

# Investment Policy Statement

---

Revised November 8, 2023



L/CERA

# Contents

<b>About LACERA</b> . . . . .	<b>1</b>
<b>Statement of Purpose</b> . . . . .	<b>2</b>
<b>Legal Authority</b> . . . . .	<b>3</b>
Fiduciary Duty . . . . .	3
Ethics and Code of Conflicts . . . . .	3
Process. . . . .	3
<b>Investment Policy</b>	
<b>I. Investment Policy and Strategy.</b> . . . . .	<b>4</b>
Objectives of Investment Program . . . . .	4
Investment Beliefs . . . . .	4
Strategic Asset Allocation. . . . .	6
Overview of Strategic Asset Allocation. . . . .	6
Performance Objectives . . . . .	9
Rebalancing . . . . .	9
Responsible Stewardship and Beneficial Ownership Rights . . . . .	9
Integration of Environmental, Social, and Governance (ESG) Factors . . . . .	9
Diversity, Equity, and Inclusion. . . . .	9
<b>II. Investment Process</b> . . . . .	<b>10</b>
Structure Review . . . . .	10
Investment Management. . . . .	10
Liquidity Management and Other Investment Functions . . . . .	11
<b>III. Risk Management</b> . . . . .	<b>12</b>
Philosophy and Objectives . . . . .	12
Approach. . . . .	12
<b>IV. Roles and Responsibilities</b> . . . . .	<b>13</b>
Board of Investments. . . . .	13
Staff . . . . .	14
Third Party Service Providers. . . . .	16
<b>V. Policy Review</b> . . . . .	<b>17</b>

**Appendix**

**Investment Tables.** . . . . . 18

    Approved Asset Allocation. . . . . 18

    Benchmark Table . . . . . 19

**Policy History . . . . . 20**

**List of Attachments . . . . . 20**

- Corporate Governance and Stewardship Principles
- Responsible Contractor Policy
- Emerging Manager Policy
- Placement Agent Policy
- Private Equity Privatization Policy
- Procurement Policy for Investment-Related Services

# About LACERA

The Los Angeles County Employees Retirement Association (“LACERA”) administers a defined benefit retirement plan (the “Fund”) and other post-employment benefits (“OPEB” or the “Trust”) for employees of Los Angeles County and certain other districts.

The Los Angeles County Board of Supervisors established LACERA by ordinance in 1937. LACERA has operated since 1938, and today, serves over 170,000 active and retired members.

LACERA’s mission is to “produce, protect, and provide the promised benefits to our members.” LACERA aims to fulfill its mission through prudent investment and conservation of plan assets, in accordance with its Investment Beliefs and in consideration of actuarial analysis.

LACERA’s Board of Investments (the “Board”) is responsible for establishing LACERA’s investment policy and objectives, as well as exercising oversight of the investment management for both the Fund and the Trust.

---

## LACERA MISSION STATEMENT

---

We Produce, Protect, and Provide  
the Promised Benefits  
to our Members

# Statement of Purpose

LACERA's Investment Policy Statement (the "IPS") defines the framework by which LACERA manages the assets of the Fund in order to fulfill its mission. The document provides the primary guidance for LACERA's investment activities by outlining the philosophy and structure of LACERA's investment program, describing the general process by which assets are managed, and defining the key roles and responsibilities in LACERA's investment program.

# Legal Authority

The California Constitution and LACERA's governing statutes create a legal framework within which this IPS must be interpreted and implemented by the Board in approaching its decisions. The Board is independent and has sole and exclusive legal responsibility over investment of the Fund's assets.

## A. Fiduciary Duty

The Board and its members are fiduciaries, making decisions for the benefit of the Fund as a whole without other concerns or outside influence. All Board members, whether they are elected, appointed, or ex officio, have the same fiduciary duty under the law. This fiduciary duty has two components:

- *Duty of Loyalty.* Under the duty of loyalty, Board members have the sole and exclusive responsibility to administer the Fund to ensure prompt delivery of benefits to members and their beneficiaries. In making every decision, the Board must act according to a three-pronged legal formula that balances the interests of the Fund's stakeholders: (1) solely in the interest of providing benefits to members and beneficiaries, (2) to minimize employer contributions, and (3) to defray the expenses of administering the Fund. The Board's duty to members and their beneficiaries takes precedence over any other duty.
- *Duty of Prudence.* Board members must discharge their duties with the care, skill, prudence, and diligence that a prudent fiduciary familiar with the matters and the circumstances of each particular decision would use in the conduct of a similar enterprise with like aims. The Board must diversify fund investments so as to minimize risk of loss and maximize the rate of return, unless under the circumstances it is clearly prudent not to do so. The Board may invest or delegate the authority to invest Fund assets through the purchase, holding, or sale of any form or type of investment, financial instrument, or financial transaction when prudent in the informed opinion of the Board.

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.

## B. Ethics and Code of Conflicts

The Board and LACERA staff must refrain from personal activity that could conflict with the proper management of the investment program, or that could impair their ability to make decisions in compliance with fiduciary duty. Further details are defined in LACERA's Code of Ethical Conduct, Conflict of Interest Code, the Political Reform Act, Fair Political Practices Commission regulations, and other applicable law.

## C. Process

Because the Board is a governing body of a public agency, the Board and its members must conduct business according to the State of California Ralph M. Brown Act, which provides that Board meetings, deliberations, and actions must be public unless subject to a specific closed session exception. The Board may go into closed session to discuss the purchase and sale of particular, specific investments under the Brown Act.

# Investment Policy

## I. Investment Philosophy and Strategy

### A. 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

### B. Investment Beliefs

The Board has adopted the following investment beliefs ("Investment Beliefs") to describe its core beliefs and underlying assumptions about how capital markets operate. Collectively, the Investment Beliefs provide a framework to guide LACERA's investment decisions in a manner consistent with the Fund's nature as an institutional investor with a long-term investment horizon in order to achieve the Fund's objectives defined above.

#### i. Strategic Asset Allocation

Long-term strategic asset allocation will be the primary determinant of LACERA's risk/return outcomes.

- a. It is important that LACERA be forward-looking, as its investment horizon spans decades, if not indefinitely, into the future.
- b. Strategic asset allocation has a greater effect on return variability than asset class investment structure or manager selection.
- c. Strategic asset allocation is a critical source of investment diversification to optimize growth and mitigate risk across the total Fund.
- d. Strategic asset allocation must carefully consider plan liabilities, actuarial assumptions, and capital market assumptions.
- e. Rebalancing the portfolio is a key aspect of prudent long-term strategic asset allocation policy.

#### ii. Market Dynamics

Capital market efficiencies inform LACERA's strategic asset allocation and portfolio construction.

- a. The efficiency of financial markets may vary by market segment, geographic region, geopolitical regimes, and across public versus private markets.
- b. Market transparency, the regulatory environment, behavioral finance factors, and investment time horizons may influence and shape market efficiency.

- c. LACERA's investment processes should be adequately nimble to prudently capture attractive investment opportunities.

### iii. Return

Risk and return are expected to be positively correlated over long-term periods. Returns can be enhanced through active strategies, illiquid investments, and leverage; however, such strategies need to be balanced with LACERA's risk tolerances, portfolio objectives, and liquidity needs.

- a. Active strategies will be used when they are expected to add value net-of-fees while adjusting for risk.
- b. The total capital allocated to illiquid strategies must be kept at a prudent level.
- c. Liquid assets serve a critical role to fund benefit payments and rebalance the portfolio.

### iv. Risk

Risk is a broad term used to capture the concept of uncertainty. No single metric adequately conveys risk. LACERA will evaluate risk holistically, incorporating quantitative measures and qualitative assessments in managing its portfolio. Monitoring and managing risk is a key focus for LACERA. Risk that is not expected to be rewarded over the long-term, or mitigated through diversification, will be minimized.

Risks confronted by LACERA include, but are not limited to:

- a. Investment Risks (macroeconomic, volatility, leverage, illiquidity, geography, currency, political, credit, environmental, social, and governance); and
- b. Operational Risks (valuation, counterparty, benchmarking, business continuity, talent management, cybersecurity, reputational, fraud, regulatory, and conflicts of interest).

### v. Governance

Strong governance is critical for LACERA to achieve its investment objectives.

Strategic direction-setting by the Board, prudent delegation of day-to-day portfolio management, and effective organizational controls and oversight are important components of strong governance.

### vi. Stewardship

LACERA recognizes that environmental, social, and corporate governance factors (ESG) may present financial risks and opportunities for the Fund. LACERA seeks to identify, evaluate, and manage financially relevant ESG factors in its investment process—including portfolio construction, investment due diligence, and stewardship strategies—to safeguard and enhance Fund performance.

### vii. Terms

Investment outcomes are determined by risk, returns, and costs. All three must be managed, and each mandate should be structured with the best possible terms available across the total Fund to enhance future outcomes.

- a. The breadth of LACERA's presence in financial markets is an asset to influence terms and fees.
- b. Consideration of net-of-fees returns is an integral part of a successful long-term investment strategy.
- c. Costs, fees, and terms should be actively monitored and negotiated to the greatest extent possible.



### viii. Productivity

People and resources matter. Constructive talent management, efficient operations and procedures, and a commitment to ongoing education and improvement are essential to optimizing LACERA's investment performance.

- a. Human Capital: Trustees and staff are vital to executing LACERA's investment program. LACERA must cultivate a talented and collaborative workforce that is inclusive of diverse perspectives and backgrounds and demonstrates a steadfast commitment to high ethical conduct.
- b. Education: In an increasingly complex and dynamic investment universe, continued education on investment concepts and investment strategies within that universe is fundamental for long-term success.
- c. Operations: Strong operational processes and sufficient resources can maximize efficiency, mitigate risks, and optimize investment performance.

## C. Strategic Asset Allocation

LACERA fundamentally believes long-term strategic asset allocation will be the primary determinant of risk/return outcomes, and therefore establishes a strategic asset allocation to meet its mission and investment objectives.

LACERA's strategic asset allocation categorizes capital outlays into five groups, defined by the function each allocation is intended to serve in the portfolio: (1) Growth, (2) Credit, (3) Real Assets and Inflation Hedges, (4) Risk Reduction and Mitigation, and (5) Overlays and Hedges. The functional categories include various asset classes that represent the risk/return characteristics of each area.

LACERA expects the five functional categories to diversify the Fund and optimize upside growth while mitigating downside risk. The asset allocation determines what proportion of the Fund is allocated to each functional category and underlying asset class, including target weights and allowable ranges as a percentage of the Fund.

In order to determine its strategic asset allocation, LACERA conducts a comprehensive asset allocation study every three to five years, or at the Board's request. The asset allocation study considers a number of factors, such as:

- A projection of actuarial assets, liabilities, benefits payments, contributions, and the actuarial rate of return for the Fund, as well as its current and projected funded status.
- Historical results and expected long-term capital market risk, return, and correlation forecasts.
- An assessment of future economic conditions, including inflation and interest rate levels.
- Various risk/return scenarios.
- The Fund's liquidity requirements.

LACERA's approved asset allocation and benchmarks are detailed in the tables of the Appendix.

## D. Overview of Strategic Asset Allocation

LACERA groups asset classes into the following functional categories:

### i. Growth

- a. Role in the portfolio: The role of assets in this category is to be the primary driver of long-term total returns for the Fund.

- b. Asset Classes: Global Equity, Private Equity, and Non-Core Private Real Estate.
- c. Investment Approach: Growth assets generally represent equity or equity-like interests in current and future income streams. Growth assets include public and private market strategies that include both liquid and illiquid investments. LACERA utilizes passive strategies in relatively efficient segments of the market for global equity. LACERA employs active strategies in relatively less efficient market segments of global equities, as well as in private equity and non-core private real estate.
- d. Risk Factors: Growth assets are primarily equity ownership positions that tend to perform well in times of positive economic growth. They are highly sensitive to economic conditions and are subject to potential loss in value based on a number of factors. For example, growth assets may be sensitive to inflation and generally perform poorly in times of high and unexpected inflation. To a lesser extent, growth assets may be sensitive to interest rates due to the use of leverage in certain strategies as well as the relationship between interest rates and the discount rates used to price securities.

## ii. Credit

- a. Role in the portfolio: LACERA expects assets categorized as Credit to produce current income and moderate long-term total returns. Credit has more moderate levels of risk than assets categorized as Growth, and, accordingly, provides incremental diversification to the total Fund.
- b. Asset Classes: Liquid Credit (High Yield, Bank Loans, Emerging Market Debt), and Illiquid Credit.
- c. Investment Approach: Credit assets are generally fixed claims on assets or income streams of an issuer (e.g., government, corporation, asset-backed securities). The category is composed of certain fixed income, hedge funds, real estate, and private debt investments. Investment strategies within this category may have a specific mandate or be multi-strategy. The investment strategies may be liquid, illiquid, or a combination of both, depending on the nature and terms of the specific investment vehicle. LACERA employs active strategies across all asset classes within the Credit category but may employ passive strategies in certain segments that are relatively more efficient..
- d. Risk Factors: The primary risk for owners of Credit assets is the failure of the borrower to make timely payments of interest and principal. There are three elements of credit risk: the risk of default, the risk of a credit downgrade, and spread risk, which is the risk that investors may demand greater compensation for bearing the first two types of risk. Bonds with credit risk offer a yield premium over government bonds to compensate investors for the additional risk. Bonds with greater credit risk (i.e., bonds with lower credit ratings) are typically less liquid than higher quality bonds.

## iii. Real Assets and Inflation Hedges

- a. Role in the portfolio: LACERA expects assets in this category to provide income as well as a hedge against inflation, while diversifying the Fund due to the assumed low correlation of returns between these assets and other asset classes.
- b. Asset classes: Core Private Real Estate, Natural Resources & Commodities, Infrastructure, and Treasury Inflation-Protected Securities (“TIPS”).
- c. Investment Approach: Real Assets generally include physical assets, such as real estate and infrastructure, or securities whose value is derived from a physical asset, such as commodities or natural resources. Assets in this category may be invested in both public and private investments and may be liquid or illiquid, as well as passively or actively managed.
- d. Risk Factors: Real Assets and Inflation Hedges are sensitive to inflation. The primary risk for owners of real assets/inflation hedges is that they fail to provide a hedge against long-term changes in

inflation. A secondary risk is loss of principal. The value of real estate and natural resources assets may fall, particularly during an economic downturn, but also due to idiosyncratic aspects of each asset. Diversification may offset asset-specific risk. Foreign assets are also subject to currency movements against the U.S. dollar. TIPS are exposed to liquidity risk, as they tend to be less liquid than nominally U.S. Treasuries, particularly during a market environment in which there is a flight to safety.

#### **iv. Risk Reduction and Mitigation**

- a. Role in the portfolio: LACERA expects assets in this category to provide moderate amounts of current income by generating a modest level of return while also reducing total Fund risks, in part by preserving capital in the event of a downturn in equity markets. LACERA anticipates that assets in this category will have a low level of volatility and a low correlation to Growth assets, thereby providing downside protection. In the event of a market correction, these assets could also provide a source of liquidity for benefit payments.
- b. Asset classes: Investment Grade Bonds, Diversified Hedge Fund Portfolio, Long-Term Government Bonds, and Cash.
- c. Investment Approach: The category is composed of investment grade bonds, diversified hedge funds, long-term government bonds, and cash. Cash is the least volatile asset class, as well as the most liquid; the flexibility it provides during periods of market decline helps to mitigate risk. Investment grade bonds comprise a mix of U.S. Treasuries, corporate debt, and other bonds of high quality, typically rated “BBB” or above by rating agencies. High quality bonds would be expected to protect the total Fund by retaining or increasing their value during a market correction. Diversified hedge funds comprise a variety of hedged investments, such as relative value, arbitrage, and long/short strategies within a diversified portfolio. They would be expected to produce returns at or above high-grade bond portfolios, with equal or lower volatility, and be largely uncorrelated with other portfolio assets.
- d. Risk Factors: The primary risk factor for Risk Reduction and Mitigation Assets is that they will fail to provide the anticipated level of protection during market downturns. Assets in this category are also subject to additional risks. For example, investment grade bonds are sensitive to fluctuations in interest rates and have some risk of default. Cash can include short-term instruments and vehicles where there is a low probability of loss of principal.

#### **v. Overlays and Hedges**

- a. Role in the portfolio: The category consists of overlays and hedges as a distinct functional category LACERA expects exposures in this group to assist in adhering to total Fund policy allocation targets, meeting asset class-specific objectives, and managing portfolio risk.
- b. Asset classes: Total Fund and all BOI approved asset classes may be utilized or subject to overlays and hedging strategies.
- c. Investment Approach: The category is composed of derivatives and synthetic replication investment vehicles that emulate LACERA’s physical assets, holdings, foreign currency, or market exposures via overlay and hedging programs. The separation of these mandates into one category allows for increased ability to monitor exposures across the total Fund and enhances the ability to evaluate performance, attribution, portfolio impacts, and risk drivers across individual asset categories and the total Fund.
- d. Risk Factors: The primary risk factors for Overlays and Hedges are exposure mismatch and benchmarking. Best efforts will be made to replicate LACERA’s underlying exposures and risk; however, there may be instances when the vehicles used will not mirror a given asset, causing an exposure mismatch. Another consideration is benchmarking. Benchmarking overlay and hedging programs is challenging

as positions are often resized more frequently than underlying physical exposures, and mandates may be used to achieve multiple objectives or be a temporary portfolio construction tool.

