

December 23, 2024

TO: Trustees – Board of Investments

FROM: Jonathan Grabel 
Chief Investment Officer

FOR: January 8, 2025 Board of Investments Meeting

SUBJECT: **2025 Strategic Framework and Initiatives:
Towards Best-in-Class Investor**

RECOMMENDATION

Approve the 2025 Strategic Framework and Initiatives.

BACKGROUND

Attached is the 2025 Strategic Framework and Initiatives recommendation for approval by the Board of Investments. It reviews strategic initiatives, progress towards objectives, and aspirations. The presentation also outlines a framework to guide implementation of the strategic asset allocation and provides visibility to facilitate oversight and governance by the Board of Investments to exercise its fiduciary duties.

Attachment

2025 Strategic Framework and Initiatives:

Towards Best-In-Class Investor

Board of Investments Meeting
January 8, 2025

2025 Strategic Framework and Initiatives Recommendation and Overview



Recommendation

Approve the 2025 Strategic Framework and Initiatives

Overview

The 2025 Strategic Framework and Initiatives aim to:

1. Fulfill LACERA's mission to members via guiding implementation of the strategic asset allocation
2. Provide visibility into initiatives to facilitate oversight and governance
3. Establish a framework to be process-driven and dynamic
4. Build upon strong foundation to facilitate future success

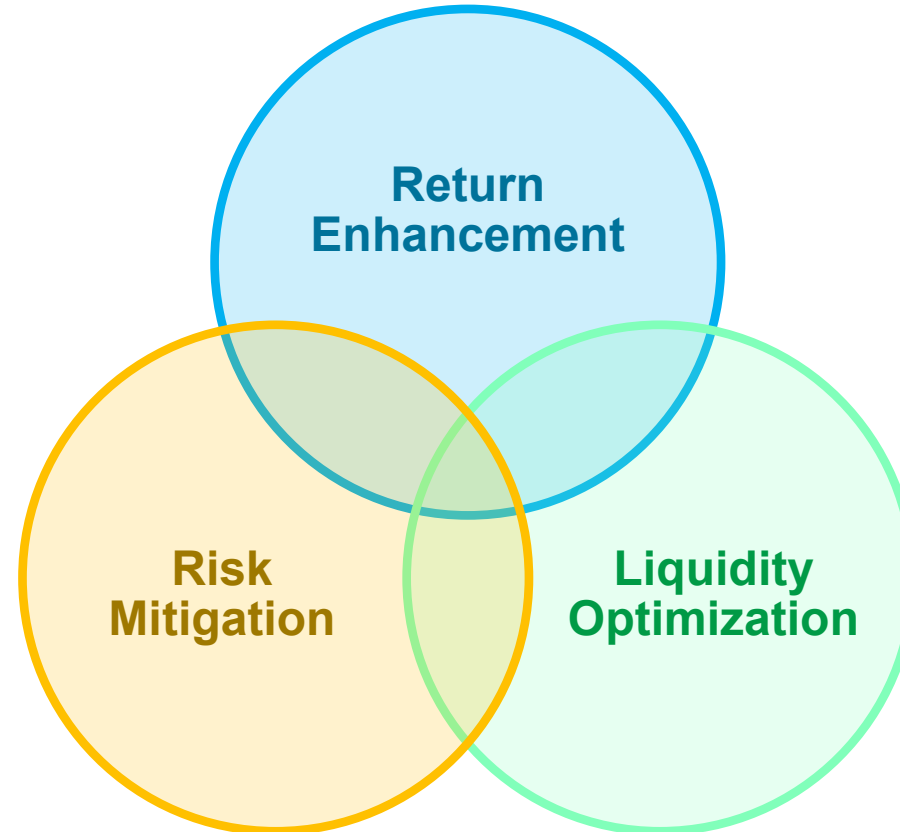
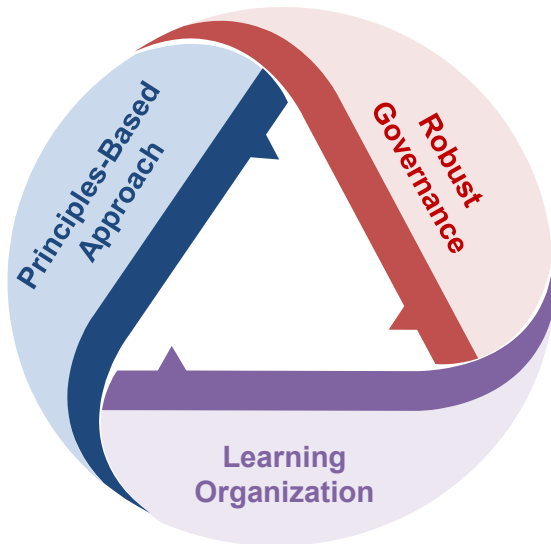


