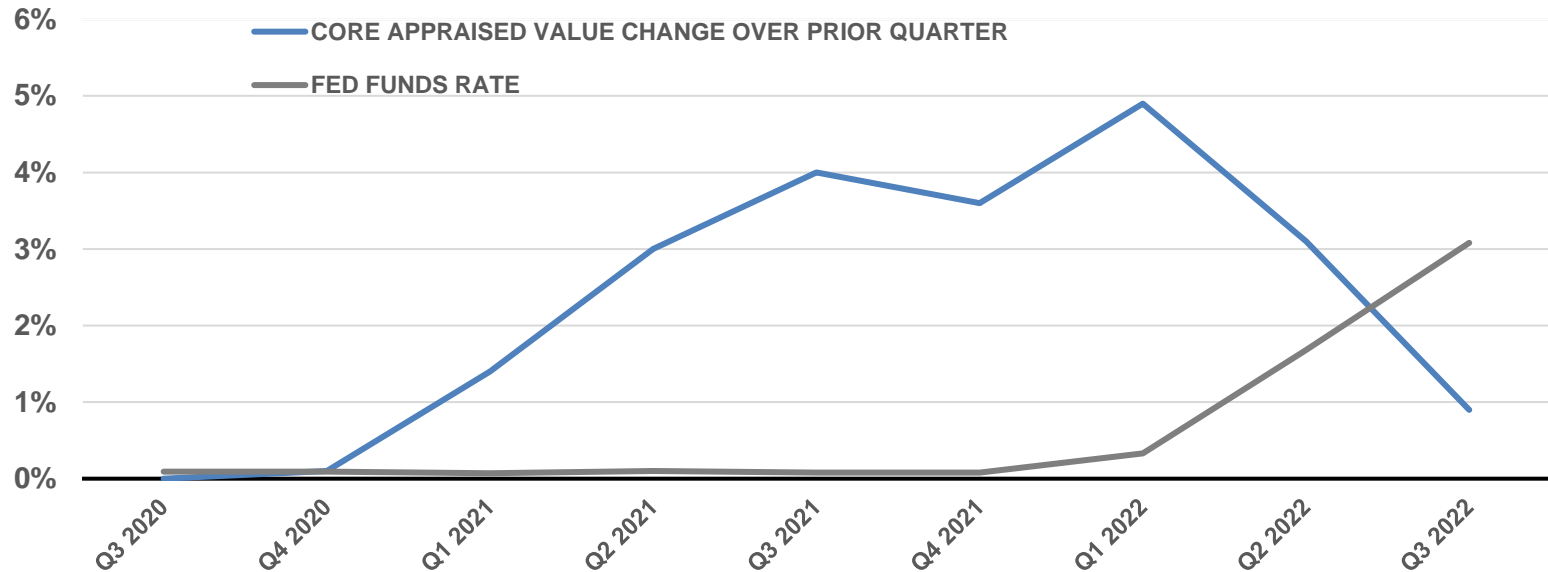
Real Estate Market Overview

- Real Estate has performed well with Net Operating Income (NOI) growth starting to moderate
- Uncertain Federal policy, high inflation, strong US dollar
- US and Europe have started to slow down (UK and Germany are already heading towards recession)
- Industrial and apartments likely to lead performance across all other property types
- Redemption queues are starting to increase for ODCE and other core open-end funds



Capital Markets Overview for Real Estate

- Sharp increases in interest rates in recent quarters are decelerating core valuation increases
- Valuations somewhat lag increases in rates
- Debt market conditions challenge sales of RE assets
 - Increase in risk free rates pressures RE capitalization rates higher
 - Higher debt financing costs require reduced equity valuations to maintain compensation for equity return expectations