#### **E. Performance Objectives**

The Fund's long-term performance objective is to generate risk-adjusted returns that meet or exceed its defined actuarial target as well as its policy benchmark, net-of-fees, over the Fund's designated investment time horizon. LACERA's policy benchmarks at the total Fund level, the functional category level, and the asset class level can be found in the Appendix.

#### **F. Rebalancing**

LACERA considers rebalancing the Fund a key aspect of prudent long-term portfolio management. LACERA rebalances the Fund's portfolio in accordance with established guidelines and procedures to adhere to its approved strategic asset allocation, consistent with the Fund's stated Investment Beliefs. The approved ranges for each functional asset category and underlying asset class are defined in the Appendix.

#### **G. Responsible Stewardship and Beneficial Ownership Rights**

In pursuing its investment program, and as part of mitigating risks associated with LACERA's investments, LACERA seeks to manage its investments in a manner that promotes and safeguards the economic interests of LACERA and its members, consistent with LACERA's mission. LACERA prudently exercises its rights as an investor to support policies and practices at companies in which LACERA invests, as well as public policies governing financial markets, that are consistent with LACERA's economic interests. In doing so, LACERA aims to promote sustainable, long-term value on behalf of its members and enhance LACERA's ability to fulfill its mission. LACERA has therefore adopted Corporate Governance and Stewardship Principles (see Attachments). Beneficial ownership rights pertaining to LACERA's investments, including, but not limited to, proxy voting, are managed in accordance with LACERA's Corporate Governance and Stewardship Principles.

#### **H. Integration of Environmental, Social, and Governance (ESG) Factors**

LACERA recognizes that environmental, social, and governance factors may influence the risk-return profile and financial performance of investments. Financially material ESG factors may vary by industry, geographic exposure, business strategy, investment time horizon, and other variables. LACERA endeavors to identify, assess, and manage relevant ESG factors in its market research, portfolio construction, and throughout its investment process in furtherance of its mission and fiduciary duties. Careful consideration of ESG factors throughout LACERA's investment process aims to generate sustainable investment returns. LACERA assesses and monitors all investment partners on their capacity and skill in evaluating ESG risks and opportunities in a compelling manner to enhance LACERA's risk-adjusted returns.

#### **I. Diversity, Equity, and Inclusion**

LACERA values diversity, equity, and inclusion, and believes that effectively accessing and managing diverse talent leads to improved outcomes. LACERA considers diversity broadly, inclusive of—but not limited to—professional backgrounds, age, experience, race, sexual orientation, gender, gender identity, disability status, military service, ethnicity, national origin, and culture. LACERA expects external asset managers and other third party providers to respect and reflect LACERA's value of diversity, equity, and inclusion. LACERA's ongoing monitoring of third party service providers incorporates an assessment of vendors' commitment to, adherence with, and track record of accessing and retaining diverse workforces in an inclusive and equitable manner.

## II. Investment Process

The following sections articulate the general parameters and processes by which LACERA executes its investment strategy, in accordance with its fiduciary duties.

### A. Structure Review

After an asset allocation study apportions capital across categories, LACERA conducts a Structure Review to address how to implement each asset category. A Structure Review establishes the framework for each asset category by addressing its role and expected risk profile within a total Fund context. The Structure Review evaluates the objectives, portfolio composition, related strategic initiatives, and how the portfolio may evolve in the near to medium term. These reviews are presented to the Board for its approval no less frequently than the comprehensive asset allocation study conducted for the total Fund, or at the Board's request. To assist the Board and staff in carrying out their duties, Structure Reviews provide guidelines, including, but not limited to, Board-approved benchmarks, subcategory target allocation ranges, geographic market target allocation ranges, and any pertinent parameters on asset manager diversification relevant to the asset category.

### B. Investment Management

#### i. Investment Agreements

Approved investment recommendations are subject to negotiation and execution of an agreement that, in the judgment of LACERA's Chief Investment Officer and Chief Counsel, includes all terms necessary to provide adequate protection for LACERA's interests under the circumstances of the transaction, including, but not limited to, an appropriate standard of care on the part of the investment manager.

#### ii. Selection and Monitoring

LACERA may utilize internal resources or externally managed portfolios implemented by asset management firms and service providers to effectuate LACERA's investment program. In determining whether to use internal or external resources to implement a specific investment mandate, strategy, or investment-related service, LACERA takes into consideration numerous factors, including, but not limited to, return expectations, associated risks, compliance requirements, and expenses related to the specific strategy or service.

LACERA has adopted formal procedures to guide the selection, appointment, and monitoring of external managers and service providers. LACERA expects any external party that manages Fund assets on behalf of LACERA to serve as a fiduciary.

#### iii. Costs

LACERA considers the costs and expenses related to executing its investment program to be a crucial component of its fiduciary duty and an important element in determining its strategic asset allocation. In all aspects and functions of its investment program, LACERA seeks to actively identify, assess, and monitor expenses. LACERA expects that the economic terms and conditions by which any external party is compensated for investment-related services should promote an alignment of interests between LACERA and the external party in fulfilling LACERA's mission and investment objectives. Accordingly, LACERA diligently attends to and negotiates the economic terms of investment services rendered to the Fund.

## C. Liquidity Management and Other Investment Functions

The following sections provide the general guiding principles and parameters for certain components of LACERA's investment process, including liquidity management, the use of derivative instruments, securities lending, and certain prohibited transactions.

### i. Liquidity and Cash Management

Effective cash management is integral to LACERA's investment process. LACERA strives to maintain appropriate levels of liquidity—i.e., the ability to convert investments into cash—in order to meet immediate or short-term obligations and liabilities, such as funding member benefits, meeting capital calls, and rebalancing the portfolio per the strategic asset allocation. LACERA manages liquidity by monitoring the Fund's aggregate liquidity and liquidity risk exposures.

### ii. Derivatives Management

LACERA may employ derivative instruments to hedge or gain exposure to certain investments. A derivative is a financial instrument that derives its value from an underlying asset which represents direct ownership of a security or a direct obligation of an issuer. Derivatives may be exchange-traded or traded over the counter (OTC). LACERA expects that any use of derivatives by external managers must adhere to LACERA's policies and investment guidelines.

### iii. Securities Lending

LACERA may lend designated securities to provide the Fund with additional income generation and offset administrative expenses. LACERA lends eligible securities (both U.S. and Non-U.S. equities and bonds) to approved and qualified borrowers, subject to the terms and conditions specified in LACERA's contract agreements. Any securities lending activity is expected to be transparent to LACERA's external investment managers and should not impede or otherwise impair the investment management process.

### iv. Prohibited Transactions

LACERA prohibits the following transactions unless stated otherwise in the investment management agreement:

- "Prohibited transactions" as defined under the Employee Retirement Income Security Act of 1974 (ERISA)
- Transactions that involve a broker acting as a "principal," where such broker is also the investment manager (or an entity related to the investment manager) who is making the transaction
- Any or all applicable investment activities forbidden by the United States Securities and Exchange Commission or other applicable governing bodies
- Any acts or omissions that violate state and local laws regarding conflicts of interest and disclosures

LACERA does not lever the Fund's investment portfolio as a whole. However, leverage is implicit in many investment strategies. LACERA expects that any use of leverage by external managers must adhere to LACERA's established policies and investment guidelines.



## III. Risk Management

LACERA manages risk by establishing and adhering to investment guidelines, pursuing multiple approaches to diversification (such as asset class, geography, liquidity profile, currency, and degree of active management), and conducting regular measurement and analytical exercises. LACERA assumes certain risks to achieve sufficient returns to meet the Fund's financial obligations and investment objectives. Investment risks pertain to the prospect of a permanent loss of capital or of not meeting objectives within the designated timeframe. LACERA seeks to mitigate the impact of a drawdown to the Fund in order to accomplish its investment objectives, reduce volatility, and avoid increased contributions to the Fund from the plan sponsor or employees.

### A. Philosophy and Objectives

LACERA considers risk multi-faceted and, therefore, views risk from multiple perspectives. Risk may vary and evolve over time, across sectors or geographic exposures, and depends on the nature and terms of the investment vehicle that LACERA deploys to implement the Fund's investment strategies. Risk may be systematic (i.e. present across the market) or unsystematic (i.e., specific to a particular investment strategy). A risk may pertain to and potentially impact the total Fund, a functional asset category, or individual underlying asset classes.

LACERA seeks to diligently identify, assess, and monitor relevant investment risks throughout the investment process, from determining its strategic asset allocation to ongoing evaluation and monitoring of the Fund's performance. This helps to ensure that risks assumed by the Fund are intentional and adequately compensated.

### B. Approach

LACERA's strategic asset allocation attempts to position the Fund to capture growth while mitigating large drawdowns. LACERA's investment strategy is designed to take intentional risk, called active risk, in order to achieve commensurate investment results. LACERA may define expectations for active return earned per unit of active risk taken for various investment strategies and portfolios.

LACERA seeks to identify and acknowledge the sources and types of risk inherent in each investment strategy. However, LACERA also recognizes that even sophisticated risk measurement techniques may not detect certain risks, including extreme events, in advance. Accordingly, risk models may only provide limited predictive qualities. LACERA endeavors to test and challenge investment strategies and assumptions prior to a capital outlay as well as for ongoing monitoring.

LACERA measures investment risk using multiple metrics on both an absolute and relative basis at all relevant levels (i.e., total Fund, functional asset categories, and underlying asset classes). LACERA also strives to employ stress testing, scenario analyses, and broader financial and economic analyses to understand current and potential risks related to its investment strategy and decisions. LACERA selects appropriate benchmarks to assess and determine whether investment risks taken by the Fund are appropriate in order to achieve expected investment returns.

LACERA may establish a risk budget to set active risk targets for each functional asset category and underlying asset classes. LACERA aims to minimize unintended risk caused by asset allocation drift or other factors.

## IV. Roles and Responsibilities

LACERA has established the following roles and responsibilities to implement its investment program. The duties explained below apply to the Board, staff, and various external parties who collectively oversee and administer the functions necessary for LACERA to accomplish its investment objectives.

The overview outlined below is further complemented by the following documents: Board of Investments Charter, Board of Investments Regulations, and the Board's Funding Policy, among other policies adopted by the Board.

### A. Board of Investments

#### i. Board

The Board is vested by the California Constitution and the County Employees Retirement Law (CERL) with the authority and fiduciary responsibility for LACERA's investment program. The exclusive fiduciary responsibility of the Board is to ensure prudent investment and management of the Fund so as to provide for the timely payment of benefits to members and their beneficiaries, minimize employer contributions, and defray the reasonable cost of administration, with the duty to members being paramount. It is the responsibility of the Board to ensure that LACERA employees administer Fund investments at reasonable cost, while preserving the quality of investments.

The Board has the duty to ensure that the portfolio's investments are diversified so as to minimize the risk of loss and maximize the rate of return, unless under the circumstances it is clearly not prudent to do so. The Board has the sole and exclusive power to provide for actuarial services in order to ensure the competency of system assets, which in turn informs the Board's exercise of its responsibility for investment of assets. In determining the Fund's strategic asset allocation and investment guidelines, the Board may permit the investment of fund assets in any form or type of investment deemed prudent.

In fulfillment of its plenary authority and fiduciary duties, the Board performs the following roles:

- Undertakes an informed investigation and evaluation of the Fund's financial obligations by conducting periodic asset/liability studies and actuarial analysis and approves LACERA's Funding Policy.
- Upon investigation, valuation, and recommendation of a qualified actuary, the Board recommends to the Board of Supervisors the rates of interest, rates of member contributions, and any county and district appropriations as necessary in advance of each fiscal year.
- Approves the Fund's expected rate of return.
- Approves LACERA's Investment Policy Statement, including establishing the Investment Beliefs that frame it, to guide implementation of LACERA's investment program.
- Approves a strategic asset allocation for the Fund, including, but not limited to, investment allocations and benchmark targets within defined asset categories.
- Approves Structure Reviews for each defined asset category of LACERA's strategic asset allocation including, but not limited to, establishing the following: investment allocations within defined investible categories; target allocations and ranges; benchmarks by which to measure and monitor performance; and other portfolio guidelines.
- Actively reviews, monitors, and questions the investment and administration of the portfolio, requests such information as may be necessary to perform its responsibilities, and responds to issues relative to the portfolio and its administration as may periodically arise.



- Performs additional administrative functions, as defined in the Board of Investments Charter and Board policies and direction, and as necessary to perform its responsibilities under this policy.

The Board is vested under CERL with the authority to delegate certain responsibilities, including the authority to invest, when prudent in the informed opinion of the Board. The Board exercises oversight of all aspects of the investment program.

- The Board selects, approves, and reviews investment consultants, actuaries, and fiduciary counsel (consistent with LACERA's Policy on Fiduciary Counsel) to provide research, analysis, and recommendations to assist the Board in making prudent and informed decisions in line with its fiduciary duties.
- The Board delegates to the Chief Investment Officer ("CIO") the authority to select, fund, and terminate asset managers consistent with fulfilling the provisions and guidelines as approved by the Board and defined in this IPS, the strategic asset allocation, asset class Structure Reviews, and other Board-approved policies.

The Board has the affirmative responsibility to oversee the management of the Fund in compliance with all aspects of this IPS and other Board policies and directives, and all applicable federal and state laws and regulations concerning the administration of a government pension plan. The Board has the duty to stay informed, including requesting, receiving, and reviewing information, and to monitor and make inquiries based on that information to assist in its responsibility of conduct oversight of the investment program. To that end, the Board receives and has the duty to receive and review annual and quarterly reports of Fund performance (including asset categories and asset managers), as well as investment risks and compliance to prudently inform the Board's oversight. The Board may request staff and investment consultants to inform and make recommendations on any matters pertinent to LACERA's investment operations.

## ii. Committees

To assist the Board in carrying out its duties, the Board may establish one or more committees ("Committee"). A Committee makes recommendations to the Board on investment actions related to its area of focus. A Committee may request staff and investment consultants to inform and make recommendations to it on matters pertinent to LACERA's investment program.

## B. Staff

LACERA staff implement Board-approved policies in adherence to fiduciary duties, LACERA's Code of Ethical Conduct, and the LACERA Conflict of Interest Code. Staff are charged with the responsibility of providing the Board with information to assist Trustees in exercising their roles and responsibilities and fulfilling their fiduciary duties.

### i. Chief Executive Officer

The Board and LACERA'S Board of Retirement jointly appoint the Chief Executive Officer ("CEO"). The CEO is responsible for planning, organizing, and administering the operations of LACERA under policy guidance and direction from the Board and the Board of Retirement. The CEO exercises administrative oversight of the CIO, excluding investment decisions delegated to the CIO. The Board provides input to the CEO in the CEO's oversight of the CIO.

## ii. Chief Investment Officer and Investment Staff

The CIO and investment staff manage the portfolio according to the Board's policies, advise and inform the Board about investments, assist with development and review of investment policies and procedures, oversee operational aspects of the Fund, report on the progress of the Fund in meeting its investment objectives, make any appropriate recommendations, and monitor and report to the Board on the performance of the Fund relative to the appropriate benchmarks. The Board has delegated specific investment authority and responsibility directly to the CIO:

- Conduct searches for external asset managers in line with LACERA's Board-approved Procurement Policy to provide investment services.
- Approve the selection and termination of external asset managers, with the concurrence of relevant Board-approved investment consultants for the asset class, to implement Board-approved strategic asset allocation and asset category Structure Review investment guidelines. The CIO also has authority to approve temporary variances from asset-level program and investment manager guidelines.
- Approve co-investments, secondary transactions, re-ups, and advisory board seats in adherence with Board-approved strategic asset allocations and asset category Structure Review investment guidelines.
- Approve, or delegate authority to sign, all investment-related contracts and agreements necessary to implement Board-approved strategic asset allocations and Structure Reviews that, in line with the Board-approved Procurement Policy and in the judgment of the CIO and Chief Counsel, provide adequate protection for LACERA's interests, including an appropriate standard of care on the part of each manager.
- Authorize the formation, dissolution of, and designation of officers for the Title Holding Companies of real estate portfolio holdings.
- Approve rebalancing the Fund in order to raise cash for benefit payments, adjust investment exposures, or pay operational expenses while adhering to investment policy targets outlined within Board-approved strategic asset allocations and asset category Structure Review investment guidelines.
- Approve actions as outlined in the Board-approved Procurement Policy.
- Approve limiting or freezing manager trading activity. Such actions are reported to the Board as reasonably practical and no later than the next scheduled meeting of the Board.
- Approve actions not otherwise specifically delegated, in concurrence with the CEO and the Chair of the Board, when deemed necessary in the best interest of the Fund and when there is not enough time to take the action to the full Board. Such actions are reported as reasonably practical to the full Board, and no later than the next scheduled meeting of the Board.
- Oversee an annual self-evaluation process for internal investment committees.

The CIO is authorized and directed to interact with and communicate directly with the Board regarding all investment-related matters. The internal investment staff reports to the CIO, who in turn reports to the CEO, with input of the Board. The CEO does not have any authority over any and all investment decisions that are delegated to the CIO.

LACERA's Board-approved Crisis Plan provides guidance in the event that the CIO is not available to implement delegated authorities.