Strategic Framework and Initiatives Towards Best-In-Class Investor



Execute Strategic Asset Allocation

Dynamic Investment Program



Strategic Initiatives


**Optimize
Investment Model**


**Maximize Stewardship
and Ownership Rights**


**Strengthen Influence on
Fees and Cost of Capital**


**TIDE (Towards Inclusion,
Diversity, and Equity)**


**Enhance Operational
Effectiveness**

LACERA Mission: To *produce*, *protect* and *provide* the promised benefits to our members

Execute Strategic Asset Allocation

Updated in 2024



Execute Strategic Asset Allocation

Dynamic Investment Program



Strategic Initiatives

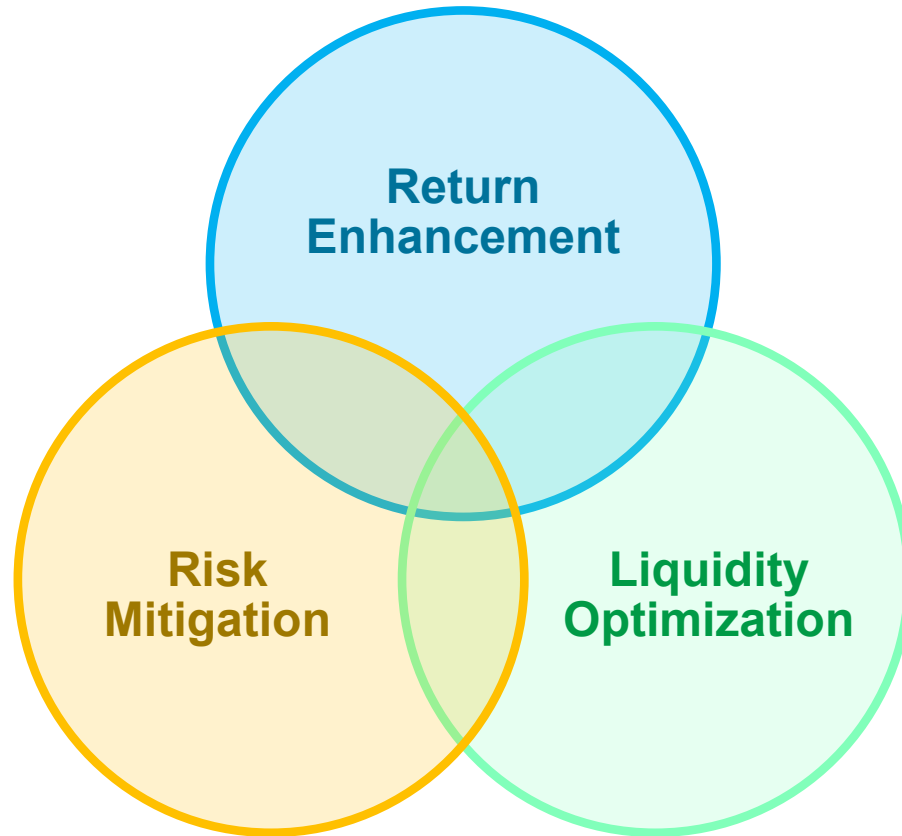


LACERA Mission: To *produce*, *protect* and *provide* the promised benefits to our members

Execute Strategic Asset Allocation Towards Best-In-Class Investor



Execute Strategic Asset Allocation



2025 in Context

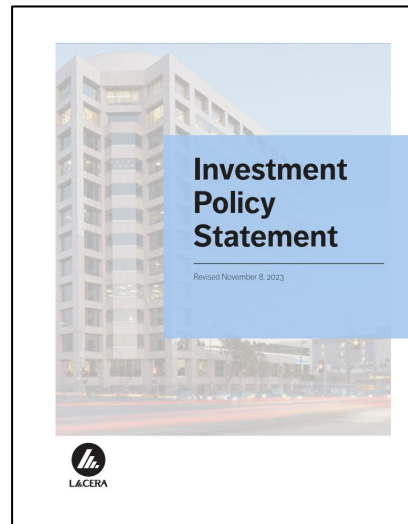
- The Board approved a new Strategic Asset Allocation in 2024
- New allocation targets take full effect in 2025
- LACERA is rebalancing and building its portfolio in response to new targets

LACERA Mission: To *produce*, *protect* and *provide* the promised benefits to our members

Execute Strategic Asset Allocation Objectives of the Investment Program



LACERA's Investment Policy Statement emphasizes Produce, Protect, and Provide objectives, mirrored in its Strategic Asset Allocation strategy focusing on Return Enhancement, Risk Mitigation, and Liquidity Optimization



Objectives of the Investment Program

LACERA follows a carefully planned and executed strategic investment program in order to:

