NOTICE OF A SPECIAL MEETING OF THE

BOARD OF INVESTMENTS

LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION

LOEWS SANTA MONICA BEACH HOTEL
1700 OCEAN AVENUE, SANTA MONICA, CA 90401

TUESDAY, JULY 10, 2018
9:00 A.M. – ARCADIA BALLROOM

The Board may take action on any item on the agenda, and agenda items may be taken out of order.

I. WELCOME
Jonathan Grabel, Chief Investment Officer

II. PUBLIC COMMENT

III. STRATEGIC PLAN FRAMEWORK
Chief Investment Officer

Institutional investors choose preferred implementation models and practices among differing options in order to achieve their mission. The Board will discuss a variety of possible parameters to implement the asset allocation. This discussion can help identify the framework for a plan to guide portfolio construction and practices at LACERA. The results of a Board survey, conducted prior to the offsite, will be used to facilitate the discussion.

IV. APPROVAL OF MINUTES

A. Approval of the Minutes of the Regular Meeting of June 13, 2018

V. CONSENT ITEMS

A. Recommendation as submitted by Michael Schneider, Chair, Real Estate Committee: That the Board adopt the revised Real Estate Objectives, Policies and Procedures. (Memo dated July 1, 2018)

V. CONSENT ITEMS (Continued)

B. Recommendation as submitted by Michael Schneider, Chair, Real Estate Committee: That the Board:

1.) Approve the proposed Real Estate Investment Plan for Fiscal Year 2018-2019; and

2.) Approve allocation of up to $550 million for investment by the Fund's separate account equity managers.

(Memo dated July 1, 2018)

C. Recommendation as submitted by Robert R. Hill, Interim Chief Executive Officer: That the Board Approve attendance of Board members at the National Association of Corporate Directors - Direct Professionalism on August 15-17, 2018 in Westlake Village, California and approve reimbursement of all travel costs incurred in accordance with LACERA's Education and Travel Policy.
(Placed on the agenda at the request of Mr. Moore)
(Memo dated June 26, 2018)

VI. NON-CONSENT ITEM

A. Recommendation as submitted by Ted Wright, Principal Investment Officer, Brenda Cullen, Investment Officer and Mel Tsao, Investment Analyst: That the Board invite the following emerging manager firms to interview with the Board for direct public equity active mandates: (1) CornerCap Investment Counsel, (2) Global Alpha Capital Management, and Matarin Capital Management. (Memo dated June 25, 2018)

VII. REPORTS

A. Principles for Responsible Investment (PRI) Association Board Election Candidate Nominations
Scott Zdrazil, Senior Investment Officer
(For Information Only) (Memo dated June 18, 2018)

VII. REPORTS (Continued)

B. Monthly Status Report on Board of Investments Legal Projects
Steven P. Rice, Chief Counsel
(For Information Only) (Memo dated July 2, 2018)

C. Monthly Fiduciary Counsel Contact and Billing Report
Steven P. Rice, Chief Counsel
(Memo dated July 2, 2018) (Privileged and Confidential)
(Attorney-Client Communication/Attorney Work Product)

VIII. REPORT ON STAFF ACTION ITEMS

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

X. CLOSING REMARKS

XI. ADJOURNMENT

Documents subject to public disclosure that relate to an agenda item for an open session of the Board of Retirement that are distributed to members of the Board of Retirement less than 72 hours prior to the meeting will be available for public inspection at the time they are distributed to a majority of the Board of Retirement Members at LACERA's offices at 300 N. Lake Avenue, Suite 820, Pasadena, CA 91101, during normal business hours of 9:00 a.m. to 5:00 p.m. Monday through Friday.

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Strategic Plan Framework

Board of Investments Offsite

July 10, 2018

Jonathan Grabel – Chief Investment Officer

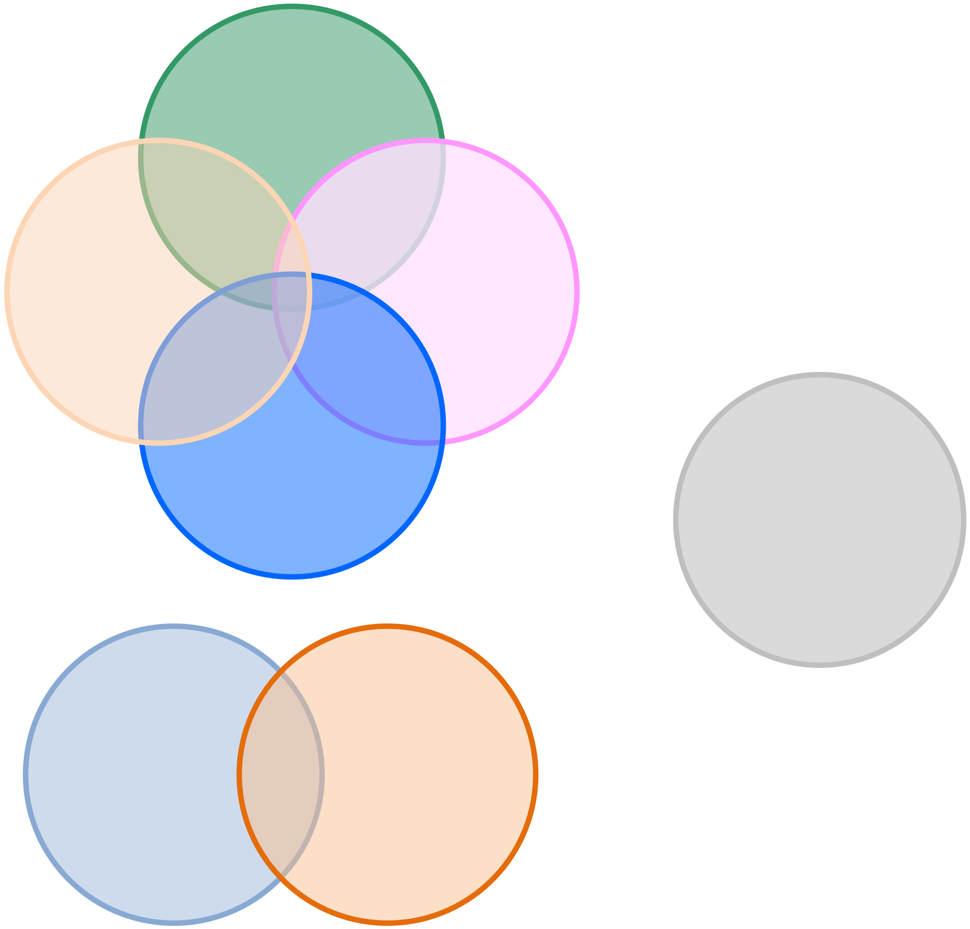
Factors


Insource
Manager-Count
Strategic
Fast-Pace
Aggressive
Quantitative
Qualitative
Low-Fees
Late-Adopter
Early-Adopter
Top-Quartile
Low-Risk
Median
High-Risk
Passive
Impact-Measurement
Tactical
Active
Liquidity
Performance-Fees
Outsource
Implementation
Conservative
Slow-Pace

Factor Relationships

Illustrative examples:

Factors relate to each other and impact how the Strategic Asset Allocation is implemented



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Mission and Strategic Plan

- LACERA's mission is to produce, protect, and provide the promised benefits

- The strategic plan of the investment division is to implement the strategic asset allocation in a liquidity-aware and risk-aware manner while incorporating LACERA's investment beliefs

- Implementing the strategic plan involves both:
  - Broad initiatives such as being mindful of ESG considerations
  - Defined projects such as building a Real Assets composite

Board Survey Discussion

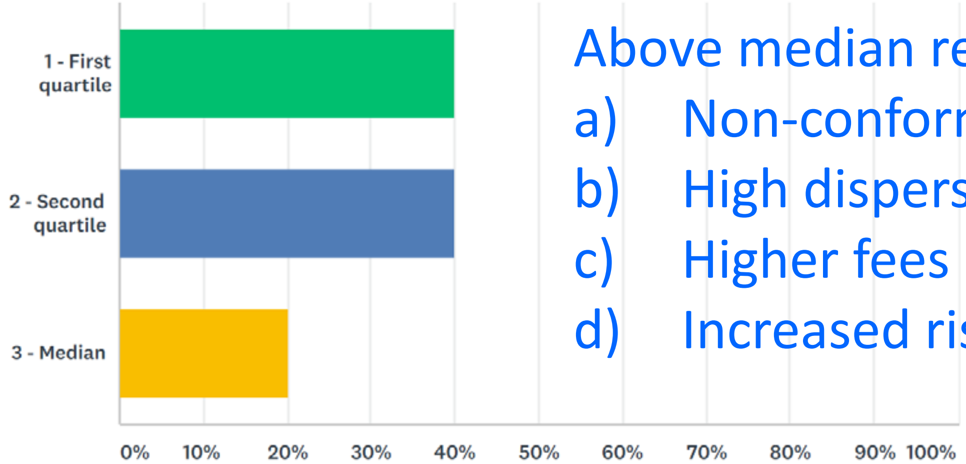
- A 15 question survey was established to poll Board Member views on topics such as risk tolerance and implementation options

- Today's planned activities regarding the survey:
  - Review initial aggregated responses
  - Provide additional information
  - Consider the interplay between responses
  - Discuss areas of interest
  - Potentially re-vote each survey question
  - Review observations and takeaways

Board Survey Discussion

Q1 Should LACERA strive for median, second quartile, or first quartile investment performance?We all want LACERA to be the best it can be. This question relates to investment performance relative to a peer universe of medium and large sized public pension plans. Seeking first quartile investment returns may increase the probability of underperforming median.

Answered: 5 Skipped: 0



Above median results often accompany:

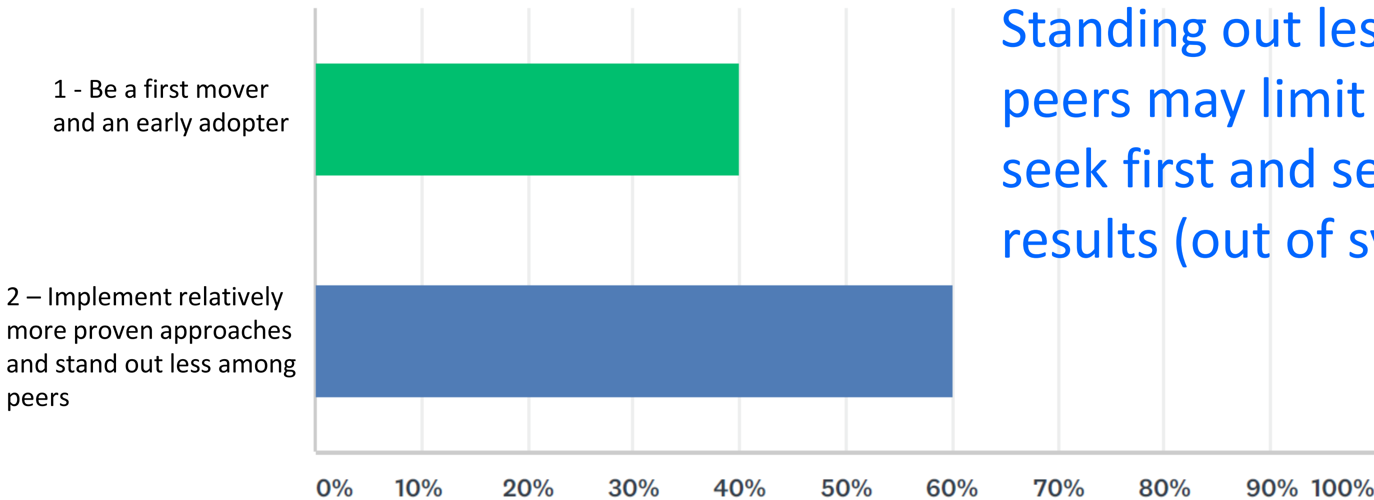
a) Non-conforming implementation
b) High dispersion of outcomes
c) Higher fees
d) Increased risk stance

ANSWER CHOICES	RESPONSES	
1 - First quartile	40.00%	2
2 - Second quartile	40.00%	2
3 - Median	20.00%	1
TOTAL		5

Board Survey Discussion

Q2 Which of the two options below best describes the demeanor/approach that LACERA should have towards new ideas and initiatives?

Answered: 5 Skipped: 0



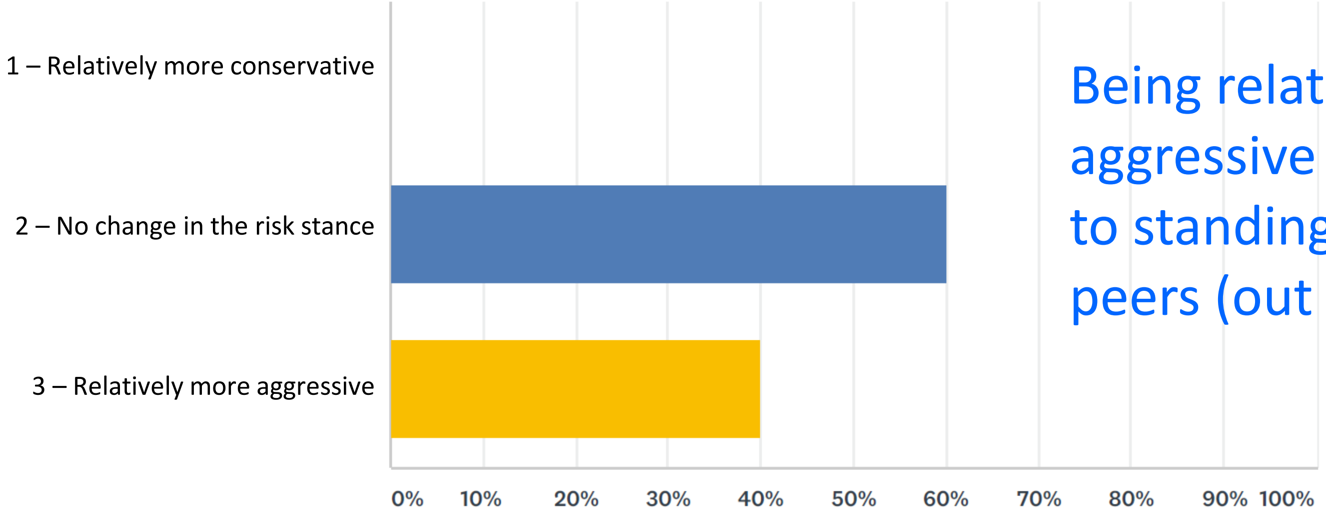
Standing out less among peers may limit the ability to seek first and second quartile results (out of sync with Q1).

ANSWER CHOICES	RESPONSES	
1 - Be a first mover and an early adopter	40.00%	2
2 - Implement relatively more proven approaches and stand out less among peers	60.00%	3
TOTAL		5

Board Survey Discussion

Q3 Should LACERA's portfolio be relatively more conservative or aggressive than it is currently?LACERA encounters a conservative/aggressive decision in both asset allocation exercises and when deciding how to implement various asset classes or portfolios.

Answered: 5 Skipped: 0



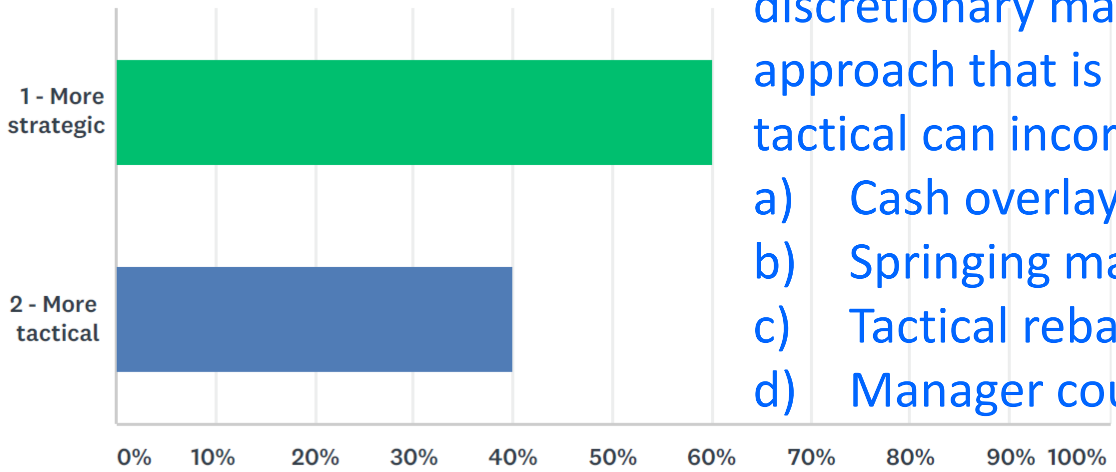
Being relatively more aggressive is often counter to standing out less among peers (out of sync with Q2).

ANSWER CHOICES	RESPONSES	
1 - Relatively more conservative	0.00%	0
2 - No change in the risk stance	60.00%	3
3 - Relatively more aggressive	40.00%	2
TOTAL		5

Board Survey Discussion

Q4 Should the general investment approach be more strategic or more tactical?Strategic refers to implementing pre-designed plans while a tactical approach is more flexible. For example, the mix may be 70/30 and not completely either strategic or tactical.

Answered: 5 Skipped: 0



Tactical does not have to mean discretionary market timing. An approach that is both strategic and tactical can incorporate:

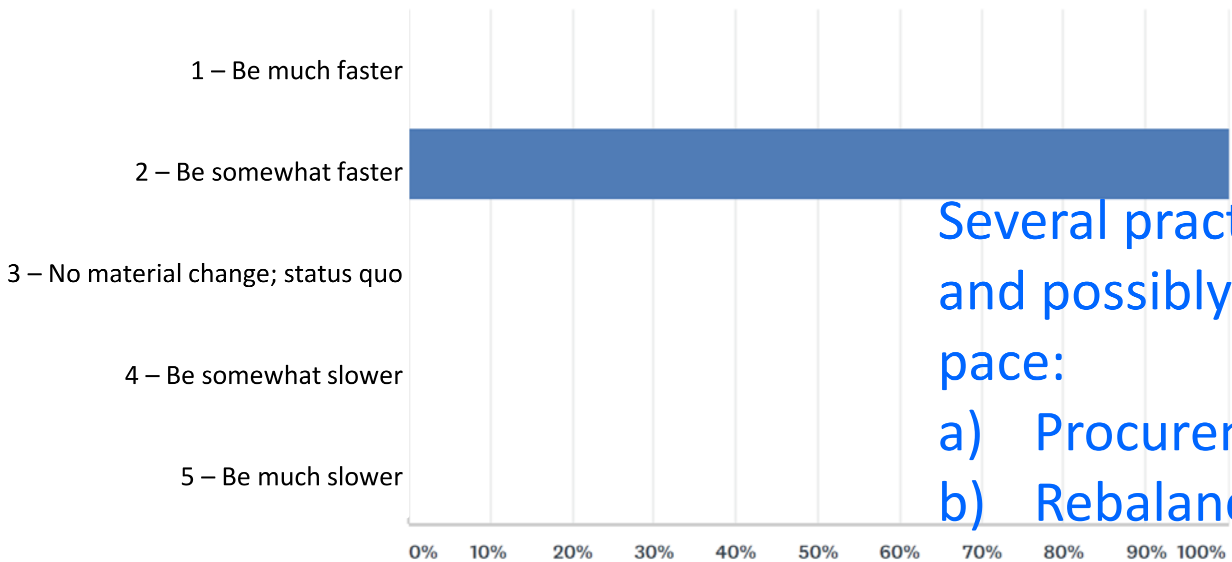
a) Cash overlay program
b) Springing mandates
c) Tactical rebalancing practices
d) Manager count considerations

ANSWER CHOICES	RESPONSES	
1 - More strategic	60.00%	3
2 - More tactical	40.00%	2
TOTAL		5

Board Survey Discussion

Q5 Should LACERA strive to accomplish projects relatively faster or slower in the future?

Answered: 5 Skipped: 0



Several practices could be reviewed and possibly adjusted to quicken pace:

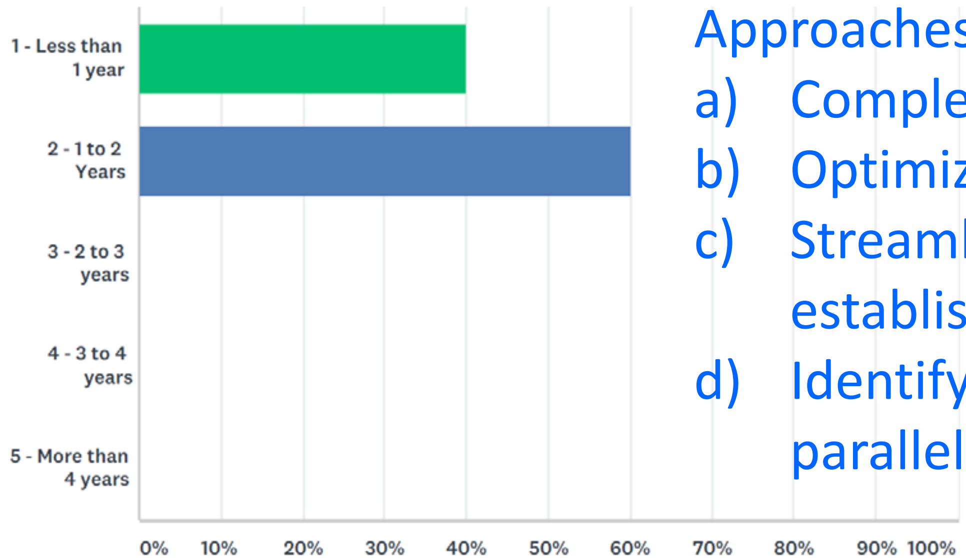
a) Procurement (RFP, RFI, searches)
b) Rebalancing to new targets

ANSWER CHOICES	RESPONSES	
1 - Be much faster	0.00%	0
2 - Be somewhat faster	100.00%	5
3 - No material change; status quo	0.00%	0
4 - Be somewhat slower	0.00%	0
5 - Be much slower	0.00%	0
TOTAL		5

Board Survey Discussion

Q6 How long should LACERA take to implement a new asset category or substantial (overhaul) changes to an existing asset category?

Answered: 5 Skipped: 0



Approaches to consider:

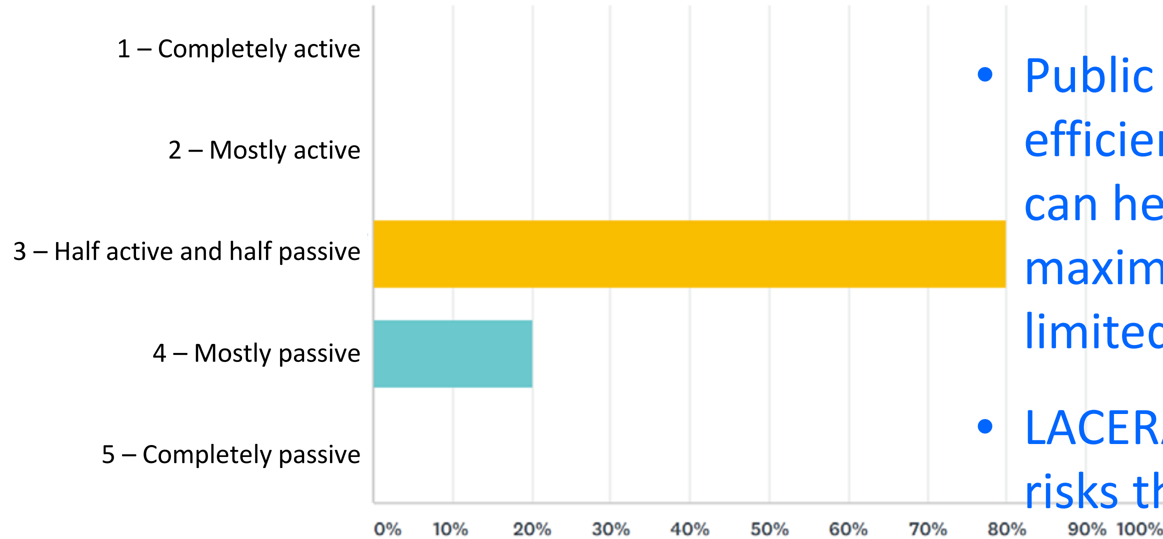
a) Completion portfolios
b) Optimize procurement
c) Streamlined practices for established mandates
d) Identify ways to work in parallel instead of in sequence

ANSWER CHOICES	RESPONSES	
1 - Less than 1 year	40.00%	2
2 - 1 to 2 Years	60.00%	3
3 - 2 to 3 years	0.00%	0
4 - 3 to 4 years	0.00%	0
5 - More than 4 years	0.00%	0
TOTAL		5

Board Survey Discussion

Q7 For public equity markets, where passive options are widely available, to what degree should implementation be concentrated on passive strategies?