## iii. Chief Counsel and Legal Staff

The Office of Chief Counsel and legal staff (Legal Counsel) are primarily responsible for legal issues

concerning the investment program and advise the Board, CEO, CIO, and staff on investment-related legal matters. Legal Counsel advises the Board in performing its fiduciary responsibility. In addition to reliance upon internal resources for such matters and on fiduciary counsel, the Chief Counsel or designee within the Legal Office may retain other external legal counsel, when deemed necessary and appropriate, to advise staff, negotiate and prepare contracts on investment-related matters and individual transactions, and provide other investment legal advice to protect LACERA's interests, including its status as a tax-exempt government plan.

### **C. Third Party Service Providers**

LACERA may engage external service providers, as described below, to implement its investment program. All service providers, unless otherwise not applicable, are expected to serve as fiduciaries to the Fund in fulfilling their contracted services. Third party service providers must refrain from gift-giving or other efforts that may jeopardize the impartiality, or appearance thereof, of LACERA's Board and staff.

#### **i. Investment Consultants**

An investment consultant works for the Board in the oversight and implementation of investment objectives. In meeting the Board's objectives, investment consultants may work with staff and investment managers. The Board's general investment consultant provides advice and recommendations to the Board or Committee regarding LACERA's strategic objectives, risks, oversight, and implementation of investment objectives. Investment consultants, both general and specialized, provide advice and recommendations regarding strategic asset allocation, portfolio implementation, and oversight of the Fund to the Board, CIO, and staff. Investment consultants provide analysis, advice, and recommendations to staff on asset manager selection and monitoring. Investment consultants report to the Board or the Committee, as directed, and serve as an independent resource accountable to the Board. Investment consultants have a fiduciary duty to LACERA and must report economic interests and conflicts in accordance with California law and LACERA policy, including the Code of Ethical Conduct and filing of Form 700s.

#### **ii. Custodian Bank**

The Custodian Bank ("Bank") serves as a fiduciary in the safekeeping of Fund assets. The Bank is responsible for maintaining the Fund's official accounting book of record, including the ongoing pricing and valuation of all assets, collection of income generated by those assets, any corporate action notification, and performance calculation. The Bank cooperates with and provides assistance to staff and investment managers in the reconciliation process. LACERA may opt to designate other duties to the Bank as stipulated in the professional services agreement. LACERA's investment office works with LACERA's accounting division to manage the custodial relationship.

#### **iii. Investment Managers**

Investment managers, subject to the terms and conditions of this IPS and applicable laws and regulations, serve LACERA through contracts that specify investment guidelines administrative requirements, responsibilities, investment fees, and performance expectations for management of each mandate. Investment managers provide reporting to LACERA on the performance of specific investment mandates in adherence to established guidelines and agreements. Staff and consultants synthesize investment managers' performance for presentation to the Board in accordance with established performance monitoring and oversight procedures. Investment managers should accept a fiduciary duty to LACERA, must report economic interests and conflicts in accordance with California law and LACERA policy,

including the Code of Ethical Conduct and filing of Form 700s, and enforce their own diversity, ethics, and sexual harassment policies.

**iv. Other Third Party Service Providers**

Additional third party service providers may be retained, subject to the terms and conditions of LACERA's established policies and procedures, in order to perform other duties to assist in the administration of the Fund.

## **V. Policy Review**

The Board reviews the Investment Policy Statement upon approval of any new strategic asset allocation, or at the discretion of the Board.

# Appendix

## Investment Tables

Table 1: Approved Asset Allocation

Asset Class	Target Allocation (%)	Allocation Range +/- (%)	Target Allocation (½ Step) 10/1/2021
<b>Growth</b>	<b>53</b>	<b>+/-8</b>	<b>51</b>
Global Equity	32	+/-7	34
Private Equity	17	+3/-5	14
Non-Core Private Real Estate	4	+/-2	3
<b>Credit</b>	<b>11</b>	<b>+/-3</b>	<b>11</b>
Liquid Credit	4	+/-3	6
Illiquid Credit	7	+/-3	5
<b>Real Assets and Inflation Hedges</b>	<b>17</b>	<b>+/-3</b>	<b>17</b>
Core Real Estate	6	+/-3	6
Natural Resources & Commodities	3	+/-2	4
Infrastructure	5	+1/-3	4
TIPS	3	+/-3	3
<b>Risk Reduction and Mitigation</b>	<b>19</b>	<b>+/-6</b>	<b>21</b>
Investment Grade Bonds	7	+/-6	13
Diversified Hedge Funds	6	+2/-4	5
Long-term Government Bonds	5	+/-5	2
Cash	1	+2/-1	1
<b>Overlays and Hedges</b>	<b>0</b>		<b>0</b>
Cash Overlay	0		0
Currency Hedge	0		0
<b>TOTAL FUND</b>	<b>100.0</b>		<b>100.0</b>

Table 2: Benchmark Table

Asset Class	Benchmark
<b>Growth</b>	<b>Custom Blend</b>
Global Equity	MSCI ACWI IMI Net
Private Equity	MSCI ACWI IMI + 200 bps (3-Month lagged)
Non-Core Real Estate	NFI ODCE + 225 bps (3-Month lagged)
<b>Credit</b>	<b>Custom Blend</b>
Liquid Credit	40% BBg Barc U.S. Corporate High Yield; 40% Credit Suisse Leveraged Loans; 10% JP Morgan EMBI GD; 5% JP Morgan GBI-EM GD; 5% JP Morgan CEMBI BD
Illiquid Credit	Custom Liquid Credit Benchmark + 150 bps (1-Month lagged)
<b>Real Assets and Inflation Hedges</b>	<b>Custom Blend</b>
Core Real Estate	NFI ODCE (3-Month lagged)
Natural Resources & Commodities	33% Bloomberg Commodity; 66% S&P Global Natural Resources TR
Infrastructure	Dow Jones Brookfield Global Composite Infrastructure TR
TIPS	BBg Barc U.S. TIPS
<b>Risk Reduction and Mitigation</b>	<b>Custom Blend</b>
Investment Grade Bonds	BBg Barc U.S. Aggregate TR
Diversified Hedge Funds	FTSE 3-Month US Treasury Bill + 250 bps (1-Month lagged)
Long-term Government Bonds	BBg Barc U.S. Long Treasury Bond
Cash	FTSE 3-Month U.S. Treasury Bill
<b>Overlays and Hedges</b>	<b>N/A</b>
Cash Overlay	—
Currency Hedge	—
<b>TOTAL FUND</b>	<b>Custom Blended Policy Benchmark</b>

## Policy History

Restated November 8, 2018  
Revised December 11, 2019  
Revised August 11, 2021  
Revised December 14, 2022  
Revised November 8, 2023

## List of Attachments

Corporate Governance and Stewardship Principles  
Responsible Contractor Policy  
Emerging Manager Policy  
Placement Agent Policy  
Private Equity Privatization Policy  
Procurement Policy for Investment-Related Services



# **Corporate Governance and Stewardship Principles**

MAY 2023



# Corporate Governance and Stewardship Principles

## Table of Contents

<b>About LACERA</b> .....	<b>1</b>
<b>Statement of Purpose</b> .....	<b>2</b>
<b>Legal Authority</b> .....	<b>3</b>
<b>Stewardship Strategies</b> .....	<b>4</b>
<b>Principles</b> .....	<b>5</b>
<b>I. Directors</b> .....	<b>6</b>
Independent Oversight .....	6
Board Quality and Composition .....	6
Director Selection and Elections .....	7
Board Roles and Responsibilities .....	8
Board Performance and Effectiveness .....	9
<b>II. Investor Rights and Capital Structure</b> .....	<b>12</b>
Investor Rights .....	12
Capital Structure .....	14
<b>III. Compensation and Incentives</b> .....	<b>18</b>
Advisory Vote on Executive Compensation .....	18
Compensation Plan Design .....	18
Equity Plans .....	20
Employee Equity Programs .....	20
Severance and Retirement Arrangements .....	21
Director Compensation .....	21
<b>IV. Performance Reporting</b> .....	<b>22</b>
Financial Reports .....	22
Fiscal Term .....	22
Auditors .....	22
<b>V. Environmental and Social Factors</b> .....	<b>24</b>
Social Factors .....	24
Environmental Factors .....	24
<b>Responsibilities and Delegations</b> .....	<b>25</b>
<b>Policy Review and Affirmation</b> .....	<b>27</b>
<b>Appendix: Guidelines for Evaluating Prospective ESG-Related Divestments</b> .....	<b>28</b>

# About LACERA

The Los Angeles County Employees Retirement Association (“LACERA”) administers defined benefit retirement plans and other post-employment benefits for employees of Los Angeles County and certain other districts.

The Los Angeles County Board of Supervisors established LACERA in 1937 under the terms of California’s County Employees Retirement Law. LACERA is governed by the California Constitution (Article XVI, Section 17), the California County Employees Retirement Act of 1937, and the California Public Employees’ Pension Reform Act of 2013. Today, LACERA serves over 160,000 active and retired members.

LACERA’s mission is to “produce, protect, and provide the promised benefits to our members.” LACERA aims to fulfill its mission through prudent investment and conservation of plan assets, in accordance with the *Investment Beliefs* that frame its *Investment Policy Statement* and in consideration of actuarial analysis.

LACERA’s Board of Investments is responsible for establishing LACERA’s investment policy and objectives, as well as exercising oversight of the investment management of the fund.

---

## LACERA MISSION STATEMENT

---

We Produce, Protect, and Provide  
the Promised Benefits  
to our Members

# Statement of Purpose

LACERA seeks to responsibly steward its investments in a manner that promotes and safeguards the economic interests of LACERA and its members, consistent with LACERA's mission to "produce, protect, and provide the promised benefits." LACERA believes that robust investor rights, strong corporate governance practices and policies at the firms in which it invests, and sound public policies governing financial markets help generate long-term economic performance. LACERA prudently exercises its rights as an investor to support corporate governance practices and financial market policies that promote sustainable, long-term value and enhance LACERA's ability to fulfill its mission.

The fundamental objective of LACERA's *Corporate Governance and Stewardship Principles* (the "Principles") is to safeguard and promote the economic interests of the trust. The *Principles* identify LACERA's core principles of corporate governance and the key stewardship strategies LACERA pursues to advance them. They are intended to further the *Investment Beliefs* that frame LACERA's *Investment Policy Statement* by articulating LACERA's view on sound governance and broader environmental, social, and governance (also known as "ESG") issues.

LACERA seeks to exercise the legal rights it has as an investor and to steward its assets by applying these *Principles*. The *Principles* guide LACERA's proxy votes, engagements with policymakers and portfolio companies, and collaboration with other institutional investors when it shares common objectives (such as actively participating in investor associations). The *Principles* help inform LACERA's investment process, including the evaluation and monitoring of portfolio investments, consistent with the rights and legal obligations of each asset. And the *Principles* outline the legal authority, roles, and responsibilities guiding LACERA's application of the *Principles* and initiatives.

In advocating practices in line with these *Corporate Governance and Stewardship Principles*, LACERA aims to maximize the long-term value of plan holdings.

# Legal Authority

The LACERA Board of Investments has “the sole and exclusive fiduciary responsibility over the assets of” the system, as provided by the California Constitution (Article XVI, Section 17(a)). LACERA exercises its legal rights on corporate governance matters in furtherance of its fiduciary duty under Article XVI, Section 17 of the California Constitution, the County Employees Retirement Law of 1937 (CERL), and other governing laws, regulations, and case authority. The Board’s fiduciary duty has two components:

## A. Duty of Loyalty

Under the duty of loyalty, Board members have the sole and exclusive responsibility to administer the system in a manner that will assure prompt delivery of benefits and related services to the participants and their beneficiaries. (Article XVI, Section 17(a).) Board members shall discharge their duties with respect to the system solely in the interest of, and for the exclusive purposes of providing benefits to, participants and their beneficiaries, minimizing employer contributions thereto, and defraying reasonable expenses of administering the system. (CERL Section 31595(a).) The Board’s duty to participants and their beneficiaries shall take precedence over any other duty. (Article XVI, Section 17(b).)

## B. Duty of Prudence

Under the duty of prudence, Board members shall discharge their duties with respect to the system with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of a like character and with like aims. (Article XVI, Section 17(c); CERL Section 31595(b).) “[T]he Board may, in its discretion, invest or delegate the authority to invest, the assets of the fund through the purchase, holding, or sale of any form or type of investment, financial instrument, or financial transaction when prudent in the informed opinion of the Board.” (CERL Section 31595.) Further, the Board “[s]hall diversify the investments of the system so as to minimize risk of loss and to maximize the rate of return, unless under the circumstances it is clearly prudent not to do so.” (CERL Section 31595(c).)

The fiduciary obligations of prudence and loyalty to plan participants and beneficiaries compel and guide LACERA’s corporate governance activities and consideration of financially material environmental, social, and governance factors in its investment process. LACERA’s fiduciary duties extend to, but are not limited to, prudently managing its proxy votes, vigilantly monitoring and diligently mitigating risks to the value of its investments, and judiciously determining action in order to assist in the effective administration of the fund and promote the interest of members and their beneficiaries.

# Stewardship Strategies

LACERA's corporate governance and stewardship efforts may include the following strategies:

## A. Proxy Voting

Proxy votes are plan assets, have value, and should be managed in a manner consistent with fiduciary duty and LACERA's interest in long-term value. LACERA exercises its voting rights for the exclusive benefit of LACERA's members and votes proxies in accordance with its *Corporate Governance and Stewardship Principles*.

LACERA seeks to vote all proxies for which it has proxy voting authority. LACERA coordinates with its custodian bank and investment service vendors to maximize its opportunities to responsibly cast proxy votes in line with its fiduciary duty, while recognizing that administrative requirements and practices in certain local markets may affect LACERA's ability to cast proxy votes, such as delayed notification of proxies subsequent to vote deadlines and required powers of attorney in subcustodial chains. At meetings that require share blocking, LACERA evaluates the economic value of casting a proxy vote compared to the risk of limiting trading in the designated security and may opt to refrain from voting in order to preserve LACERA's ability to act in its best economic interests.

LACERA participates in securities lending to earn incremental income, per LACERA's *Securities Lending Program Policy*. In securities lending, the legal rights accorded those shares, including proxy voting, are transferred to the borrower of the securities during the period that the securities are on loan. As a result, LACERA forfeits its right to vote proxies on loaned securities unless those shares have been recalled from the borrower no later than the share's record date.

## B. Corporate Engagement

LACERA advocates its *Investment Beliefs, Corporate Governance and Stewardship Principles*, and mission through dialogue and engagement strategies with portfolio companies and external asset managers, which may include exercising legal rights associated with LACERA's investments, such as sponsoring shareowner resolutions.

## C. Public Policy

LACERA represents its interests to policymakers, such as legislators, regulatory agencies, and standards setting agencies, in line with its *Corporate Governance and Stewardship Principles*.

## D. Investor Collaboration

LACERA collaborates with other public pension funds, asset owners and asset managers, both informally and formally through investor associations such as the Council of Institutional Investors, in order to enhance LACERA's ability to achieve its objectives and advance its *Corporate Governance and Stewardship Principles*.

# Principles

The *Corporate Governance and Stewardship Principles* are organized into five sections. Each section addresses common corporate governance, proxy voting, and broader environmental, social, and governance (“ESG”) issues relevant to LACERA’s investment portfolio and investment partners. The five sections address issues pertaining to boards of directors, investor rights and capital structure, executive compensation and incentives, performance reporting, and environmental and social factors.

The *Corporate Governance and Stewardship Principles* are guided by five core concepts that collectively provide a framework by which LACERA aims to promote sustainable investment returns and responsible stewardship of fund assets:

**Accountability:** Governance structures and practices should be designed to promote accountability to the investors who provide the firm with capital. This extends to both board directors overseeing portfolio companies on investors’ behalf, and external managers entrusted with LACERA’s capital. Accountability helps to ensure that investments are managed in the best interests of investors.

**Integrity:** Integrity and trust are the cornerstone of financial markets and essential for economic stability. Core investor rights and protections are crucial to promoting integrity in financial markets.

**Aligned Interests:** Compensation and incentives should align the interests of the managers of capital and the investors who provide capital. This extends to senior executives at portfolio companies and external asset managers managing capital on LACERA’s behalf.

**Transparency:** Firms should provide investors with clear, comprehensive, and timely disclosures about fundamental elements of the firm’s business, financial activities, and performance.

**Prudence:** Firms should prudently identify, assess, and manage environmental and social factors that may impact the firm’s ability to generate sustainable economic value.

Fiduciary duty guides LACERA’s *Corporate Governance and Stewardship Principles*. LACERA recognizes that sound governance balances the rights of investors providing a firm with capital with the role and responsibility of portfolio company boards to direct and manage the firm.

LACERA recognizes that the application of the Principles may vary depending on the specific terms, constraints, and nature of LACERA’s investments in different asset classes. In public markets where LACERA retains voting authority to vote in line with these *Principles*, LACERA evaluates the financial impact of each issue presented on corporate proxies and votes proxies for the exclusive benefit of plan participants and beneficiaries in all instances. LACERA may oppose overly prescriptive or unduly burdensome measures proposed on corporate proxies, or resolutions that may otherwise restrict a firm’s board of directors from acting in the best economic interests of investors.