- I. **Produce** the promised benefits for LACERA members and beneficiaries by achieving the Fund's assumed rate of return on a total return basis over the long-term, consistent with LACERA's mission;*
- II. **Protect** the promised benefits on behalf of LACERA members and beneficiaries by mitigating investment risks through Fund diversification and other means, consistent with LACERA's mission; and*
- III. **Provide** the promised benefits for LACERA members and beneficiaries, in part by ensuring adequate liquidity, consistent with LACERA's mission*

LACERA Mission: To *produce*, *protect* and *provide* the promised benefits to our members

Strategic Initiatives

Added 2019-2021



LACERA Mission: To *produce*, *protect* and *provide* the promised benefits to our members



Optimize Investment Model

Objective: Utilize our knowledge, skills, and experience to develop forward thinking and enduring investment models and structures with a focus on technology, cost effectiveness, and human capital to maximize risk-adjusted returns

- Progress:**
- Improving LACERA's investment acumen to fulfill the mission
 - Implementing Board adopted triennial Strategic Asset Allocation studies
 - Deploying co-investment and secondary capital across several asset categories
 - Executing secondary sales to focus private equity portfolio on strategic relationships
 - Transitioning real estate portfolio from separate accounts to commingled funds to broaden diversification
 - Active monitoring and quarterly portfolio-wide discussion of performance and risk management



- Aspirations:**
- Continue to seek better compensation for risks across the portfolio
 - Promote and enhance dynamic investment program
 - Fine tune rebalancing practices
 - Organize and deliver effective educational sessions and orientations



Maximize Stewardship and Ownership Rights

Objective: Steward our investments – including legal rights associated with them – to promote and safeguard our economic interests and durable financial value, including through proxy voting, engagement, and policy advocacy

Progress:

- Increased proxy voting authority to 96% of defined benefit portfolio and assumed voting rights in OPEB Trust
- All mandates undergo systemic due diligence for material ESG risks
- Updated stress testing of 2024 Strategic Asset Allocation for energy transition scenarios and climate risks
- Deepened ESG considerations in real assets with restated Responsible Contractor Policy (RCP) and Global Real Estate Sustainability Benchmark (GRESB) affiliation
- Expanded engagement initiatives (e.g., investor voting rights, energy transition, public policy, board diversity)



Aspirations:

- Execute on strategic engagement initiatives with credible outcomes
- Amplify progress and leadership in governance and ESG initiatives
- Continue to expand proxy voting authority
- Increase ESG and climate data coverage in private asset classes
- Elevate annual stewardship report



Strengthen Influence on Fees and Cost of Capital

Objective: Leverage our influence on fees and cost of capital across all investment strategies and structures in a manner that aligns interests and promotes resilient investment returns

- Progress:**
- Utilizing co-investments across the Fund to drive portfolio intentionality, better risk-adjusted returns, and fee savings
 - Investing with early-stage emerging managers while achieving future capacity rights and revenue sharing agreements where possible
 - Making use of scale and strategic relationships to invest in high-quality assets at a discount
 - Integrating fee structures that pay for outperformance, not just market returns



- Aspirations:**
- Set industry standard as “term-makers” as opposed to “term-takers” on fee, legal, and other terms
 - Foster higher alignment of interest with business partners
 - Incorporate intentionality when designing terms and account structures to both limit risks and enhance expected return outcomes
 - Deliver on optimization of implementation costs through improved expense and fee analytics and reporting



LACERA TIDE (Towards Inclusion, Diversity, and Equity)

Objective: Enhance outcomes through comprehensive, total Fund efforts that encourage constructive, inclusive, and equitable talent management at investment partners, service providers, industry, and internally

Progress:

- Focusing on career development for existing team and onboarding new hires
- Continued increase in manager reporting responsiveness, granularity, and candor
- Expanding allocation opportunities for emerging managers
- Supporting expansion of due diligence and standardized templates at industry associations to facilitate DEI reporting availability and reliability in financial services industry



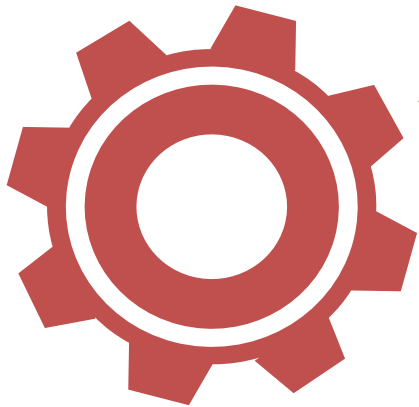
Aspirations:

- Continue to focus on better human capital management practices across the asset management industry
- Be an employer of choice at all levels from internships through management
- Inspire external asset managers to adopt DEI practices to increase risk-adjusted returns
- Utilize wider data sets to inform and influence effective industry-wide practices
- Refine annual TIDE report