Answered: 5 Skipped: 0



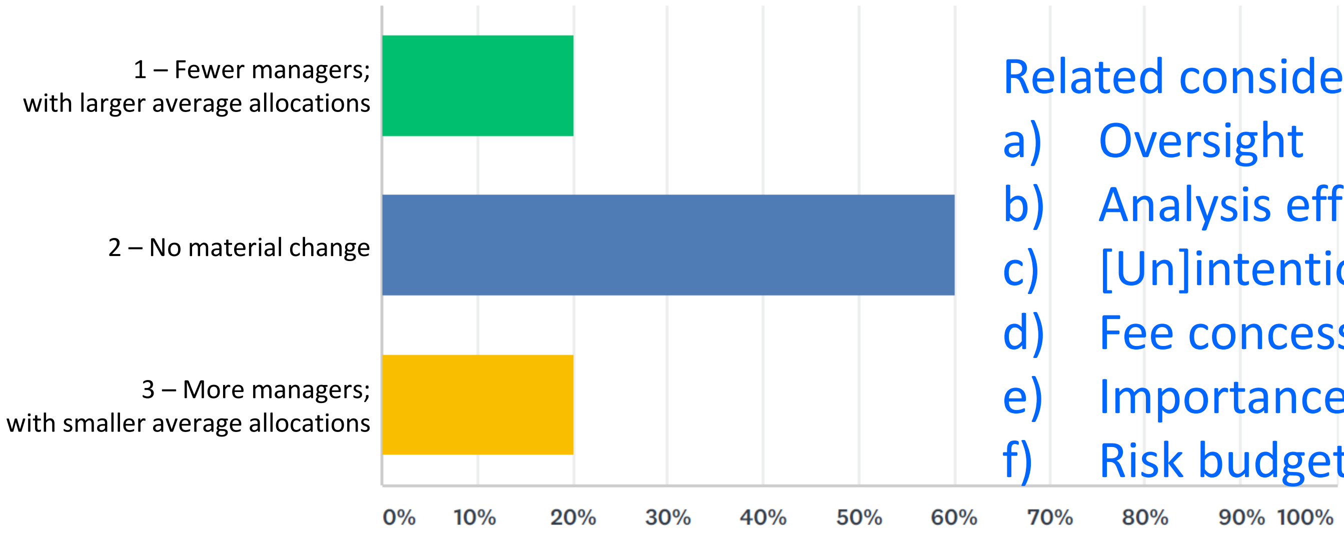
- LACERA's Public Equity Composite is currently approximately 70% passive.
- Public equity markets are highly efficient. A risk budgeting exercise can help LACERA assess how to maximize expected benefit from limited active risks.
- LACERA can price and evaluate active risks through appropriate fee structures.

ANSWER CHOICES	RESPONSES	
1 - Completely active	0.00%	0
2 - Mostly active	0.00%	0
3 - Half active and half passive	80.00%	4
4 - Mostly passive	20.00%	1
5 - Completely passive	0.00%	0
TOTAL		5

Board Survey Discussion

Q8 Should LACERA aim to have more or fewer investment managers in the future?Currently, LACERA allocates to 250+ external investment managers.

Answered: 5 Skipped: 0



LACERA invests in approximately 584 externally managed funds.

Related considerations:

a) Oversight
b) Analysis efforts
c) [Un]intentional allocations
d) Fee concessions for size
e) Importance of a Total Fund view
f) Risk budgeting

ANSWER CHOICES	RESPONSES	
1 - Fewer managers; with larger average allocations	20.00%	1
2 - No material change	60.00%	3
3 - More managers; with smaller average allocations	20.00%	1
TOTAL		5

Board Survey Discussion

- Excerpt from the "Bridging the Gap" presentation, LACERA's BOI Offsite, February 1, 2018:

All dollars in millions

Type of Equity Mandate	Mandate Size	% of portfolio in AAPL	Dollars invested in AAPL	Gain/Loss if AAPL appreciates 10%
Index Fund	$10,000	3%	$300	$30.0
Active Manager 1	$200	5%	$10	$1.0
Active Manager 2	$200	1%	$2	$0.2
Long/Short Manager 1	$50	-2%	-$1	-$0.1
Long/Short Manager 2	$50	2%	$1	$0.1
Total	**$10,500**		**$312**	**$31.2**

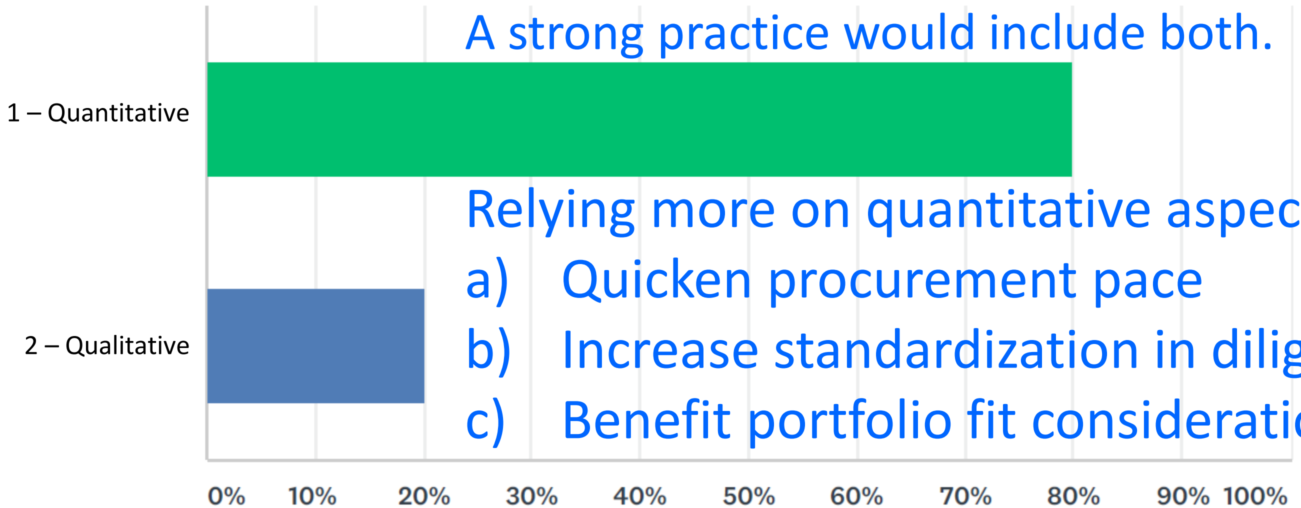
- Decreasing manager count may benefit the understanding of cross-currents in the portfolio and improve the Total Fund perspective

Board Survey Discussion

Q9 Should LACERA place a higher priority on either quantitative or qualitative aspects of investment manager diligence?

Answered: 5 Skipped: 0

Quantitative / Qualitative are not mutually exclusive. A strong practice would include both.



Relying more on quantitative aspects can:

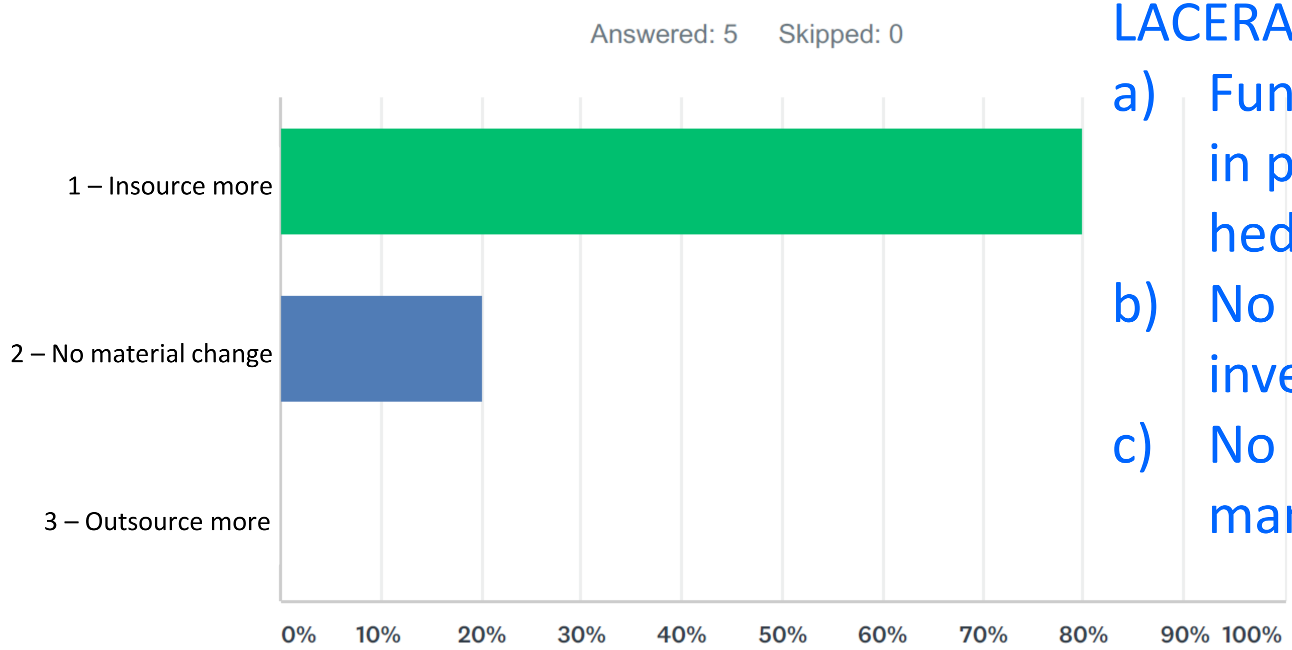
a) Quicken procurement pace
b) Increase standardization in diligence
c) Benefit portfolio fit considerations

Enhanced (more robust) systems and analytic tools could benefit a quantitative focus.

ANSWER CHOICES	RESPONSES	
1 - Quantitative; example: performance track record, risk analytics, fit among the current portfolio	80.00%	4
2 - Qualitative; example: people and process	20.00%	1
TOTAL		5

Board Survey Discussion

Q10 Should LACERA seek to insource or outsource more investment functions?



LACERA currently:

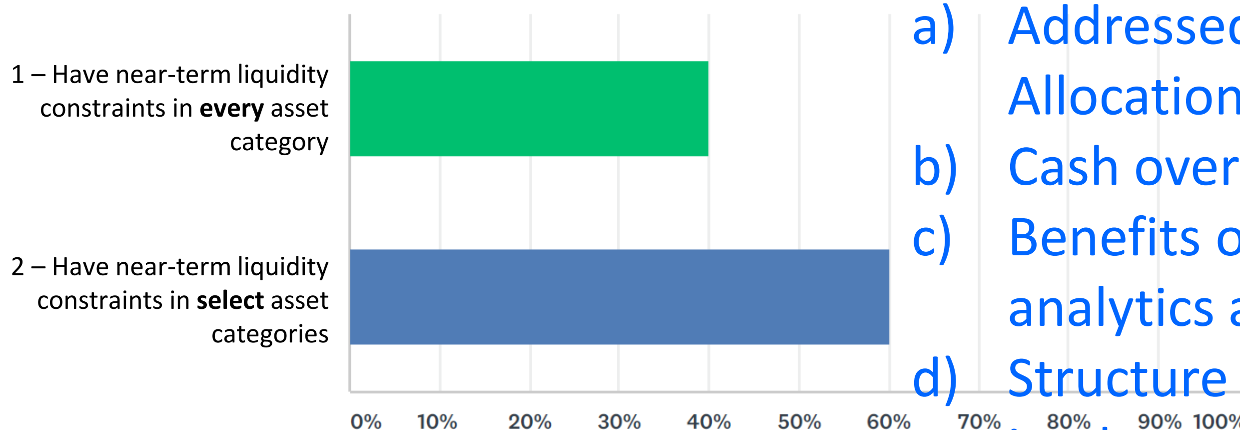
a) Fund of funds exist in private equity and hedge funds
b) No direct co-investments
c) No internal management

ANSWER CHOICES	RESPONSES	
1 - Insource more; example: internal index funds, internal private equity fund, terminating fund of funds	80.00%	4
2 - No material change; status quo	20.00%	1
3 - Outsource more; example: allocate more to fund of funds, hire additional service providers	0.00%	0
TOTAL		5

Board Survey Discussion

Q11 Should every asset category be managed with liquidity constraints within a defined near-term period of time, for example, 3 years?LACERA has approximately $42 billion in liquid equity, fixed income, and cash assets. This is sufficient to cover more than a decade of projected benefit payments. These three asset categories alone may be viewed as an appropriate source for all near-term liquidity.

Answered: 5 Skipped: 0



Related topics:

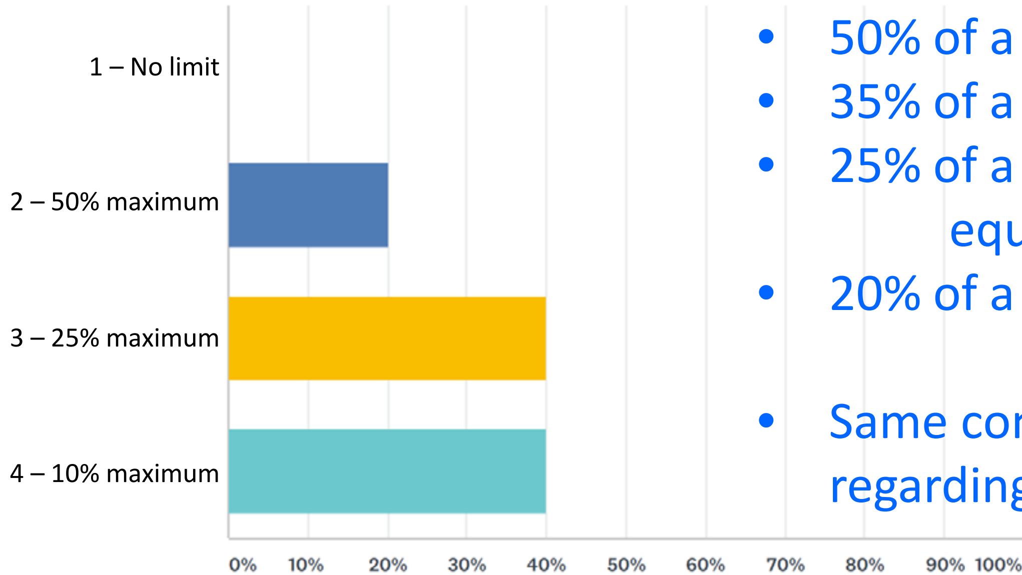
a) Addressed through Strategic Asset Allocation
b) Cash overlay program
c) Benefits of enhanced portfolio analytics and reporting
d) Structure reviews and functional implementations of asset categories

ANSWER CHOICES	RESPONSES	
1 - Yes; every asset category should have near-term liquidity constraints	40.00%	2
2 - No; near term expenses can be paid from cash, public equity and fixed income allocations. Other categories need not be managed for near-term expenses.	60.00%	3
TOTAL		5

Board Survey Discussion

Q12 Should LACERA establish a threshold percentage allocation of an externally managed commingled fund beyond which we would be reluctant and/or unwilling to invest?

Answered: 5 Skipped: 0



Current policy:

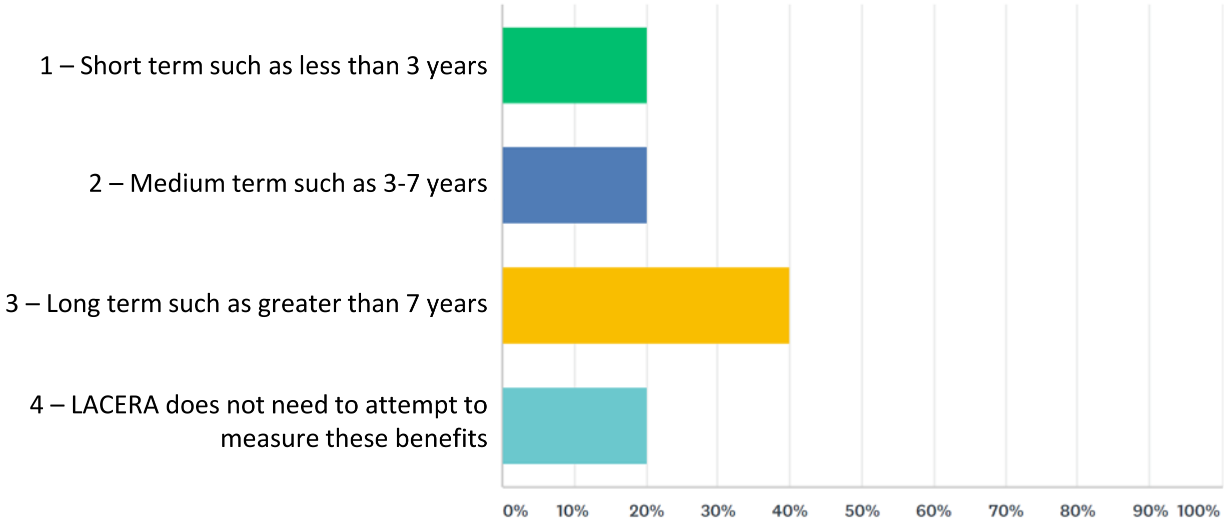
- 50% of a fund in PE
- 35% of a firm in HF
- 25% of a fund in public equity and fixed income
- 20% of a firm in RE
- Same considerations as Q8 regarding manager/fund count:
  a) Oversight
  b) Analysis efforts
  c) [Un]intentional allocations
  d) Fee concessions for size
  e) Importance of a Total Fund view
  f) Risk budgeting

ANSWER CHOICES	RESPONSES	
1 - No; there should be no limit to how much of a commingled fund LACERA's investment represents	0.00%	0
2 - Yes; LACERA should be unwilling to invest beyond 50% of a fund's value	20.00%	1
3 - Yes; LACERA should be unwilling to invest beyond 25% of a fund's value	40.00%	2
4 - Yes; LACERA should be unwilling to invest beyond 10% of a fund's value	40.00%	2
TOTAL		5

Board Survey Discussion

Q13 At what point should LACERA expect to observe a positive economic benefit (return enhancing or risk mitigating) from its ESG activity?As an asset owner, LACERA may engage public policy, companies, or managers beyond monetary investment. Select engagement may be made with an expectation of future economic benefit. This question is asking about the appropriate timeframe to expect an economic benefit.

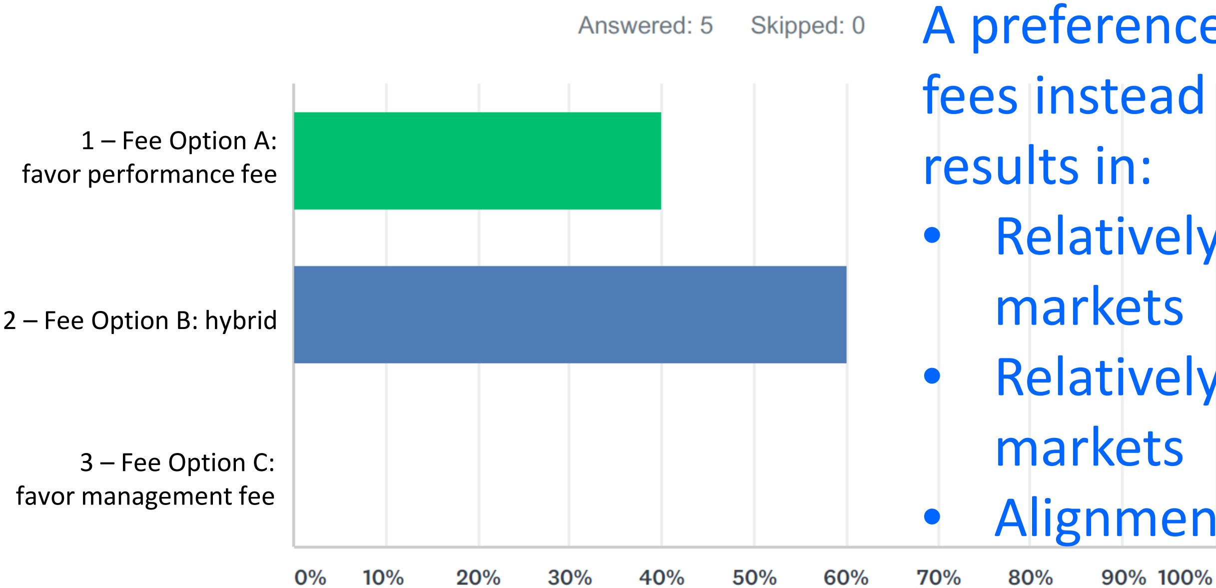
Answered: 5 Skipped: 0



ANSWER CHOICES	RESPONSES	
1 - Short term such as less than 3 years	20.00%	1
2 - Medium term such as 3-7 years	20.00%	1
3 - Long term such as greater than 7 years	40.00%	2
4 - LACERA does not need to attempt to measure these benefits	20.00%	1
TOTAL		5

Board Survey Discussion

Q14 Which of the below fee structures should LACERA prefer for an active private market strategy where no passive index option is available?



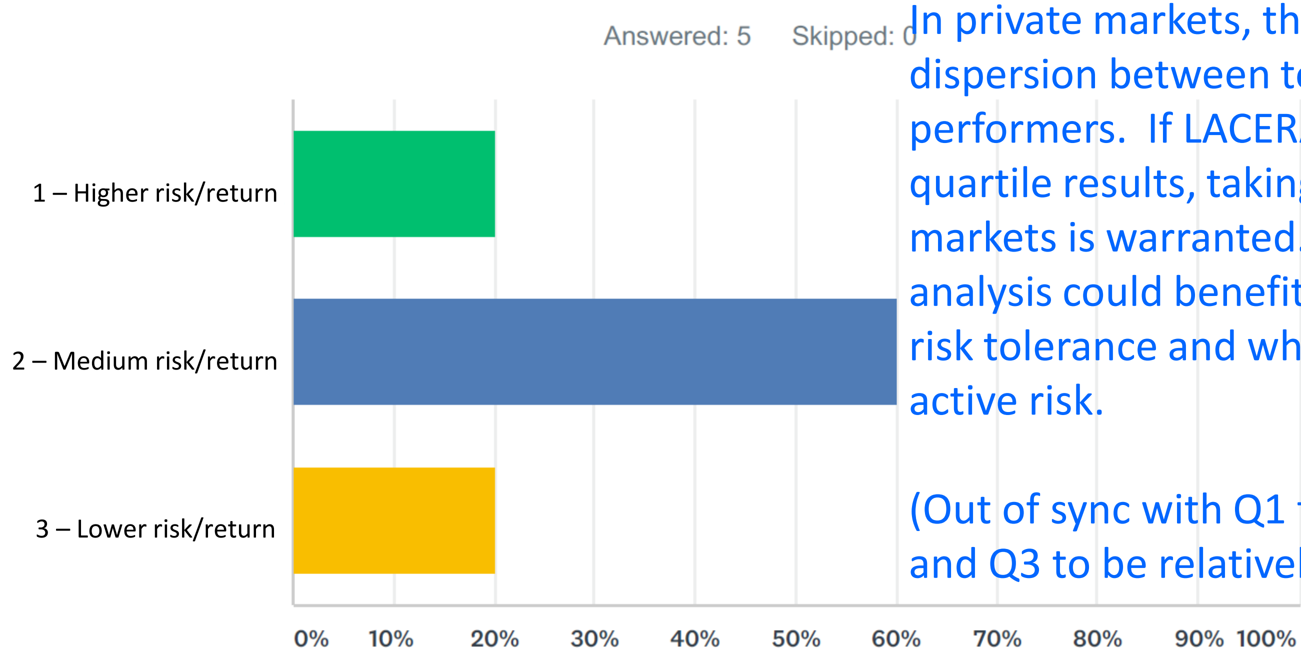
A preference for performance fees instead of management fees results in:

- Relatively higher fees in strong markets
- Relatively lower fees in weak markets
- Alignment of interest

ANSWER CHOICES	RESPONSES	
1 - Fee Option A: 10% gross return expectation with a 0.0% management fee and a 20% performance fee; 8.0% net return expectation	40.00%	2
2 - Fee Option B: 10% gross return expectation with a 1.0% management fee and an 11% performance fee; 8.0% net return expectation	60.00%	3
3 - Fee Option C: 10% gross return expectation with a 2.0% management fee and a 0% performance fee; 8.0% net return expectation	0.00%	0
TOTAL		5

Board Survey Discussion

Q15 Which of the below Funds should LACERA prefer for an active private market strategy where no passive index option is available?



In private markets, there is wide dispersion between top and poor performers. If LACERA seeks 1st/2nd quartile results, taking risk in private markets is warranted. A risk budgeting analysis could benefit decisions regarding risk tolerance and where to take higher active risk.

(Out of sync with Q1 to be above median and Q3 to be relatively more aggressive.)

ANSWER CHOICES	RESPONSES	
1 - Fund A: relatively higher risk/return, 2.0% management fee, 20% performance fee, 14% net expected return	20.00%	1
2 - Fund B: medium risk/return, 1.5% management fee, 10% performance fee, 10% net expected return	60.00%	3
3 - Fund C: relatively lower risk/return, 1.0% management fee, 0% performance fee, 7% net expected return	20.00%	1
TOTAL		5

Survey Summary

Synopsis

1. Seek above median
2. Fit in with peers
3. Relatively more aggressive
4. Strategic and tactical
5. Somewhat faster
6. Implementations < 2 years
7. Slightly over half passive
8. Mixed views on fund count
9. Quantitative priority
10. Insource more
11. Mixed views on liquidity
12. Constrain % of fund size
13. Unclear: measuring ESG benefit
14. Prefer performance fees
15. Average risk tolerance

Strategic Plan Framework – Looking Ahead

Short Term

Completion portfolios

Rebalancing / cash overlay program

Update governance documents

Medium Term

Review procurement practices

Dedicated managed accounts

Springing mandates

|---------- Implement strategic asset allocation ----------|

Long Term

Enhanced portfolio analytics

Risk budgeting

Alternative fee constructs

|----------------- In-source discussions -----------------|

|-------------- ESG benefit measurement --------------|

MINUTES OF THE REGULAR MEETING OF THE BOARD OF INVESTMENTS

LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION

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

10:00 A.M., WEDNESDAY, JUNE 13, 2018

PRESENT: David Green, Chair

Wayne Moore, Secretary (Left the meeting at 1:40 p.m.)

Joseph Kelly

David Muir (Left the meeting at 1:50 p.m.)