LACERA also recognizes that the laws, regulations, and customs guiding corporate governance practices vary by market. LACERA seeks to apply its *Corporate Governance and Stewardship Principles* in a universal and consistent manner, while observing and taking into consideration — as applicable and appropriate — local laws, regulations, and customs.

# I. Directors

The board of directors drives the strategic direction and oversight of the firm and its management. LACERA relies upon the directors of portfolio companies to exercise effective oversight and ensure that the firm is managed in the best interests of investors. Directors should understand the firm's long-term business strategy as well as risks that may impact the firm's value, and demonstrate a record of sound stewardship and performance. LACERA advocates policies and practices that encourage directors to be accountable to investors. Accountability ensures that a firm's operations and reporting are managed in the best interests of investors.

## A. Independent Oversight

- 1. Board Independence:** At least two-thirds of the board should be composed of independent directors in order to oversee management on behalf of investors, promote accountability to investors, and avoid potential conflicts of interest.

An independent director is defined as someone who has no material affiliation to the company, its chief executive officer, chairperson, or other executive officers, other than the board seat.

Materiality is defined as any financial, personal, or other relationship that a reasonable person might conclude could potentially influence one's objectivity in a manner that would have a meaningful impact on the individual's ability to satisfy requisite fiduciary standards on behalf of investors. Directors may not be considered independent if they, or a family member, are or have been an employee of the company (or a subsidiary or affiliate thereof) in the last five years; have a 20 percent or greater economic interest in the company; are or have been part of an interlocking director relationship with the CEO; receive direct payments for professional services unrelated to their service as a director in excess of \$10,000 per year; or engage in any related party transaction in excess of \$10,000 per year.

- 2. Board Leadership:** The board should be chaired by an independent director.
- 3. Board Committees:** Each board should establish an audit committee, a nominating and governance committee, and a compensation committee, each composed exclusively of independent directors.

Deference generally should be afforded to boards in determining appropriate oversight structures, such as the establishment and role of additional board committees. LACERA may support proposals to appoint an additional board committee in limited circumstances where a firm's performance, oversight structures, and peer comparisons demonstrate that inadequate board consideration and focus has been accorded to a compelling issue related to firm value.

LACERA may oppose or withhold support from non-independent board nominees or key board leadership positions where the board or key committees lack adequate independence.

## B. Board Quality and Composition

- 1. Composition:** The board should be composed of highly talented individuals who are best positioned to oversee the company's strategy for creating and sustaining value. Boards should give consideration to

ensuring that directors collectively possess a diverse set of relevant skills, competencies, and attributes to exercise oversight on investors' behalf, including expertise, geographic familiarity, and professional backgrounds relevant to the company's strategic objectives. The board should strive for a suitable mix of tenures to ensure both institutional familiarity and fresh perspectives on the board, as a firm's market environment and business strategies evolve.

The board should establish and disclose policies and processes for ensuring that it identifies and nominates suitable directors from a wide pool of candidates relevant to its business strategy, inclusive of including, but not limited to, diverse gender, racial, and ethnic backgrounds, gender identities, sexual orientations, and disability status. A diverse and inclusive board is better positioned to effectively deliberate and oversee business strategy in investors' interests.

Firms should disclose how the board defines and reflects a relevant and diverse mix of skills and backgrounds in its composition. In assessing board composition, LACERA generally expects to see a compelling link between requisite skill sets and a firm's corporate strategy and a credible track record of inclusivity, consistent with the diverse attributes and backgrounds defined above.

- 2. Board Size:** The board should define and disclose in governance documents an appropriate size or range of directors that ensures the board is composed of adequately diverse viewpoints and experience to effectively oversee the firm's business strategy, while not being so large as to diminish the board's operational effectiveness. Modifications to governing documents defining board size and structure should be submitted for investor approval and not be proposed for the purpose of impeding a change in firm control.
- 3. Excessive Commitments:** Directors should have adequate time to dedicate to their board service, fulfill their responsibilities, and represent investors' interests. Accordingly, directors and companies should generally limit board service to no more than three public company boards for each director, absent a clearly disclosed and compelling rationale. In consideration of the time demands on chief executive officers, they should generally not serve on more than two public boards (including any directorship of the company where they concurrently serve as CEO).
- 4. Tenure and Age Restrictions:** LACERA does not support arbitrary restrictions on director qualifications, such as tenure limits or mandatory retirement ages. Such limitations may impede a firm from benefiting from the expertise of an otherwise highly qualified director.

### C. Director Selection and Elections

- 1. Annual Elections:** Each director should be elected annually. Directors should not be elected by classes, or to "staggered" terms.
- 2. Vote Standard for Director Elections:** Director nominees in uncontested elections should be elected by a majority of votes cast. In contested director elections, a plurality of votes should determine the election.



- 3. Universal Proxy Card:** In the event of a contested director election, investors should have the right to select and vote for individual director nominees on a consolidated, or “universal,” proxy ballot, regardless of whether the director nominee is put forward by management or a dissident investor.
- 4. Cumulative Voting:** LACERA supports cumulative voting in director elections, in compliance with California Government Code Section 6900.<sup>1</sup>
- 5. Proxy Access:** Long-term investors who have held a significant ownership interest for a reasonable amount of time should have the right to nominate alternative directors for consideration on a firm’s proxy, otherwise known as “proxy access.” Proxy access procedures should have sound safeguards in place to ensure an orderly nominating process and prevent proxy access from being used to effectuate a change in control.
- 6. Ability to Remove Directors:** Investors should have the right to remove directors with or without cause, in order to allow investors to take action when a director is not serving investors’ best interests.

#### D. Board Roles and Responsibilities

- 1. Governance Guidance:** The board should develop, adopt, disclose, and periodically review clearly defined governance guidelines that govern the board’s operations.
- 2. Resources:** The board should have adequate resources and access to information to enable it to execute its responsibilities and duties. Directors should be provided information in advance of meetings. Directors should have full access to senior management and information concerning the firm’s operations. Directors should be familiar with a firm’s operations independent of the chief executive officer and senior management. Directors should have the authority and adequate budget to hire outside experts, if necessary.
- 3. Independent Proceedings:** Directors should work with the chief executive officer to establish board agendas. Independent directors should meet at least annually without management or non-independent directors’ participation.
- 4. Board Communication and Engagement:** Firms should establish reasonable policies that permit effective communication between investors and directors regarding business strategy and corporate governance matters.
- 5. Management Succession Planning:** The board should conduct a regular evaluation of the chief executive officer and plan for business continuity, including establishing and disclosing a succession plan for the chief executive officer and key senior executives

---

<sup>1</sup> Section 6900. Cumulative Voting. “Government Body.” Whenever any government body is a shareholder of any corporation, and a resolution is before the shareholders which will permit or authorize cumulative voting for directors, such government body shall vote its shares to permit or authorize cumulative voting. As used in this section, the term “government body” means the state, and any office, department, division, bureau, board, commission or agency thereof, and all counties, cities, districts, public authorities, public agencies and other political subdivisions or public corporations in the state.

**6. Board Self-Evaluation and Refreshment:** Boards should adopt and disclose a process for regular, rigorous, and earnest self-assessment and evaluation. The evaluation process should be conducted under the direction of independent directors and ensure candor, confidentiality, trust, and effective interaction among directors. Board self-evaluation should be tailored to meet the firm's and board's strategic objectives and requirements. In order to promote long-term planning aligned with business needs, the board's self-evaluation process should assess the board's size and operational effectiveness, identify emerging business risks and relevant skills gaps among its composition, and prudently anticipate and proactively plan for board vacancies and refreshment. It should appraise the alignment and adequacy of director education and development, as well as the delineation of management and board powers, while positioning the board to efficaciously exercise oversight in investors' interests.

**7. Charitable and Political Contributions:** Corporate charitable contributions may accrue direct and indirect benefits to a firm and its investors, including goodwill in communities in which it operates and favorable tax treatment. Charitable contributions should not be directed, eliminated, or otherwise restricted by investors.

The board should monitor, assess, and approve all charitable and political contributions (including trade association contributions) made by the firm. Political and charitable contributions should be consistent with the interests of the firm and its investors. The board should clearly define and approve the terms and conditions by which corporate assets may be provided to charitable and political activities, including developing and publicly disclosing guidelines for the approval of such contributions. The board should disclose on an annual basis the amounts and recipients of all monetary and non-monetary contributions made by the firm during the previous fiscal year, including any expenditures earmarked for political or charitable activities that were provided to or through a third party.

**8. Indemnification:** Directors may be provided reasonable and limited protections, including indemnification and limited personal liability for damages resulting from violating duty of care, where the director is found to have acted in good faith and in a manner the director believed to be in the best interests of the firm. Reasonable limitations may ensure the board is positioned to recruit qualified directors.

## E. Board Performance and Effectiveness

**1. Performance Evaluation:** The board's performance, and that of individual directors, should be assessed within the context of the board's suitability for and track record of serving and protecting investors' interests. LACERA may withhold support or oppose individual directors, members of a board committee, or the entire board where the track record demonstrates directors' failure to serve investors' best interests. Director and board performance is evaluated in consideration of the following factors:

**1.1. Stewardship and Risk Oversight:** Directors should demonstrate a sound track record of stewardship and risk oversight, including avoiding any material failures of governance, risk oversight, or fiduciary responsibilities at the company. Risk is broadly understood to encompass financial, reputational, and operational risks relevant to a firm's ability to generate sustainable financial returns. Material risks may include, but are not limited to, internal controls related to legal compliance, cyber security, and data privacy, as well as broader risks addressed throughout these *Corporate Governance and Stewardship Principles*, such as risks associated with accounting practices, climate change, and human capital management.

- 1.2. Effective Oversight of Management:** Directors should conduct effective oversight of management, including avoiding any failure to replace management as appropriate.
  - 1.3. Attendance:** Each director should attend at least 75 percent of scheduled board meetings each year, including attendance at assigned committees, absent a compelling, clearly disclosed justification.
  - 1.4. Board Service:** Directors' track records and performance on other boards may be considered in evaluating director nominees. In particular, a director's failure to effectively exercise oversight on other boards or any egregious actions that raise substantial doubt about the director's ability to fulfill a director's obligations and serve the best interests of investors may prompt opposition to the director's nomination.
  - 1.5. Ethics:** Directors should demonstrate the utmost integrity and be free of any criminal wrongdoing, breaches of fiduciary responsibilities, or questionable transactions with conflicts of interest.
  - 1.6. Transparency in Reporting:** Financial reports and material disclosures should be published in a satisfactorily diligent and timely manner.
  - 1.7. Investor Responsiveness:** Directors should demonstrate accountability and responsiveness to investors. Directors should not unilaterally amend a firm's governing documents in a manner that materially diminishes investor rights or otherwise adversely impacts investors without seeking investor approval. Directors should not adopt a poison pill or make a material change to an existing poison pill without submitting the plan for investor approval within the following 12 months. Directors should take reasonable steps to implement resolutions approved within the previous 12 months by a majority of investors, within the confines of legal and regulatory constraints. Directors should respond to tender offers where a majority of shares have been tendered. There should be no record of abuse against minority investor interests.
- 2. Committee Performance:** Each committee should demonstrably fulfill its core duties and the specific responsibilities outlined in its committee charter. LACERA may oppose the committee chair or incumbent directors who have served on committees that have failed to perform their duties in investors' best interests. In cases where governance provisions, such as staggered board elections, impede LACERA from holding designated directors accountable, LACERA may oppose board leadership or other incumbent directors.

Audit Committee members should ensure that non-audit fees are not excessive, no adverse opinion has been rendered on the company's audited financial statements, and the firm has not entered into an inappropriate indemnification agreement that limits legal recourse against the external auditor.

Nominating and Governance Committee members should establish sound governance practices, reasonable and timely responsiveness to investors on governance concerns, and effective board nomination, evaluation, and refreshment practices.

Compensation Committee members should demonstrate a clear and proven track record of aligning executive pay with the firm's strategic objectives and performance, refrain from permitting problematic pay practices, ensure clear disclosures of all key components of pay plan design and practices, and exhibit reasonable and timely responsiveness to investors.

**3. Contested Director Elections:** In assessing director nominees in contested elections, LACERA may consider all relevant factors to identify and support the nominees best suited to enhance sustainable firm value and serve investors' economic interests. Consideration may be given to the long-term financial performance of the firm, its governance profile, and management's track record; nominees' proposed strategies for value creation; the qualifications and suitability of director nominees, including their alignment with LACERA's governance principles; and the dissidents' ownership stake and history of generating sustainable returns at other firms.

LACERA may support requests to reimburse dissident nominees for reasonable, incurred expenses when dissident nominees have presented a compelling case and support for their nomination is warranted.

## II. Investor Rights and Capital Structure

Integrity and trust are the cornerstones of capital markets and essential for economic stability. Core investor rights ensure fair and equitable treatment of investors and help instill investor confidence, thereby facilitating capital formation and economic stability.

LACERA supports core rights and protections at portfolio companies and within financial market policies in order to safeguard its investments and foster a stable investment climate within the broader financial markets in which it invests. Financial rules and regulations should promote fair, orderly, and competitive markets and provide for investor protections. Investor rights extend to key decisions that may fundamentally impact or modify a firm's capital structure, such as share issuances, restructuring, and mergers and acquisitions.

### A. Investor Rights

- 1. Rights Proportionate to Economic Interest:** Investors should have voting rights proportionate to their economic interests. Multiclass ownership structures may entrench certain investors and management, insulating them from acting in the interests of all investors. LACERA therefore supports the principle of “one share, one vote.”
- 2. Voting Requirements and Procedures:** Investors should have the right to act on fundamental corporate matters by a simple majority of votes cast. Fundamental matters may include, but are not limited to, amending a firm's governing documents (such as its charter or bylaws) and effecting corporate transactions, such as a merger or acquisition.
  - 2.1 Simple Majority Voting:** Companies should not adopt supermajority voting requirements except when such provisions may protect outside or minority investors from unilateral action being taken by an entity (or entities) with controlling interest or significant insider ownership.
  - 2.2 Voting Procedures:** Voting and tabulation of matters put before investors by proxy or otherwise should be guided by transparent procedures, consistent application of rules, and fairness for all eligible voters. Votes should be counted by an independent tabulator and kept confidential. Voting results should be promptly disclosed once tabulation has been finalized.
  - 2.3 Bundled Voting:** Investors should be able to review and cast votes on unrelated matters as separate and distinct ballot items. Disparate matters should not be presented for investor consideration as a “bundled” voting item. LACERA may oppose bundled proposals that combine supportable voting items with matters that LACERA opposes.
  - 2.4 Broker Non-Votes:** Uninstructed broker votes and abstentions should be counted for quorum purposes only.

### 3. Annual Meetings

**3.1 Quorum Requirements:** Quorum requirements should promote that a broad range of investors are represented at meetings. Quorum requirements should not be unduly low, in either absolute terms or relative to the economic interest of a controlling investor or significant investor, in order to protect investors from unrepresentative action being conducted.

**3.2 Technology:** Investors should have the right to attend an annual meeting of a firm in person. Any use of technology, such as audiocasts or webcasts, should expand and enhance, and not restrict or otherwise impede, investors' ability to participate in an annual meeting, and should afford opportunities for meeting participation equal to those afforded investors attending the meeting in person.

**3.3 Resolutions:** Investors with a reasonable ownership interest in a firm should have the right to put forward a resolution for investors' consideration and vote at the firm's annual meeting.

**3.4 Advance Notice Requirements:** Investors should be able to submit items for formal consideration at an annual meeting, such as proposals or director nominees, as close to the meeting date as reasonably possible and within the broadest timeframe possible, recognizing the need to allow sufficient notice for company, regulatory, and investor review.

**3.5 Transaction of Other Business:** LACERA generally opposes requests for advance approval by proxy of undisclosed business items that may come before an investor meeting for consideration.

**4. Special Meetings:** Investors should be able to call a special meeting to take action on certain matters that may occur between regularly scheduled annual meetings. The right to call a special meeting should require aggregating a minimum of 10 percent ownership interest and be subject to reasonable terms and conditions.

**5. Action by Written Consent:** Investors should have the right to act by written consent on key governance matters under reasonable terms and conditions.

**6. Access to Research:** Investors should have access to competitive, timely, and independent market, investment, and proxy research services of their choosing. Market regulation should support and not impede a competitive market of service providers.

**7. Ownership Disclosure:** Significant ownership interests above 5 percent should be disclosed.

**8. Incorporation:** A firm's country or state of incorporation may significantly impact the firm's financial health, competitive position, governance profile, and the legal rights afforded to investors, as defined by the jurisdiction of incorporation. When selecting a jurisdiction for incorporation (such as in relation to a merger or acquisition or a proposed reincorporation), firms should give due consideration to competitively positioning the firm for financial success while also ensuring sound governance practices and strong legal rights and protections for investors. LACERA may oppose proposals for reincorporation where the business and financial rationale for reincorporation do not outweigh the detrimental impact of a reincorporation on investor rights and governance provisions.

**9. Litigation Rights:** Robust and viable litigation rights enable investors to protect firm value, deter misconduct, and seek recourse in the event of egregious corporate malfeasance or fraud. Corporations should not curtail or otherwise diminish investors' prospective legal recourse through governance provisions, such as exclusive forum designations for legal disputes, mandatory arbitration clauses, or "fee-shifting" provisions by which an investor who unsuccessfully brings legal action must bear the entirety of the corporation's legal costs.