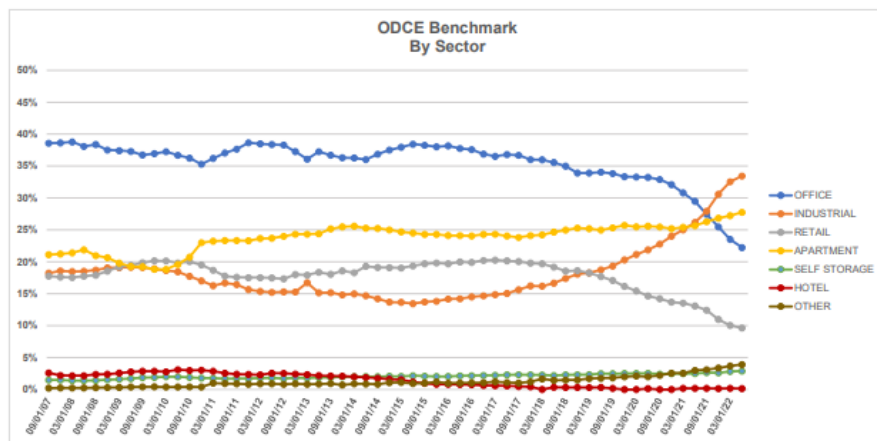
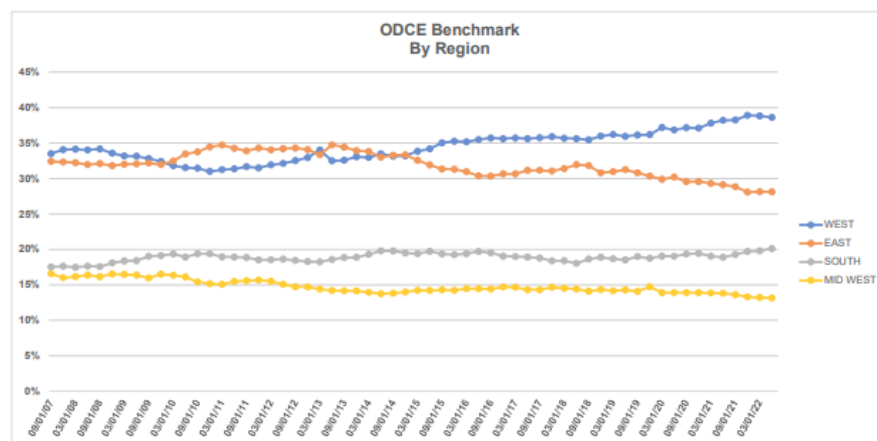