Ronald Okum

Herman B. Santos

Michael Schneider

ABSENT: Shawn Kehoe, Vice Chair

Gina V. Sanchez

<u>STAFF ADVISORS AND PARTICIPANTS</u>

Robert Hill, Interim Chief Executive Officer

Jonathan Grabel, Chief Investment Officer

Steven P. Rice, Chief Counsel

Christine Roseland, Senior Staff Counsel

Christopher Wagner, Principal Investment Officer

Jim Rice, Senior Investment Officer

Calvin Chang, Senior Investment Analyst

Reed Smith LLP
Harvey L. Leiderman

STAFF ADVISORS AND PARTICIPANTS (Continued)

Meketa Investment Group
Leandro Festino, Managing Principal
Timothy Filla, Managing Principal

StepStone Group LP
Jose Fernandez, Partner

I. CALL TO ORDER

The meeting was called to order by Chair Green at 1:20 p.m., in the Board Room of Gateway Plaza.

II. PLEDGE OF ALLEGIANCE

III. APPROVAL OF MINUTES

A. Approval of the Minutes of the Regular Meeting of May 9, 2018

Mr. Kelly made a motion, Mr. Moore seconded, to approve the minutes of the regular meeting of May 9, 2018. The motion passed unanimously.

IV. REPORT ON CLOSED SESSION ITEMS

Steven Rice, Chief Counsel, reported that, at the December 13, 2017 Board of Investments meeting, the Board met in closed session under agenda item XIII.A., pursuant to California Government Code Section 54956.9 (d) (4), to consider the initiation of litigation. On a motion by Mr. Santos, seconded by Mr. Okum, the Board voted 6-0 to seek to become a named plaintiff in In re Interest Rate Swaps Antitrust Class Action Litigation, United States District Court, Southern District of

IV. REPORT ON CLOSED SESSION ITEMS (Continued)

New York, Case No. 16 MD 2704 (PAE). Messrs. Kehoe, Okum, Santos and Green and Mrs. Sandoval and Mrs. Villarreal voted yes. Messrs. Kelly, Moore and Schneider were absent.

On May 10, 2018, the court granted LACERA's motion to allow an amended complaint to be filed, adding the fund as a named plaintiff. The litigation is now proceeding with LACERA as a named plaintiff.

V. PUBLIC COMMENT

There were no requests from the public to speak.

VI. INTERIM CHIEF EXECUTIVE OFFICER'S REPORT
(Memo dated June 4, 2018)

Mr. Hill did not have any comments.

VII. CHIEF INVESTMENT OFFICER'S REPORT
(Memo dated May 31, 2018)

Mr. Grabel did not have any comments.

VIII. CONSENT ITEMS

Mr. Schneider made a motion, Mr. Moore seconded, to approve the following agenda items. The motion passed unanimously.

A. Recommendation as submitted by Jonathan Grabel, Chief Investment Officer and Scott Zdrazil, Senior Investment Officer: That the Board authorize LACERA's Chief Investment Officer to sign an addendum to LACERA's current 2017-2019 proxy voting platform contract.
(Memo dated May 31, 2018)

VIII. CONSENT ITEMS (Continued)

B. Recommendation as submitted by Scott Zdrazil, Senior Investment Officer: That the Board approve LACERA's member ballot regarding members of governing boards of the International Corporate Governance Network. (Memo dated May 31, 2018)

IX. NON - CONSENT AGENDA

A. Recommendation as submitted by Jonathan Grabel, Chief Investment Officer: That the Board approve Meketa's proposed Asset Allocation Policy Ranges for the LACERA Pension Trust. (Memo dated May 31, 2018)

Mr. Grabel and Messrs. Festino and Filla of Meketa Investment Group were present and answered questions from the Board.

Mr. Kelly made a motion, Mr. Santos seconded, to approve Meketa's proposed Asset Allocation Policy Ranges. The motion passed unanimously.

B. Recommendation as submitted by Robert R. Hill, Interim Chief Executive Officer: Adopt the final proposed LACERA Fiscal Year 2018-2019 Administrative, Retiree Healthcare Benefits, and Other Post-Employment Benefits Trust Budgets. (Memo dated June 5, 2018)

Mr. Hill was present and answered questions from the Board.

Mr. Santos made a motion, Mr. Moore seconded, to adopt the final proposed LACERA Fiscal Year 2018-2019 Administrative, Retiree Healthcare Benefits, and Other Post-Employment Benefits Trust Budgets. The motion passed unanimously.

IX. NON - CONSENT AGENDA (Continued)

C. Recommendation as submitted by Barry W. Lew, Legislative Affairs Officer: That the Board authorize staff to submit a letter to the California Franchise Tax Board in response to the request for comments at the Third Interested Parties Meeting on Market-Based Rules for Sales Other Than Sales of Tangible Personal Property (California Code of Regulations, Title 18, Section 25136-2). (Memo dated June 1, 2018)

Mr. Steven Rice and Mr. Lew were present and answered questions from the Board.

Mr. Santos made a motion, Mr. Muir seconded, to authorize staff to submit a letter to the California Franchise Tax Board in response to the request for comments at the Third Interested Parties Meeting on Market-Based Rules for Sales Other Than Sales of Tangible Personal Property (California Code of Regulations, Title 18, Section 25136-2). The motion passed unanimously.

X. REPORTS

A. Private Equity Performance Report
Christopher J. Wagner, Principal Investment Officer
(Memo dated June 1, 2018)

Mr. Wagner and Mr. Chang were present and answered questions from the Board.

B. 2018 First Quarter Hedge Fund Performance Report
James Rice, Senior Investment Officer
(Memo dated May 24, 2018)

Mr. Grabel and Mr. Jim Rice were preset and answered question from the Board.

X. REPORTS (Continued)

(Mr. Moore left the meeting at 1:40 p.m.)
(Mr. Muir left the meeting at 1:50 p.m.)

The following items were received and filed:

C. Securities Lending Program – 2017 Annual Review
Robert Z. Santos, Investment Officer
Adam Cheng, Senior Investment Analyst
(For Information Only) (Memo dated May 31, 2018)

D. Asian Corporate Governance Association Annual General Meeting Ballot
Scott Zdrazil, Senior Investment Officer
(For Information Only) (Memo dated May 23, 2018)

E. State Street Incident Report
Jonathan Grabel, Chief Investment Officer
(For Information Only) (Memo dated May 18, 2018)

F. OPEB Master Trust New Strategic Asset Allocation – Update Implementation Plan
Jonathan Grabel, Chief Investment Officer
(For Information Only) (Memo dated June 1, 2018)

G. Implementation Update on LACERA Pension Trust Asset Allocation
Jonathan Grabel, Chief Investment Officer
(For Information Only) (Memo dated May 31, 2018)

H. Monthly Status Report on Board of Investments Legal Projects
Steven P. Rice, Chief Counsel
(For Information Only) (Memo dated June 4, 2018)

I. May 2018 Fiduciary Counsel Contact and Billing Report
Steven P. Rice, Chief Counsel
(Memo dated June 4, 2018) (Privileged and Confidential)
(Attorney-Client Communication/Attorney Work Product)

XI. REPORT ON STAFF ACTION ITEMS

There were no items to report out.

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

Mr. Grabel announced that David Chu has been promoted to the Senior Investment Officer position.

Mr. Grabel welcomed Cindy Rivera, Financial Analyst I, to the Investment Team.

XIII. EXECUTIVE SESSION

A. Conference with Staff and Legal Counsel to Consider the Purchase or Sale of Particular, Specific Pension Fund Investments
(Pursuant to California Government Code Section 54956.81)

1. STORM VENTURES FUND VI, L.P.

Steven Rice, Chief Counsel, reported that, the Board received a closed session (For Your Information) memo pursuant to California Government Code Section 54956.81, reporting that, pursuant to the authority granted the CIO under the 2018 Private Equity Objectives, Policy, and Procedures (OPP), the CIO approved a commitment in May 2018 of up to $50 million in Storm Ventures Fund VI, L.P., which is an early stage enterprise software focused fund investing primarily in Northern California. The closed session report was made available to the Board in compliance with the OPP and was reported out under California Government Code Section 54957.1.

XIV. ADJOURNMENT

There being no further business to come before the Board, the meeting was adjourned at 2:00 p.m.

Green Folder Information (Information distributed in each Board Members Green Folder at the beginning of the meeting)

1. Project Plan for the Revision of LACERA'S Investment Policy Statement (For Information Only) (Memo dated June 4, 2018)

2. LACERA Comment Letter on IRS Notice 2018-24 Concerning Availability of Determination Letters (For Information Only) (Memo dated May 31, 2018)

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WAYNE MOORE, SECRETARY

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DAVID GREEN, CHAIR

REAL ESTATE OBJECTIVES, POLICIES, AND PROCEDURES RECOMMENDATION

July 10, 2018

TRINA SANDERS
INVESTMENT OFFICER–REAL ESTATE

KEVIN BASSI
Senior Investment Analyst-Real Estate

July 1, 2018

TO: Each Member
Board of Investments

FROM: Board of Investments Real Estate Committee
John McClelland, Principal Investment Officer-Real Estate

FOR: July 10, 2018 Board of Investments Meeting

SUBJECT: **REAL ESTATE OBJECTIVES, POLICIES & PROCEDURES**

RECOMMENDATION

Adopt the Revised Real Estate Objectives, Policies and Procedures

BACKGROUND

On June 13, 2018, Staff presented proposed updates to the Real Estate Objectives, Policies and Procedures (OPP) to the Board of Investments Real Estate Committee (the Committee). There were several proposed changes that staff considers to be material. These changes are outlined below.

- The definition of the role of real estate has been updated to reflect the unique characteristics of real estate that should benefit the portfolio. Definitions of "core/core-plus" and "non-core" have been introduced with "non-core" consisting of value-add and high-return investments.
- The newly adopted functional asset classes have been integrated into the OPP. core/core-plus and value-add will become a part of Real Assets and Inflation Hedges. High-return investments become a part of the Growth asset class and real estate debt will contribute to the Credit asset class. The real estate group will continue to be responsible for all real estate investment activity, regardless of the functional asset class treatment.
- A Manager Return Objective has been added and may make use of benchmarks related to property and geographic-specific investment mandates such as the National Council of Real Estate Fiduciaries (NCREIF) Property Index (NPI). This will facilitate better performance monitoring.
- New language was added to the existing Acquisition/Investment Review section that describes the process used when acquiring assets from a commingled fund structure (fund-of-one). The added language outlines all the of the steps taken prior to acquisition and reflects the Board-approved process that has been previously used.
- Removing the Independent Fiduciary (IF) Selection section as this section has not been used since being inserted approximately ten years ago when staff had anticipated the more

frequent use of IF's. A planned search to create a bench of IF's was cancelled last year. The most common use of an IF is expected to be when an opportunity arises to acquire an asset from a fund-of-one and correlates to the prior bullet point, describing the steps taken in the acquisition process. Use of an IF for this type of transaction is discussed in additional detail in the OPP.

- Replacing the Watch List with a Manager Return Objective and review process. The Watch List has been replaced with a Manager Return Objective, which will be incorporated into each IMA agreement. The manager will be evaluated on a rolling five-year period. If a manager fails to meet the return objective for two consecutive one-year periods, the manager will have a formal review with staff and the Board. The annual investment plan prepared by staff and subject to approval by the Board, will identify each manager that will be permitted to deploy capital for new investments and by omission, those managers that will not be allowed to make new investments.

OPTIONS AVAILABLE TO THE BOARD

The OPP describes the long-term objectives, policies and procedures that guide the real estate investment activity. If the Board does not approve the OPP changes, the prior version remains in effect. In that event, staff would consult with the Committee to develop an alternative version or include the Board's direction for a revised document.

DELIBERATIONS AND OPINIONS EXPRESSED BY THE COMMITTEE

Some of the opinions expressed by Committee members during its deliberations and staff's response include the following:

LACERA's Investment Beliefs were noted as missing from the OPP. Staff explained that the Investment Beliefs are assumed incorporated into all investment documents and activities.

There was discussion relating to whether five-years was enough time for managers to perform and achieve their objectives. Staff observed that the five-year period was the initial point of measurement and that it did not result in mandatory termination, simply a review. Reasons why more time may be appropriate could be discussed on a manager by manager basis.

The process and timing for termination of a separate account manager was reviewed. The Committee was reminded that the separate account agreements contain a 30-day termination "for convenience" clause. Thus, assets could be transferred away from a manager in a timely manner.

RISKS OF ACTION AND INACTION

Failure to approve the revised OPP will delay integration of the functional asset classes into the real estate program. However, the previous version of the OPP will guide activity until revisions acceptable to the Board are presented.

CONCLUSION

A redline copy of the proposed changes to the OPP is **ATTACHMENT A**, the clean line OPP is **ATTACHMENT B**, and the real estate consultant's concurrence memo is **ATTACHMENT C**.

The Committee voted unanimously to recommend adoption by the Board.

Attachments

Noted and Reviewed:

____
Jonathan Grabel
Chief Investment Officer

JM/dr

ATTACHMENT A

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LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION

REAL ESTATE

Objectives, Policies and Procedures

PROPOSED ADOPTED June 13, 2018

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REAL ESTATE OBJECTIVES, POLICIES and PROCEDURES

TABLE OF CONTENTS

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LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION
REAL ESTATE OBJECTIVES, POLICIES AND PROCEDURES

SECTION I – PORTFOLIO OBJECTIVES

1. Introduction

The Board of Investments (the "Board") of the Los Angeles County Employees Retirement Association (the "Fund") has determined that, over the long term, inclusion of real estate investments will enhance the risk/return characteristics of the Fund. The purpose of this document is to set forth objectives, policies and procedures for investment in the asset class of real estate. This document supplements but does not supersede LACERA's Investment Policy Statement.

2. Asset Allocation

Real estate comprises a portion of three functional asset classes. These include Real Assets and Inflation Hedges, Growth and Credit. The allocation to each of these functional asset classes is:

7 % Real Assets and Inflation Hedges
2 % Growth
1 % Credit
10% Total

The Board periodically reviews the allocation to the asset class of real estate and designates portions of the allocation to be managed by individual managers.

3. The Role of Real Estate

The primary role of real estate is to generate stable, reliable income as well as to preserve capital. Additionally, real estate is expected to provide a risk-adjusted total return that is accretive to the Fund achieving its long term rate of return with acceptable levels of risk. High-Return real estate, classified as part of the functional asset class Growth, can also provide returns similar to public equity, with a lower correlation to other asset classes. Real estate debt investments, classified as part of the functional asset class Credit, can provide attractive returns while taking lower levels of risk than equity real estate investments.

Real estate investments will be made into Core/Core-Plus and Non-Core real estate. The definition of these risk classifications, as well as those of the sub Non-Core real estate such as Value Add and High Return, is listed under section six, "Investment Categories".

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The use of real estate investments such as debt, public equities and non-traditional property types or strategies may be used on a limited basis in order to enhance returns and/or defensively position the program against market cycle shifts.

4. Investment Philosophy

Investment decisions regarding the real estate portfolio should be primarily guided by the following objectives: (i) maximizing long term total cash returns; (ii) achieving a total return competitive with other asset classes; and (iii) maintaining a broad diversification of assets. LACERA should adhere to prudent risk management policies that will seek to manage risk, insuring diversification of assets and investment managers.

5. Return Objectives

5.1 Portfolio Benchmark

To evaluate the performance of the Real Estate portfolio, the benchmark will be based on the National Council of Real Estate Fiduciaries (NCREIF) Fund Index (NFI) Open-end Diversified Core Equity Index (ODCE) referred to as NFI-ODCE. All comparisons will be net performance to net index returns. The primary benchmark comparison will cover a ten-year period. The one, three and five year periods will also be measured.

Additional benchmarks such as the NCREIF Property Index (NPI) may be used for property or geographic specific investment measurements, including the sub indices created by NPI as well as ODCE.

Investment Category	After Fee Benchmark
Private Core	ODCE
Private Value-Add	ODCE+100 bps
Private High-Return	ODCE+300 bps
Public REITs (Domestic)	NAREIT
Public REITs (International)	FTSE/EPRA/NAREIT
Private Debt	≥NPI Income
Total Portfolio	**ODCE + 80 bps**

The Total Portfolio benchmark is weighted 60% core, 20% value-add and 20% high-return. When evaluating the performance of the real estate portfolio, analysis will also include comparisons to the then current assumptions

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for the asset class to evaluate the Real Estate Portfolio's contribution to the Plan.

6. Investment Categories

All percentages and limits herein are based on the total real estate allocation. The targeted portfolio composition is relatively low risk and seeks at least 50% in Core investments. The ranges for each of the investment categories (defined and discussed below) are as follows:

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Target Portfolio Composition

Public and private as well as international investments in real estate may be included in core and non-core strategies. Limits for each are detailed below:

Core Minimum 50%	
Non-Core	Maximum 40%
Value-Added	Maximum 40%
High Return	Maximum 40%
Public REITs (Domestic)	Maximum 15%
Private Debt	Maximum 20%
International (Including International REITs)	Maximum 20%

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6.1 Core (“Core”) /Core Plus (“Core Plus”) Investments

Core/Core-Plus Portfolio investments are expected to be the lowest risk and return sector of real estate and consist of operating and substantially leased (typically 80% or more) institutional quality properties. These investments include well-located traditional property types in developed markets. Traditional property types are office, apartment, retail, and industrial. These investments offer relatively high current income returns and as a result, a greater predictability of total returns under normal market conditions. The income component typically represents a significant component of the expected total return of Core/Core-Plus investments.

Deleted: Core investments are operating and substantially leased (80% or greater occupancy at the time of investment) institutional quality traditional property types (i.e., office, apartment, retail and warehouse) and/or the debt associated with assets of similar quality. Predicted appreciation is expected to contribute 30% or less to the total return. These investments could be located within the United States or abroad and are of comparatively low risk.

6.2 Non-Core

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6.2.1 Value Enhancement Opportunity ("Value Added") Investments

These investments are comprised of institutional quality traditional property types, and debt oriented investments. However, they offer the opportunity to enhance value through alleviating an

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identifiable deficiency specific to the property or associated financial instruments. For example, value can be added through active management in a property that has issues related to the lease-up, rehabilitation or repositioning. Value-Added opportunities include improving management and operations within management intensive assets such as Hotels.

These investments are of moderate risk with predicted appreciation contributing approximately 40% or more of the total return (i.e. greater dependence on appreciation).

6.2.2 High Return Investments

High Return investments include those situations where the investment seeks to capitalize on the disequilibrium of the real estate markets caused by dramatic shifts in capital flows or other fundamental real estate characteristics. They include "opportunity funds" with broad investment mandates, non-traditional investment vehicles (e.g., non-performing loans), investments in real estate operating companies ("REOCs") or other venture capital type investments involving complex, heavily negotiated transactions. Development projects are included in the High Return category.

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These investments are of medium to high risk with predicted appreciation contributing 40% or more of the total return. Investments may include core or non-core property types and may include non-traditional investment vehicles such as operating companies.

6.3 Public Market Equity

The public market equity component is comprised of real estate investment trusts ("REITs") and other real estate related companies that are publicly traded (collectively referred to as "REITs"). REITs provide greater liquidity than private equity real estate albeit with higher volatility in market valuation. In addition, the public markets may be used as a vehicle for the Fund to gain exposure to specific property types, such as international real estate and regional shopping malls, which are either inaccessible on a direct basis or would otherwise compliment the portfolio.

6.4 _Private Debt

Debt investments may offer unique opportunities to enhance income generation within the real estate portfolio. Use of debt-oriented investments may occur within the core, value added or high return sectors.

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7. Legal

Investments shall be made, managed and disposed of in compliance with applicable federal, state and local country specific laws. Qualified legal counsel selected by the Legal Office shall document investment acquisitions, dispositions and leverage.

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8. Risk Management

There are numerous investment risks associated with real estate, as such that the actual income and total return may vary from the expected or projected return targets. The Fund shall manage these investments risk by implementing the Risk Management Policies included herein.

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SECTION II – POLICIES

1. Risk Management

The following risk management policies shall be implemented to manage the investment risk associated with the real estate portfolio:

1.1 Institutional Quality

A proposed investment must exhibit institutional quality, which is defined as similar, in risk and quality, to investments traditionally made by institutions (e.g., pension funds and insurance companies). Institutional quality core investments are investments providing long-term stable income returns and are typically located in stable and diversified economic markets, evidencing high quality design and construction, and are in a competitive position within the immediate market area of such investment.

1.2 Investment Management Services

All investments shall be underwritten, managed by, and disposed of, if necessary, by qualified investment Staff or an external real estate manager/independent fiduciary, which has an established, successful record of providing advisory services to institutions and is deemed able to deliver similar services in the future ("Manager"). When faced with two otherwise equivalent investment opportunities, the Fund will select the investment proposed

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by an Emerging Manager (as defined herein or LACERA's Emerging Manager Policy), if any.

1.2.1 Manager Characteristics:

Unless otherwise authorized by the Board, a manager shall exhibit the following characteristics:

1.2.1.1 Is registered as an investment advisor under the investment Advisor Act of 1940, or has provided sufficient explanation as to why they are exempt from registration;

1.2.1.2 Has a minimum of five (5) years institutional real estate investment management experience, and the responsible personnel of such manager shall have at least five (5) years of institutional real estate experience;

1.2.1.3 Has a minimum of $250 million (Net of leverage) of institutional real estate assets under management;

1.2.1.4 The investments by the Fund, in the aggregate, shall not constitute more than twenty percent (20%) of the manager's total assets under management, and no other single client (including any affiliates) shall control or have authority over more than twenty percent (20%) of the manager's total assets under management at the time of selection and approval by the Board;

1.2.1.5 Has a proven and verifiable record of competitive performance returns; and

1.2.1.6 Has a proven and verifiable record of well-articulated and executed real estate investment strategies.

1.2.2 Emerging Managers

Notwithstanding the above requirements, the Board may select an Emerging Manager to manage assets in conformance with LACERA's Emerging Manager Policy (found within the LACERA Investment Statement Policy, ATTACHMENT J).

The structure and timing of capital raises may not coincide with times when LACERA has capital available for the Emerging Manager Program. Therefore, Staff will manage the twenty (20%) allocation limit of the real estate portfolio, within the range of zero percent (0%) to twenty percent (20%).

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1.3 Diversification

Investment strategy, property type, economic/geographic location and manager shall diversify the real estate portfolio with the purpose of reducing portfolio risk by minimizing the impact any investment or manager may have on the total return of the real estate portfolio. Appropriate diversification criteria shall be reviewed on a periodic basis, not less than annually.

The diversification requirements are discussed further below.

1.3.1 Property Type Diversification

The Core/Core Plus investments will be made in a diversified collection of office, retail, industrial, apartment and other property types. The Core/Core Plus Portfolio of office, retail, industrial and apartment properties will seek to replicate the diversification of the NFI-ODCE, within a variance of +/- 10.0%. Greater than 10% variance for Core/Core Plus from the benchmark property type weights will require Board approval.

Up to 20.0% of the Portfolio may be invested in "Other" property types. "Other" may include property types such as student housing, medical office and self-storage.

1.3.2 Geographic Diversification

Properties shall be distributed by location to attain economic diversification. Regional distribution shall be utilized along with economic diversification. Target locations should be selected by means of research substantiating positive economic growth during the life of the investment, a diversified economic base, geographic or regulatory supply constraints and tenant demand. In order to manage risk associated with geography, the following limitations will be followed:

Domestic Research has shown that diversification of private real estate by NCREIF region or state is not a perfect means to ensure effective diversification by location. For example, although in the same state, the southern California economy has distinct differences with the northern California economy.

1. No more than 20% of LACERA's Core/Core Plus real estate allocation may be invested in any Metropolitan Statistical Area ("MSA");

2. The diversification of LACERA's Core/Core Plus Portfolio will seek to replicate the geographic

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compositions of the NFI-ODCE +/- 10.0%. with up to 20.0% of the Portfolio allowed in "Other". Greater than 10% variance for Core/Core Plus from the benchmark geographic weights will require Board approval; and

3. No more than 20% of the total real estate portfolio will be invested in international real estate.

1.3.3 Low Correlation Investments

Public real estate equity and private real estate debt tend to have low correlations to private equity real estate and be slightly more correlated to the traditional debt and equity asset classes. In order to ensure that diversification within the real estate portfolio does not negatively impact the diversification benefits of real estate within the Total Plan, these strategies will be limited.

1.3.3.1 No more than 20% of the total real estate portfolio will be invested in debt oriented investments.

1.3.3.2 No more than 15% of the total real estate portfolio will be invested in publicly traded securities.

1.3.4 Manager Diversification

The Fund shall limit its exposure to any single manager. No single manager shall be permitted to manage more than 35% of the total allocation to real estate. Exposure to any single Emerging Manager shall be limited to an amount not to exceed 10% of the total allocation to real estate.

1.4 Prudent Expert Standard

A manager's acquisition, management and disposition of real estate investments will be guided by the "prudent expert" standard, which shall be the standard of care required of managers and set forth in their Investment Management Agreements with the Fund. A real estate investment shall be made only if said investment was evaluated and recommended by a manager or another qualified independent fiduciary engaged by the Fund.

1.5 Manager Compensation Structure

For non-core investing, preference shall be given to investment management fee contracts that reward superior investment management performance. Specifically, where appropriate, incentive management fees may be considered to effect reductions in base management fees and to motivate

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managers to enhance portfolio returns and may be based in part on cash distributions, if practicable.

1.6 Investment Plan

The Investment Plan will set forth investment activities consistent with the Real Estate Objectives, Policies and Procedures. The Investment Plan shall serve as the tactical implementation of the Real Estate Objectives, Policies and Procedures and endeavor to move the Fund toward its target allocation in a prudent manner. Investment activity should adhere to the policies and procedures set in the Real Estate Objectives, Policies and Procedures.