## **B. Capital Structure**

Finding the optimal mix of equity, long-term debt, and short-term financing is critical to driving economic returns. A firm's capital structure should support the generation of long-term, sustainable returns. The board should determine and drive a firm's capital structure, in coordination with senior management. Capital structure should coordinate and balance multiple factors, including the firm's business profile, strategy, and opportunities for growth; access to and cost of capital; and capital distributions such as the firm's dividend policy.

Investors should be able to vote on matters that may fundamentally modify or impact a firm's capital structure, such as common share issuances, and mergers and acquisitions.

**1. Share Issuances and Authorizations:** Share issuances enable firms to raise funds for financing purposes.

**1.1 Authorization of Common Shares Issuance:** Requests to authorize capital or approve share issuances should specify the quantity of shares for which approval is sought. Requests should be evaluated upon careful consideration of the individual details and merits of each request and according to LACERA's economic interests. Firms should present a compelling purpose for the share issuance, demonstrate a track record of responsibly using authorized shares in investors' interests, and provide for rights and restrictions attached to proposed equity that are aligned with investors' interests. In evaluating requests, the availability of preemptive rights and any risks of authorizing the share issuance, including the dilutive impact of the request, may also be considered. Capital authorization terms should not facilitate an anti-takeover device or otherwise adversely impact investors' interests.

**1.2 Preemptive Rights:** Preemptive rights provide current investors the right to maintain a proportionate interest in a firm by exercising a right to purchase shares proportionate to what they already own in any new issuances of equity. Requests to create or abolish preemptive rights should consider the size of the firm, the characteristics of its investor base, and the liquidity of its equity to ensure that preemptive rights may be pragmatically exercised and do not impose an onerous restriction on capital raising.

**1.3 Preferred Shares Authorization:** Preferred shares, which provide distinct features such as fixed dividend payments or seniority of claims relative to common shares, may be supportable when the purpose of such issuance is in connection with a proposed transaction appearing on the same ballot that merits support. Otherwise, requests for authorization are evaluated in consideration of the request's stated purpose, the firm's past use of authorized preferred shares, and an assessment of the risk of authorizing the share issuance, including the dilutive impact of the request, and should not create or increase shares that carry superior voting rights to common shares. Any conversion rights should define reasonable conversion ratios and not result in excessive dilution of common shares.



- 1.4 Blank Check Preferred Shares:** Firms generally should not create classes of shares providing the board with broad discretion to define voting, conversion, dividend distribution, and other rights, absent a compelling rationale and clearly stated restrictions in line with investors' interests. The voting rights of unissued shares should be presented for investor approval and not be subject to board discretion.
- 1.5 Blank Check Preferred Share Placements:** Investor approval should be required for the placement of preferred shares with any person or group for other than general corporate purposes to enable investor review of the business purpose, prospective impact on dilution and voting positions, and any adverse impact on existing investors.
- 1.6 Reverse Stock Split:** Reverse stock splits, by which multiple shares are exchanged for a lesser amount to increase share price, generally should be accompanied by a proportionate reduction in authorized shares.
- 2. Debt Issuance and Borrowing Powers:** Debt issuances and restructuring, amendments to a firm's aggregate limit on the board's ability to borrow money, and other debt-related items should serve a compelling and clearly articulated business purpose, be in line with and supportive of generating sustainable and viable financial returns, and take into reasonable consideration any detrimental impact on existing investors. LACERA evaluates debt-related proposals upon careful consideration of the individual terms and merits of the request.
- 3. Capital Allocation and Income Distributions:** A firm should allocate capital, including distribution of income through dividends or share repurchases, in a disciplined and balanced manner that supports the generation of long-term value.
- 3.1 Allocation of Income:** Firms should provide adequate justification when seeking investor approval for the allocation of income when the payout ratio appears unbalanced or unsustainable (either inordinately low, such as below 30 percent, or excessive, given the firm's financial position).
- 3.2 Stock (Scrip) Dividend Policy:** Firms may provide investors the option to receive dividend payments in the form of common equity in lieu of cash. Such provisions enable a firm to retain cash and may strengthen the position and commitment of long-term investors. In all circumstances, firms should provide a cash option, absent a compelling justification that such an option may be harmful to investors.
- 3.3 Share Repurchase Programs:** Open market share repurchase plans should enable investors to participate on equal terms and support balanced and disciplined capital allocation. Requests to authorize share repurchases should have a defined and limited duration, incorporate clear and reasonable terms and conditions, and generally not exceed 10 percent for market repurchases within any single authority, absent a compelling rationale in line with investors' interests and market practice.
- 4. Mergers, Acquisitions, and Other Corporate Restructuring:** Mergers and corporate restructuring (including spin-offs, leveraged buyouts, and reorganizations) have major financial implications for investors.



- 4.1 Evaluation:** LACERA carefully examines all relevant facts and circumstances of each proposal to determine whether the proposal, in its entirety, is in LACERA's best interests. Assessment of each proposed transaction takes into account multiple factors. The valuation should be reasonable. Market reaction may be considered. The strategic rationale and expected benefits should be sensible, with any projected synergies or financial impact reasonably achievable. Management should have a favorable track record of successful integration of acquisitions or business combinations. The negotiation and deal process should be fair and equitable. There should be no conflicts of interest, such as factors enabling insiders to disproportionately benefit from the proposed transaction. The resulting entity should observe sound corporate governance practices. The risks of not completing the transaction or corporate restructuring may be considered. Sufficient information should be provided to enable investors to make an informed decision.
- 4.2 Appraisal Rights:** Investors should be afforded appraisal rights by which they may seek a judicial review of the terms of certain corporate transactions in order to determine fair market value.
- 5. Anti-Takeover Measures:** Investors should be afforded the reasonable opportunity to deliberate and decide on the merits of takeover bids and acquisitions. Practices and provisions, including corporate bylaws, charters, laws, and statutes, that may impede or deter a corporate transaction that is otherwise in investors' interests, may take a variety of forms and generally should be submitted for investor review and approval.
- 5.1 Poison Pills:** The board should not enact or amend a poison pill without investor approval. LACERA generally supports the redemption of existing poison pills, except in unique circumstances where a carefully designed, short-term plan may enable a firm to negotiate more favorable terms with a potential bidder. Such plans should require a minimum 20 percent ownership threshold to trigger, provide for limited and reasonable duration, exclude provisions by which only continuing directors may remove the pill, and otherwise provide adequate investor protections so that the plan will not unduly impede a bid that is otherwise in investors' interests.
- 5.2 Net Operating Loss (NOL) Protective Amendments:** Protective amendments with the stated purpose of preserving a company's net operating losses for a tax benefit, such as under the terms of Section 382 of the Internal Revenue Code, should balance the anticipated benefit to investors of preserving the tax value and the risk of potential abuse of such provisions as an anti-takeover measure. Because NOL protective amendments may serve as a poison pill, the board should submit related items for investor review and approval. Such provisions should only be used under limited, clearly justified circumstances and include adequate protections, such as an appropriate ownership threshold and clearly defined and reasonable duration limits.
- 5.3 Greenmail:** Greenmail, by which a firm repurchases shares of a potential acquirer at an above-market price to deter a takeover, should be prohibited.
- 5.4 Other Anti-Takeover Measures:** LACERA generally opposes provisions that impose onerous restrictions or impediments on prospectively beneficial takeover bids, taking into account the specific terms and circumstances of such provisions to determine the provision's alignment with LACERA's economic interests. LACERA supports firms opting out of related anti-takeover laws and statutes, where legally permitted.

Fair price provisions that require an investor seeking to purchase control of a firm to pay a defined fair price should not impose onerous requirements that may deter a competitive bid from being considered by investors.

Firms should opt out of control share acquisition statutes that void the voting rights of an investor surpassing certain ownership thresholds; control share cash-out provisions requiring an investor above a specified ownership threshold to purchase shares from remaining investors at the highest acquiring price if remaining investors exercise their right to sell their shares; and freeze-out provisions requiring an investor who meets a defined ownership threshold to wait a specified period of time before gaining control of the firm.

Disgorgement provisions, by which an investor who acquires ownership interest above a specified threshold must pay the firm any profits realized from the sale of the firm's equity purchased within a defined time period prior to exceeding the defined ownership threshold, should be avoided.

Firms should not provide designated investors (such as the government of a related, formerly state-owned enterprise) "golden shares" that provide for exceptional veto power or voting rights regarding specific corporate proposals.

**6. Related-Party Transactions:** Investors should have the right to approve significant related-party transactions. Investor approval helps to protect investors against self-dealing. Firms should provide clear information regarding such transactions — including all fees, a compelling rationale for the service or services provided, and the assessment of independent directors and an independent financial advisor of the transactions — in order to permit an informed assessment of prospective conflicts of interest.

## III. Compensation and Incentives

Compensation and incentives should align the interests of senior executives and investors. Executive compensation and incentives serve a critical role in recruiting, motivating, and retaining talent. Pay plan design, structure, and goals should be fundamentally derived from and relevant to a firm's core business objectives and collectively promote sustainable value creation. Accordingly, pay and incentives should incentivize and reward executives for the achievement of outstanding performance, while encompassing prudent risk mitigation and taking care to avoid excessive risks that may be detrimental to the firm's long-term financial returns.

Boards should determine core components of executive pay design, including target pay levels and incentives. Boards oversee compensation paid to senior executives, award bonuses, and establish incentive plans that may include equity and performance-based grants and awards. The board may also review and approve supplemental compensation plans for firm employees, including employee equity and retirement plans.

Firms should provide investors with transparent, clear, and comprehensive disclosure of senior executives' total compensation package. This includes disclosure of salary, short and long-term incentive compensation, and all benefits and perquisites. Selected performance metrics and targets upon which compensation is contingent should be provided in a plain and clear format.

### A. Advisory Vote on Executive Compensation

Executive compensation design and practices should be submitted for investor review and non-binding approval on an annual basis (also known as "say on pay"). Advisory votes should consider the firm's pay design and practices as a whole, taking into account the alignment of executive pay with long-term firm performance, the absence of significant problematic pay practices and excessive risk in targets and reward incentives, and the clarity of the firm's pay disclosures.

### B. Compensation Plan Design

Executive compensation and practices should link pay to firm performance. Compensation should be commensurate with the firm's long-term performance, appropriately aligned with firms with which the firm competes for executive talent (such as industry peers and firms of comparable size and profile), and properly consider the firm's long-term outlook for generating sustainable returns.

- 1. Performance Criteria:** Incentive compensation should incorporate clearly defined, rigorous, and disclosed performance criteria upon which incentive pay is contingent. Performance metrics, targets, and hurdles should be consistent with and promote the firm's strategy for generating sustainable value, including key financial and operating objectives, and effective management of relevant business risks.
- 2. Peer Benchmarking:** Peer groups used to benchmark compensation should be clearly disclosed and relevant to the firm's business profile and size.

- 3. Compensation Consultants:** Compensation consultants providing strategy, design, and implementation services related to executive compensation to the board's compensation committees should be at the exclusive hire and service of the committee, unquestionably independent, and clearly disclosed.
- 4. Equity Ownership, Retention, and Holding Requirements:** Equity ownership among senior executives may strengthen the alignment of interests between executives and investors and promote prudent risk mitigation, and should be encouraged. Equity ownership guidelines providing that executives should maintain reasonable equity in the firm, requirements for executives to retain a meaningful portion of equity acquired through compensation plans, and equity grant holding requirements should strike an appropriate balance to promote equity ownership while avoiding overly restrictive or onerous provisions that may undermine talent motivation and retention to the detriment of investors' interests.
- 5. Prearranged Trading Plans:** Prearranged trading plans, as provided under Securities and Exchange Commission Rule 10b5-1, define parameters for executives' predetermined securities transactions in advance of an executive becoming aware of material non-public information regarding the firm's securities and are intended to mitigate the risks of insider trading. The adoption, amendment, or termination of prearranged trading plans for senior executives should be governed by the board, promptly disclosed, and provide for timely disclosure of transactions made pursuant to the plan's provisions.
- 6. Hedging and Speculative Transactions:** Senior executives should be prohibited from engaging in derivative or speculative transactions involving equity of the firm, including hedging, holding equity in a margin account, or pledging equity as collateral for a loan.
- 7. Internal Pay Disparity:** Executive compensation should be considered in the context of how a firm compensates its employees, including in relation to industry peers. Firms should disclose the ratio of the chief executive officer's total pay to that of the average firm employee.
- 8. Restrictions:** Executive pay should not be subject to arbitrary restrictions or limitations on the magnitude or form of compensation, such as linking executive pay to average employee compensation. Arbitrary limits and restrictions may undermine a firm's ability to attract and retain competent talent and create a competitive disadvantage for the firm.
- 9. Recoupment Policies:** Firms should adopt and disclose rigorous policies defining the terms and conditions by which incentive compensation may be recouped, in order to align pay with performance, promote accurate financial reporting, and deter misconduct. Robust clawback policies should enable the board to review and recoup senior executive incentive compensation in the event that compensation was calculated using inaccurate financial reports, or in the event of fraud or misconduct. Application of the recoupment policy should be reasonably disclosed.
- 10. Perquisites:** Firms should refrain from providing executives with extraordinary or excessive perquisites that are not linked to firm performance, incongruent with prevailing best practices, and unjustified to adequately attract and retain executive talent. Corporate assets should not be unduly expended on personal expenses that are unrelated to an executive's employment and that extend beyond those

widely offered to a firm's employees. Firms should avoid, or otherwise adequately and cogently justify, paying an executive's personal income tax obligations (including excise tax gross-up's), personal use of corporate aircraft, and extensive personal and home security payments.

### C. Equity Plans

Equity plans should motivate plan participants to focus on long-term firm value and returns, encourage equity ownership, and advance the principle of aligning employee interests with those of investors.

Firms should submit equity plans for investor approval. Equity plans should be reviewed taking into account plan features, impact on equity dilution, and prospects to align pay with performance.

- 1. Performance-Based:** Equity plans should define robust and appropriate performance requirements by which equity may be granted that are aligned with and justifiable by the firm's business strategy and strategic objectives. Such provisions may include terms and performance criteria permitting a plan to qualify for favorable tax treatment.
- 2. Track Record:** The firm should demonstrate a history of responsibly linking equity awards to performance and avoiding grants of excessive awards.
- 3. Impact:** The total cost and potential dilution of the plan should be reasonable.
- 4. Repricing:** Equity granted under the terms of the plan, such as share options and stock appreciation rights, should not be repriced without investor approval, as repricing may sever the link between pay and performance. Requests to reprice underwater options should clearly define and compellingly justify the rationale and intent, timing, defined participants, and terms, such as a value-for-value exchange, exercise price, and vesting requirements.

### D. Employee Equity Programs

- 1. Employee Stock Purchase Plans:** Employee stock purchase plans encourage firm employees to acquire an ownership stake in the firms for which they work by providing employees the right to purchase the firm's equity at a set price within a certain period of time. Employee stock purchase plans should define reasonable terms, such as designating exercise prices at no lower than 85 percent of fair market value, fixing a justifiable offering period, and limiting voting power dilution to less than 10 percent.
- 2. Employee Stock Ownership Plans:** Employee stock ownership plans (ESOPs) enable employees to accumulate firm equity. ESOPs should balance encouraging employee equity ownership while avoiding harm to existing investors. Shares allocated to ESOPs should not be excessive (generally no more than 5 percent of outstanding shares).

## E. Severance and Retirement Arrangements

Severance payments to executives in the event of an employment termination, separation, or change in firm control should be justifiable by the executive's performance, serve the long-term interests of the firm and its investors, and not be excessive.

- 1. Parachutes:** Firms should submit for investor approval arrangements to provide executives with extraordinary severance payments in certain circumstances, such as a change in firm control. Extraordinary payments may be assessed in relation to market and peer practice and should not exceed payments greater than three times base salary and bonus. Severance payments should not be so attractive as to influence merger agreements that may not be in the best interests of investors and should have triggering mechanisms beyond the control of senior executives. Any payments in the event of a change in control should be "double triggered," i.e., contingent upon both an actual change in control and an employment separation related to the change-in-control event. Unvested equity should not accelerate upon the change in control. Payments should not trigger, and firms should not commit to paying, executives' excise taxes ("gross ups"). A change in control should not be contingent upon investor approval of executives' severance payments.
- 2. Supplemental Executive Retirement Plans:** Retirement plans that provide extraordinary retirement benefits exclusive to executives should be presented for investor approval and avoid excessive payouts, such as excluding all incentive or bonus pay from covered compensation calculations.
- 3. Golden Coffins:** Firms should refrain from providing extraordinary compensation upon an executive's death. Firms should submit for investor approval agreements and policies that oblige the firm to make payments or awards following the death of a senior executive, including unearned salary or bonuses, accelerated vesting or continuation in force of unvested equity grants, and other extraordinary payments or awards.

## F. Director Compensation

Firms should disclose the philosophy and process used for determining compensation paid to directors serving on the board and the value of all elements of director compensation.