ODCE Benchmark Overview

DESCRIPTION

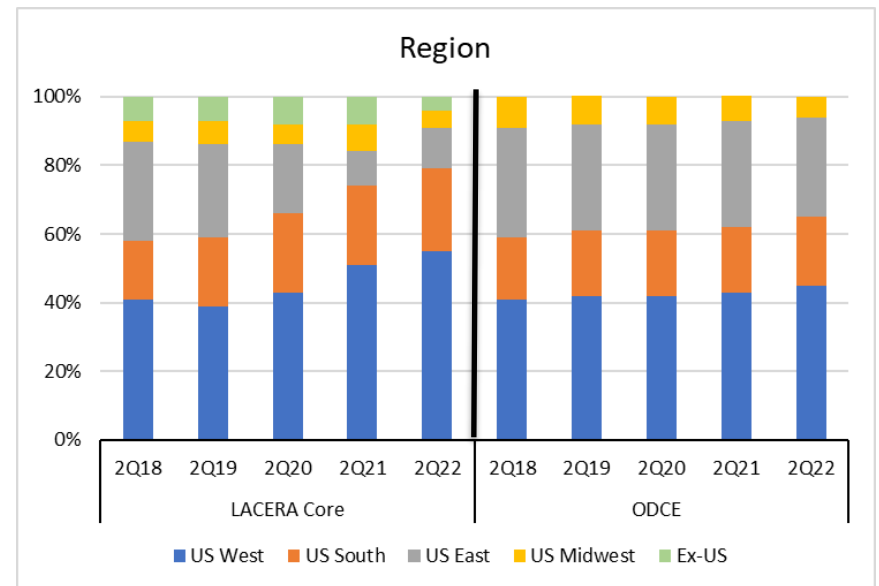
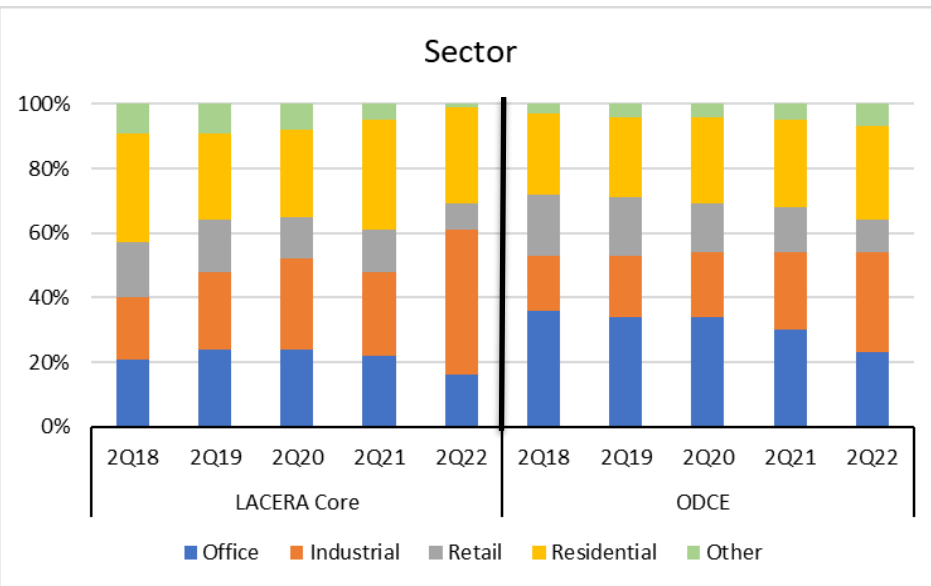
- Founded in 1977, ODCE is an acronym for the Open-End Diversified Core Equity Index and continues to be administered by NCREIF, the National Council of Real Estate Investment Fiduciaries
- The ODCE index is comprised of 26 open-end commingled funds pursuing a core investment strategy, characterized by low leverage and stable income-producing properties in diversified U.S. markets
- As of 6/30/2022, ODCE's 26 funds total \$352.7 billion of gross real estate assets and \$296.9 billion of net real estate assets
- ODCE Benchmark leverage as measured by Loan to Value is 21.5%

HISTORICAL ALLOCATION



LACERA Core Weights vs. ODCE

Portfolio Characteristics (Last 5 Years)