1.7 Management Procedures

The Fund will adhere to clearly defined procedures to monitor the investment, management and disposition of real estate assets by managers on behalf of the Fund as discussed further below.

1.8 Insurance Requirements

Management agreements between the Fund and its managers shall require appropriate levels of property and liability insurance be maintained at all times.

2. Asset Management

The Fund shall seek discretionary manager relationships for pooled fund investments, individually managed accounts and co-investments. To the extent practical, the Fund shall prepare and implement investment criteria, objectives and procedures to ensure managers use their best efforts in executing duties in compliance with the Real Estate Objectives, Policies and Procedures and Investment Plan and consistent with industry standards.

The individually managed accounts will be discretionary, although each manager shall be required to make investments consistent with applicable investment criteria determined by LACERA. These criteria shall be set forth in the Manager Investment Plan (as hereinafter defined), prepared by the manager and reviewed and approved by Staff. In addition, Staff shall conduct an annual review of the Budget and Management Plans (as hereinafter defined). Management decisions consistent with the pro forma projections and/or approved budgetary items are exclusively delegated to the Manager.

Where required by manager contract, Managers must provide an annual report to Staff describing actions taken by such manager to comply with LACERA's Responsible Contractor Policy (found within the LACERA Investment Statement Policy, ATTACHMENT F), including those taken by property managers and their subcontractors. In addition, managers must monitor and enforce compliance with the

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Responsible Contractors Policy by property managers and their subcontractors, including reasonable investigation of potential violations.

The Board may assign direct asset management and/or co-investment management responsibilities to Staff. Staff will use its best efforts to execute duties in compliance with the Real Estate Objectives, Policies and Procedures and Investment Plan and consistent with industry standards

3. Environment, Social and Governance

As a signatory to the Principles for Responsible Investment (PRI), the Fund's individually managed accounts will be managed in a manner consistent with Principals one and two: (1.) incorporate ESG issues into investment analysis and decision-making processes; and (2.) be active owners and incorporate ESG issues into the ownership policies and practices.

Environmental risks will be fully assessed and considered prior to making any property investment. Specific requirements for this assessment are incorporated in the scope of work in Individually Managed Account contracts. Annual operating plans and budgets will address any ongoing effort addressing ESG-related matters.

The Fund requires the individually managed account managers to manage assets in compliance with LACERA's Responsible Contractor Policy. This policy encourages fair labor practices when constructing and maintaining real estate assets.

4. Property Management Policy

Direct or supervisory property management is acceptable. The Fund shall favor managers having clearly articulated and successfully implemented property management strategies. Investment properties shall be professionally managed by the most qualified property management firm given the investment's location and property type. In addition, the fees paid by the Fund for property management services (to a third party or an affiliate) shall be at a rate consistent with the market rates for comparable property management firms in that market for properties of like kind and quality.

5. Development Management Policy

Investments in development properties shall utilize the services of a qualified developer to manage the development process. Fund managers may provide such development services on a direct or supervisory basis. Any fees paid by the Fund for development services (to a third party or an affiliate) shall be at a rate consistent with the market rates for comparable development services in that market for properties of like kind and quality.

6. Property Valuation Policy - Directly Held

All directly held property investments made by Individually Managed Account managers shall be valued by a qualified independent appraiser(s) (MAI) at regular intervals, of no less than every three (3) years. Appraiser selection with respect to individually managed accounts will be determined by Staff, based on organizational qualifications, capabilities, personnel, references, and resources. Managers will estimate the market value of each property investment in those periods where independent appraisals are not performed.

Independent appraisals shall be performed, to the extent practicable, at such times as may be required to calculate performance and pay compensation to managers of individually managed accounts pursuant to any incentive compensation arrangement in any existing or future Investment Management Agreement. Valuations, whether determined by the manager or independent appraisers, will be used to calculate the performance of the portfolio.

6.1 Debt Secured by Property

Investments made through the provision of debt to third parties have unique challenges associated with their valuations. Until specific industry standards are established, best practices allow for the valuation of such investments to be determined by a formal audit of year-end financial statements. Such audit must be completed by a firm approved by Staff.

7. Investment Vehicle Policy

Investments may be made directly or indirectly by means of any legally permissible investment vehicles including individually managed accounts, co-investment, group trusts, REITs, real estate operating companies (“REOCs”), partnerships, and corporations (including limited liability companies). The Fund may seek investments through such investment vehicles in formal/informal secondary markets.

Deleted: For Core investments, the Fund prefers to use an individually managed account because of the superior control and flexibility such a vehicle provides.

8. Policy for Leverage on Wholly Owned Property

The prudent and conservative utilization of third party leverage can enhance returns on existing investments, minimize equity exposure and allow increased diversification of the portfolio, thus reducing risk levels. Staff shall monitor the use of all leverage for compliance with the criteria outlined below and report semi-annually to the Board on the status. The criteria included in this policy are intended to mitigate the risks associated with using leverage by imposing conservative requirements. This policy shall apply to all equity investing activities.

8.1 Leverage Criteria: Long-Term

Any leverage originated or assumed on wholly owned core or non-core (value-added and high return) investments by the manager ("long-term") must satisfy all of the criteria set out below.

8.1.1 Positive Leverage

The use of debt must result in positive leverage. Positive leverage shall apply to the current return, total return (IRR) and opportunity return according to the following:

8.1.2 Return Premium

The total expected return to LACERA over the term of the debt must be expected to increase returns a minimum of 2 basis points for each 1% of leverage, compared to the unlevered return projections (e.g. 100 basis points for 50% leverage). Return to LACERA should be measured AFTER payment of acquisition and asset management fees but BEFORE payment of any incentive fees.

8.1.3 Debt-to-Equity Ratio

The maximum debt-to-equity ratio permitted on **any single investment** is:

Core: 1:1 (50% loan-to-value).

Non-Core:

Value-Added: 1:.54 (65% loan-to-value)

High Return: 1:.25 (80% loan-to-value)

The maximum debt-to-equity ratio permitted on the total real estate portfolio is 1:1 (50% loan-to-value).

Debt-to-equity ratios are determined at the time of origination but monitored throughout the investment hold.

8.1.4 Security

All debt must be non-recourse to the borrower (or borrowing entity) except for environmental and related indemnities, fraud or material misrepresentations, and other similar provisions required

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by the lenders, and all loan documentation must be approved by LACERA's counsel. Unless authorized by the Board, recourse to LACERA or to any property or asset not owned by the borrowing entity will not be permitted.

8.1.5 Interest Rates

Fixed or variable interest rates are permissible.

8.1.6 Cross-collateralization

The manager may be allowed to use cross-collateralization on a case-by-case basis based on manager's strategy.

8.1.7 Pre-payment Requirement

All variable rate leverage must be pre-payable at par without penalty. Fixed rate loans must permit pre-payment, but may contain a penalty payment.

8.1.8 Amortization

No amortization is required.

8.2 Leverage Criteria: Short-Term

Any leverage utilized by the managers for development investments ("short-term") must satisfy all of the criteria set out below.

8.2.1 Debt-to-Equity Ratio

The maximum debt-to-equity ratio permitted on any development investment is 1:.25 (80% loan to total development cost).

The maximum debt-to-equity ratio permitted on any manager's total portfolio is 1:.25 (80% loan-to-value).

Debt-to-equity ratios are determined at the time of origination.

8.2.2 Security

Debt used for development investments may be secured by the real property owned by the borrower (or borrowing entity). Recourse to the borrower (or borrowing entity) shall not be permitted except for environmental and related indemnities, fraud or material misrepresentations, and other similar provisions required by the lenders. All loan documentation must be approved by LACERA's counsel. Unless authorized by the Board, recourse to LACERA or to any property or asset not owned by the borrowing entity will not be permitted.

8.2.3 Interest Rates

Fixed or variable interest rates are permissible.

8.2.4 Cross-collateralization

Development investment assets may not be cross-collateralized.

8.2.5 Pre-payment Requirement

All variable rate debt must be pre-payable at par without penalty. Fixed rates debt must permit pre-payment, but may contain a penalty payment.

8.2.6 Amortization

No amortization is required.

9. <u>Lender Leverage Policy</u>

The prudent and conservative utilization of third party leverage may be utilized by the Fund's debt managers to enhance returns to originated loans, minimize equity exposure and allow increased diversification of the portfolio, thus reducing risk levels. Staff shall monitor the use of all leverage for compliance with the criteria outlined below, and report semi-annually to the board on the status. The criteria included in this policy are intended to mitigate the risks associated with using leverage by imposing conservative requirements. This policy shall apply to all debt investing activities.

Any leverage originated by the debt manager must satisfy all of the criteria set out below.

9.1 Positive Leverage

The use of debt must result in positive leverage. Positive leverage shall apply to the current return (inclusive of current return generated through reserves and holdbacks for payment of interest), total return (IRR), and opportunity return according to the following:

9.1.1 Return Premium

The total expected return to LACERA over the term of the debt must be expected to increase returns a minimum of two basis points for each 1% of leverage, compared to the unlevered return projections (e.g. 100 basis points for 50% leverage). Return to LACERA should be measured AFTER payment of asset management fees.

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9.2 Leverage Ratio

The maximum leverage ratio permitted on **any single loan** is:

3:1 (75% third-party loan-to-LACERA position

The maximum leverage ratio permitted on the total real estate debt portfolio is 2:1 (67% third-party loan-to-LACERA position).

Leverage ratios are determined at the time of origination by dividing the total committed third party leverage (including future advance obligations).

9.3 Security

All debt must be non-recourse to LACERA. However, may be full recourse to the borrowing entity(ies) including for full repayment, environmental and related indemnities, fraud or material misrepresentations, and other similar provisions required by the lenders. All loan documentation must be approved by LACERA's counsel. Unless authorized by the Board, recourse to LACERA will not be permitted.

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9.4 Interest Rates and Term

Fixed or variable interest rates are permissible. The term of any one-off third party loan should match the term of the LACERA loan. The manager may utilize loan facilities (portfolio-level leverage) that do not match the term of LACERA loans securing the facility provided that the manager believes that reinforced risk is appropriately mitigated.

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9.5 Cross-Collateralization and Cross-Default

The manager may cross-collateralize and cross-default LACERA loans to secure third-party leverage.

9.6 Pre-payment Requirement

All leverage shall be pre-payable on current market terms available at the time the leverage is sourced, which may include lockouts and prepayment penalties.

9.7 Amortization

No amortization is required.

10. Investment Size Policy

There is no minimum investment size. The maximum LACERA equity investment size in any one property shall be limited to five percent (5%) of the total allocation to real estate. The maximum investment size for specific types of investments may be restricted further elsewhere in this Plan.

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11. Lease Structure Policy

Multi-tenanted properties with staggered lease termination dates are preferred to properties with an undue concentration of lease termination dates, unless such concentration further diversifies the lease termination dates of the entire real estate portfolio. Single tenant properties will be considered if the tenant will provide tenant and lease structure diversification within the total real estate portfolio of the Fund, the tenant is financially sound, and the property can be converted to multi-tenant use at a reasonable cost. Investments in single tenant properties in the aggregate shall not exceed ten percent (10%) of the real estate allocation.

12. Registration Policy

In order to enable the Fund's managers to obtain more competitive pricing structures for acquisition of directly held properties or originating debt investments, and to avoid overbidding on behalf of the Fund during property acquisitions or when making debt proposals, the Fund has implemented a registration policy. The Fund will permit each manager to register up to six transactions at any one time. Upon acceptance of a registration, the manager shall be the Fund's exclusive representative relative to the registered transaction. This policy will be subject to review and modification by the Fund at any time. Staff will provide managers with notice in advance of any changes to this registration policy.

13. Development Risk Management Policy

LACERA has established this Development Risk Management Policy to identify, control and to the extent possible, mitigate the risks inherent in investing in real estate development. The issues addressed within the Development Risk Management Policy supplement (i.e. are in addition to) the risk management criteria that appear within the Real Estate Objectives, Policies and Procedures. The Policy addresses the following issues:

- Physical Criteria
- Investment Location
- Time Of Development

- Investment Structure
- Developer/Partner Criteria
- Zoning
- Fiduciary Oversight

13.1 Physical Criteria:

All development projects must be underwritten such that the physical criteria of the property would, upon completion, meet or exceed the physical criteria described within the manager's then current Manager Investment Plan.

13.2 Investment Location:

Investments shall be limited to locations identified within the manager's then current Manager Investment Plan.

13.3 Timing of Development

Individual development projects must be expected to be complete with minimum occupancy hurdles achieved in no longer than 36 months (inclusive of construction time).

13.4 Investment Structure

Investments may be made via 100% equity, partnership, or joint venture arrangement provided that the following criteria are satisfied:

1. The structure must preserve LACERA's right to own 100% of the property once completed and leased to a stabilized level.
2. LACERA must have control and/or approval rights over all major investment decisions.

13.5 Developer/Partner Criteria

Investments may be made in partnership or joint venture with qualified builders or developers at the discretion of the manager.

13.6 Zoning

Investments shall be limited primarily to property that is fully zoned with entitlements in place for the planned use. LACERA shall limit exposure to zoning and/or entitlement risk to investments totaling not more than 5% of the total real estate allocation.

13.7 Fiduciary Oversight

All investments must be underwritten and assets managed by a qualified investment manager acting in a fiduciary capacity to LACERA.

14. Co-Investment Policy

LACERA has established this Co-Investment Policy to identify, control and to the extent possible, mitigate the risks inherent in making one-off co-investments in real estate. The issues addressed within the Co-Investment Policy supplement the risk management criteria that appear within the Real Estate Objectives, Policies and Procedures.

14.1 Sources of Co-Investments

LACERA will consider co-investment opportunities from sponsors of commingled funds in which LACERA has invested, managers with which LACERA has a current separate account agreement, or external managers with which LACERA has no existing relationship.

14.2 LACERA Review

The method of review for co-investment opportunities will be dependent upon the source of the co-investment.

Co-investment opportunities sourced by existing separate account managers or sponsors of commingled funds in which LACERA is an investor will be reviewed, evaluated, and to the extent required, negotiated by the investment Staff.

Co-investment opportunities sourced by external managers with which LACERA has no existing relationship will be reviewed, evaluated and to the extent required, negotiated by the investment Staff. In addition, an Independent Fiduciary, retained by LACERA for such purpose, will opine on the fairness of pricing and reasonableness of the terms and conditions.

14.3 Commitment Authority

14.3.1 Staff-Level Commitment Authority

The investment Staff will have authority to approve co-investment commitments when all of the following conditions are met:

1. The amount of co-investment by the Fund does not exceed $50 million;

2. The subject property of the co-investment is located within the United States of America; and

3. The co-investment is sourced by an existing separate account manager or sponsor of a commingled fund in which LACERA is an investor.

14.3.2 Board-Level Commitment Authority

The Board of Investments will be presented with the opportunity to approve all co-investments when any of the following conditions are met:

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1. The co-investment by the Fund will exceed $50 million; or

2. The subject property of the co-investment is located outside the boundaries of the United States of America; or

3. The co-investment is sourced by a manager with which LACERA has no existing relationship.

14.4 Co-Investment Documentation

All Real Estate co-investments will be subject to a separate management agreement between LACERA and the investment manager/sponsor. The terms and conditions of each co-investment will be articulated in the agreement.

15. Site Inspection Policy

As part of the on-going due diligence and monitoring of Individually Managed Accounts, staff will conduct periodic inspections of properties that are acquired on the Fund's behalf or that are securing debt investments, confirming their compliance with LACERA policies. Such inspections will be used to affirm that appropriate on-site management is being dedicated to the property, that the property is being appropriately maintained to compete effectively in its market, and that the investment is consistent with representations made by the manager in their periodic reports. The minimum frequency for Staff inspections will be as outlined below. However, the Chief Investment Officer may approve exceptions to the frequency of inspections for any investment on a case-by-case basis.

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15.1 Core Investments

Investments classified as core will be inspected by Staff no less frequently than once every five years. The ten largest investments, as measured by Fund capital invested and total capitalization, will be inspected no less frequently than once every three years.

15.2 Value-Add and High Return Investments

Investments classified as value-add or high return will be inspected by Staff no less frequently than once every three years.

SECTION III - PROCEDURES

1. Delegation of Responsibilities

The real estate program shall be implemented and monitored through the coordinated efforts of the Board, Staff, Consultant, managers, and Independent Fiduciaries. Delegation of the major responsibilities for each participant is reviewed below.

1.1 Board of Investments

The Board, assisted by the recommendations of Staff and Consultant, shall:

1.1.1 Establish real estate portfolio objectives and policies;

1.1.2 Approve the Real Estate Objectives, Policies and Procedures at least every three years, and the Investment Plan annually, including any revisions thereto;

1.1.3 Approve retention and termination of managers, independent fiduciaries, consultants and any other parties deemed appropriate, and approve search criteria;

1.1.4 Approve capital allocation limits to individual managers;

1.1.5 Review the performance of the real estate asset class and its compliance with the real estate portfolio objectives and policies as stated herein and in the Investment Plan;

1.1.6 Approve co-investments according to the Co-Investment Policy;

1.1.7 Approve use and selection of Independent Fiduciaries when compensation is greater than $150,000.

1.1.8 Complete or cause to be completed any other activities necessary to oversee and monitor the Fund's real estate investments.

1.2 Staff

The Staff shall:

1.2.1 Conduct searches for external professional services required for management of the Real Estate portfolio (management searches);

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1.2.2 Investigate other investment opportunities for strategies not otherwise encompassed by the Fund’s separate account Managers’ investment mandates and, if deemed appropriate, recommend such investments to the Board for approval;

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1.2.3 Prepare recommended changes to the Real Estate Objectives, Policies and Procedures as necessary and submit the same to Board for approval;

1.2.4 Prepare the Investment Plan as described below and submit the same for Board approval;

1.2.5 Approve Manager Investment Plans and Minimum Return Requirements;

1.2.6 Approve manager requested variances to the Manager Investment Plans and Minimum Return Requirements on a case-by-case basis;

1.2.7 Approve manager requested variances from LACERA’s Leverage Policy involving the debt-to-equity ratio for any single investment;

1.2.8 Approve co-investments according to the Co-Investment Policy;

1.2.9 Prepare manager specific capital allocation limit recommendations and submit the same to the Board for approval;

1.2.10 Select and engage third party appraisers or auditors when necessary in accordance with Board approved procedures;

1.2.11 Provide asset management, acquisition, disposition, accounting and financial controls in accordance with Board approved procedures (see section 4.4 of this document);

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1.2.12 Conduct site inspections at the direction of the Chief Executive Officer or Chief Investment Officer;

1.2.13 Perform the Annual Oversight Review as described below;

1.2.14 Prepare funding procedures and coordinate the receipt and distribution of capital with the managers with respect to acquisitions, dispositions and the funding of existing property operations;

1.2.15 Monitor the closing process for acquisitions, refinancing and other capital transactions between managers and the Fund;

1.2.16 Select Independent Fiduciaries when compensation is expected to be no greater than $150,000

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1.2.17 Recommend or approve removal of a Manager from the Watch List (pursuant to Section 4.5 of this document);

1.2.18 Manage and oversee work assigned to Independent Fiduciaries; and

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1.2.19 Complete any other activities required by the Board and those specifically delegated to the Staff in the Real Estate Objectives, Policies and Procedures, the Investment Plan or other applicable document or agreement.

1.3 Consultant

Consultant shall:

1. Review the Real Estate Objectives, Policies and Procedures, as amended by Staff; Report to Board on appropriateness and impact of any changes.

2. Assist Staff in conducting manager searches and issue memo(s) on process and manager selection for Board review;

3. Provide Performance Measurement Reports Quarterly with Semi-Annual Board presentations (as described further in Section III.6;

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4. Undertake other activities, as determined by the Board and/or Staff; and

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5. Report to the Board of Investments on any activity or issue deemed to be in variance with Board approved roles and objectives for the real estate portfolio.

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Consultant shall review the Real Estate Objectives, Policies and Procedures periodically, and the Investment Plan annually, and recommend revisions to reflect changes in the capital markets, real estate markets and the real estate portfolio of the Fund. Consultant shall provide quarterly Performance Measurement Reports as described below.

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1.4 Managers

The managers shall acquire and manage real estate investments on behalf of the Fund in accordance with the Real Estate Objectives, Policies and Procedures, Investment Plan, Budget and Management Plan, the Manager Investment Plan, and any other program documentation developed by Staff and/or approved by the Board. The manager shall provide the Board and

Staff with such information as may be required to properly monitor the manager and its investment, including complying with the Procedures set forth herein.

1.5 Independent Fiduciaries

Independent fiduciaries ("IFs") will be utilized on an as-needed basis to evaluate the fairness or suitability of an investment by the Fund when the investment is not otherwise being sourced or underwritten by a Manager with which the Fund has an existing relationship.

2. Manager Search Procedure

Staff shall search for and identify investment managers to assist in the implementation of the investment program at such time as authorized by the Board. The search program shall be as follows:

2.1 Search Procedures

Real estate investment shall be accessed through the following process.

2.1.1 Individually Managed Accounts

The individually managed account manager search procedure is as follows:

2.1.1.1 Staff shall establish and prepare recommendations and submit for Board approval the proposed qualification criteria (consistent with the purpose(s) of the search and its recommendations). The recommendation shall include the proposed scope of the search efforts (whether the search will be limited to pre-qualified managers, open to all bidders, etc.). The purpose(s) of the search may include specific investment types or categories (such as Core, Non-Core (Value Added, High Return, or Public REITs) to be acquired on behalf of the Fund. The purposes for specific search or series of searches shall be set forth in the Investment Plan, or presented to the Board on an as needed basis.

2.1.1.2 If requested, Consultant shall screen its database and other available sources to identify manager candidates exhibiting qualities consistent with the qualification criteria. Consultant shall provide to Staff a preliminary listing of all manager candidates exhibiting such qualities consistent with the approved criteria.

2.1.1.3 Staff shall prepare and Consultant may review a Request for Proposal ("RFP") or Request for Information ("RFI") to further define manager capabilities specific to the qualification criteria. The RFP/RFI may require each prospective manager to describe its investment philosophy or strategy under the then prevailing market conditions, and to justify why it believes its strategy is appropriate, identifying and discussing all risks and how it has determined the appropriate time for investment consistent with its strategy or philosophy.

2.1.1.4 Staff shall forward an RFP/RFI to qualified manager candidates previously identified or all interested parties dependent upon the scope of search approved by the Board.

2.1.1.5 Staff shall establish evaluation areas and the respective weighting factors.

2.1.1.6 Staff will select an "evaluation team", which shall review and evaluate RFP/RFI responses and compile a numerical ranking (1.0 to 10.0) for each manager for each evaluation area. The evaluation team may or may not include the Consultant.

2.1.1.7 Staff shall visit preferred candidates to complete final operations due diligence.

2.1.1.8 Staff shall prepare a report to the Board concerning the final rankings, a review of the highest ranking managers and its recommendations to retain one or more managers.

2.1.1.9 The Board may approve or reject Staff's recommendation to retain one or more managers based on the review and evaluation of information presented in the steps listed above.

2.1.1.10 After its selection, the manager shall prepare a Manager Investment Plan consistent with the investment strategy articulated in response to the RFP/RFI and

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consistent with the investment criteria established as part of the search or in the Investment Plan.

2.1.2 Pooled Funds Opportunities

The Fund may invest in pooled funds when it is willing to balance a lesser degree of control against obtaining other investment objectives, such as access to a specialized investment niche, increased diversification or reduced risk. The pooled fund search procedure is as follows:

2.1.2.1 Staff shall review and identify investment opportunities consistent with market opportunities and conduct due diligence as needed to determine if investment by the Fund is appropriate.

2.1.2.2 Staff shall direct the Consultant to review and evaluate recommended investments.

2.1.2.3 Staff and Consultant will provide documented recommendation(s) to the Board. Staff shall assist the Board with interviews/presentations with/by investment sponsors if deemed appropriate.

The Board shall determine whether to invest in offered vehicles based on the review and evaluation of information presented in the steps listed above.

2.1.3 Co-Investment Opportunities

2.1.3.1 Staff will review co-investment opportunities presented to LACERA and conduct due diligence as needed to determine if investment by the Fund is appropriate.

2.1.3.2 Staff will review, evaluate and to the extent required, negotiate the terms and conditions of each co-investment. If necessary, Staff will direct an Independent Fiduciary to conduct an assessment of a co-investment opportunity. An Independent Fiduciary will be utilized when the source of a co-investment opportunity is a manager with which the Fund does not have an existing relationship.

2.1.3.3 In accordance with Section 14.3 of this Policy, depending upon the size and location, Staff or the Board shall determine whether to invest in each co-investment opportunity. "Staff-level approval" means approval of the Chief Investment Officer of the Fund.

Staff shall notify the Board promptly of any Staff-approved commitments to co-investment.

2.2 Referral Procedures

The Board may refer to its Staff or Consultant for review a pooled fund, a manager, a co-investment or other investment opportunity for evaluation. Such referral shall be in writing and approved by a formal motion of the Board.