- 1. Structure and Design of Director Compensation:** Directors may be compensated in both cash and equity. Fees and compensation paid to directors should be appropriate relevant to market norms, the firm's industry, and its financial performance. Equity should not constitute the entirety of director compensation, as this may undermine directors' incentive to monitor and exercise oversight of long-term risks to firm value.
- 2. Equity Ownership:** Equity ownership by directors promotes the alignment of directors' interests with those of investors. Firms should adopt and disclose equity ownership guidelines to encourage directors to acquire and hold a meaningful amount of equity in the firm. Equity ownership should not, however, be a qualification for board service, as such restrictions may impede otherwise highly qualified individuals from serving as directors.
- 3. Retirement Benefits:** Retirement benefits for director service are improper, as such benefits may impede objectivity and sever the alignment of interest between directors and investors.

## IV. Performance Reporting

Financial markets work most efficiently when investors have timely, reliable, and comparable information about material aspects of a firm's performance. Transparency of a firm's key financial and operating performance is critical for investors to assess the firm's financial viability and prospects. Independent verification of a firm's financial disclosures promotes investor confidence.

LACERA supports clear and comprehensive disclosure of relevant financial and operating performance indicators (including environmental, social, and governance matters) that may provide valuable information for investors to assess a firm's prospects for delivering sustainable value.

### A. Financial Reports

Financial statements and auditor reports are essential in evaluating a firm's performance. Financial reports should present clear, reliable, and comprehensive data and information. A firm's overall performance reporting framework should conform with, and place primary prominence on, established accounting standards. Additional reporting measures that do not adhere to generally accepted accounting principles (either GAAP or International Financial Reporting Standards/ IFRS, depending on the reporting market) should be clearly explained and justified, and should supplement, as opposed to replace or otherwise obfuscate, performance reporting that is consistent with established accounting standards.

When presenting financial reports for investor review, there should be no unresolved concerns about the accounts presented or audit procedures, inadequate disclosures, or unresponsiveness regarding investor or regulatory questions on specific items.

### B. Fiscal Term

Firms should define an appropriate fiscal term. The fiscal term should not be altered for the purpose of postponing an annual meeting.

### C. Auditors

Firms should ensure independent, high-quality, and timely provision of audited financial statements by a clearly disclosed external auditing firm.

**1. Ratification:** Auditors should be clearly disclosed and presented to investors for ratification. LACERA takes into consideration the following factors when evaluating auditor ratification:

**1.1. Independence:** The external auditor should be objective and free of conflicts of interest in providing auditing services. Accordingly, non-audit fees paid to an external auditor should not be excessive. Specifically, non-audit fees should not exceed the total of audit and audit-related (such as permissible tax) fees, and the auditing firm should have no financial interest or association with the company.

- 1.2. Quality:** There should be no question as to the accuracy of the external auditor's opinion, the financial report's indication of the company's financial position, and the accurate application of established accounting standards. There should be no aggressive accounting practices or significant audit-related issues at the company, such as a history of restated financial results or material weaknesses in internal controls.
- 1.3. Timeliness:** There should be no unjustified delays in the publication of audited financial statements.
- 2. Rotation:** Requests to rotate auditors should be evaluated in consideration of the audit firm's tenure, any proposed length of rotation, the presence of significant audit-related issues at the company, the extent to which the company periodically assesses audit pricing and quality, and the robustness of the audit committee's functions, such as the presence of financial experts and how often the committee meets.
- 3. Indemnification:** To avoid any impairment of the external auditor's objectivity and independence, companies should not enter into engagement letters that indemnify or otherwise limit the external auditor's liability.



## V. Environmental and Social Factors

Environmental and social factors — such as management of human capital, access to natural resources, and environmental risks — may shape and impact a firm’s ability to generate and sustain value. Firms should identify and prudently manage social and environmental factors relevant to the firm’s business strategy, industry, and geographic markets. Social and environmental factors may present opportunities to drive value or risks to a firm’s strategic objectives.

Firms should ensure diligent board oversight and provide reasonable disclosures of relevant environmental and social factors and how they are managed. Reporting enables investors to make informed investment decisions when evaluating companies and the long-term viability and sustainability of their business practices.

In addition to identifying, evaluating, and mitigating the risks presented by social and environmental factors, firms should carefully consider the impact of their business activities. Promotion, adoption, and effective implementation of guidelines for the responsible conduct of business and business relationships are consistent with the fiduciary responsibility of protecting long-term investment interests.

### A. Social Factors

- 1. Human Capital Management:** Effective management of human capital — including the development, incentives, and retention of the firm’s workforce — is key to accomplishing a firm’s strategic objectives. Companies should identify, ensure board oversight, and disclose information about significant human capital value drivers that are related to the firm’s ability to create and protect firm value. Central to effective human capital management is the assurance of equal employment opportunity, including non-bias in compensation and employment terms, and a workplace free of harassment in all forms.
- 2. Human Rights Risk:** Firms should mitigate the risks of human rights abuses in global operations and supply chains by adopting robust human rights policies and ensuring effective internal controls to monitor compliance with stated human rights standards.

### B. Environmental Factors

- 1. Natural Resource Stewardship:** Firms should give consideration to efficient, sustainable use and stewardship of natural resources, such as energy and water, to enhance operational efficiency and safeguard firm value from the risks of resource scarcity.
- 2. Environmental Risk:** Firms should ensure reasonable oversight mechanisms and mitigation of environmental risks, such as hazardous waste disposal and pollution, to mitigate prospective legal, regulatory, and operational risks to firm value.
- 3. Climate Risk:** Climate change may present financial, operational, and regulatory risks to a firm’s ability to generate sustainable value, as well as to the broader economy. Firms should assess and disclose material climate-related risks and sufficient, non-proprietary information to enable investors to prudently and adequately evaluate the prospective impact of climate risk on firm value.

# Responsibilities and Delegations

## A. The Board of Investments:

- (i.) Approves and promulgates policies addressing environmental, social, and governance issues, such as corporate governance and proxy voting matters and including but not limited to the *Corporate Governance and Stewardship Principles*, as recommended by the Corporate Governance Committee of the Board.
- (ii.) Receives periodic reports concerning the program's progress and priorities from the Corporate Governance Committee.
- (iii.) Approves LACERA representatives for nomination to governing bodies of the corporate governance associations to which LACERA is affiliated, as recommended by the Corporate Governance Committee.
- (iv.) Approves procedures to comply with legislated or other mandated divestment or investment exclusions, such as LACERA's Guidelines for Evaluating ESG-Related Divestments (Appendix), as developed and recommended by the Corporate Governance Committee.

## B. The Corporate Governance Committee of the Board of Investments:

- (i.) Recommends the *Corporate Governance and Stewardship Principles* and other items concerning environmental, social, and governance matters to the Board of Investments for consideration and approval.
- (ii.) Exercises oversight and monitoring of the corporate governance program, including reviewing program priorities and progress.
- (iii.) Reviews reports regarding proxy voting results and trends and develops recommendations for Board approval for any policy recommendations, as appropriate.
- (iv.) Reviews and ensures alignment of strategic initiatives with the *Corporate Governance and Stewardship Principles*.
- (v.) Provides periodic reports on the program to the Board of Investments.
- (vi.) Delegates authority to the Committee Chair to determine LACERA's action on time-sensitive, investment- or financial market-related legislative or regulatory matters that are not adequately addressed in the Corporate Governance and Stewardship Principles or joint investor engagements affiliated with investor associations to which LACERA has formally affiliated.
- (vii.) Recommends for Board of Investment approval, LACERA representatives for nomination to governing bodies of the corporate governance associations to which LACERA is affiliated. In event the Committee is not scheduled to meet or lacks adequate time to recommend a nomination to the Board prior to a formal deadline, the Committee delegates authority to the Committee Chair to recommend consideration of the nomination by the Board.

- (viii.) Recommends for Board of Investment approval, time-permitting, LACERA's votes in support or opposition of candidates listed on a formal member ballot and nominated to a governing board of an investor association to which LACERA has formally affiliated. In event the Committee is not scheduled to meet or lacks adequate time to agendize under the Brown Act an informed recommendation to the Board for vote determinations prior to a formal deadline, the Committee delegates authority to the Committee Chair to recommend consideration by the Board, time-permitting, of the votes in support or opposition of board candidates. In time-sensitive circumstances where vote deadlines do not permit such vote considerations by the Committee or the Board, the Committee delegates authority to the Committee Chair to consult with staff per Section V(C)(vi.) below on votes.

### C. Staff

- (i.) Develops and recommends *Corporate Governance and Stewardship Principles* and related policies for review and consideration by the Corporate Governance Committee.
- (ii.) Executes proxy votes in adherence to the *Corporate Governance and Stewardship Principles*. Staff consults with and seeks the input of the Chief Investment Officer and Chief Counsel, when applicable, to apply the Corporate Governance and Stewardship Principles, and the spirit thereof, to unique or new proxy voting items in their best judgment and interpretation of the *Corporate Governance and Stewardship Principles*. Staff recalls shares of loaned securities when doing so is in LACERA's economic interests, such as at portfolio companies where LACERA has sponsored a shareowner proposal.
- (iii.) Communicates and represents the Corporate Governance and Stewardship Principles in dialogues and communication with portfolio companies, external asset managers and investment partners, other investors and stakeholders, related conferences, and other interested parties.
- (iv.) Presents any strategic plans for engagement to the Corporate Governance Committee, per the Committee's review and oversight, to promote alignment with Board-approved *Corporate Governance and Stewardship Principles*. In the event of time-sensitive strategic initiatives, staff consults with the Chair of the Committee, who determines action or recommends consideration of the matter by the Committee or Board, time-permitting.
- (v.) Represents the *Corporate Governance and Stewardship Principles* in written communication to legislators and regulatory agencies, in consultation with the Chief Executive Officer, Chief Investment Officer, and Chief Counsel. Staff may participate in joint investor written communications that are organized as part of formal investor associations to which LACERA has formally affiliated. In event that a time-sensitive, investment- or financial market policy-related legislative or regulatory matter arises that is not adequately considered by the *Corporate Governance and Stewardship Principles* or being addressed by an investor association to which LACERA is affiliated, staff consults with the Chair of the Committee, who determines whether to approve action or recommend consideration of the matter by the Board, time-permitting.

(vi.) Represents LACERA and its *Corporate Governance and Stewardship Principles* at investor associations, including managing membership surveys, business meeting votes (other than selecting which candidates to a governing board to support or oppose), and other operational interactions, in adherence to the Corporate Governance and Stewardship Principles and the spirit thereof, in its best judgment and interpretation. In event that a time-sensitive vote arises on a unique item or an issue that is not adequately considered by the *Corporate Governance and Stewardship Principles*, as well as for governance-related investor associations' formal business meeting ballot items pertaining to support or opposition of candidates to a governing board, and time constraints prohibit such items from being presented to the Committee or Board for consideration, staff may determine a vote in consultation with the Chair of the Committee.

## Policy Review and Reaffirmation

LACERA reviews and reaffirms this Policy at least every three years in order to ensure its alignment with LACERA's mission and objectives and in light of evolving market practices on corporate governance; environmental, social, and governance ("ESG"); and responsible investment matters.

## APPENDIX: Guidelines for Evaluating Prospective ESG-Related Divestments

As stated in LACERA's Investment Beliefs, "LACERA operates in a global financial marketplace, and as such, LACERA believes that in order to diversify its risk broadly, it is vital that LACERA possess a global perspective. Diversification across different risk factors is necessary for risk reduction."

As a diversified, global investor, LACERA may periodically review its public markets investment exposures to certain issues arising from environmental, social, or governance concerns. It is generally the preference of LACERA, in order to promote diversification and minimize risk, to engage rather than divest investment holdings concerning risks to long-term value. However, in order to address prospective divestment issues and identify LACERA's exposure to exogenous risks related to environmental, social, or governance issues and not addressed elsewhere in the Investment Policy Statement, the following formal process has been adopted:

1. The issue will be directed to Committee for further direction to Staff.
2. If the Committee decides to review the issue, Staff will assess the potential economic and reputational impact of the issue on LACERA.
  - a. Does the issue violate LACERA's *Corporate Governance and Stewardship Principles*?
  - b. Determine criteria for identification of investment(s).
  - c. Preliminary identification of the investment.
  - d. Preliminary estimate on size of the investment.
  - e. Seriousness of the issue/violation and whether it impacts the economics of the investment(s).
  - f. Consultation with LACERA's Chief Executive Officer, Chief Investment Officer, and legal counsel.
3. Staff will report its findings on the potential economic and reputational impact of the issue on LACERA to the Committee.
4. The Committee may forward the issue and potential economic and reputational impact on LACERA to the Board of Investments (Board) for further direction.
5. If the Board directs staff to continue the analysis, staff will calculate the anticipated resources involved in analyzing the issue including, but not limited to:
  - a. Estimate of staff hours required for research and analysis.
  - b. Estimate of the resource impact on current staff initiatives and projects (for example the delay in an RFP search).
  - c. Estimate of cost to obtain information (e.g.: company list) from external service provider.
6. Staff will report back to the Committee with its resource requirements analysis.
7. Committee may make recommendation to the Board to pursue additional analysis.
8. Upon receiving direction from the Board, Staff will contract with external data provider to identify investment(s) impacted by the issue.

9. Staff will identify investment exposures within the separate accounts of the public markets asset classes (equities, fixed income and commodities).
10. Staff will contact external investment managers to solicit feedback from portfolio managers on reasoning for the investment and potential return and risk trade-off of economic substitution.
11. Staff will present findings to the Board and any recommendation(s) as necessary. If further action is warranted, such as engagement with companies, staff's report to the Board will include the following:
  - a. An estimate of additional staff hours needed to execute engagement.
  - b. An estimate of the impact of diverting resources from current staff initiatives and projects (for example the delay in an RFP search).
  - c. Cost of retaining external resources (3rd party consultant) to assist in the engagement process.
  - d. Feedback from portfolio managers on their investment in the company.
  - e. Discussion of criteria and terms for company engagement.
12. If further action, such as engagement, is recommended and approved by the Board, staff will seek to engage with companies on the issue. Letters will be written to the company's executive management and their boards requesting responses within 60 days.
13. If company response is determined to be insufficient, staff will assess the need to place the company on an economic substitution list<sup>2</sup> and present recommendation(s) to the Board for approval. Included in the recommendation(s) will be the following:
  - a. Updated company exposure within separate accounts of public markets asset classes.
  - b. Annual cost to procure company list.
  - c. Criteria by which company will be removed from the economic substitution list.
14. Staff will continuously monitor company status relative to criteria for removal from the economic substitution list. Once criteria have been met, staff will recommend removal of the company to the Board.
15. Staff will provide an economic substitution list update to the Board annually which will include the following:
  - a. All companies currently on the list.
  - b. Issue for which the company was placed on the list.
  - c. Investment exposure within separate accounts of public markets asset classes.
  - d. Current status of mitigating factors.

---

<sup>2</sup> Companies on the list will be covered by the following investment guideline policy language: "Investment managers should refrain from purchasing securities on the economic substitution list when the same investment goals concerning risk, return, and diversification can be achieved through the purchase of another security."

## Document History

Revised May 10, 2023

Revised March 10, 2021

Consolidated and restated October 14, 2020

Revised March 13, 2019

Consolidated and reorganized February 14, 2018

Revised August 9, 2017

Revised October 12, 2016

Revised November 19, 2014

Revised April 10, 2013

Revised April 22, 2009

Revised April 27, 2005

Revised May 26, 2004

Revised August 13, 2003

Revised June 11, 2003

Original adopted March 12, 2003



# **Responsible Contractor Policy**



# I. Purpose and Objective

The Los Angeles County Employees Retirement Association's (LACERA) investment philosophy and strategy recognize that careful consideration of financially relevant environmental, social, and governance (ESG) factors in the Fund's investment process may protect and enhance LACERA's risk-adjusted returns, as stated in the Fund's *Investment Policy Statement*. LACERA's *Corporate Governance and Stewardship Principles* (Stewardship Principles) articulate LACERA's position on key corporate governance and broader ESG factors that may impact the financial performance of LACERA's portfolio holdings including, but not limited to:

- Effective legal and regulatory compliance
- Constructive human capital practices
- Inclusive and equitable management of diverse talent
- Robust adherence to human rights standards
- Prudent natural resource stewardship
- Careful mitigation of environmental risks and liabilities

LACERA seeks to steward its assets throughout its investment portfolio in a manner that promotes adherence to its Stewardship Principles in furtherance of its mission, "to produce, protect, and provide the promised benefits." LACERA encourages investment managers who manage capital on its behalf to enact effective and practical measures in their investment processes and portfolio management that exemplify adherence to the principles referenced above.

In furtherance of its Investment Policy Statement and Stewardship Principles, LACERA has adopted this *Responsible Contractor Policy* (Policy) to guide investment managers who manage real estate, infrastructure, and other real assets investments on behalf of LACERA to select construction and operation services contractors that demonstrate practices in line with LACERA's Stewardship Principles. LACERA expects investment managers to ensure effective practices and internal controls are in place to select responsible contractors based upon their demonstrated ability to provide high quality services as evidenced by experience, skill, reputation, responsiveness, fees, dependability, record of compliance with applicable laws, regulations and statutes, and payment of fair compensation and benefits to employees.

By promoting responsible contracting, LACERA seeks to prudently optimize financial performance while mitigating investment risks—including, but not limited to, compliance, legal, operational, and reputational liabilities—that may be presented when business entities fail to meet responsible contracting standards.