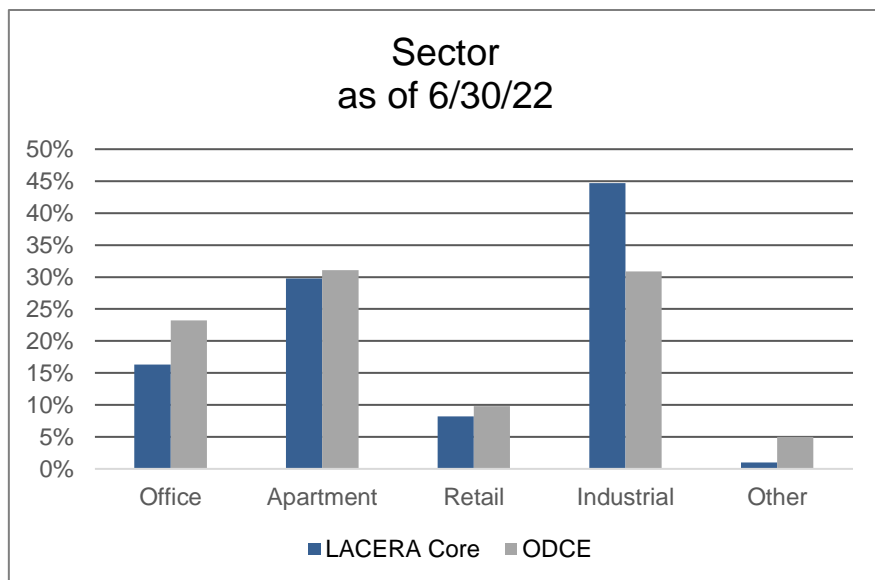


- LACERA has been overweight industrial and residential and underweight office
- LACERA has had greater exposure to faster growing Southern and Western markets in the US
- Positions vary based on activity in separate account portfolios and fund allocations

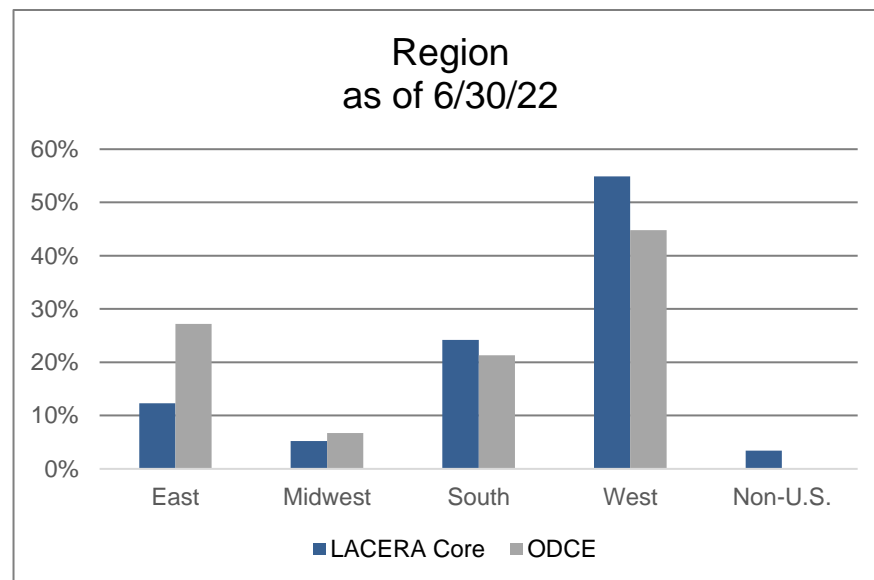


Core – Diversification

Current Portfolio Characteristics








- Manage to industrial overweight tilt
- Manage to apartment overweight tilt
- Maintain underweight to office and retail
- Increase allocation to other sectors focused on medical office, self-storage, life science and rental housing



- Maintain West and South overweight tilts
- Reduce East tilt to within -10% of the max target
- Maintain underweight to Midwest
- Maintain modest position for Non-U.S. (not in ODCE benchmark)

Core Target Considerations within Policy Ranges: Keep Overweight Exposures to High Expected Return Sectors

SECTOR	POLICY RANGES RELATIVE TO ODCE	TARGET RELATIVE TO ODCE WEIGHTS	5-YEAR UNLEVERED RETURN EXPECTATIONS (GROSS) ¹	COMMENTARY
 OFFICE	+/- 15%	underweight	4.2%	<ul style="list-style-type: none"> In US, trading and leasing volume has increased, fundamental uncertainty persists High quality locations and differentiated assets continue to outperform commodity product US vulnerable to sustained work-from-home shifts
 RETAIL	+/-10%	underweight	4.8%	<ul style="list-style-type: none"> US grocery-anchored centers and select shopping and destination centers in high quality locations still deliver. Otherwise, US retail continues to lose out to e-commerce
 INDUSTRIAL	+/-15%	overweight	5.0%	<ul style="list-style-type: none"> Strong fundamentals leading to demand from capital markets particularly in high barrier and coastal markets Selective locations should enhance portfolio resilience
 MULTIFAMILY	+/-15%	overweight	5.1%	<ul style="list-style-type: none"> Strong fundamentals from durable demand and lack of affordable product growth. Pricing reflects heavy capital market focus. Rising supply in some markets Expanding range of residential formats worth pursuing
 OTHER ²	+/-10%	overweight	4.9% - 5.8%	<ul style="list-style-type: none"> More demographic demand drivers especially for life sciences, student housing, rental housing and self storage