Deleted: <#>Independent Fiduciaries and Selection Procedures¶
<#>3.1 Staff shall search for and identify independent fiduciaries to assist in the implementation of the investment program at such time as authorized by Board-approved procedures. Selection of Independent Fiduciaries that may be assigned specific projects program shall be as follows:¶
<#>3.1.1 Staff will prepare and issue a Request for Proposal (RFP) for qualified IFs. ¶
<#>3.1.2 Staff evaluates RFP responses and selects IFs based on qualifications and expertise in the geographical location and product type, fee structure and sample work provided. Selected IFs will be placed in a standby mode until such time as an investment opportunity creates a need for their services (The Bench). ¶
<#>3.2 Assignment of projects to IFs will occur on an as-needed basis utilizing the following process:¶
<#>3.2.1 Staff shall prepare and submit a package that contains the detail of the proposed investments to IFs on the bench.¶
<#>3.2.2 The IFs shall submit a bid, their qualifications and their desire to work on the proposed investment.¶
<#>3.2.3 Staff shall select IFs based on their qualifications and proposed pricing for each proposed investment.¶

4. Appraiser Search Procedures

Staff shall search for and select third party appraisers to value real estate assets when required under the manager Agreements or when otherwise deemed appropriate. The search process for appraisers shall be as follows:

4.1 Staff will maintain a list of potential appraisers. This list shall consist of qualified appraisers (i.) recommended by managers and other plan sponsors; (ii.) that have successfully completed other appraisal assignments for LACERA; and (iii.) that have expressed interest in providing services to the Fund.

4.2 Staff, in conjunction with LACERA's Legal Office, shall prepare a draft engagement letter which identifies the requirements of the appraisal and delivery dates. The engagement letter will be attached to an RFP sent to all appraisers included on the list of potential appraisers.

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4.3 Staff shall evaluate RFP responses and selects appraisers based on qualifications and expertise in the geographical location and product type, fee structure and sample work provided. In some instances Staff may determine that an update appraisal may be satisfactory and cost effective, rather than a full narrative appraisal. Selection of appraisers is guided by a desire to diversify among appraisal firms such that no single appraisal firm appraises all of the assets in any one geographic area or all of any single property type.

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5. Investment Management Procedures for Individually Managed and Co-Investment Accounts

5.1 New Investments

5.1.1 Manager Investment Plan

For each individually managed and co-investment account, the manager shall prepare, and Staff shall review and approve, an annual investment plan (a "Manager Investment Plan") setting forth the general and specific criteria for its investment allocation or approach. The investment criteria shall be consistent with the Real Estate Objectives, Policies and Procedures, and the Investment Plan pursuant to which the manager was selected.

Each Manager Investment Plan shall be updated at least annually to account for the dynamics of the real estate and capital markets and the Fund's real estate investments.

5.1.2 Registration – Directly Held Assets

Each manager shall provide Staff, in writing (including via facsimile), a preliminary investment summary identifying a prospective investment opportunity. Staff shall maintain a log and records of all proposed investments.

5.1.2.1 The Preliminary Investment Summary shall include the following information: (i) property name and location; (ii) seller name and location; (iii) summary investment term sheet (a proposed investment will not be registered if the Summary Investment Term Sheet is incomplete. The manager shall specifically note whether the proposed investment complies with the then current Manager Investment Plan. Any variances from the Manager Investment Plan should be noted and approved by Staff.); (iv) a copy of an accurate and complete rent roll for the subject property, as of a recent date secured from the seller and/or a registered representative thereof; (v) a complete disclosure by the manager of the internal allocation history of the investment opportunity, including any prior exposure to other clients of the manager, discretionary or non-discretionary, whether through formal registration or information discussions, and reason(s) for any other client's election to decline to make the investment.

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Following the receipt of the preliminary investment summary, Staff shall review its records to determine if the proposed investment has been registered by another manager. Staff will determine whether the proposed investment (i) complies with the approved Manager Investment Plan; (ii) fits within the allocation limits for the Manager; and (iii) fits within the Fund allocation limits for the relevant investment category; and if so, may accept the registration. Staff will also evaluate the allocation history and accept or reject the allocation as follows: (i) the Fund is the first investor client allocated the investment opportunity, Staff will accept the allocation; (ii) the Fund is NOT the first investor client allocated the investment opportunity, Staff will review the circumstances and rationale behind why each client previously exposed to the investment elected not to pursue it and determine whether to accept the allocation to the Fund. Failure to accept the allocation will result in denial of registration, and the manager will be precluded from pursuing the investment opportunity on the Fund's behalf.

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If the proposed investment opportunity has not been previously registered by another manager and the allocation is accepted, Staff will register the investment in the log and will provide a registration letter to the manager within two (2) business days of receipt. The effective date of registration of the prospective investment shall be the date the complete preliminary investment summary has been received by Staff.

Upon the registration of a prospective investment opportunity by Staff, the manager for whom the investment opportunity has been registered shall have the exclusive right, for a period of one hundred eighty (180) days from the date of registration, to negotiate and complete a successful acquisition of such investment. Extensions of the exclusivity period may be granted by Staff upon a showing by the manager of good cause.

5.1.2.2 Each manager shall have not more than six (6) prospective investments registered with the Fund at any time. In the event the maximum is reached, or at any other time, the manager may eliminate a proposed investment from its registration list. All such eliminations must be identified in writing and submitted to Staff for confirmation. Staff will remove a proposed investment upon receipt of such notice and will confirm to the manager in writing (including via facsimile) the elimination. In addition, a transaction which has received final Investment Committee approval from the manager, upon written notice provided by the manager to Staff, shall be removed from the registration list.

5.1.3 Acquisition/Investment Review

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Prior to making an investment, the manager shall provide Staff with a Final Investment Package which shall provide such information to evaluate the proposed investment relative to the Real Estate Objectives, Policies and Procedures, Manager Investment Plan, and such other investment criteria as has been established for the respective manager.

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5.3 Staff Review

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Staff shall undertake the following review of each proposed investment:

5.3.1 Evaluate the consistency of the investment proposal with the Strategic and Investment Plans and any investment guidelines prepared for the manager as part of the Manager Investment Plan;

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5.3.2 Confirm the qualifications of the manager to acquire and manage the proposed investment;

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5.3.3 Identify potential conflicts of interest;

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5.3.4 Determine whether the manager has underwritten the proposed investment consistent with industry practices;

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5.3.5 Evaluate the reasonableness of the assumptions used by the manager to project performance of the proposed investment;

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5.3.4.6 When practicable, perform a site inspection of the property to confirm the accuracy of the oral and written representations made by the manager with respect to the proposed investment; and

5.3.4.7 Identify material issues attendant to the proposed investment.

The primary purpose of Staff's review is to confirm that the manager has exercised prudence and complied with its fiduciary obligation to the Fund relative to the new investment. Staff has no approval rights over the new investment and Staff's site inspection, which may occur as much as sixty (60) days subsequent to closing, shall not inhibit the manager's discretionary authority to make the new investment. The Chief Investment Officer may approve exceptions to inspections of new investments on a case-by-case basis.

5.4 Funding Procedures

The manager and Staff shall prepare written funding procedures for each individually managed and co-investment accounts which are compatible with the system of the manager, consistent with industry practice and enable the accurate control of monies. The manager shall provide Staff with a critical date list with respect to an acquisition, including funding and closing dates, updating the list as necessary or as required under any current Investment Management agreement for existing managers.

5.5 Asset Management

5.5.1 Asset/Investment Management Introduction

Asset management for directly held assets refers to all activities relating to the operations of the real estate investments and the timely and accurate reporting of the results of those operations. Managers are directly accountable for asset management responsibilities described above and hereinafter.

This section also designates certain property level responsibilities which the manager may perform through its affiliated property management subsidiary or cause to happen through a contractual arrangement with a third party property management firm. Specific responsibilities, compensation, and reimbursements

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for property management will be covered under a separate agreement to be entered into by the manager with such affiliate or third party firm.

Investment management for debt refers to all activities relating to servicing and oversight of the debt investment during its holding period

5.5.2 Budget and Management Plan –Directly Held Assets

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Not less than 45 days prior to the end of the fiscal or calendar year (as mutually agreed upon by the manager and Staff), each manager of individually managed and co-investment account investments shall submit a Budget and Management Plan for the upcoming year for each direct investment and the portfolio to Staff. Prior to the end of the fiscal or calendar year, Staff will meet with the manager personnel directly responsible for portfolio and asset management for a review and evaluation of the reasonableness of the Budget and Management Plan.

The Budget and Management Plan shall include a narrative strategy for the ensuing year (including leasing, operations and capital programs) and an estimated income and cash flow statement for the ensuing year including gross revenues, expenses, percentage rent, additional interest, property management fees, net operating income, tenant improvements, leasing commissions, capital expenditures, cash flow before and after debt service and asset management fees with quarterly distribution projections. The Budget and Management Plan shall include the annual disposition review as described below.

The manager shall notify Staff in writing within a reasonable time of its occurrence of any significant event which may occur with respect to an investment which was not projected in the Budget and Management Plan.

5.5.3 Annual Report and Oversight Review

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Directly Held Assets

Within seventy-five (75) days after the close of each fiscal or calendar year (as mutually agreed by the manager and Staff), each manager shall provide Staff with an annual report (the “Annual Report”) containing the following information with respect to each property managed and for the portfolio of properties managed; (i) a current performance summary, summary of performance yields, summary of investment performance and (ii) a funded investment summary, including an investment description, date of acquisition, acquisition cost, property value, appreciation analysis, leasing status, lease expirations for current year, comparative performance for the prior year and a budget for the current year (which may be updated from the Budget and Management Plan previously delivered). Within 60 days of the end of each fiscal year (July 1- June 30), audited financial statements for each property for the fiscal year, prepared by a certified public accounting firm selected by the Fund, will be prepared and delivered to the Fund.

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Within sixty (60) days after the close of each fiscal year (July 1 – June 30), each manager shall provide Staff with an annual report (the "Annual Report") containing the following information with respect to each property managed and for the debt portfolio; (i) a summary of investment performance and (ii) an investment description of each asset, including a description of the asset securing the debt, the structure of the loan and (iii) status of all payments due and borrower compliance with payments and covenants. Within 90 days of the end of each fiscal year, audited financial statements for each debt portfolio for the fiscal year, prepared by a certified public accounting firm selected by the Fund, will be prepared and delivered to the Fund.

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5.5.4 Quarterly Reviews

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Each manager shall provide to Staff a quarterly review of investment activity, including an evaluation of compliance with any applicable planning documents (Annual Investment Plan and/or Budget and Management Plan) and an explanation of any significant variances. Staff shall report any major issues to the Board.

5.6 Disposition

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5.6.1 Annual Disposition Review – Directly Held Assets

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Managers of individually managed and co-investment accounts shall provide to Staff an annual disposition analysis of each asset under management, setting forth the manager's opinion as to the prudence of selling or retaining each investment and the reasons therefore. The disposition analysis shall include long and short-term hold/sell scenarios. The disposition analysis shall be included in the Budget and Management Plan.

The disposition analysis shall contain, in addition to any other requirements set forth in any Investment Management agreement for existing managers, the following information:

5.6.2 Market Update

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Review of the ability, given market conditions, to divest or liquidate each asset, and determination of the current market value of each asset, i.e., the value at which an asset can be sold within a reasonable time (the "Disposition Value"). This analysis shall include a discussion of material assumptions on which any recommendation is based, including terms and conditions of any projected disposition and the estimated time frame within which such a disposition could be effected.

5.6.3 Strategic Evaluation

Review of the original investment objectives relating to each investment and a variance analysis with the actual performance.

Review of the compliance (e.g., projected returns) of an investment with the Real Estate Objectives, Policies and Procedures, the Investment Plan, and Manager Investment Plan.

Review of market trends relevant to the investment, including investment market conditions (such as comparable sales, capitalization rates, discount rates and growth rates, among other conditions) and the investment's competitive advantages and disadvantages in its market.

Review of each investment's current rate of return, net of manager fees.

Review of each investment's projected short term and long term rates of return, net of manager fees.

Review of an investment's internal rate of return assuming a sale at the Disposition Value.

Review of an investment's internal rate of return assuming a sale at future points in time at an investment's then Disposition Value.

Review of the projected returns of alternative real estate investments exhibiting comparable risk.

5.6.4 Unsolicited Offers

The manager shall notify the Fund of any Unsolicited Offer to purchase an asset of the Fund. "Unsolicited Offer" shall be defined as any written offer received from a purchaser considered by the manager to be credible. The manager shall prepare and submit to the Staff within 45 days of receipt of said offer, a written disposition analysis of the asset using the offered amount as the Disposition Value along with an outline of the manager's response to the offer.

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5.6.5 Disposition Procedures and Reinvestment of Proceeds

In the event a manager determines that the sale or other disposition of any investment under management is appropriate, the applicable disposition and reinvestment procedures shall be as set forth below. The Manager shall have discretionary authority to complete the disposition provided the following steps are followed.

5.6.6 The Manager shall select, if appropriate, the retention of a qualified independent real estate broker to assist in such sale provided that compensation to the selected broker does not exceed the then current market rate for such services. No broker affiliated with the Manager shall be engaged, however, without the prior written approval of Staff.

5.6.7 Manager shall develop and submit to Staff the marketing strategy for the investment.

5.6.8 Manager shall negotiate with potential purchasers, and in consultation with the Fund's counsel, prepare appropriate sale documentation.

5.6.9 All dispositions shall take place in an escrow account with escrow instructions prepared by the manager in such form as it deems prudent, and as approved by Fund counsel. The manager's discretion to sell assets is limited to cash sales. Dispositions that generate sales proceeds other than cash (e.g. REIT stock) remain subject to Board approval.

5.6.10 If requested by the Fund, the manager shall assist the Fund in the reinvestment of the net cash proceeds from the sale in such real estate investment consistent with the investment criteria set forth in the Strategic and Investment Plans and Manager Investment Plan, if any. However, the Fund, in its sole discretion, may elect not to utilize the manager for reinvestment of such proceeds for any reason, including, but not limited to, as a result of the annual review of the manager's performance by the Board and Staff.

5.7 Acquiring Assets from Commingled Funds

LACERA may have the ability to purchase one or more assets from a commingled fund that the Fund is

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an investor in. In order to complete the potential acquisition, an Independent Fiduciary (IF) will be engaged to facilitate the transaction. Once the asset(s) are acquired, the asset(s) will then be transferred to one of the existing IMA's. Whenever this process is initiated, the Board will be notified.

The process is outlined below.

5.7.1

5.7.3 The General Partner (GP) would notify LACERA of asset(s) ready for sale from the commingled fund and the Proposed Price (the "GP Price") of each asset.

LACERA's Staff would determine whether the assets are a desirable addition to the core portfolio (without regard to price). If so, then the pricing is determined as outlined below. If not, then the GP moves forward with the third-party sale.

5.7.4 Engage an IF to consider the asset purchase on an off-market basis. obtain a third-party appraisal of the asset(s) (and if so, engage the appraiser); and (iii.) if deemed appropriate, attempt to reach price agreement with the GP for an off-market purchase. Staff will select and engage the IF when the cost does not exceed $150,000. Independent Fiduciary assignments exceeding $150,000 in cost will be subject to Board approval.

5.7.2 The Independent Fiduciary will represent LACERA's interest in determining whether or not to acquire an asset from a commingled fund. The IF would: (i.) be retained directly by LACERA; (ii.) complete a one-time assignment that should be completed in a short period of time (likely 30-45 days), and (iii.) be compensated on a fixed fee basis. The fee payable to the IF would be non-contingent (i.e., the IF would earn a fee whether or not a transaction is consummated).

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5.2.1 Independent Fiduciary (IF) will represent LACERA's interest in determining whether or not to acquire asset from a commingled fund by a separate account entity. The IF would: (i.) be retained directly by LACERA; (ii.) complete a one-time assignment that should be completed in a short period of time (30 days per the fund Agreement), and (iii.) be compensated on a fixed fee basis. The fee payable to the IF would be non-contingent (i.e., the IF would earn a fee whether or not a transaction is consummated).

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The IF will (i.) conduct an independent review and underwriting of the asset(s); (ii.) determine whether or not to obtain a third-party appraisal of the asset(s) (and if so, engage the appraiser); and (iii.) if deemed appropriate, attempt to reach price agreement with the GP for an off-market purchase.

If price agreement is reached, a sale is completed with the IF representing LACERA and GP representing the commingled fund. Once closed, LACERA may assign ongoing asset management responsibility to the GP or another separate account Manager.

If price agreement is not reached via this off-market process, a competitive bidding process may be initiated.

5.8 Accounting and Financial Controls

The managers shall comply with the industry standard accounting and financial control guidelines set forth by the Real Estate Information Standards as revised and other requirements set forth in each manager's Investment Advisory Agreement.

5.8.1 Reporting Requirements

5.8.1.1 On a quarterly basis, the manager of individually managed and co-investment accounts shall provide the Fund and Consultant with combined financial statements for the entire portfolio and separate financial statements for each property in the portfolio.

5.8.1.2 The manager of individually managed and co-investment accounts shall provide the Fund with the Budget and Management Plan and with the Annual Report. Any subsequent amendment to the operating and capital improvement budgets and the reasons therefore shall be communicated to the Fund in a timely manner.

5.8.1.3 Each manager shall maintain complete and accurate books and records of the portfolio and each portfolio investment at all times. Each manager shall provide Staff or their representative(s) access to all such books and records upon reasonable notice. Each manager

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shall also maintain and furnish other reports, information, and records requested by Staff relating to the Fund's real estate investments.

6.0 Manager Return Objective

6.1 Section I, 5.1 of this document identifies Benchmarks by Investment Category. Each investment held in a manager's portfolio shall initially be classified by Investment Category: Core, and Non-Core (Value-Added and High Return) so that performance can be measured according to an appropriate benchmark The classification of each investment will be regularly reviewed to ensure that the appropriate benchmark is being utilized. At each quarter end the manager shall identify any investment that it believes should be re-classified from one Investment Category to another and the justification for the change (e.g. from value-added to core). Staff will consider the manager's recommendation and will accept or reject the recommendation.

6.2 A Board-approved Manager Return Objective will be identified and be incorporated into each IMA agreement. Manager performance will be evaluated over a five-year period. If a manager fails to meet the manager return objective for any two consecutive one-year periods, the manager will have a formal review with staff and Board.

6.3 The annual investment plan prepared by staff and approved by the Board will identify each manager that will be permitted to deploy capital for new investments during the period covered by that plan.

6.4 Disputes in investment classification between the manager and Staff, if any, shall be submitted to the Board for final determination.

7. Performance Measurement Report

A comprehensive reporting and evaluation system addressing each investment, manager and portfolio shall be prepared by the Consultant on a quarterly basis and presented to the Board at least semi-annually. The Consultant shall provide such information as may be required to enable the Fund to administer its investments and managers.

The content of the report will include investment and portfolio attributes including: income, appreciation, total gross and total net return, cash flow, internal rate of return, diversification, comparisons to relevant industry performance indices, and comments regarding each manager's performance.

Within ten (10) days following the last day of each quarter, Consultant shall forward to each manager a Performance Measurement Questionnaire. The manager

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Managers failing to positively contribute to the Fund meeting its goals and objectives for real estate or presenting additional risk to LACERA may be placed on a Watch List. Managers placed on the Watch List will be precluded from initiating new property investments until removed from the Watch List. Qualitative and quantitative criteria will be utilized to identify any Manager that; (i.) has delivered consistent under-performance; or (ii.) is undergoing organizational challenges/events that create concern over their continued ability to act as a fiduciary for the Fund. ¶
Managers placed on the Watch List will be closely monitored by Staff and specific updates will be provided to the Board in conjunction with performance reports. Managers on the Watch List will be evaluated over a three-year period. If/When the circumstance(s) that lead to a Manager being placed on the Watch List have been satisfactorily resolved or performance has significantly improved, a Manager may be removed from the Watch List as described below. ¶
5.5.1 If the Manager was placed on the Watch list by direction from the Board, Staff will prepare a recommendation for Board consideration that the Manager be removed from the Watch List. ¶
5.5.2 If the Manager was placed on the Watch List by Staff, Staff may remove the Manager from the Watch List and notify the Board of the action taken.¶
5.5.3 If the Manager has not satisfactorily resolved or performance has not significantly improved, than termination will be recommended.¶
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shall forward its responses to the questionnaire within forty-five (45) days following the last day of each quarter. Consultant shall prepare and forward to the Fund a Performance Measurement Report within ninety (90) days following the last day of each quarter or within five (5) days of final and complete data submission.

ATTACHMENT B

LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION

REAL ESTATE

Objectives, Policies and Procedures

PROPOSED ADOPTED June 13, 2018

LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION
REAL ESTATE OBJECTIVES, POLICIES and PROCEDURES

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LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION
REAL ESTATE OBJECTIVES, POLICIES AND PROCEDURES

SECTION I – PORTFOLIO OBJECTIVES

1. Introduction

The Board of Investments (the "Board") of the Los Angeles County Employees Retirement Association (the "Fund") has determined that, over the long term, inclusion of real estate investments will enhance the risk/return characteristics of the Fund. The purpose of this document is to set forth objectives, policies and procedures for investment in the asset class of real estate. This document supplements but does not supersede LACERA's Investment Policy Statement.

2. Asset Allocation

Real estate comprises a portion of three functional asset classes. These include Real Assets and Inflation Hedges, Growth and Credit. The allocation to each of these functional asset classes is:

7 % Real Assets and Inflation Hedges
2 % Growth
1 % Credit
10% Total

The Board periodically reviews the allocation to the asset class of real estate and designates portions of the allocation to be managed by individual managers.

3. The Role of Real Estate

The primary role of real estate is to generate stable, reliable income as well as to preserve capital. Additionally, real estate is expected to provide a risk-adjusted total return that is accretive to the Fund achieving its long term rate of return with acceptable levels of risk. High Return real estate, classified as part of the functional asset class Growth, can also provide returns similar to public equity, with a lower correlation to other asset classes. Real estate debt investments, classified as part of the functional asset class Credit, can provide attractive returns while taking lower levels of risk than equity real estate investments.

Real estate investments will be made into Core/Core-Plus and Non-Core real estate. The definition of these risk classifications, as well as those of the sub Non-Core real estate such as Value-Add and High Return, is listed under Section I.6, "Investment Categories".

The use of real estate investments such as debt, public equities and non-traditional property types or strategies may be used on a limited basis in order to enhance returns and/or defensively position the program against market cycle shifts.

4. Investment Philosophy

Investment decisions regarding the real estate portfolio should be primarily guided by the following objectives: (i.) maximizing long term total cash returns; (ii.) achieving a total return competitive with other asset classes; and (iii.) maintaining a broad diversification of assets. LACERA should adhere to prudent risk management policies that will seek to manage risk, ensuring diversification of assets and investment managers.

5. Return Objectives

5.1 Portfolio Benchmark

To evaluate the performance of the real estate portfolio, the benchmark will be based on the National Council of Real Estate Fiduciaries (NCREIF) Fund Index (NFI) Open-end Diversified Core Equity Index (ODCE) referred to as NFI-ODCE. All comparisons will be net performance to net index returns. The primary benchmark comparison will cover a ten-year period. The one, three and five year periods will also be measured.

Additional benchmarks such as the NCREIF Property Index (NPI) may be used for property or geographic specific investment measurements including the sub indices created by NPI as well as ODCE.

Investment Category	After Fee Benchmark
Private Core	ODCE
Private Value-Add	ODCE+100 bps
Private High Return	ODCE+300 bps
Public REITs (Domestic)	NAREIT
Public REITs (International)	FTSE/EPRA/NAREIT
Private Debt	≥NPI Income
Total Portfolio	**ODCE + 80 bps**

The Total Portfolio benchmark is weighted 60% Core, 20% Value-Add and 20% High Return. When evaluating the performance of the real estate portfolio, analysis will also include comparisons to the then current assumptions for the asset class to evaluate the real estate portfolio's contribution to the Plan.

6. Investment Categories

All percentages and limits herein are based on the total real estate allocation. The targeted portfolio composition is relatively low risk and seeks at least 50% in Core investments. Public and private as well as international investments in real estate may be included in core and non-core strategies. The ranges for each of the investment categories (defined and discussed below) are as follows:

Target Portfolio Composition

Core	Minimum 50%
Non-Core	Maximum 40%
Value-Add	Maximum 40%
High Return	Maximum 40%
Public REITs (Domestic)	Maximum 15%
Private Debt	Maximum 20%
International (Including International REITs)	Maximum 20%

6.1 Core (“Core”)/Core-Plus (“Core-Plus”) Investments

Core/Core-Plus Portfolio investments are expected to be the lowest risk and return sector of real estate and consist of operating and substantially leased (typically 80% or more) institutional quality properties. These investments include well-located traditional property types in developed markets. Traditional property types are office, apartment, retail, and industrial. These investments offer relatively high current income returns and as a result, a greater predictability of total returns under normal market conditions. The income component typically represents a significant component of the expected total return of Core/Core-Plus investments.

6.2 Non-Core

6.2.1 Value Enhancement Opportunity ("Value-Add") Investments

These investments are comprised of institutional quality traditional property types and debt-oriented investments. However, they offer the opportunity to enhance value through alleviating an identifiable deficiency specific to the property or associated financial instruments. For example, value can be added through active management in a property that has issues related to lease-up, rehabilitation or repositioning. Value-Add opportunities include improving management and operations within management intensive assets such as Hotels.

These investments are of moderate risk with predicted appreciation contributing approximately 40% or more of the total return (i.e., greater dependence on appreciation).

6.2.2 High Return Investments

High Return investments include those situations where the investment seeks to capitalize on the disequilibrium of the real estate markets caused by dramatic shifts in capital flows or other fundamental real estate characteristics. They include “opportunity funds” with broad investment mandates, non-traditional investment vehicles (e.g., non-performing loans), investments in real estate operating companies (“REOCs”) or other venture capital type investments involving complex, heavily negotiated transactions. Development projects are included in the High Return category.

These investments are of medium to high risk with predicted appreciation contributing 40% or more of the total return. Investments may include core or non-core property types and may include non-traditional investment vehicles such as operating companies.