# II. Legal Authority and Fiduciary Duty

The LACERA Board of Investments has "the sole and exclusive fiduciary responsibility over the assets of" the system, as provided by the California Constitution (Article XVI, Section 17(a)). LACERA exercises its legal rights in defining responsible contracting provisions in furtherance of its fiduciary duty under Article XVI, Section 17 of the California Constitution, the County Employees Retirement Law of 1937 (CERL), and other governing laws, regulations, and case authority.

The Policy is guided in all aspects by LACERA's fiduciary duties, including loyalty, care, skill, prudence, and diligence, which require evaluation of expected investment returns and risk of loss.

LACERA's assets are diligently and prudently invested and managed in accordance with the Fund's fiduciary duties in the sole interest of plan participants and their beneficiaries, and for the exclusive purpose of providing benefits to its participants and their beneficiaries. LACERA seeks to have its real assets investments managed and operated in a manner that is expected to prudently maximize the rate of return, while minimizing the risk of loss. LACERA's duties, and the duties of its investment managers, to LACERA's participants and their beneficiaries take precedence over any other duty.

### III. Policy Application at Real Assets Investments

LACERA promotes prudent, responsible contracting provisions for construction and operation services throughout its real assets investments. All investment managers who have been selected to manage LACERA's capital in real estate, infrastructure, and natural resources mandates should have in place effective policies, procedures, and internal controls to ensure that contracting practices result in the selection of responsible contractors that reflect the responsible contracting provisions outlined in this Policy.

LACERA recognizes that its control and influence on external investment managers varies by the degree of ownership it maintains in investment funds managed on its behalf by external investment managers. Accordingly, LACERA has defined the application of the terms and provisions of this Policy as follows:

**A. Controlled Investments:** Where LACERA owns more than a 50 percent equity position either directly or indirectly in a real estate, infrastructure, natural resources, or other real assets investment fund or partnership ("Controlled Investments"), LACERA requires the investment manager to use their best efforts to comply with the responsible contractor terms and provisions defined within this Policy when soliciting and selecting contractors and subcontractors for construction and operation services.

At Controlled Investments, LACERA expects investment managers to apply this Policy to all contracts valued at \$100,000 or more. Contract value refers to the total project work to be contracted for, with desegregation by trade or task. Desegregation designed to evade the requirements of this Policy is not permitted.

**B. Non-Controlled Investments:** Where LACERA does not have greater than 50 percent equity ownership and/or control of a real estate, infrastructure, natural resources, or other real assets investment fund or partnership ("Non-Controlled Investments"), LACERA *strongly encourages* its investment managers to comply with the spirit and practice of responsible contracting, including—but not limited to—adhering to the terms of this Policy and defining responsible contracting terms and policies of their own.

For the avoidance of any confusion, while LACERA encourages all real assets firms to practice responsible contracting, the specific terms and requirements of this Policy do not apply to other real assets exposures in LACERA's portfolio, including—but not limited to—publicly-listed REIT's, mezzanine debt, hybrid debt, investments acquired through a secondaries fund acquisition transaction, and indirect, specialty, and mortgage investments lacking equity features, and their respective investment managers.

## IV. Key Provisions of Responsible Contracting

A “Responsible Contractor,” as used in this Policy, is a contractor or subcontractor who: (1) has the appropriate experience, skill, reputation, employee relations, responsiveness, fees, and dependability to perform the required work, and (2) provides workers fair compensation and fair benefits for the required work as evidenced by factors including—but not limited to—payroll and employee records, policies, and practices.

Responsible contracting practices include, but are not limited to, the following:

- A. Fair Wages and Benefits:** In determining fair wages and fair benefits concerning a specific contract in a specific market, items that may be considered include—but are not limited to—local wage practices, prevailing wages, and labor market conditions. This Policy does not mandate a specific wage level or benefits, but instead recognizes and considers that local market practices may vary across LACERA’s investment exposures. How investment managers and their respective contractors evaluate what constitutes “fair wages” and “fair benefits” should be informed by relevant market factors that include the nature and location of the project, comparable job or trade classifications, and the scope and complexity of services provided. “Fair benefits” may include—but are not limited to—employer-supported family health care coverage, pension benefits, employee safety training, and apprenticeship training programs.
- B. Legal Compliance:** All contractors should demonstrate a compelling track record of compliance with all applicable federal, state, and local laws, regulations, and ordinances, including (but not limited to) those related to insurance, withholding taxes, minimum wage, health and safety, and environmental matters. Responsible Contractors exclude any contractor who has been debarred—or whose principal has been debarred—by a municipal, state, or federal government. Responsible Contractors also respect the right of all workers to freedom of association in the workplace, as protected under local, state, and federal law, and as recognized by the United Nations International Labor Organization (ILO) core labor standards.
- C. Diversity, Equity, and Inclusion:** As outlined in LACERA’s *Investment Policy Statement*, LACERA values diversity, equity, and inclusion, and believes that effectively accessing and managing diverse talent leads to improved outcomes. LACERA considers diversity broadly, inclusive of—but not limited to—professional backgrounds, age, experience, race, sexual orientation, gender, gender identity, disability status, military service, ethnicity, national origin, and culture. LACERA expects real assets investment managers to ensure equal opportunity and non-discrimination in contracting provisions for construction and operation services. Effective assurance of equal opportunity and non-discrimination includes effective policies and practices to prohibit and deter retaliation against any individual or entity who reports incidents of prospective non-compliance.
- D. Competitive Bidding:** Investment managers should ensure that all requests for proposals and invitations to bid applicable contracts covered by this Policy are made in accordance with the terms of this Policy. LACERA encourages adequate advance notice of bidding opportunities to promote competitive bidding, as practical and appropriate. Investment managers and their associated property managers and contractors should use reasonable methods to provide adequate notice to potential contractors of bidding opportunities for contracted services. Adequate notification may include, but is not limited to, maintaining lists of eligible, qualified Responsible Contractors for inclusion in the bidding process.

- E. Neutrality:** Where there is a legitimate attempt by a labor organization to organize workers employed in contracted construction, maintenance, operation, and services, LACERA encourages investment managers, property managers, and contractors to maintain a position of neutrality. To remain “neutral” means not taking any action or making any statement that will directly or indirectly state or imply any support for or opposition to the selection by employees of a collective bargaining agent, or preference or opposition to any particular union as a bargaining agent.

For the avoidance of any confusion, nothing in this Policy obligates or prohibits an investment manager, property or asset manager, or contractor from entering into project labor agreements, labor peace or other lawful agreements with a labor organization seeking to represent or that currently represents workers, or take actions to address violations of applicable law.

It is also not the intent of this Policy to call for any involvement by investment managers, property or asset managers, or contractors in resolving any jurisdiction disputes that may arise between or among building trades and other labor organizations and unions.

## V. Policy Implementation

- A. Notification:** All current and prospective real assets investment managers shall be provided a copy of this Policy (both at Controlled Investments and Non-Controlled Investments).
- B. Contracts and Contract Renewals:** All contracts and contract renewals at Controlled Investments entered into after the effective date of this Policy shall incorporate expectations of adherence to all applicable provisions of this Policy.
- C. Investment Manager Administration and Reporting:** All investment managers of Controlled Investments are expected to communicate the terms and provisions of this Policy to property and asset managers and ensure effective practices are in place to implement them. Investment managers of Controlled Investments are further expected to collect, provide, and retain adequate data documenting their compliance with this Policy on no less than an annual basis in reporting to LACERA in a format acceptable to and approved by LACERA. Effective monitoring and enforcement by investment managers includes reasonable investigation of allegations of non-compliance with the terms and provisions of the Policy, as well as cooperative and timely communication with LACERA regarding the status of any such investigations.

Investment managers of Non-Controlled Investments are encouraged to report to LACERA on the administration, monitoring, and compliance with the responsible contracting provisions and terms stated above and any responsible contracting policies or provisions of their own, as well as to be responsive to any inquiries from LACERA related to the same.

- D. LACERA Monitoring:** LACERA actively monitors all external investment managers, including those managing Controlled Investments and Non-Controlled Investments. All investment managers should demonstrate a compelling track record of adhering to responsible contracting practices. Any investment decisions to renew, increase, or decrease allocations may be informed, in part, by the investment managers track record of adherence to responsible contracting practices.

LACERA's regular review of Controlled Investments includes an assessment of the investment manager's track record in adhering to the terms and provisions of this Policy. LACERA reviews reports from investment managers of Controlled Investments regarding implementation and compliance with the terms and provisions of this Policy and furnishes reports, including an annual publicly-available report on investment manager compliance with the Policy, as part of LACERA's overall compliance reporting practices to the Board of Investments for its oversight.

LACERA's review of all investment managers (both Controlled Investments and Non-Controlled Investments) focuses on the overall pattern of conduct and compliance and not particularly a single incident, depending on the severity and impact of incidents of non-compliance.

### **Document History**

Revised and restated July 13, 2022

Revised November 19, 2014

Reviewed November 20, 2013

Revised November 13, 2012

Adopted December 11, 2002



# Emerging Manager Policy

FEBRUARY 2020

# Contents

<b>I.</b>	<b>Introduction .....</b>	<b>1</b>
<b>II.</b>	<b>Purpose and Objective .....</b>	<b>1</b>
<b>III.</b>	<b>Emerging Manager Definition .....</b>	<b>2</b>
<b>IV.</b>	<b>Structure.....</b>	<b>2</b>
<b>V.</b>	<b>Graduation .....</b>	<b>3</b>
<b>VI.</b>	<b>Monitoring and Reporting .....</b>	<b>3</b>

# I. Introduction

LACERA's mission is to "Produce, Protect, and Provide the Promised Benefit" for all its members. In order to achieve this mission, LACERA has developed various policies to guide its investments. These policies are governed by the California constitution and by various statutes, and embedded within the regulations are fundamental concepts of loyalty and prudence. The duty of loyalty means that Board members and staff must act in the sole interest of LACERA's members and beneficiaries; the duty of prudence requires that we discharge our responsibilities with skill, care, and diligence—and that we diversify the portfolio in order to minimize the risk of loss and maximize the expected rate of return.

The Emerging Manager Policy ("Policy") furthers the investment beliefs, philosophy, and strategies outlined in LACERA's Investment Policy Statement ("IPS"), adheres in all respects to the Code of Ethical Conduct and the Conflict of Interest Code, and complies with all applicable governing regulations.

LACERA values diversity and inclusion. These values permeate the entire LACERA portfolio and extend beyond the emerging manager program. As stated in the IPS, LACERA believes that effectively accessing and managing diverse talent—inclusive of varied backgrounds, age, experience, race, sexual orientation, gender, ethnicity, and culture—leads to improved outcomes. LACERA expects all its external asset managers and third party providers to respect LACERA's values of diversity and inclusion and to reflect them in their own organizations.

## II. Purpose and Objective

The objective of LACERA's Emerging Manager Policy is to enhance the total Fund's risk-adjusted return. The Policy seeks a proper balance between the potential for higher returns available to select emerging managers, and the higher risks—both investment-related and operational—associated with less established firms.

The Policy provides LACERA an opportunity to invest in promising investment management organizations early in their development. Investing with managers that have fewer clients, smaller assets, or a short track record may provide LACERA access to investment strategies that larger, more established managers might overlook. Smaller investment management firms may generate attractive performance, net-of-fees, because of increased market flexibility associated with smaller asset bases. In addition, first- or second-time funds may outperform later funds in private markets. Furthermore, investing early in the lifecycle of select emerging managers may carry benefits that include lower fees (founder's terms), future capacity rights, and preferred economics such as a share of future revenues.

Counterbalancing the attractive returns from investing with emerging managers is a greater return dispersion and the possibility of greater investment and operational risk—particularly in areas such as compliance, portfolio administration, cybersecurity, business continuity, and succession planning.

Emerging managers are highly motivated to perform well for early investors because doing so can be crucial to their firm's growth. As a result, institutional investors such as LACERA may have a greater alignment of interests with emerging managers than with more established ones.



### III. Emerging Manager Definition

Emerging investment managers are independent firms that have less substantial assets under management or may lack a long-term investment performance record. LACERA is interested in emerging managers that have strong alignment of interest with their investors and expects principals of the firm to hold a substantial majority of the ownership interest of the company. Specific requirements for assets under management (“AUM”) and length of track record are tailored for each asset class and updated for each mandate to take into account the composition of the manager universe prevailing at the time a search is conducted.

Emerging managers are held to the same high performance standards that apply to all of LACERA’s external managers. In addition, LACERA conducts an ongoing assessment of all external managers’ commitment to, adherence with, and track record of accessing and retaining diverse and inclusive workforces. Emerging managers may include, but are not limited to, investment managers that are owned by individuals of diverse backgrounds that have traditionally been underrepresented in the financial services industry. More broadly, all else equal, LACERA prefers firms that are committed to and have established a demonstrated track record of diversity and inclusion throughout the firm’s workforce, inclusive of investment professionals.

### IV. Structure

LACERA may hire emerging managers either directly or by employing a fund-of-funds manager skilled at sourcing emerging managers. Either type of mandate must adhere to LACERA’s defined procurement procedures and requires approval by the Board of Investments. Investment strategies managed by emerging managers must be suitable for LACERA’s portfolio and fit within the approved strategic asset allocation and asset class structure, as well as the portfolio’s risk and liquidity constraints.

For each asset class, LACERA conducts periodic structure reviews that incorporate specific criteria and recommended allocation ranges for emerging managers (see “Attachment” for current BOI-approved ranges). The structure reviews take into consideration the opportunities and risks of the asset class and are conducted in consultation with LACERA’s applicable investment consultants. The implementation of any emerging manager program must advance the principles, objectives, and initiatives established within the asset class structure review.

## V. Graduation

Selected emerging managers will be reviewed in accordance with their respective asset class policies to determine if they continue to meet the requirements of the emerging manager program or if they qualify for graduation from emerging status. Graduation recommendations will be included in the biennial asset class structure reviews.

## VI. Monitoring and Reporting

LACERA staff will monitor the emerging managers on an ongoing basis and report annually to the Board on potential issues, performance, and significant developments.

# Attachment

## Emerging Manager Allocation Ranges<sup>1</sup>

	Minimum	Maximum
Global Equities	0%	5%
Fixed Income	0%	4%
Real Estate	0%	20%
Private Equity	0%	7%
Hedge Funds <sup>2</sup>	0%	10%
Total Fund	0%	6%

### Document History

Revised February 12, 2020  
 Revised August 8, 2016  
 Revised November 19, 2014  
 Revised November 20, 2013  
 Revised November 13, 2012  
 Revised October 31, 2012  
 Revised July 8, 2009  
 Revised March 11, 2009  
 Revised September 13, 2006  
 Adopted June 13, 2001

<sup>1</sup>The allocation ranges shown are the most recent numbers approved by the BOI.

<sup>2</sup>The BOI approved a \$200 million allocation in September of 2019, and \$200 million is approximately 10% of the target Hedge Fund allocation.



# Placement Agent Policy

NOVEMBER 2014

Investment managers in both the public and private markets use placement agents to help them raise capital. The purpose of this Policy is to bring transparency to placement agent activity in connection with LACERA's investments and to help ensure that all investment decisions are made solely on their merits and in a manner consistent with the fiduciary duties of LACERA's Board of Investments (the "Board").

Prior to LACERA investing with any External Manager<sup>1</sup>, investment staff shall obtain a written representation from the External Manager, in a form acceptable to the Legal Office, stating that the External Manager has not used a Placement Agent<sup>2</sup> in connection with LACERA's investment (and that a Placement Agent will not receive compensation from the External Manager if LACERA invests in the investment), or if the External Manager has used a Placement Agent (or if a Placement Agent will receive compensation from the External Manager if LACERA invests in the investment), it will disclose the following in writing, on a form prepared by staff:

- The name of the Placement Agent and the relationship between the External Manager and the Placement Agent
- A resume for each officer, partner, or principal of the Placement Agent detailing the individual's education, professional designations, regulatory licenses, and investment and work experience
- A description of any and all compensation of any kind provided, or agreed to be provided, to the Placement Agent
- A description of the services to be performed by the Placement Agent
- Representation that the fee is the sole obligation of the External Manager and not of LACERA, the Investment Vehicle, the Investment Fund, or any investor(s) in the Investment Vehicle or in the Investment Fund
- The name(s) of current or former LACERA board members, employees, or consultants or member(s) of the immediate family of any such individuals that are either employed or receiving compensation of any kind provided, or agreed to be provided, directly or indirectly from the Placement Agent
- The name(s) of any current or former LACERA Board members, employees, or consultants who suggested the retention of the Placement Agent
- A statement whether the Placement Agent, or any of its affiliates, are registered with the Securities and Exchange Commission or the Financial Industry Regulatory Association or any similar state regulatory agency, or any similar regulatory agency in a country other than the United States, and the details of that registration or explanation as to why no registration is required
- A statement whether the Placement Agent, or any of its affiliates, is registered (or is required to be registered as of a date certain) as a lobbyist with any state or national government

Any External Manager or Placement Agent that violates the Policy shall not solicit new investments from LACERA for five years after the violation was committed. However, this prohibition may be reduced by a majority vote of the Board at a public session upon a showing of good cause.

## Document History

Reviewed November 19, 2014

Revised November 9, 2011

Effective retroactively to October 9, 2011

<sup>1</sup>As defined in California Government Code section 7513.8, "External Manager" means either of the following: (1) a Person who is seeking to be, or is, retained by a board or an Investment Vehicle to manage a portfolio of securities or other assets for compensation; or (2) a Person who manages an Investment Fund and who offers or sells, or has offered or sold, an ownership interest in the Investment Fund to a board or an Investment Vehicle. (All code section references are to the Government Code, unless otherwise noted.)