¹ Stepstone Real Estate October 2022 House Views

² Life Science, Medical Office, Self Storage, Data Centers, Hotel, Student Housing, Manufactured Housing and Senior Living



Portfolio Structure Considerations

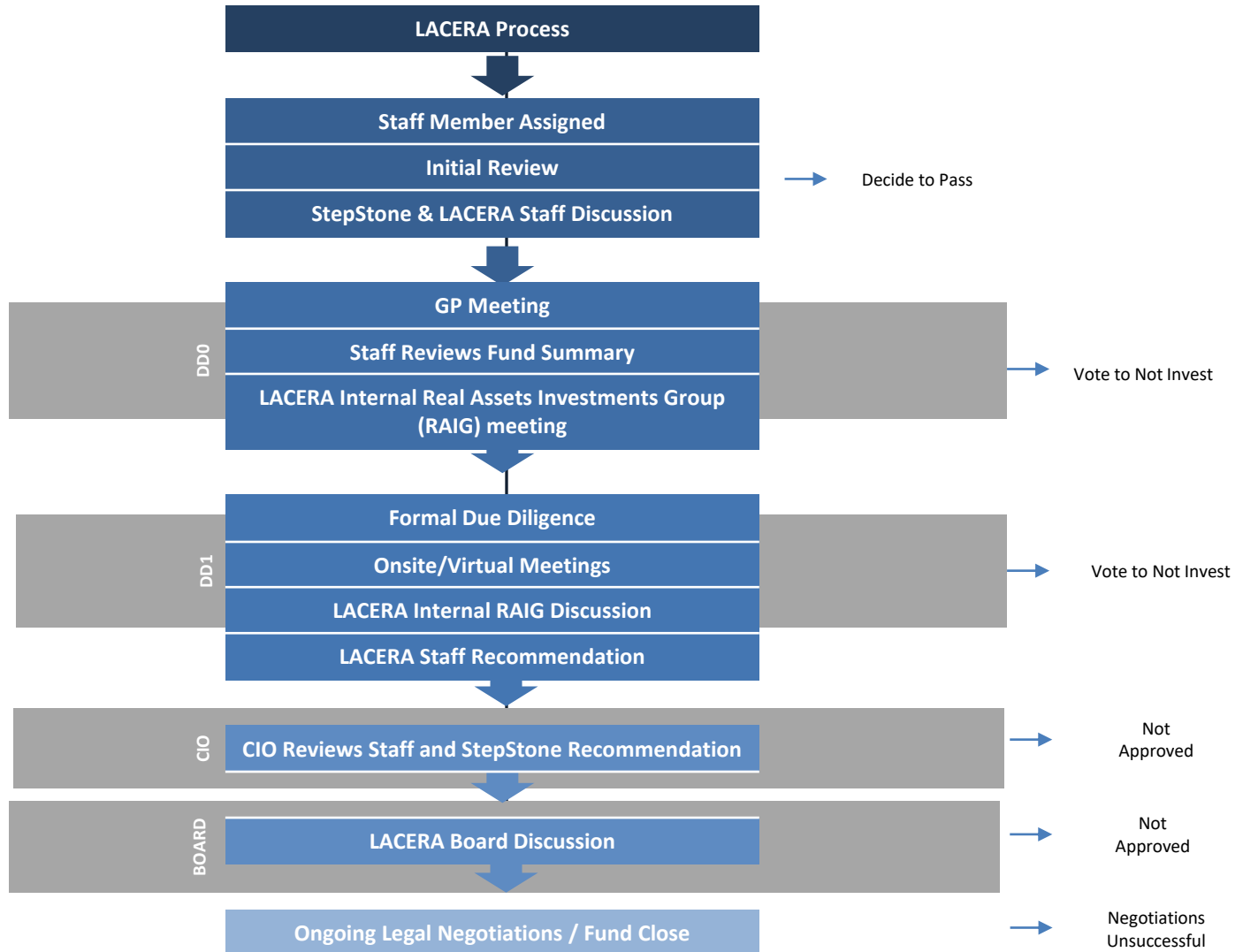
Current Core Structure*	Future Core Structure**
<ul style="list-style-type: none">• 58 core separate account assets from five managers<ul style="list-style-type: none">– Clarion– DWS– Stockbridge– Heitman– CityView• 4 core open-ended commingled funds<ul style="list-style-type: none">– Prologis European Logistics– RREEF Core Plus Industrial– Invesco Real Estate Asia– Investors Diversified Realty	<ul style="list-style-type: none">• All New Fund allocations are subject to Board Approval• 3-6 ODCE funds• 2-5 Core+ funds• 1-4 international core funds• 2-6 Core/Core+ specialty funds (industrial, multi-family and niche sector strategies)• Active tilts away from ODCE benchmark will result from:<ul style="list-style-type: none">• selection of fund managers who have allocation discretion• selection of sector or regional specific funds