6.3 Public Market Equity

The public market equity component is comprised of real estate investment trusts (“REITs”) and other real estate related companies that are publicly traded (collectively referred to as “REITs”). REITs provide greater liquidity than private equity real estate albeit with higher volatility in market valuation. In addition, the public markets may be used as a vehicle for the Fund to gain exposure to specific property types, such as international real estate and regional shopping malls, which are either inaccessible on a direct basis or would otherwise compliment the portfolio.

6.4 Private Debt

Debt investments may offer unique opportunities to enhance income generation within the real estate portfolio. Use of debt-oriented investments may occur within the core, value-add or high return sectors.

7. Legal

Investments shall be made, managed and disposed of in compliance with applicable federal, state and local country specific laws. Qualified legal counsel selected by the Legal Office shall document investment acquisitions, dispositions and leverage.

8. Risk Management

There are numerous investment risks associated with real estate, as such that the actual income and total return may vary from the expected or projected return targets. The Fund shall manage these investment risks by implementing the Risk Management Policies included herein.

SECTION II – POLICIES

1. Risk Management

The following risk management policies shall be implemented to manage the investment risk associated with the real estate portfolio:

1.1 Institutional Quality

A proposed investment must exhibit institutional quality, which is defined as similar, in risk and quality, to investments traditionally made by institutions (e.g., pension funds and insurance companies). Institutional quality core investments are investments providing long-term, stable income returns and are typically located in stable and diversified economic markets, evidencing high quality design and construction, and are in a competitive position within the immediate market area of such investment.

1.2 Investment Management Services

All investments shall be underwritten, managed by, and disposed of, if necessary, by qualified investment staff or an external real estate manager/independent fiduciary which has an established, successful record of providing advisory services to institutions and is deemed able to deliver similar services in the future ("Manager"). When faced with two otherwise equivalent investment opportunities, the Fund will select the investment proposed by an Emerging Manager (as defined herein or LACERA's Emerging Manager Policy), if any.

1.2.1 Manager Characteristics

Unless otherwise authorized by the Board, a manager shall exhibit the following characteristics:

1. Is registered as an investment advisor under the investment Advisor Act of 1940, or has provided sufficient explanation as to why they are exempt from registration;
2. Has a minimum of five (5) years institutional real estate investment management experience, and the responsible personnel of such manager shall have at least five (5) years of institutional real estate experience;
3. Has a minimum of $250 million (net of leverage) of institutional real estate assets under management;
4. The investments by the Fund, in the aggregate, shall not constitute more than twenty percent (20%) of the manager's total assets under management, and no other single client (including any affiliates) shall control or have authority over more than twenty percent (20%) of the manager's total assets under management at the time of selection and approval by the Board;
5. Has a proven and verifiable record of competitive performance returns; and

6. Has a proven and verifiable record of well-articulated and executed real estate investment strategies.

1.2.2 Emerging Managers

Notwithstanding the above requirements, the Board may select an Emerging Manager to manage assets in conformance with LACERA's Emerging Manager Policy (found within the LACERA Investment Statement Policy, ATTACHMENT J).

The structure and timing of capital raises may not coincide with times when LACERA has capital available for the Emerging Manager Program. Therefore, staff will manage the twenty percent (20%) allocation limit of the real estate portfolio, within the range of zero percent (0%) to twenty percent (20%).

1.3 Diversification

Investment strategy, property type, economic/geographic location and manager shall diversify the real estate portfolio with the purpose of reducing portfolio risk by minimizing the impact any investment or manager may have on the total return of the real estate portfolio. Appropriate diversification criteria shall be reviewed on a periodic basis, not less than annually.

The diversification requirements are discussed further below.

1.3.1 Property Type Diversification

The Core/Core-Plus investments will be made in a diversified collection of office, retail, industrial, apartment and other property types. The Core/Core-Plus Portfolio of office, retail, industrial and apartment properties will seek to replicate the diversification of the NFI-ODCE, within a variance of +/- 10%. Greater than 10% variance for Core/Core-Plus from the benchmark property type weights will require Board approval.

Up to 20% of the Portfolio may be invested in "Other" property types. "Other" may include property types such as student housing, medical office and self-storage.

1.3.2 Geographic Diversification

Properties shall be distributed by location to attain economic diversification. Regional distribution shall be utilized along with economic diversification. Target locations should be selected by means of research substantiating positive economic growth during the life of the investment, a diversified economic base, geographic or regulatory supply constraints and tenant demand.

Domestic Research has shown that diversification of private real estate by NCREIF region or state is not a perfect means to ensure effective diversification by location. For example, although in the same state, the southern California economy has distinct differences with the northern California economy.

In order to manage risk associated with geography, the following limitations will be followed:

1. No more than 20% of LACERA's Core/Core-Plus real estate allocation may be invested in any Metropolitan Statistical Area ("MSA");

2. The diversification of LACERA's Core/Core-Plus Portfolio will seek to replicate the geographic compositions of the NFI-ODCE +/- 10% with up to 20% of the Portfolio allowed in Other. Greater than 10% variance for Core/Core-Plus from the benchmark geographic weights will require Board approval; and

3. No more than 20% of the total real estate portfolio will be invested in international real estate.

1.3.3 Low Correlation Investments

Public real estate equity and private real estate debt tend to have low correlations to private equity real estate and be slightly more correlated to the traditional debt and equity asset classes. In order to ensure that diversification within the real estate portfolio does not negatively impact the diversification benefits of real estate within the Total Plan, these strategies will be limited as follows:

1. No more than 20% of the total real estate portfolio will be invested in debt oriented investments.

2. No more than 15% of the total real estate portfolio will be invested in publicly traded securities.

1.3.4 Manager Diversification

The Fund shall limit its exposure to any single manager. No single manager shall be permitted to manage more than 35% of the total allocation to real estate. Exposure to any single Emerging Manager shall be limited to an amount not to exceed 10% of the total allocation to real estate.

1.4 Prudent Expert Standard

A manager's acquisition, management and disposition of real estate investments will be guided by the "prudent expert" standard, which shall be the standard of care required of managers and set forth in their Investment Management Agreements with the Fund. A real estate investment shall be made only if said investment was evaluated and recommended by a manager or another qualified independent fiduciary engaged by the Fund.

1.5 Manager Compensation Structure

For non-core investing, preference shall be given to investment management fee contracts that reward superior investment management performance. Specifically, where appropriate, incentive management fees may be considered to effect reductions in base management fees and to motivate managers to enhance portfolio returns and may be based in part on cash distributions, if practicable.

1.6 Investment Plan

The Investment Plan will set forth investment activities consistent with the Real Estate Objectives, Policies and Procedures. The Investment Plan shall serve as the tactical implementation of the Real Estate Objectives, Policies and Procedures and endeavor to move the Fund toward its target allocation in a prudent manner. Investment activity should adhere to the policies and procedures set in the Real Estate Objectives, Policies and Procedures.

1.7 Management Procedures

The Fund will adhere to clearly defined procedures to monitor the investment, management and disposition of real estate assets by managers on behalf of the Fund as discussed further below.

1.8 Insurance Requirements

Management agreements between the Fund and its managers shall require appropriate levels of property and liability insurance be maintained at all times.

2. Asset Management

The Fund shall seek discretionary manager relationships for pooled fund investments, individually managed accounts and co-investments. To the extent practical, the Fund shall prepare and implement investment criteria, objectives and procedures to ensure managers use their best efforts in executing duties in compliance with the Real Estate Objectives, Policies and Procedures and Investment Plan and consistent with industry standards.

The individually managed accounts will be discretionary, although each manager shall be required to make investments consistent with applicable investment criteria determined by LACERA. These criteria shall be set forth in the Manager Investment Plan (as hereinafter defined), prepared by the manager and reviewed and approved by staff. In addition, staff shall conduct an annual review of the Budget and Management Plans (as hereinafter defined). Management decisions consistent with the pro forma projections and/or approved budgetary items are exclusively delegated to the Manager.

Where required by manager contract, Managers must provide an annual report to staff describing actions taken by such manager to comply with LACERA's Responsible Contractor Policy (found within the LACERA Investment Statement Policy, ATTACHMENT F), including those taken by property managers and their subcontractors. In addition, managers must monitor and enforce compliance with the Responsible Contractors Policy by property managers and their subcontractors, including reasonable investigation of potential violations.

The Board may assign direct asset management and/or co-investment management responsibilities to staff. Staff will use its best efforts to execute duties in compliance with the Real Estate Objectives, Policies and Procedures and Investment Plan and consistent with industry standards.

3. Environment, Social and Governance

As a signatory to the Principles for Responsible Investment ("PRI"), the Fund's individually managed accounts will be managed in a manner consistent with Principals one and two: (i.) incorporate Environmental, Social and Governance ("ESG") issues into investment analysis and decision-making processes; and (ii.) be active owners and incorporate ESG issues into the ownership policies and practices.

Environmental risks will be fully assessed and considered prior to making any property investment. Specific requirements for this assessment are incorporated in the scope of work in Individually Managed Account contracts. Annual operating plans and budgets will address any ongoing effort addressing ESG-related matters.

The Fund requires the individually managed account managers to manage assets in compliance with LACERA's Responsible Contractor Policy. This policy encourages fair labor practices when constructing and maintaining real estate assets.

4. Property Management Policy

Direct or supervisory property management is acceptable. The Fund shall favor managers having clearly articulated and successfully implemented property management strategies. Investment properties shall be professionally managed by the most qualified property management firm given the investment's location and property type. In addition, the fees paid by the Fund for property management services (to a third party or an affiliate) shall be at a rate consistent with the market rates for comparable property management firms in that market for properties of like kind and quality.

5. Development Management Policy

Investments in development properties shall utilize the services of a qualified developer to manage the development process. Fund managers may provide such development services on a direct or supervisory basis. Any fees paid by the Fund for development services (to a third party or an affiliate) shall be at a rate consistent with the market rates for comparable development services in that market for properties of like kind and quality.

6. Property Valuation Policy - Directly Held

All directly held property investments made by Individually Managed Account managers shall be valued by a qualified independent appraiser(s) (MAI) at regular intervals, of no less than every three (3) years. Appraiser selection with respect to individually managed accounts will be determined by staff, based on organizational qualifications, capabilities, personnel, references, and resources. Managers will estimate the market value of each property investment in those periods where independent appraisals are not performed.

Independent appraisals shall be performed, to the extent practicable, at such times as may be required to calculate performance and pay compensation to managers of individually managed accounts pursuant to any incentive compensation arrangement in any existing or future Investment Management Agreement. Valuations, whether determined by the manager or independent appraisers, will be used to calculate the performance of the portfolio.

6.1 Debt Secured by Property

Investments made through the provision of debt to third parties have unique challenges associated with their valuations. Until specific industry standards are established, best practices allow for the valuation of such investments to be determined by a formal audit of year-end financial statements. Such audit must be completed by a firm approved by staff.

7. Investment Vehicle Policy

Investments may be made directly or indirectly by means of any legally permissible investment vehicles including individually managed accounts, co-investment, group trusts, REITs, real estate operating companies (“REOCs”), partnerships, and corporations (including limited liability companies). The Fund may seek investments through such investment vehicles in formal/informal secondary markets.

8. Policy for Leverage on Wholly Owned Property

The prudent and conservative utilization of third party leverage can enhance returns on existing investments, minimize equity exposure and allow increased diversification of the portfolio, thus reducing risk levels. Staff shall monitor the use of all leverage for compliance with the criteria outlined below and report semi-annually to the Board on the status. The criteria included in this policy are intended to mitigate the risks associated with using leverage by imposing conservative requirements. This policy shall apply to all equity investing activities.

8.1 Leverage Criteria: Long-Term

Any leverage originated or assumed on wholly owned Core or Non-Core (Value-Add and High Return) investments by the manager (“long-term”) must satisfy all of the criteria set out below:

8.1.1 Positive Leverage

The use of debt must result in positive leverage. Positive leverage shall apply to the current return, total return (IRR) and opportunity return.

8.1.2 Return Premium

The total expected return to LACERA over the term of the debt must be expected to increase returns a minimum of 2 basis points for each 1% of leverage, compared to the unlevered return projections (e.g., 100 basis points for 50% leverage). Return to LACERA should be measured AFTER payment of acquisition and asset management fees but BEFORE payment of any incentive fees.

8.1.3 Debt-to-Equity Ratio

The maximum debt-to-equity ratio permitted on **any single investment** is:

Core: 1:1 (50% loan-to-value).

Non-Core:

Value-Add: 1:0.54 (65% loan-to-value)

High Return: 1:0.25 (80% loan-to-value)

The maximum debt-to-equity ratio permitted on the total real estate portfolio is 1:1 (50% loan-to-value).

Debt-to-equity ratios are determined at the time of origination but monitored throughout the investment hold.

8.1.4 Security

All debt must be non-recourse to the borrower (or borrowing entity) except for environmental and related indemnities, fraud or material misrepresentations, and other similar provisions required by the lenders, and all loan documentation must be approved by LACERA's counsel. Unless authorized by the Board, recourse to LACERA or to any property or asset not owned by the borrowing entity will not be permitted.

8.1.5 Interest Rates

Fixed or variable interest rates are permissible.

8.1.6 Cross-collateralization

The manager may be allowed to use cross-collateralization on a case-by-case basis based on manager's strategy.

8.1.7 Pre-payment Requirement

All variable rate leverage must be pre-payable at par without penalty. Fixed rate loans must permit pre-payment, but may contain a penalty payment.

8.1.8 Amortization

No amortization is required.

8.2 Leverage Criteria: Short-Term

Any leverage utilized by the managers for development investments (i.e., short-term) must satisfy all of the criteria set out below.

8.2.1 Debt-to-Equity Ratio

The maximum debt-to-equity ratio permitted on any development investment is 1:0.25 (80% loan to total development cost).

The maximum debt-to-equity ratio permitted on any manager's total portfolio is 1:0.25 (80% loan-to-value).

Debt-to-equity ratios are determined at the time of origination.

8.2.2 Security

Debt used for development investments may be secured by the real property owned by the borrower (or borrowing entity). Recourse to the borrower (or borrowing entity) shall not be permitted except for environmental and related indemnities, fraud or material misrepresentations, and other similar provisions required by the lenders. All loan documentation must be approved by LACERA's counsel. Unless authorized by the Board, recourse to LACERA or to any property or asset not owned by the borrowing entity will not be permitted.

8.2.3 Interest Rates

Fixed or variable interest rates are permissible.

8.2.4 Cross-collateralization

Development investment assets may not be cross-collateralized.

8.2.5 Pre-payment Requirement

All variable rate debt must be pre-payable at par without penalty. Fixed rates debt must permit pre-payment, but may contain a penalty payment.

8.2.6 Amortization

No amortization is required.

9. Lender Leverage Policy

The prudent and conservative utilization of third party leverage may be utilized by the Fund's debt managers to enhance returns to originated loans, minimize equity exposure and allow increased diversification of the portfolio, thus reducing risk levels. Staff shall monitor the use of all leverage for compliance with the criteria outlined below, and report semi-annually to the board on the status. The criteria included in this policy are intended to mitigate the risks associated with using leverage by imposing conservative requirements. This policy shall apply to all debt investing activities.

Any leverage originated by the debt manager must satisfy all of the criteria set out below.

9.1 Positive Leverage

The use of debt must result in positive leverage. Positive leverage shall apply to the current return (inclusive of current return generated through reserves and holdbacks for payment of interest), total return (IRR), and opportunity return according to the following:

9.2 Return Premium

The total expected return to LACERA over the term of the debt must be expected to increase returns a minimum of two basis points for each 1% of leverage, compared to the unlevered return projections (e.g., 100 basis points for 50% leverage). Return to LACERA should be measured AFTER payment of asset management fees.

9.3 Leverage Ratio

The maximum leverage ratio permitted on **any single loan** is 3:1 (75% third-party loan-to-LACERA position).

The maximum leverage ratio permitted on the total real estate debt portfolio is 2:1 (67% third-party loan-to-LACERA position).

Leverage ratios are determined at the time of origination by dividing the total committed third party leverage (including future advance obligations).

9.4 Security

All debt must be non-recourse to LACERA. However, may be full recourse to the borrowing entity(ies), including for full repayment, environmental and related indemnities, fraud or material misrepresentations, and other similar provisions required by the lenders. All loan documentation must be approved by LACERA's counsel. Unless authorized by the Board, recourse to LACERA will not be permitted.

9.5 Interest Rates and Term

Fixed or variable interest rates are permissible. The term of any one-off third party loan should match the term of the LACERA loan. The manager may utilize loan facilities (portfolio-level leverage) that do not match the term of LACERA loans securing the facility provided that the manager believes that reinforced risk is appropriately mitigated.

9.6 Cross-Collateralization and Cross-Default

The manager may cross-collateralize and cross-default LACERA loans to secure third-party leverage.

9.7 Pre-payment Requirement

All leverage shall be pre-payable on current market terms available at the time the leverage is sourced, which may include lockouts and prepayment penalties.

9.8 Amortization

No amortization is required.

10. Investment Size Policy

There is no minimum investment size. The maximum LACERA equity investment size in any one property shall be limited to five percent (5%) of the total allocation to real estate. The maximum investment size for specific types of investments may be restricted further elsewhere in this Plan.

11. Lease Structure Policy

Multi-tenanted properties with staggered lease termination dates are preferred to properties with an undue concentration of lease termination dates, unless such concentration further diversifies the lease termination dates of the entire real estate portfolio. Single tenant properties will be considered if the tenant will provide tenant and lease structure diversification within the total real estate portfolio of the Fund, the tenant is financially sound, and the property can be converted to multi-tenant use at a reasonable cost. Investments in single tenant properties in the aggregate shall not exceed ten percent (10%) of the real estate allocation.

12. Registration Policy

In order to enable the Fund's managers to obtain more competitive pricing structures for acquisition of directly held properties or originating debt investments, and to avoid overbidding on behalf of the Fund during property acquisitions or when making debt proposals, the Fund has implemented a registration policy. The Fund will permit each manager to register up to six transactions at any one time. Upon acceptance of a registration, the manager shall be the Fund's exclusive representative relative to the registered transaction. This policy will be subject to review and modification by the Fund at any time. Staff will provide managers with notice in advance of any changes to this registration policy.

13. Development Risk Management Policy

LACERA has established this Development Risk Management Policy to identify, control and to the extent possible, mitigate the risks inherent in investing in real estate development. The issues addressed within the Development Risk Management Policy supplement (i.e., are in addition to) the risk management criteria that appear within the Real Estate Objectives, Policies and Procedures. The Policy addresses the following issues:

- Physical Criteria
- Investment Location
- Time of Development
- Investment Structure
- Developer/Partner Criteria
- Zoning
- Fiduciary Oversight

13.1 Physical Criteria

All development projects must be underwritten such that the physical criteria of the property would, upon completion, meet or exceed the physical criteria described within the manager's then current Manager Investment Plan.

13.2 Investment Location

Investments shall be limited to locations identified within the manager's then current Manager Investment Plan.

13.3 Timing of Development

Individual development projects must be expected to be complete with minimum occupancy hurdles achieved in no longer than 36 months (inclusive of construction time).

13.4 Investment Structure

Investments may be made via 100% equity, partnership, or joint venture arrangement provided that the following criteria are satisfied:

1. The structure must preserve LACERA's right to own 100% of the property once completed and leased to a stabilized level; and

2. LACERA must have control and/or approval rights over all major investment decisions.

13.5 Developer/Partner Criteria

Investments may be made in partnership or joint venture with qualified builders or developers at the discretion of the manager.

13.6 Zoning

Investments shall be limited primarily to property that is fully zoned with entitlements in place for the planned use. LACERA shall limit exposure to zoning and/or entitlement risk to investments totaling not more than 5% of the total real estate allocation.

13.7 Fiduciary Oversight

All investments must be underwritten and assets managed by a qualified investment manager acting in a fiduciary capacity to LACERA.

14. Co-Investment Policy

LACERA has established this Co-Investment Policy to identify, control and to the extent possible, mitigate the risks inherent in making one-off co-investments in real estate. The issues addressed within the Co-Investment Policy supplement the risk management criteria that appear within the Real Estate Objectives, Policies and Procedures.

14.1 Sources of Co-Investments

LACERA will consider co-investment opportunities from sponsors of commingled funds in which LACERA has invested, managers with which LACERA has a current separate account agreement, or external managers with which LACERA has no existing relationship.

14.2 LACERA Review

The method of review for co-investment opportunities will be dependent upon the source of the co-investment.

Co-investment opportunities sourced by existing separate account managers or sponsors of commingled funds in which LACERA is an investor will be reviewed, evaluated, and to the extent required, negotiated by the investment staff.

Co-investment opportunities sourced by external managers with which LACERA has no existing relationship will be reviewed, evaluated and to the extent required, negotiated by the investment staff. In addition, an Independent Fiduciary, retained by LACERA for such purpose, will opine on the fairness of pricing and reasonableness of the terms and conditions.

14.3 Commitment Authority

14.3.1 Staff-Level Commitment Authority

The investment staff will have authority to approve co-investment commitments when all of the following conditions are met:

1. The amount of co-investment by the Fund does not exceed $50 million;
2. The subject property of the co-investment is located within the United States of America; and
3. The co-investment is sourced by an existing separate account manager or sponsor of a commingled fund in which LACERA is an investor.

14.3.2 Board-Level Commitment Authority

The Board of Investments will be presented with the opportunity to approve all co-investments when any of the following conditions are met:

1. The co-investment by the Fund will exceed $50 million; or
2. The subject property of the co-investment is located outside the boundaries of the United States of America; or
3. The co-investment is sourced by a manager with which LACERA has no existing relationship.

14.4 Co-Investment Documentation

All Real Estate co-investments will be subject to a separate management agreement between LACERA and the investment manager/sponsor. The terms and conditions of each co-investment will be articulated in the agreement.

15. Site Inspection Policy

As part of the on-going due diligence and monitoring of Individually Managed Accounts, staff will conduct periodic inspections of properties that are acquired on the Fund's behalf or that are securing debt investments confirming their compliance with LACERA policies. Such inspections will be used to affirm that appropriate on-site management is being dedicated to the property, that the property is being appropriately maintained to compete effectively in its market, and that the investment is consistent with representations made by the manager in their periodic reports. The minimum frequency for staff inspections will be as outlined below. However, the Chief Investment Officer may approve exceptions to the frequency of inspections for any investment on a case-by-case basis.

15.1 Core Investments

Investments classified as core will be inspected by staff no less frequently than once every five years. The ten largest investments, as measured by Fund capital invested and total capitalization, will be inspected no less frequently than once every three years.

15.2 Value-Add and High Return Investments

Investments classified as Value-Add or High Return will be inspected by staff no less frequently than once every three years.

SECTION III - PROCEDURES

1. Delegation of Responsibilities

The real estate program shall be implemented and monitored through the coordinated efforts of the Board, staff, Consultant, managers, and Independent Fiduciaries. Delegation of the major responsibilities for each participant is reviewed below.

1.1 Board of Investments

The Board, assisted by the recommendations of staff and Consultant, shall:

1. Establish real estate portfolio objectives and policies;
2. Approve the Real Estate Objectives, Policies and Procedures at least every three years, and the Investment Plan annually, including any revisions thereto;
3. Approve retention and termination of managers, independent fiduciaries, consultants and any other parties deemed appropriate, and approve search criteria;
4. Approve capital allocation limits to individual managers;
5. Review the performance of the real estate asset class and its compliance with the real estate portfolio objectives and policies as stated herein and in the Investment Plan;
6. Approve co-investments according to the Co-Investment Policy;
7. Approve use and selection of Independent Fiduciaries when compensation is greater than $150,000; and
8. Complete or cause to be completed any other activities necessary to oversee and monitor the Fund’s real estate investments.

1.2 Staff

The staff shall:

1. Conduct searches for external professional services required for management of the real estate portfolio (management searches);
2. Investigate other investment opportunities for strategies not otherwise encompassed by the Fund’s separate account Managers’ investment mandates and, if deemed appropriate, recommend such investments to the Board for approval;
3. Prepare recommended changes to the Real Estate Objectives, Policies and Procedures as necessary and submit the same to Board for approval;

4. Prepare the Investment Plan as described below and submit the same for Board approval;

5. Approve Manager Investment Plans and Minimum Return Requirements;

6. Approve manager requested variances to the Manager Investment Plans and Minimum Return Requirements on a case-by-case basis;

7. Approve manager requested variances from LACERA's Leverage Policy involving the debt-to-equity ratio for any single investment;

8. Approve co-investments according to the Co-Investment Policy;

9. Prepare manager specific capital allocation limit recommendations and submit the same to the Board for approval;

10. Select and engage third party appraisers or auditors when necessary in accordance with Board approved procedures;

11. Provide asset management, acquisition, disposition, accounting and financial controls in accordance with Board approved procedures (see Section III.4 of this document);

12. Conduct site inspections at the direction of the Chief Executive Officer or Chief Investment Officer;

13. Perform the Annual Oversight Review as described below;

14. Prepare funding procedures and coordinate the receipt and distribution of capital with the managers with respect to acquisitions, dispositions and the funding of existing property operations;

15. Monitor the closing process for acquisitions, refinancing and other capital transactions between managers and the Fund;

16. Select Independent Fiduciaries when compensation is expected to be no greater than $150,000;

17. Manage and oversee work assigned to Independent Fiduciaries; and

18. Complete any other activities required by the Board and those specifically delegated to the staff in the Real Estate Objectives, Policies and Procedures, the Real Estate Investment Plan or other applicable document or agreement.