Enhance Operational Effectiveness

Objective: Expand the efficiency of our resources (internal and external, human and technological) and mitigate varied investment and enterprise risks, which can improve future outcomes



Progress:

- Evolving LACERA's policies, governance, and investment selection decision process
- Broadening utilization of software platform to distribute, collect, evaluate, and warehouse questionnaires and other diligence materials
- Onboarding service provider for a consolidated public and private markets investment analytics platform
- Transitioning real estate portfolio from separate accounts to commingled funds to reduce operational risk
- Aligning benchmarks to better reflect opportunity set and desired portfolio risk and return profile

Aspirations:

- Optimize presentation and quality of information available to the Board
- Align resources with Board and organizational priorities
- Maximize value from adoption of technological innovation and opportunities
- Improve internal investment committees and due diligence practices
- Launch a development program for early-career investment analysts

Dynamic Investment Program

Added 2023



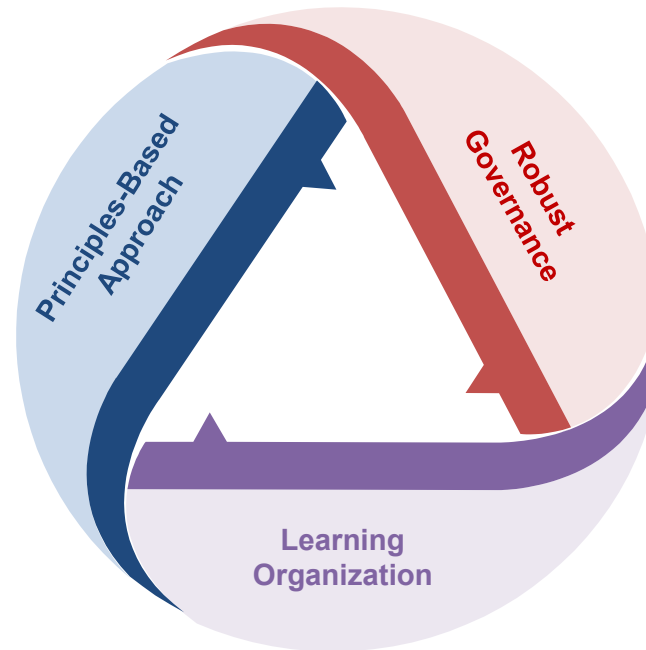
LACERA Mission: To produce, protect and provide the promised benefits to our members

Dynamic Investment Program



LACERA's dynamic investment program sharpens decision-making and fosters perpetual growth

Increases adaptability to an everchanging environment



Enables prudent decision making while elevating Board oversight

Pursuit of continuous improvement, refinement, and evolution

Dynamic Investment Program



LACERA's dynamic investment program provides a methodical, deliberate, and meticulous process to evaluate strategic efforts

Robust Governance

Enables prudent decision making while elevating Board oversight

Governing Policies

Actuarial Analyses

Strategic Asset Allocation

Structure Reviews and Investment Guidelines

Learning Organization

Pursuit of continuous improvement, refinement, and evolution

Continuous Education

Increased Transparency

Greater Inclusivity

Enhanced Due Diligence

Principles-Based Investing

Increases adaptability to an everchanging environment

Investment Beliefs

Functional Asset Categories

Corporate Governance and Stewardship

Portfolio Analytics and Monitoring

Next Steps

1. Board of Investments Governance
2. Recommendation



“In order to exercise its fiduciary duties, the Board has the responsibility to stay informed and affirmatively conduct oversight of LACERA’s investment program, including receiving, reviewing, and engaging on investment performance and compliance information and reports.”



To provide oversight of LACERA’s dynamic investment program and consistent with the IPS identified roles and responsibilities, the Board and its Committees meet throughout the year to approve **policy and strategy**, conduct **oversight**, and review **periodic updates**:

Policy and Strategy

- IPS - Investment Policy Statement
- SAA - Strategic Asset Allocation
- Portfolio structure reviews
- Strategic Framework and Initiatives
- Actuarial study and funding policy
- Consultants, actuaries, and fiduciary counsel

Oversight

- Portfolio implementation
- CIO Monthly Report
- Performance, risk, and compliance
- Proxy voting and stewardship
- Project updates such as for LACERA’s TIDE initiative
- Portfolio information such as manager scorecards and fees
- Review of CIO performance

Periodic Updates

- New investment and redemption notices
- RFP updates and memorandums
- Material portfolio or market events
- Significant investment updates
- Educational speakers

The above lists are not exhaustive. The IPS provides a more comprehensive description of roles and responsibilities.



Approve the 2025 Strategic Framework and Initiatives



Execute Strategic Asset Allocation

Dynamic Investment Program



Strategic Initiatives



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The Board of Investments 2025 Strategic Framework and Initiatives is a component of LACERA’s strategic plan.