As defined in section 7513.8, "Person" means an individual, corporation, partnership, limited partnership, limited liability company, or association, either domestic or foreign.

As defined in section 7513.8, "Investment Vehicle" means a corporation, partnership, limited partnership, limited liability company, association, or other entity, either domestic or foreign, managed by an External Manager in which a board is the majority investor and that is organized in order to invest with, or retain the investment management services of, other External Managers.

As defined in section 7513.8, "Investment Fund" means a private equity fund, public equity fund, venture capital fund, hedge fund, fixed income fund, real estate fund, infrastructure fund, or similar pooled investment entity that is, or holds itself out as being, engaged primarily, or proposes to engage primarily, in the business of investing, reinvesting, owning, holding, or trading securities or other assets. Notwithstanding the preceding sentence, an investment company that is registered with the Securities and Exchange Commission pursuant to the Investment Company Act of 1940 (15 U.S.C. Sec. 80a-1 et seq.) and that makes a public offering of its securities is not an Investment Fund.

<sup>2</sup>As defined in section 7513.8, "Placement Agent" means any Person directly or indirectly hired, engaged, or retained by, or serving for the benefit of or on behalf of, an External Manager or an Investment Fund managed by an External Manager, and who acts or has acted for compensation as a finder, solicitor, marketer, consultant, broker, or other intermediary in connection with the offer or sale to a board or an Investment Vehicle either of the following: in the case of an External Manager as defined in subpart (1) of the definition of an External Manager, the investment management services of the External Manager; in the case of an External Manager as defined in subpart (2) of the definition of an External Manager, an ownership interest in an Investment Fund managed by the External Manager. Notwithstanding the preceding sentence, an individual who is an employee, officer, director, equityholder, partner, member, or trustee of an External Manager and who spends one-third or more of his or her time during a calendar year managing the securities or assets owned, controlled, invested, or held by the External Manager is not a Placement Agent.

**PRIVATE EQUITY PRIVATIZATION POLICY**

LACERA does not aim to promote privatization of public jobs through its private equity investment program. It is highly unlikely that LACERA private equity investments would be in domestic partnerships or similar pooled investment vehicles ("partnerships") that are dependent on privatization strategies.

When performing due diligence prior to making the initial investment in a domestic partnership, staff and/or Consultant, as applicable, will use their reasonable efforts to ascertain:

- (1) Whether the partnership's current investment strategy includes the privatization of jobs held by LACERA members.
- (2) Whether previous partnerships operated by the general partners, if any, have invested in companies dependent upon privatization of jobs held by LACERA members.

Staff and/or Consultant will seek guidance from the Board of Investments before investing in a domestic partnership if the due diligence establishes a positive answer to either (1) or (2) above.

Adopted on May 21, 2003.

# **PROCUREMENT POLICY FOR INVESTMENT-RELATED SERVICES**

**Adopted: November 20, 2019**



**TABLE OF CONTENTS**

**Statement of Purpose..... 3**  
**Legal Authority..... 4**  
**Introduction..... 6**  
**Definitions..... 9**  
**Services Being Procured and Selection Method..... 11**  
**Proposal Evaluation..... 15**  
**Observance of a Quiet Period..... 17**

## **Statement of Purpose**

LACERA's Procurement Policy for Investment-Related Services (the "Procurement Policy") sets forth the procedures and guidelines by which LACERA shall procure investment-related services. Investment-related services include, but are not limited to, external investment management, general and specialty consulting, custodial, securities lending, and analytics/database service providers. Procurement of services and products not related to investments are governed by LACERA's General Policy Guidelines for Purchasing Goods and Services.

## **Legal Authority**

The California Constitution and LACERA's governing statutes create a legal framework within which the Procurement Policy must be interpreted and implemented by LACERA's Board of Investments (the "Board") in approaching its decisions. The Board is independent and has sole and exclusive legal responsibility over investment of the Fund's assets.

### **A. Fiduciary Duty**

The Board, its members, and staff are fiduciaries, making decisions for the benefit of the Fund as a whole without other concerns or outside influence. All Board members, whether they are elected, appointed, or ex officio, have the same fiduciary duty under the law.

### **B. Ethics and Code of Conflicts**

The Board and staff must refrain from personal activity that could conflict with the proper management of the investment program, or that could impair their ability to make decisions in compliance with fiduciary duty. Further details are defined in LACERA's Code of Ethical Conduct, Conflict of Interest Code, the Political Reform Act, Fair Political Practices Commission regulations, and other applicable law.

## **C. Process**

Because the Board is a governing body of a public agency, the Board and its members must conduct business according to the State of California Ralph M. Brown Act, which provides that Board meetings, deliberations, and actions must be public unless subject to a specific closed session exception. The Board may go into closed session to discuss the purchase and sale of particular, specific investments under the Brown Act.

## 1. Introduction

The Procurement Policy supplements LACERA's Investment Policy Statement (the "IPS"). The IPS defines the framework by which LACERA manages the assets of the Fund in order to fulfill its mission. The Procurement Policy is designed to comply with and follow all guidance included within the IPS. To the extent a conflict exists between the IPS and the Procurement Policy, the IPS shall prevail.

The Board has adopted investment beliefs ("Investment Beliefs") to describe its core beliefs and underlying assumptions about how capital markets operate. Collectively, the Investment Beliefs provide a framework to guide LACERA's investment decisions in a manner consistent with the Fund's position as an institutional investor with a long-term investment horizon in order to achieve the Fund's objectives.

Consistent with the Investment Beliefs, the Procurement Policy is designed to adhere to the following guiding principles.

- **Fiduciary.** The Board and staff are fiduciaries to LACERA. Procurement decisions are made for the benefit of the Fund as a whole without other concerns or outside influence.
- **Inclusive.** Opportunity to provide investment-related services to LACERA will be as inclusive as possible, providing all qualified service providers a chance to participate in procurement efforts.
- **Fair.** Procurement efforts will be conducted in a fair and impartial manner. Selections of service providers will be made free from any conflict of interest or bias.

- **Transparent.** Records of procurement efforts will be subject to public disclosure unless subject to a specific exception pursuant to the Ralph M. Brown Act.
- **Timely.** Procurement efforts will be conducted in as efficient and timely manner as practical.
- **Rule-Based.** Procurement efforts will be conducted in a consistent manner
- **Market Aware.** Procurement efforts will be tailored to the specifics of a mandate or service need.
- **Informed.** Procurement efforts will utilize available databases, tools and advances in underwriting to inform the process. Databases may be used to identify a comprehensive list of qualified service providers to optimize submissions/responses to RFPs.

Searches for service providers completed under the Procurement Policy do not have a pre-ordained outcome. Searches could result in the selection and retention of one or multiple service providers. Alternatively, no service provider may be selected.

## **Scope**

Investment-Related Services covered by this Procurement Policy include investment consulting services, investment management services, and specialized services that support investment functions, such as, but not limited to, attorneys, appraisers, auditors, custodians, data and analytics providers, securities lending providers, and independent fiduciaries.

## **Term**

The term for engagements with service providers selected via the Procurement Policy vary.

- i. **Investment Managers.** Terms for agreements with separate account investment managers may be evergreen. Investment managers engaged via separate accounts and open-end comingled funds are monitored closely relative to return objectives, benchmarks, and alternative options. All contracts between LACERA and separate account managers must contain reasonable termination rights for LACERA.
- ii. **Custody Services.** Engagements with custody service providers may be for terms of up to ten years and may provide for two one-year extensions at the discretion of the Chief Investment Officer. The Board will be notified of any extensions. Agreements with custody providers shall contain reasonable termination provisions.
- iii. **Other Service Providers.** Other services procured using the Procurement Policy will have a term of no longer than five years, with two one-year extensions at the discretion of the Chief Investment Officer with respect to investment-related matters, or Chief Legal Counsel for the procurement of services for legal-related matters. The Board will be notified of any extensions.

## 2. Definitions

- a) **Active Management** refers to investment managers whose investment strategy and process allow them to make investments that attempt to exceed their benchmarks.
- b) **Board** means the LACERA Board of Investments
- c) **Evaluation Team** means the group of individuals that have been assigned responsibility to review the search respondents relative to the criteria set forth in the search as well as to each other, as appropriate. Each phase of evaluation must be completed by the same participating members of the Evaluation Team. The Evaluation Team will include staff as appropriate and possibly a third-party advisor.
- d) **Fund** or **Funds** means both the Los Angeles County Employees Retirement Association (LACERA), and the Other Post-Employment Benefits Master Trust (OPEB).
- e) **Illiquid Investment** means securities or other assets that cannot easily be sold or exchanged for cash within one month without a substantial loss in value. These investments include private equities, private credit, private real assets (including real estate), and hedge fund strategy products. These assets are intended to provide the portfolio with higher risk-adjusted returns and/or enhanced diversification. They are not intended to be a source of short-term liquidity.
- f) **Legal Services Procurements** means the procurement of investment-related legal services to assist in transactions or other investment matters.
- g) **Liquid Investments** means securities and other assets that can be converted into cash quickly without material impact on fair value and where there is typically a transactional price available on a daily basis. These assets include



global equities, investment-grade bonds, publicly-traded real estate and real assets, and overlays implemented via exchange-traded instruments.

- h) **Miscellaneous Small Purchases** means the procurement of investment-related services for flat-fee or hourly compensation that may not exceed a total of \$150,000 per provider for any single transaction or assignment, even if the services are provided over a five-year period. Small Purchases may be approved, and later renewed or extended every five years subject to a new \$150,000 cap, jointly by the Chief Executive Officer and Chief Investment Officer. Small Purchases do not include any services for on-going investment management.
- i) **Passive Management** refers to investment managers whose investment strategy and process are designed to replicate a benchmark.
- j) **RFP** means open Requests for Proposals. An RFP is a public solicitation posted on LACERA's website inviting all qualified bidders to respond. Recommendations to initiate an RFP will be presented to the Board and will identify the recommended: (i.) Scope of Services; (ii.) Minimum Qualifications; (iii.) Search timing; (iv.) Structure of the Evaluation Team; (v.) Evaluation Criteria; and (vi.) Selection Authority.
- k) **Selection Authority** refers to the body, group or individual that has authority to select the service provider that will be retained. This may be the Board, the Evaluation Team, the Chief Investment Officer, Chief Legal Counsel, or some combination of the above. A Selection Authority will be recommended to the Board for its approval for each procurement effort unless otherwise delegated in existing LACERA policy.
- l) **Staff** means employees of LACERA.
- m) **Trustee** means a member of the Board of Investments.

### **3. Service Being Procured and Selection Method**

The types of investment-related services being procured can be characterized as:

- Investment Management
- Consulting
- Other Investment Related Services
- Legal
- Miscellaneous Small Assignments

The method or process utilized to procure services is dependent upon the type of service being procured. Regardless of the selection method utilized, a high level of scrutiny and rigor is applied for whatever length of time is needed to ensure that the successful service provider(s) are most appropriate for the Fund.

The selection method for the different types of services covered by the Procurement Policy is described below. Upon selection of service providers, the Legal Division and Investment Office are responsible for completing engagement agreements and/or contracts.

#### **a) Investment Management Services**

- Active Management
  - Liquid Investments

Investment Managers utilizing Active Investment strategies to invest in Liquid Investments shall be selected using an RFP.

- Illiquid Investments

Illiquid Investments are identified and underwritten on a one-off basis and, if deemed appropriate, advanced to the Board for consideration, unless delegated within the IPS. Individual

Actively Managed Illiquid Investments do not lend themselves to selection via an RFP. Rather, illiquid investments are discussed in periodic asset class structure reviews and individual recommendations include independent third-party assessments. Exceptions to this are fund-of-fund mandates. In those circumstances, an RFP will be utilized for selection efforts.

- **Passive Management**
  - Liquid Investment managers shall be selected using an RFP.
  - Illiquid Investments (N/A)

Staff will obtain Board authorization on a mandate-by-mandate basis prior to initiating an RFP.

The Evaluation Team is responsible for making an affirmative recommendation of the most qualified candidate manager(s) to the Selection Authority.

#### **b) Consulting Services**

LACERA will select general and/or specialist consultants using an RFP. Staff will recommend an Evaluation Team and obtain Board authorization prior to initiating a search effort.

The Evaluation Team is responsible for presenting the most qualified candidate consultants to the Selection Authority.

#### **c) Other Investment Related Services**

Numerous specialized investment related service providers that **do not** directly manage money are utilized to support Fund investment activities. Some specialized providers are on retainer or under an open

contract for services as needed and are utilized repetitively to deliver expert services, such as legal counsel negotiating and documenting transactions. Other specialized providers may be retained to deliver ongoing operational support services, such as a master custodian or securities lending service provider. Still other specialized providers may be retained to deliver frequently needed services, such as private equity fee verifications or real estate appraisals.

The selection process utilized for Other Investment Related Service providers will be an RFP. The selection process utilized will be authorized by the Board on a case-by-case basis.

**d) Legal Services Procurements**

The Chief Legal Counsel may initiate an RFP without Board approval to select a panel of outside counsel to assist on investment-related matters on an individual asset class basis. The Chief Legal Counsel will report the selected panelists to the Board after the panel selection. The Chief Legal Counsel or their designee, in consultation with the Investment Division, may thereafter select outside counsel from the panel to represent LACERA in individual transactions or provide other necessary legal services.

The Chief Legal Counsel also has the authority, without the need to conduct an RFP, to (1) retain specialized counsel based on expertise or geographical location when necessary to complete a transaction or fulfill a Board-approved initiative or programmatic priority, or (2) retain litigation counsel when necessary to protect LACERA's interests before a Board meeting seeking approval can be held, with the selected

litigation counsel presented to the Board for ratification at the next meeting.

Any selection of legal counsel covered by this Policy will be reported to the Board no later than the meeting of the Board immediately following the selection.

**e) Miscellaneous Small Purchases**

Miscellaneous Small Purchases shall be made after seeking multiple bids. The Board shall be notified of the selected specialized service providers within the monthly Chief Investment Officer report.

#### **4. Proposal Evaluation**

An Evaluation Team will be identified by Staff prior to the commencement of a search effort. The Evaluation Team will be responsible for evaluating and scoring written responses to the RFP, interviewing respondents, conducting due diligence, and deliberating and determining which of the respondents would best meet the needs of the Fund.

Each member of the Evaluation Team is responsible for evaluating and scoring each search response meeting the minimum qualifications. The Evaluation Team subsequently meets to discuss and justify scores to avoid inconsistencies and jointly determine a score for each respondent.

Further evaluation of the top ranked respondents may consist of in-house interviews at LACERA's offices, requests for and evaluation of additional information, and, if deemed appropriate, on-site interviews.

When a template agreement exists, top ranked respondents will be provided and asked to review and comment on the LACERA template agreement. The template agreement has key legal terms that the respondent must mark up with any proposed modifications. The RFP requires that respondents be bound to LACERA's terms, unless the respondent identifies an objection or addition, sets forth the basis for the objection or addition, and provides substitute language to make the clause acceptable to the respondent.

The Evaluation Team relies upon the Legal Division to determine the acceptability of any proposed language affecting legal issues or terms in the agreement. The respondent's proposed language is a significant consideration in the evaluation and scoring of proposals.

Upon completion of the process, the Evaluation Team assigns final scores to the respondents based on all information gathered during the entire evaluation process.

The Evaluation Team will prepare and submit a summary of its findings along with an affirmative recommendation for which respondent(s) should be hired to the Selection Authority.

## 5. Observance of a Quiet Period

LACERA requires a quiet period to ensure that the process of selecting a contractor is efficient, diligent and fair. The Quiet Period is a “no contact period” during the procurement process to prevent Trustees and staff communication with prospective vendors. Questions concerning the quiet period should be directed to the Legal Office.

- A. The quiet period shall be maintained after the issuance of a solicitation and continue until a final selection is made or the process is otherwise terminated.
- B. Initiation, continuation, and conclusion of the quiet period shall be publicly communicated to prevent inadvertent violations.
- C. During the quiet period, all Trustees and staff, except for designated LACERA contact persons, shall refrain from communicating with contractor candidates regarding any product or service offered by the candidate, except as permitted by Subsection G below.
- D. During the quiet period, no Trustee or staff member shall accept meals, travel, lodging, entertainment, or any other good or service of value from the candidates.
- E. All authority related to the search process shall be exercised, when the Board has authority under this policy, solely by the Board, or by delegated staff, and not by individual Board members. With respect



to procurements within the authority of Staff, authority related to the search process shall be exercised solely by the authorized staff member with contracting authority for the search.

- F. If any Trustee or staff member is contacted by a candidate during the quiet period about a matter relating to the pending selection, the Trustee or staff member shall refer the candidate to the designated LACERA contact person and report the contact to the Chief Counsel.
  
- G. The quiet period does not prevent Board-approved meetings or communications by staff with an incumbent contractor that is also a candidate provided that their communication is strictly limited to matters necessary in connection with the contractor's existing scope of work. Other than due diligence, discussion related to the pending selection is not permitted during these activities.
  
- H. A contractor candidate may be disqualified from a search process for a willful violation of this policy.