1.3 Consultant

Consultant shall:

1. Review the Real Estate Objectives, Policies and Procedures, as amended by staff;

2. Report to Board on appropriateness and impact of any changes;

3. Assist staff in conducting manager searches and issue memo(s) on process and manager selection for Board review;

4. Provide Performance Measurement Reports Quarterly with Semi-Annual Board presentations (as described further in Section III.6);

5. Undertake other activities, as determined by the Board and/or staff; and

6. Report to the Board of Investments on any activity or issue deemed to be in variance with Board approved roles and objectives for the real estate portfolio.

Consultant shall review the Real Estate Objectives, Policies and Procedures periodically, and the Investment Plan annually, and recommend revisions to reflect changes in the capital markets, real estate markets and the real estate portfolio of the Fund. Consultant shall provide quarterly Performance Measurement Reports.

1.4 Managers

The managers shall acquire and manage real estate investments on behalf of the Fund in accordance with the Real Estate Objectives, Policies and Procedures, Investment Plan, Budget and Management Plan, the Manager Investment Plan, and any other program documentation developed by staff and/or approved by the Board. The manager shall provide the Board and staff with such information as may be required to properly monitor the manager and its investment, including complying with the Procedures set forth herein.

1.5 Independent Fiduciaries

Independent Fiduciaries ("IFs") will be utilized on an as-needed basis to evaluate the fairness or suitability of an investment by the Fund when the investment is not otherwise being sourced or underwritten by a Manager with which the Fund has an existing relationship.

2. Manager Search Procedure

Staff shall search for and identify investment managers to assist in the implementation of the investment program at such time as authorized by the Board. The search program shall be as follows:

2.1 Search Procedures

Real estate investment shall be accessed through the following process:

2.1.1 Individually Managed Accounts

The individually managed account manager search procedure is as follows:

1. Staff shall establish and prepare recommendations and submit for Board approval the proposed qualification criteria (consistent with the purpose(s) of the search and its recommendations). The recommendation shall include the proposed scope of the search efforts (whether the search will be limited to pre-qualified managers, open to all bidders, etc.). The purpose(s) of the search may include specific investment types or categories such as Core, Non-Core (Value-Add or High Return), or Public REITs to be acquired on behalf of the Fund. The purposes for specific search or series of searches shall be set forth in the Investment Plan, or presented to the Board on an as-needed basis;

2. If requested, Consultant shall screen its database and other available sources to identify manager candidates exhibiting qualities consistent with the qualification criteria. Consultant shall provide to staff a preliminary listing of all manager candidates exhibiting such qualities consistent with the approved criteria;

3. Staff shall prepare and Consultant may review a Request for Proposal (“RFP”) or Request for Information ("RFI”) to further define manager capabilities specific to the qualification criteria. The RFP/RFI may require each prospective manager to describe its investment philosophy or strategy under the then prevailing market conditions, and to justify why it believes its strategy is appropriate, identifying and discussing all risks and how it has determined the appropriate time for investment consistent with its strategy or philosophy;

4. Staff shall forward an RFP/RFI to qualified manager candidates previously identified or all interested parties dependent upon the scope of search approved by the Board;

5. Staff shall establish evaluation areas and the respective weighting factors;

6. Staff will select an “evaluation team”, which shall review and evaluate RFP/RFI responses and compile a numerical ranking (1.0 to 10.0) for each manager for each evaluation area. The evaluation team may or may not include the Consultant;

7. Staff shall visit preferred candidates to complete final operations due diligence;

8. Staff shall prepare a report to the Board concerning the final rankings, a review of the highest ranking managers and its recommendations to retain one or more managers;

9. The Board may approve or reject staff’s recommendation to retain one or more managers based on the review and evaluation of information presented in the steps listed above; and

10. After its selection, the manager shall prepare a Manager Investment Plan consistent with the investment strategy articulated in response to the RFP/RFI and consistent

with the investment criteria established as part of the search or in the Investment Plan.

2.1.2 Pooled Funds Opportunities

The Fund may invest in pooled funds when it is willing to balance a lesser degree of control against obtaining other investment objectives, such as access to a specialized investment niche, increased diversification or reduced risk. The pooled fund search procedure is as follows:

1. Staff shall review and identify investment opportunities consistent with market opportunities and conduct due diligence as needed to determine if investment by the Fund is appropriate;

2. Staff shall direct the Consultant to review and evaluate recommended investments; and

3. Staff and Consultant will provide documented recommendation(s) to the Board. Staff shall assist the Board with interviews/presentations with/by investment sponsors if deemed appropriate.

The Board shall determine whether to invest in offered vehicles based on the review and evaluation of information presented in the steps listed above.

2.1.3 Co-Investment Opportunities

1. Staff will review co-investment opportunities presented to LACERA and conduct due diligence as needed to determine if investment by the Fund is appropriate;

2. Staff will review, evaluate and to the extent required, negotiate the terms and conditions of each co-investment. If necessary, staff will direct an Independent Fiduciary to conduct an assessment of a co-investment opportunity. An Independent Fiduciary will be utilized when the source of a co-investment opportunity is a manager with which the Fund does not have an existing relationship;

3. In accordance with Section II.14.3 of this Policy, depending upon the size and location, staff or the Board shall determine whether to invest in each co-investment opportunity. “Staff-level approval” means approval of the Chief Investment Officer of the Fund; and

4. Staff shall notify the Board promptly of any staff-approved commitments to co-investment.

2.2 Referral Procedures

The Board may refer to its staff or Consultant for review a pooled fund, a manager, a co-investment or other investment opportunity for evaluation. Such referral shall be in writing and approved by a formal motion of the Board.

3. Appraiser Search Procedures

Staff shall search for and select third party appraisers to value real estate assets when required under the manager Agreements or when otherwise deemed appropriate. The search process for appraisers shall be as follows:

1. Staff will maintain a list of potential appraisers. This list shall consist of qualified appraisers: (i.) recommended by managers and other plan sponsors; (ii.) that have successfully completed other appraisal assignments for LACERA; and (iii.) that have expressed interest in providing services to the Fund;

2. Staff, in conjunction with LACERA's Legal Office, shall prepare a draft engagement letter which identifies the requirements of the appraisal and delivery dates. The engagement letter will be attached to an RFP sent to all appraisers included on the list of potential appraisers; and

3. Staff shall evaluate RFP responses and selects appraisers based on qualifications and expertise in the geographical location and product type, fee structure and sample work provided. In some instances, staff may determine that an update appraisal may be satisfactory and cost effective, rather than a full narrative appraisal. Selection of appraisers is guided by a desire to diversify among appraisal firms such that no single appraisal firm appraises all of the assets in any one geographic area or all of any single property type.

4. Investment Management Procedures for Individually Managed and Co-Investment Accounts

4.1 New Investments

4.1.1 Manager Investment Plan

For each individually managed and co-investment account, the manager shall prepare, and staff shall review and approve, an annual investment plan (a "Manager Investment Plan") setting forth the general and specific criteria for its investment allocation or approach. The investment criteria shall be consistent with the Real Estate Objectives, Policies and Procedures, and the Investment Plan pursuant to which the manager was selected.

Each Manager Investment Plan shall be updated at least annually to account for the dynamics of the real estate and capital markets and the Fund's real estate investments.

4.1.2 Registration – Directly Held Assets

Each manager shall provide staff, in writing (including via facsimile), a preliminary investment summary identifying a prospective investment opportunity. Staff shall maintain a log and records of all proposed investments.

The Preliminary Investment Summary shall include the following information: (i.) property name and location; (ii.) seller name and location; (iii.) summary investment term sheet (a proposed investment will not be registered if the Summary Investment Term Sheet is incomplete. The manager shall specifically note whether the proposed investment complies with the then current Manager Investment Plan. Any variances from the Manager Investment Plan should be noted and approved by staff.); (iv.) a copy of an accurate and complete rent roll for the subject property, as of a recent date secured from the seller and/or a registered representative thereof; and (v.) a complete disclosure by the manager of the internal allocation history of the investment opportunity, including any prior exposure to other clients of the manager, discretionary or non-discretionary, whether through formal registration or information discussions, and reason(s) for any other client's election to decline to make the investment.

Following the receipt of the preliminary investment summary, staff shall review its records to determine if the proposed investment has been registered by another manager. Staff will determine whether the proposed investment: (i.) complies with the approved Manager Investment Plan; (ii.) fits within the allocation limits for the Manager; and (iii.) fits within the Fund allocation limits for the relevant investment category; and if so, may accept the registration. Staff will also evaluate the allocation history and accept or reject the allocation as follows: (i.) the Fund is the first investor client allocated the investment opportunity, staff will accept the allocation; and (ii.) the Fund is NOT the first investor client allocated the investment opportunity, staff will review the circumstances and rationale behind why each client previously exposed to the investment elected not to pursue it and determine whether to accept the allocation to the Fund. Failure to accept the allocation will result in denial of registration, and the manager will be precluded from pursuing the investment opportunity on the Fund's behalf.

If the proposed investment opportunity has not been previously registered by another manager and the allocation is accepted, staff will register the investment in the log and will provide a registration letter to the manager within two (2) business days of receipt. The effective date of registration of the prospective investment shall be the date the complete preliminary investment summary has been received by staff.

Upon the registration of a prospective investment opportunity by staff, the manager for whom the investment opportunity has been registered shall have the exclusive right, for a period of one-hundred-eighty (180) days from the date of registration, to negotiate and complete a successful acquisition of such investment. Extensions of the exclusivity period may be granted by staff upon a showing by the manager of good cause.

Each manager shall have not more than six (6) prospective investments registered with the Fund at any time. In the event the maximum is reached, or at any other time, the manager may eliminate a proposed investment from its registration list. All such eliminations must be identified in writing and submitted to staff for confirmation. Staff will remove a proposed investment upon receipt of such notice and will confirm to the manager in writing (including via facsimile) the elimination. In addition, a transaction which has received final Investment Committee approval from the manager, upon written notice provided by the manager to staff, shall be removed from the registration list.

4.1.3 Acquisition/Investment Review

Prior to making an investment, the manager shall provide staff with a Final Investment Package, which shall provide such information to evaluate the proposed investment relative to the Real Estate Objectives, Policies and Procedures, Manager Investment Plan, and such other investment criteria as has been established for the respective manager.

4.1.4 Staff Review

Staff shall undertake the following review of each proposed investment:

1. Evaluate the consistency of the investment proposal with the Strategic and Investment Plans and any investment guidelines prepared for the manager as part of the Manager Investment Plan;

2. Confirm the qualifications of the manager to acquire and manage the proposed investment;

3. Identify potential conflicts of interest;

4. Determine whether the manager has underwritten the proposed investment consistent with industry practices;

5. Evaluate the reasonableness of the assumptions used by the manager to project performance of the proposed investment;

6. When practicable, perform a site inspection of the property to confirm the accuracy of the oral and written representations made by the manager with respect to the proposed investment; and

7. Identify material issues attendant to the proposed investment.

The primary purpose of staff's review is to confirm that the manager has exercised prudence and complied with its fiduciary obligation to the Fund relative to the new investment. Staff has no approval rights over the new investment and staff's site inspection, which may occur as much as sixty (60) days subsequent to closing, shall not inhibit the manager's discretionary authority to make the new investment. The Chief Investment Officer may approve exceptions to inspections of new investments on a case-by-case basis.

4.1.5 Funding Procedures

The manager and staff shall prepare written funding procedures for each individually managed and co-investment accounts which are compatible with the system of the manager, consistent with industry practice and enable the accurate control of monies. The manager shall provide staff with a critical date list with respect to an acquisition, including funding and closing dates, updating the list as necessary or as required under any current Investment Management agreement for existing managers.

4.2 Asset Management

4.2.1 Asset/Investment Management Introduction

Asset management for directly held assets refers to all activities relating to the operations of the real estate investments and the timely and accurate reporting of the results of those operations. Managers are directly accountable for asset management responsibilities described above and hereinafter.

This section also designates certain property level responsibilities which the manager may perform through its affiliated property management subsidiary or cause to happen through a contractual arrangement with a third party property management firm. Specific responsibilities, compensation, and reimbursements for property management will be covered under a separate agreement to be entered into by the manager with such affiliate or third party firm.

Investment management for debt refers to all activities relating to servicing and oversight of the debt investment during its holding period

4.2.2 Budget and Management Plan –Directly Held Assets

Not less than forty-five (45) days prior to the end of the fiscal or calendar year (as mutually agreed upon by the manager and staff), each manager of individually managed and co-investment account investments shall submit a Budget and Management Plan for the upcoming year for each direct investment and the portfolio to staff. Prior to the end of the fiscal or calendar year, staff will meet with the manager personnel directly responsible for portfolio and asset management for a review and evaluation of the reasonableness of the Budget and Management Plan.

The Budget and Management Plan shall include a narrative strategy for the ensuing year (including leasing, operations and capital programs) and an estimated income and cash flow statement for the ensuing year including gross revenues, expenses, percentage rent, additional interest, property management fees, net operating income, tenant improvements, leasing commissions, capital expenditures, cash flow before and after debt service and asset management fees with quarterly distribution projections. The Budget and Management Plan shall include the annual disposition review as described below.

The manager shall notify staff in writing within a reasonable time of its occurrence of any significant event which may occur with respect to an investment which was not projected in the Budget and Management Plan.

4.2.3 Annual Report and Oversight Review

Directly Held Assets

Within seventy-five (75) days after the close of each fiscal or calendar year (as mutually agreed by the manager and staff), each manager shall provide staff with an annual report (the "Annual Report") containing the following information with respect to each property managed and for the portfolio of properties managed: (i.) a current performance summary, summary of performance yields, summary of investment performance; and (ii.) a funded investment summary, including an investment description, date of acquisition, acquisition cost, property value, appreciation analysis, leasing status, lease expirations for current year, comparative performance for the prior year and a budget for the current year, which may be updated from the Budget and Management Plan previously delivered. Within sixty (60) days of the end of each fiscal year (herein defined as July 1 - June 30), audited financial statements for each property for the fiscal year, prepared by a certified public accounting firm selected by the Fund, will be prepared and delivered to the Fund

Debt

Within sixty (60) days after the close of each fiscal year, each manager shall provide staff with an annual report (the "Annual Report") containing the following information with respect to each property managed and for the debt portfolio: (i.) a summary of investment performance; (ii.) an investment description of each asset, including a description of the asset securing the debt, the structure of the loan; and (iii.) status of all payments due and borrower compliance with payments and covenants. Within ninety (90) days of the end of each fiscal year, audited financial statements for each debt portfolio for the fiscal year, prepared by a certified public accounting firm selected by the Fund, will be prepared and delivered to the Fund.

4.2.4 Quarterly Reviews

Each manager shall provide to staff a quarterly review of investment activity, including an evaluation of compliance with any applicable planning documents (Annual Investment Plan and/or Budget and Management Plan) and an explanation of any significant variances. Staff shall report any major issues to the Board.

4.3 Disposition

4.3.1 Annual Disposition Review – Directly Held Assets

Managers of individually managed and co-investment accounts shall provide to staff an annual disposition analysis of each asset under management, setting forth the manager's opinion as to the prudence of selling or retaining each investment and the reasons therefore. The disposition analysis shall include long and short-term hold/sell scenarios. The disposition analysis shall be included in the Budget and Management Plan.

The disposition analysis shall contain, in addition to any other requirements set forth in any Investment Management agreement for existing managers, the following information:

1. Market Update

Review of the ability, given market conditions, to divest or liquidate each asset, and determination of the current market value of each asset, i.e., the value at which an asset can be sold within a reasonable time (the "Disposition Value"). This analysis shall include a discussion of material assumptions on which any recommendation is based, including terms and conditions of any projected disposition and the estimated time frame within which such a disposition could be effected; and

2. Strategic Evaluation

Review of the original investment objectives relating to each investment and a variance analysis with the actual performance;

Review of the compliance (e.g., projected returns) of an investment with the Real Estate Objectives, Policies and Procedures, the Investment Plan, and Manager Investment Plan;

Review of market trends relevant to the investment, including investment market conditions (such as comparable sales, capitalization rates, discount rates and growth rates, among other conditions) and the investment's competitive advantages and disadvantages in its market;

Review of each investment's current rate of return, net of manager fees;

Review of each investment's projected short term and long term rates of return, net of manager fees;

Review of an investment's internal rate of return assuming a sale at the Disposition Value;

Review of an investment's internal rate of return assuming a sale at future points in time at an investment's then Disposition Value; and

Review of the projected returns of alternative real estate investments exhibiting comparable risk.

4.3.2 Unsolicited Offers

The manager shall notify the Fund of any Unsolicited Offer to purchase an asset of the Fund. "Unsolicited Offer" shall be defined as any written offer received from a purchaser considered by the manager to be credible. The manager shall prepare and submit to the staff within forty-five (45) days of receipt of said offer, a written disposition analysis of the asset using the offered amount as the Disposition Value along with an outline of the manager's response to the offer.

4.3.3 Disposition Procedures and Reinvestment of Proceeds

In the event a manager determines that the sale or other disposition of any investment under management is appropriate, the applicable disposition and reinvestment procedures shall be as set forth below. The Manager shall have discretionary authority to complete the disposition provided the following steps are followed:

1. The Manager shall select, if appropriate, the retention of a qualified independent real estate broker to assist in such sale provided that compensation to the selected broker does not exceed the then current market rate for such services. No broker affiliated with the Manager shall be engaged, however, without the prior written approval of staff;

2. Manager shall develop and submit to staff the marketing strategy for the investment;

3. Manager shall negotiate with potential purchasers, and in consultation with the Fund's counsel, prepare appropriate sale documentation;

4. All dispositions shall take place in an escrow account with escrow instructions prepared by the manager in such form as it deems prudent, and as approved by Fund counsel. The manager's discretion to sell assets is limited to cash sales. Dispositions that generate sales proceeds other than cash (e.g., REIT stock) remain subject to Board approval; and

5. If requested by the Fund, the manager shall assist the Fund in the reinvestment of the net cash proceeds from the sale in such real estate investment consistent with the investment criteria set forth in the Strategic and Investment Plans and Manager Investment Plan, if any. However, the Fund, in its sole discretion, may elect not to utilize the manager for reinvestment of such proceeds for any reason, including, but not limited to, as a result of the annual review of the manager's performance by the Board and staff.

4.4 Acquiring Assets from Commingled Funds

LACERA may have the ability to purchase one or more assets from a commingled fund that the Fund is an investor in. In order to complete the potential acquisition, an Independent Fiduciary will be engaged to facilitate the transaction. Once the asset(s) are acquired, the asset(s) will then be transferred to one of the existing IMA's. Whenever this process is initiated, the Board will be notified.

The process is outlined below:

1. The General Partner (GP) would notify LACERA of asset(s) ready for sale from the commingled fund and the Proposed Price (the "GP Price") of each asset;

2. LACERA's staff would determine whether the assets are a desirable addition to the core portfolio (without regard to price). If so, then the pricing is determined as outlined below. If not, then the GP moves forward with the third-party sale;

3. Engage an IF to consider the asset purchase on an off-market basis;

4. Staff will select and engage the IF when the cost does not exceed $150,000. Independent Fiduciary assignments exceeding $150,000 in cost will be subject to Board approval;

5. The Independent Fiduciary will represent LACERA's interest in determining whether or not to acquire an asset from a commingled fund. The IF would: (i.) be retained directly by LACERA; (ii.) complete a one-time assignment that should be completed in a short period of time (likely 30-45 days); and (iii.) be compensated on a fixed fee basis. The fee payable to the IF would be non-contingent (i.e., the IF would earn a fee whether or not a transaction is consummated);

6. The IF will: (i.) conduct an independent review and underwriting of the asset(s); (ii.) determine whether or not to obtain a third-party appraisal of the asset(s) (and if so, engage the appraiser); and (iii.) if deemed appropriate, attempt to reach price agreement with the GP for an off-market purchase;

7. If price agreement is reached, a sale is completed with the IF representing LACERA and GP representing the commingled fund. Once closed, LACERA may assign ongoing asset management responsibility to the GP or another separate account Manager; and

8. If price agreement is not reached via this off-market process, a competitive bidding process may be initiated.

4.5 Accounting and Financial Controls

The managers shall comply with the industry standard accounting and financial control guidelines set forth by the Real Estate Information Standards as revised and other requirements set forth in each manager's Investment Advisory Agreement.

4.6 Reporting Requirements

On a quarterly basis, the manager of individually managed and co-investment accounts shall provide the Fund and Consultant with combined financial statements for the entire portfolio and separate financial statements for each property in the portfolio.

The manager of individually managed and co-investment accounts shall provide the Fund with the Budget and Management Plan and with the Annual Report. Any subsequent amendment to the operating and capital improvement budgets and the reasons therefore shall be communicated to the Fund in a timely manner.

Each manager shall maintain complete and accurate books and records of the portfolio and each portfolio investment at all times. Each manager shall provide staff or their representative(s) access to all such books and records upon reasonable notice. Each manager shall also maintain and furnish other reports, information, and records requested by staff relating to the Fund's real estate investments.

5. Manager Return Objective

Section I.5.1 of this document identifies Benchmarks by Investment Category. Each investment held in a manager's portfolio shall initially be classified by Investment Category: Core, and Non-Core (Value-Add and High Return) so that performance can be measured according to an appropriate benchmark. The classification of each investment will be regularly reviewed to ensure that the appropriate benchmark is being utilized. At each quarter-end, the manager shall identify any investment that it believes should be re-classified from one Investment Category to another and the justification for the change (e.g., from Value-Add to Core). Staff will consider the manager's recommendation and will accept or reject the recommendation.

A Board-approved Manager Return Objective will be identified and be incorporated into each IMA agreement. Manager performance will be evaluated on a rolling five-year period. If a manager fails to meet the manager return objective for any two consecutive one-year periods, the manager will have a formal review with staff and Board.

The annual investment plan prepared by staff and approved by the Board will identify each manager that will be permitted to deploy capital for new investments during the period covered by that plan.

Disputes in investment classification between the manager and staff, if any, shall be submitted to the Board for final determination.

6. Performance Measurement Report

A comprehensive reporting and evaluation system addressing each investment, manager and portfolio shall be prepared by the Consultant on a quarterly basis and presented to the Board at least semi-annually. The Consultant shall provide such information as may be required to enable the Fund to administer its investments and managers.

The content of the report will include investment and portfolio attributes including: income, appreciation, total gross and net return, cash flow, internal rate of return, diversification, comparisons to relevant industry performance indices, and comments regarding each manager's performance.

Within ten (10) days following the last day of each quarter, Consultant shall forward to each manager a Performance Measurement Questionnaire. The manager shall forward its responses to the questionnaire within forty-five (45) days following the last day of each quarter. Consultant shall prepare and forward to the Fund a Performance Measurement Report within ninety (90) days following the last day of each quarter or within five (5) days of final and complete data submission.

ATTACHMENT C

TOWNSEND® GROUP
an Aon company

88 Kearny Street, Suite 800
San Francisco, CA 94105

Memorandum

To: LACERA Real Estate Committee ("REC")

From: Townsend Group, an Aon Company Jennifer A. Stevens

Date: June 13, 2018

Re: LACERA 2018 Real Estate Objectives, Policies and Procedures

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LACERA Staff provided Townsend with a copy of the LACERA 2018 Real Estate Objectives, Policies and Procedures (the "OPP") for review and comment. The memo below summarizes Townsend's comments on the OPP submitted by LACERA Staff for approval. A **Compliance Matrix** is attached as **Exhibit A** and summarizes the changes made to the OPP Guidelines.

Townsend Comments on Real Estate OPP

The OPP incorporates changes made to the structure of the Real Estate Program resulting from both the Meketa Asset Allocation Study and the LACERA Real Estate Structure Review approved by the LACERA Board of Investments on May 9, 2018. The LACERA Real Estate Structure Review followed the multi-phase Real Estate Attribution Analysis presented by Townsend. Townsend reviewed the OPP to ensure elements of the LACERA Structure Review are reflected in the LACERA OPP presented today, and believes all elements have been adequately incorporated. A summary of major changes in the OPP are outlined below. Townsend's additional comments below are provided for the REC's consideration.

1. **Reference to New Asset Allocation Model throughout OPP**
   In 2018, the LACERA BOI adopted a new asset allocation framework recommended by Meketa, which directly impacts the structure of the LACERA Real Estate Program. The new framework decreases the total target allocation for real estate from 11% to 10% and re-categorizes investments held within the Real Estate Program according to the functional asset class buckets below.

LACERA Asset Allocation (Adopted 2018)

Functional Asset Class	Real Estate Classification	Target Allocation
Real Assets & Inflation Hedge	Core & Value Add Real Estate	7%
Growth	High Return Real Estate	2%
Credit*	Private Real Estate Debt	1%
Total		10%

**The total allocation to Illiquid Credit is 3%. The 1% is an estimated amount, as footnoted in LACERA's documents.*

Townsend notes for the REC that the most notable change is that the 2018 asset allocation restructuring results in a greater target allocation to High Return investments categorized in the Growth category than previously employed. To meet the target, this would increase the risk in the Real Estate Portfolio late in the market recovery. Townsend recommends executing within the permissible ranges (outlined in point #5 below), minding risk and taking time to achieve these targets.

2. **Modified Role of Real Estate**

During the OPP review, Townsend provided LACERA with 14 examples of the "role of real estate" from its diverse client base. The statement below was customized to meet LACERA's needs after Staff discussions with the Chief Investment Officer. ***Townsend recommends moving the highlighted statement below, "with a lower correlation to other asset classes," to the first paragraph regarding the "primary role of real estate." Real estate, as a whole, provides LACERA with a lower correlation to other asset classes and this is not tied specifically to the High Return Portfolio.***

Previous:

The role of real estate is primarily to enhance the diversification of the total Fund portfolio, due to the historically low or negative correlation between real estate and other financial asset classes; and provide competitive risk adjusted returns relative to other asset classes. Real estate may also serve as a hedge against inflation when market conditions allow such a hedge (primarily in supply/demand balanced market cycles in times of greater than expected inflation).