* As of June 30, 2022.

** The transition from separate accounts to ODCE fund and open-ended core funds is expected to occur within 3-5 year. The specific core structure is subject to Board approval.



Real Estate Fund Investment Process

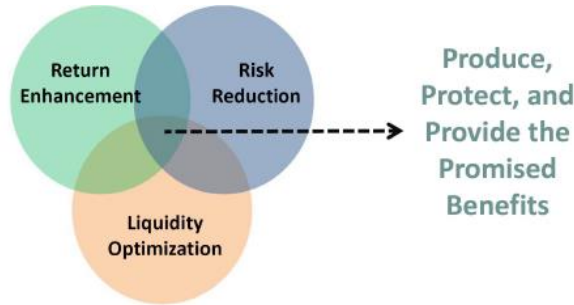


Strategic Initiatives

This implementation plan aligns with LACERA’s strategic initiatives while supporting a real estate portfolio exposure that is in line with Strategic Asset Allocation objectives. It is also consistent with the Board approved Real Estate Structure Review.



Execute Strategic Asset Allocation
while balancing...



Enhance Operational Effectiveness

Optimize Investment Model

Maximize Stewardship and Ownership Rights

Strengthen Influence on Fees and Cost of Capital

LACERA T.I.D.E.

Implementation Plan advances the following initiatives:

Enhance Operational Effectiveness

- Allocation targets provide a more defined guidance around portfolio construction

Optimize Investment Model

- Differentiates return sources that provide diversification to the broader real estate portfolio
- Custom-built portfolio; target ranges support investment opportunities in most attractive areas

Maximize Stewardship and Ownership Rights

- Maximize beneficial ownership rights and portfolio holdings by developing select relationships while reducing operational complexity



Implementation Plan

NEXT STEPS

- Maintain a target allocation of 6.0% to Core Real Estate within Real Assets and Inflation Hedges (currently 6.1% as of 6/30/2022)
- Transition from separate accounts to commingled funds to reduce portfolio concentration and operational risk
- 3-5 ODCE fund recommendations to BOI expected in upcoming year to represent new core portfolio anchor
- Underwrite additional core and core plus funds to complete portfolio, with fund recommendations going to BOI for approval
- Consultant and staff to provide an update on the timing of asset disposition from the separate accounts at a future meeting