The use of real estate investments such as debt, public equities and non-traditional property types or strategies may be used on a limited basis in order to enhance returns and/or defensively position the program against market cycle shifts.

Recommended Change (LACERA Memo):

The primary role of real estate is to generate stable, reliable income as well as to preserve capital. Additionally, real estate is expected to provide a risk-adjusted total return that is accretive to the Fund achieving its long term rate of return with acceptable levels of risk.

High-Return real estate, classified as part of the functional asset class Growth, can also provide returns similar to public equity, ***with a lower correlation to other asset classes.*** *Real estate debt investments, classified as part of the functional asset class Credit, can provide attractive returns while taking lower levels of risk than equity real estate investments.*

3. **Investment Philosophy**

LACERA removed language related to "controlling risk" from this section. Townsend believes the former language in the OPP was one of the primary reasons why separate accounts were prevalent in US portfolio construction (given separate accounts allow for more control over underlying investment activity) and agrees with this change. The new language below takes in to account the approved changes to the Real Estate Structure, which will re-introduce US commingled funds as a method of execution going forward. ***Townsend concurs with the removal of this language. However, the Investment Philosophy section is repetitive (see "Role of Real Estate" above) and as such, Townsend recommends that this section may be removed entirely.***

Previous:

Investment decisions regarding the real estate portfolio should be primarily guided by the following objectives: (i) maximizing long term total cash returns; (ii) achieving a total return competitive with other asset classes; and (iii) maintain a broad diversification of assets. ***Controlling risk in the real estate portfolio is equally important as seeking higher returns*.** LACERA should adhere to prudent risk management policies that will seek to manage risk through control over the investment process and investment vehicles and insure prudent diversification of assets and investment managers.

Recommended Change:

Investment decisions regarding the real estate portfolio should be primarily guided by the following objectives: (i) maximizing long term total cash returns; (ii) achieving a total return competitive with other asset classes; and (iii) maintain a broad diversification of assets. LACERA should adhere to prudent risk management policies that will seek to manage risk, insuring diversification of assets and investment managers.

4. New 60/20/20 Target Mix within Private Real Estate

In the 2018 OPP, the new mix for Core/Value-Add/High Return investments is identified as 60/20/20, which aligns with the approved functional asset allocation targets. ***Townsend concurs that this change is consistent with the new asset allocation targets recommended by Meketa in 2018. Townsend highlights to the REC that this change will increase the risk profile and risk tolerance within the Real Estate Program, which was previously 70/25/5.***

Previous:

Core	70%
Value	25%
High Return	5%

Recommended Change:

Core	*60%*
Value	*20%*
High Return	*20%*

5. Reduced Core Maximum and Increased High Return Maximum Allowance

To align with the aforementioned targets, LACERA also changed the parameters for Core investment to represent no more than 50% in the 2018 OPP. Additionally, the maximum threshold was increased from 20% (which is now the new target) to 40% to reflect that the target should be the midpoint of the range. Though LACERA will not be forced to execute at the higher end of the permissible range, both the recommended targets and ranges does insinuate a higher risk profile than previously executed within the Real Estate program. No other changes to minimum and maximum thresholds were observed.

Previous:
Core > 60%
Value < 40%
High Return < 20%

Recommended Change:
Core > 50%
Value < 40%
High Return < 40%

Townsend recommends the consideration of the targets and ranges below, which align with the targets for Real Estate within the new functional asset classes and allow for additional flexibility at certain points in the market cycle.

	LACERA Real Estate Portfolio Guidelines	
	Strategic Target	**Tactical Range**
Private Real Estate Equity Targets	**9% of TPA**	
Core Portfolio	60%	50% - 100%
Value Add Portfolio	20%	*0% - 40%*
High Return Portfolio	20%	*0% - 40%*
Private Debt/Credit*	**1% of TPA**	
Permissible Strategies within Real Estate		
Public Real Estate	0%	*0-15%*
Private Real Estate	100%	*85-100%*
International (Public – Private)	15%	*0-20%*

**TPA = Total Plan Assets; Note that 1% is not a set target for Commercial Real Estate Debt within the Credit Allocation, but an estimate of possible exposure.*

6. **Change of Total Portfolio Benchmark to ODCE + 80 bps & Reference to Secondary Benchmarks**
To reflect the increased risk inherent in the new targets recommended by Meketa, LACERA has adjusted the Total Portfolio benchmark appropriately to reflect the targeted Portfolio Mix of the Private Portfolio. However, the Total Portfolio benchmark reflects ONLY private real estate equity investments. LACERA Staff has indicated that the transition to the new benchmark would begin at in the quarter-end following the BOI approval (estimated 3Q2018). At that time the full transition to the benchmark would take 12 months with a 50% step (ODCE + 60 bps) 6 months into the transition and then a full step to ODCE + 80 estimated for 3Q2019. ***Townsend recommends further modification to this section to address the Townsend comments below.***

Previous Total Portfolio Benchmark:
Total Portfolio Benchmark: ODCE + 40 bps to reflect 70/25/5 Mix

LACERA Recommended Change:
Total **RE Private Equity Portfolio** Benchmark: ODCE + 80 bps to reflect 60/20/20 Mix

Townsend Comments:

Townsend notes it will be difficult to meet or exceed the new ODCE + 80 bps benchmark in the near term, as the portfolio will require restructuring, the introduction of commingled funds and a higher allocation to Non-Core assets. Additionally, as noted in the Townsend Attribution Project, the LACERA Portfolio has struggled to meet or exceed its prior ODCE + 40 bps benchmark over all time periods.

a) Townsend recommends that the benchmark for Public Real Estate and Private Real Estate Debt be measured <u>separately</u> against their identified benchmarks in the OPP. It is our understanding that Staff agrees with this recommended change.

b) Townsend also recommends tailoring an interim benchmark to the composition of the portfolio relative to the style sector benchmarks identified below for a period of up to five years (the amount of time it may take to transition the portfolio).

c) Though REITs are not present in the LACERA Portfolio today, Townsend also notes that the Portfolio lacks a specified benchmark for Global REITs (whereas benchmarks for Domestic & International REITs are identified). Townsend recommends that LACERA can specify an appropriate benchmark if/when Global REITs enter the portfolio.

7. Change to Diversification Limits

New diversification constraints tie the Core/Core Plus Portfolio to the exposures of the ODCE +/- 10%. Exceptions are permitted for "Other" property types (outside of Multifamily, Office, Retail and Industrial) and International exposure. Previously, the upper limit on any property type or geography was 40%, which posed a challenge for sectors or regions that had a higher weighting within the benchmark. The +/- 10% constraint allows for additional flexibility so that LACERA is not forced to sell out of a region or property type that is expected to outperform. ***Townsend concurs with this change.***

Previous Diversification Constraints:

- No more than 20% of the total real estate allocation may be invested in any Metropolitan Statistical Area ("MSA")
- Max of 40% per property type or geography as measured at the Total Portfolio level
- No more than 20% international measured at the Total Portfolio Level

Recommended Change:

Property Type: The Core/Core Plus investments will be made in a diversified collection of office, retail, industrial, apartment and other property types. The Core/Core Plus Portfolio of office, retail, industrial and apartment properties will seek to replicate the diversification of the NFI-ODCE, within a variance of +/- 10.0%. Greater than 10% variance for Core/Core Plus from the benchmark property type weights will require Board approval. Up to 20.0% of the Portfolio may be invested in "Other" property types. "Other" may include student housing, medical office and self storage. Property type diversification parameters do not apply to Non-

Core investments (Value Add and High Return). Doesn't want to define other as above, says it's not all inclusive.

Geography: No more than 20% of the Core/Core Plus Portfolio may be invested in any Metropolitan Statistical Area ("MSA"). The diversification of LACERA's Core/Core Plus Portfolio will seek to replicate the geographic compositions of the NFI-ODCE +/- 10.0%, with up to 20.0% of the Portfolio allowed in "Other". The geographic diversification parameter is only for Core/Core plus investments and excludes Non-Core (Value Add and High Return).

Greater than 10% variance for Core/Core Plus from the benchmark geographic weights will require Board approval.

8. **Removal of Language (Led to execution through individually managed accounts):**
This change takes in to account the challenged historical performance of the individually managed accounts, the revised role of real estate and the envisioned structure of the Real Estate Program going forward. ***Townsend concurs with the removal of this language and previously recommended the inclusion of open-end and closed-end commingled funds in the Real Estate Portfolio.***

    Previous Language Removed:
    "For Core investments, the Fund prefers to use an individually managed account because of the superior control and flexibility such a vehicle provides."

9. **Reduce Maximum Investment Size Limit to 5% of Total Real Estate Allocation for Single Property**
Townsend agrees with this change given the growth in the LACERA envisioned structure of the Real Estate Program going forward. At the recommended 5% limit (previously 10%) and 3Q2017 total plan asset figure, no single property would exceed $270 M in equity without exception by the Board. Note that the Target Real Estate Allocation will be reduced from 11% to 10% going forward according to the asset allocation study. ***Townsend concurs with this change.***

    Previous:
    Total Equity for a Single Property cannot exceed 10% of the Target Real Estate Allocation

    Recommended Change:
    Total Equity for a Single Property cannot exceed 10% of the Target Real Estate Allocation

10. **Modification of Watch List Language**
Townsend agrees with the modification of the Watch List Policy. The prior Watch List largely pertained to the LACERA separately managed accounts. LACERA Staff replaced the Watch List language with a more detailed manager review process that covers all the factors that were in the prior Watch List. Staff replaced the Watch List with more stringent manager review requirements as well as a Board-approval for managers that are permitted to invest capital as part of each Investment Plan. The new Watch List language indicates that, on annual basis, the LACERA Investment Plan will be subject to approval by the Board. The Plan will include identification of investment managers which will be permitted to deploy capital in the coming year for the separately managed accounts. In addition, the Staff and Consultant will continue to report

performance of investment managers in the quarterly performance measurement report, summarizing those that are underperforming in each report. ***Townsend concurs with this change.***

Recommendation

The LACERA OPP takes in to account the key findings and recommendations outlined in Townsend's LACERA IMA Attribution Project and the approved LACERA Real Estate Structure Review. ***Townsend recommends that the REC consider and discuss the points outlined in this memo prior to adoption of the LACERA 2018 OPP.***

Exhibit A – LACERA Compliance Matrix

Allocation	Current Guidelines	Proposed Guidelines	As of December 31, 2017 vs. Current
Core Real Estate Target Core Real Estate Ranges	Target: 70% Range: ≥60%	Target: 60% Range: ≥50%	In Compliance w/ Ranges (Core 75.4%)
Non-Core Real Target Non-Core Real Estate Ranges	Target: 25% Value/5% High Return Range: Value Add ≤ 40% Range: High Return ≤ 20%	Target: 20% Value/20% High Return Range: Value Add ≤ 40% Range: High Return ≤ 40%	In Compliance w/ Ranges (Value 11.7%, High Return 12.9%)
Return Targets			
LACERA Custom Core Benchmark	NPI -50 bps: inception through 2Q 2013, ODCE (Net): from 3Q 2013 thereafter.	NPI -50 bps: inception through 2Q 2013, ODCE (Net): from 3Q 2013 thereafter.	Out of Compliance (5.2% net Actual vs. 5.9% Custom Benchmark over 10 years)
LACERA Custom Value Added Benchmark	NPI +25 bps: inception through 2Q 2013, ODCE (Net) +100 bps: from 3Q 2013 thereafter.	NPI +25 bps: inception through 2Q 2013, ODCE (Net) +100 bps: from 3Q 2013 thereafter.	Out of Compliance (-2.8% net Actual vs. 6.8% Custom Benchmark over 10 years)
LACERA Custom High Return Benchmark	NPI +225 bps: inception through 2Q 2013, ODCE (Net) +300 bps from 3Q 2013 thereafter.	NPI +225 bps: inception through 2Q 2013, ODCE (Net) +300 bps from 3Q 2013 thereafter.	Out of Compliance (-5.4% net Actual vs 8.9% Custom Benchmark over 10 years)
LACERA Total Portfolio Benchmark (recommend tying this going forward to only private equity RE in new OPP)	NPI – 25 bps through 2Q2013 ODCE (Net) + 40 bps	NPI – 25 bps through 2Q2013 ODCE (Net) + 40 bps through TBD ODCE (Net) + 60 bps through TBD + 6 mo ODCE (Net) + 80 bps from TBD + 12 mo	Out of Compliance (3.1% net vs. 6.2% over 10 years)
Debt Investments	NPI Income	NPI Income	
Public REITs	Domestic NAREIT International FTSE/EPRA/NAREIT	Domestic NAREIT International FTSE/EPRA/NAREIT	
Private Portfolio Risk Policies			
Property Location Diversification	- No more than 20% of the total real estate allocation may be invested in any Metropolitan Statistical Area ("MSA") - No more than 40% of the total real estate allocation may be invested in any one of the four NCREIF regions - No more than 20% of the total real estate portfolio will be invested in international real estate	- No more than 20% of the Core/Core Plus Portfolio may be invested in any Metropolitan Statistical Area ("MSA") - LACERA Core/Core Plus Portfolio will be measured ODCE +/- 10% - No more than 20% of the total real estate portfolio will be in international real estate	**Overweight Pacific Region** Pacific (40.1%) *(This will be **In Compliance** with the new guidelines, if adopted)*
Property Type Diversification	No single property type (apartments, hotels, industrial, office, and retail) will exceed 40% without Board approval.	- LACERA Core Portfolio measured ODCE +/- 10% - Up to 20% in "Other"	**In Compliance**
Leverage	- 50% LTV ratio maximum for any single Core Investment, - 65% LTV ratio maximum for any single Value Added Investment, - 80% LTV ratio maximum for any single High Return Investment.	- 50% LTV ratio maximum for any single Core Investment, - 65% LTV ratio maximum for any single Value Added Investment, - 80% LTV ratio maximum for any single High Return Investment.	**In Compliance**

REAL ESTATE INVESTMENT PLAN FISCAL YEAR 2018-2019

July 10, 2018

JOHN MCCLELLAND
PRINCIPAL INVESTMENT OFFICER–REAL ESTATE

AMIT AGGARWAL
INVESTMENT OFFICER–REAL ESTATE

MIKE ROMERO
Senior Investment Analyst-Real Estate

LACERA

July 1, 2018

TO: Each Member
Board of Investments

FROM: Board of Investments Real Estate Committee
John McClelland, Principal Investment Officer-Real Estate

FOR: July 10, 2018 Board of Investments Meeting

SUBJECT: **REAL ESTATE INVESTMENT PLAN**
FISCAL YEAR 2018-2019

RECOMMENDATION

Advance the following proposed actions related to the 2018-2019 Real Estate Investment Plan to the Board of Investments:

1. Approve the proposed Real Estate Investment Plan for Fiscal Year 2018-2019.

2. Approve allocation of up to $550 million ($450 million in the Real Assets and Inflation Hedging and $100 million in the Growth category) for investment by the Fund's separate account equity managers.

BACKGROUND

Staff has prepared the attached Real Estate Investment Plan (the "Plan" and **Attachment 1**) that will guide real estate investment activities of the Fund during the 2018-2019 fiscal year. Staff develops the investment plan annually to guide its short-term (12-month) efforts towards meeting the long-term objectives identified within LACERA's Real Estate Objectives, Policies and Procedures.

The functional asset classes recently adopted as part of a new asset allocation plan have been integrated into the Plan. Real estate will be part of three functional asset classes, Real Assets and Inflation Hedges, Growth, and Credit. The Plan calls for greater use of commingled fund vehicles as a way to increase diversification and better match the benchmark.

OPTIONS AVAILABLE TO THE BOARD

The Plan identifies the initiatives that will be undertaken during the fiscal year. If the Board does not approve the Plan, staff will consult with the Committee to develop an alternative plan or include the Board's direction for a revised Plan.

DELIBERATIONS AND OPINIONS EXPRESSED BY THE COMMITTEE

Some of the opinions expressed by Committee members during its deliberations and staff's response include the following:

Senior housing may present an interesting investment opportunity since demographic trends are creating significant demand. Staff agreed that this specialty property type merits serious investigation.

A discussion relating to the over-weight position for apartment properties clarified that the over-weight position relative to the benchmark is expected to continue. However, the over-weight amount is expected to get smaller as more capital is shifted to industrial properties.

RISKS OF ACTION AND INACTION

Failure to approve the Plan will delay execution of the themes included in the Plan. No new capital will be made available to the separate account managers until an alternate plan is approved.

CONCLUSION

The staff-developed Plan has been reviewed by the Board's real estate consultant, The Townsend Group. **Attachment 2** is a memo from the consultant with their observations and concurrence.

The Committee voted unanimously to recommending adoption by the Board.

Attachments

NOTED AND REVIEWED:

Jonathan Grabel
Chief Investment Officer

JM/dr

ATTACHMENT 1

LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION REAL ESTATE INVESTMENT PLAN FISCAL YEAR 2018-2019

JUNE 2018

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INTRODUCTION

The 2018-2019 Real Estate Investment Plan (the "Plan") will guide real estate investment activities of the Fund during the fiscal year. It outlines the short-term (12-month) efforts towards meeting the long-term objectives identified within LACERA's Real Estate Objectives, Policies and Procedures.

A new asset allocation plan was adopted by the Fund in May 2018, resulting in real estate contributing to three functional asset classes going forward. The functional asset classes and target allocations for real estate are summarized in **TABLE 1** below.

TABLE 1
Functional Asset Classes and Real Estate
Asset Allocation Targets

Functional Asset Class	**Target Allocation**
Real Assets and Inflation Hedges	7%
Growth	2%
Credit[1]	1%
Total Real Estate	**10%**

The Fund will begin the fiscal year with 11.4% invested in real estate, 1.4% or $767 million over the new asset allocation target of 10%. The Plan calls for the Fund to be a **net seller** in order to bring the portfolio closer to the asset allocation target of 10%.

The Plan also calls for a modest adjustment to the vehicles used for investment, making more use of closed-end commingled funds for non-core investments and open-end commingled funds for core investment. Using non-core commingled funds should result in greater diversification than what has been possible using separate accounts. Using open-end core commingled funds should result in improved access to larger properties as well as more closely matching the performance benchmark. These changes are expected to enhance the prospects for improved performance.

The Plan is organized in the following manner:

- Strategic goals
- Existing portfolio
- Risk management
- Market update
- Review 2017-2018 Investment Plan
- 2018-2019 Investment Plan

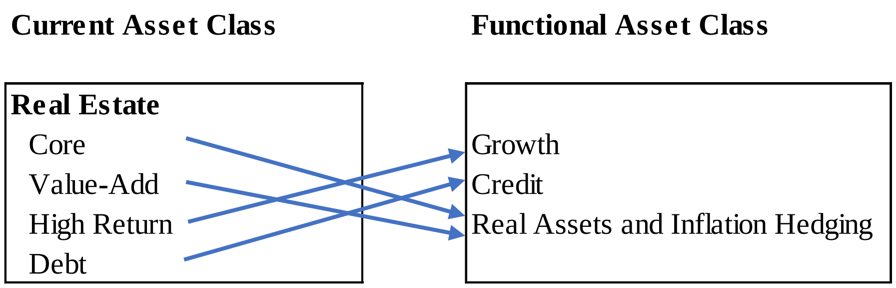
[1] Illiquid credit has an allocation of 3%. Real estate is targeted to be 1/3 of that amount.

STRATEGIC GOALS

Real estate is included in the total Fund portfolio primarily to generate stable, reliable income as well as to preserve capital. Additionally, real estate is expected to provide a risk-adjusted total return that is accretive to the Fund achieving its long-term rate of return with acceptable levels of risk. Real estate may also serve as a hedge against inflation when market conditions allow such a hedge (primarily in supply/demand balanced market cycles in times of greater than expected inflation).

CHART 1 illustrates how the real estate categories of core, value-add, high-return and debt will fit within the functional asset class framework adopted in May 2018. Core and value-add investments will be characterized as Real Assets and Inflation Hedging. High Return will be classified as Growth and real estate debt will be classified as part of the Credit allocation.

CHART 1
NEW ASSET ALLOCATION FRAMEWORK



The benchmark utilized for the real estate allocation is the ten-year rolling return of the National Council of Real Estate Investment Fiduciaries (NCREIF) Fund Index (NFI) Open-end Diversified Core Equity Index (ODCE) plus 40 basis points (ODCE+40 bps). This benchmark target is based on a mix of 60% core, 20% value-add and 20% high-return investments.

Focus on Core:
The Real Estate Objectives, Policies and Procedures requires that at least 50% of the real estate allocation be invested in core properties. Core properties present the lowest expected risk for the Fund. Core investments are completed buildings that are ≥80% leased. They usually generate the majority of their return, ≥70%, from income. Core investments consist of office, retail, apartment and warehouse property types. Core investments are classified as part of the Real Assets and Inflation Hedging functional asset class.

A limited amount of investment in private real estate debt (up to 20% of the real estate allocation) may be made. Debt investments are considered to be an alternative to core equity investments due to the safety provided by the borrower equity "cushion". Debt investments are expected to generate a relatively safe and high income return. However, such investments will not benefit from any appreciation in underlying property value since they are debt instruments. Real estate debt investments are classified as part of the illiquid credit portion of the Credit functional asset class.

Non-Core:
Non-core investments present an opportunity to enhance value through alleviating an identifiable deficiency or developing new buildings. They may be characterized as either Value-Add or High Return. Non-core strategies may include increasing occupancy of a property through leasing space, completing capital improvement projects, and recapitalizing properties. It may also involve ground-up development.

Upon completion of a value-add or high return strategy, assets are sold or moved to the core portfolio for longer term hold. Yields on value-add and high return investments are expected to exceed those available for core investments by at least 125 and 250 basis points, respectively. Value-Add investments are classified as part of the Real Assets and Inflation Hedging functional asset class. High Return investments are classified as part of the Growth functional asset class.

International:
International investments in real estate are used to enhance geographic diversification and/or produce higher returns. LACERA began implementing a multi-year plan to invest up to 15% of the real estate allocation internationally in 2016. International investments are accomplished via commingled funds.

PROFILE AND ANALYSIS OF EXISTING PORTFOLIO

Staff estimates that the Fund will enter the 2018-2019 fiscal year with approximately **11.4%** of the Total Fund invested in real estate, exceeding the new target allocation to real estate of 10%, but within the total Fund range for real estate of 7% to 15%[2]. The portfolio, valued at approximately **$6.3 billion**, is comprised of core, value-add and high-return investments. **TABLE 1A** summarizes the current composition of the real estate portfolio.

TABLE 1A
LACERA REAL ESTATE PORTFOLIO COMPOSITION
(as of December 31, 2017, $ in millions)

Investment Style	Separate Account	% of Style	Commingled Funds	% of Style	Net Market Value	% of Total Style
Core	$4,358	91%	$416	9%	$4,773	75%
Value Added	$736	100%	$3	0%	$740	12%
High Return	$482	59%	$336	41%	$818	13%
Total	**$5,575**	**88%**	**$755**	**12%**	**$6,330**	**100%**

TABLE 1B summarizes the portfolio composition utilizing the functional asset classes. It also illustrates the change necessary to achieve the new target allocations. Reaching the target allocations will require reducing exposure to core and value-add real estate (Real Assets and Inflation Hedging) by approximately **$1.4 billion**. Exposure to high return real estate (Growth) will need to be increased by approximately **$295 million,** and real estate debt (Credit) increased by **$337 million**. As discussed in the 2018-2019 Plan, reaching the target allocations is expected to take several years.

TABLE 1B
LACERA REAL ESTATE
NEW PROJECTED PORTFOLIO COMPOSITION
(as of December 31, 2017, $ in millions)

Asset Class/Strategy	Target %	Current Market Value $	Target $	Change from Current
Inflation Hedging and Real Assets	7.0%	$5,293	$3,894	($1,399)
Growth	2.0%	$818	$1,113	$295
Credit	1.0%	$220	$556	$337
Total	**10.0%**	**$6,330**	**$5,563**	**($767)**

Investment vehicle:
Separate account vehicles hold 88% of the portfolio, with the remaining 12% invested using commingled funds.

[2] The range for real estate is estimated based on prior practice of -3% to +5%.

Geography:

The portfolio is 95% invested within the United States. All of the international real estate investments (total value of $338 million) have been made using commingled funds. **TABLE 2** summarizes international investments by geography and risk sector. Staff is implementing the International Real Estate Investment Plan initiated in 2016 which allows for up to 15% of the real estate allocation to be invested internationally.

TABLE 2
LACERA INTERNATIONAL REAL ESTATE COMPOSITION
(as of December 31, 2017, $ in millions)

Region	Core	% of Total	Non-Core	% of Total	Total	% of Total
UK/Europe	$147	74%	$52	26%	$199	59%
Asia	$134	100%	$0	0%	$134	40%
Latin America	$0	0%	$5	100%	$5	2%
Total	**$281**	**83%**	**$58**	**17%**	**$338**	**100%**

Equity and Debt:

Equity investments comprise 97% of the real estate portfolio. A modest portion, 3% or $220 million, is invested in real estate debt as an alternative to core real estate equity investments. Two separate account managers have allocations with which they originate loans secured by real estate located within the United States. There are currently seven loans held in this portion of the portfolio.

Additional portfolio characteristics are described in the Risk Management section of this Plan.

RISK MANAGEMENT

Risk in the real estate portfolio is managed by allocating most of the capital to lower risk investments, diversifying (by risk sector, property type, geography and managers), and controlling the amount and type of leverage utilized. All investments are limited to institutional-quality properties located in major metropolitan areas.

Diversification

By Risk Sector:

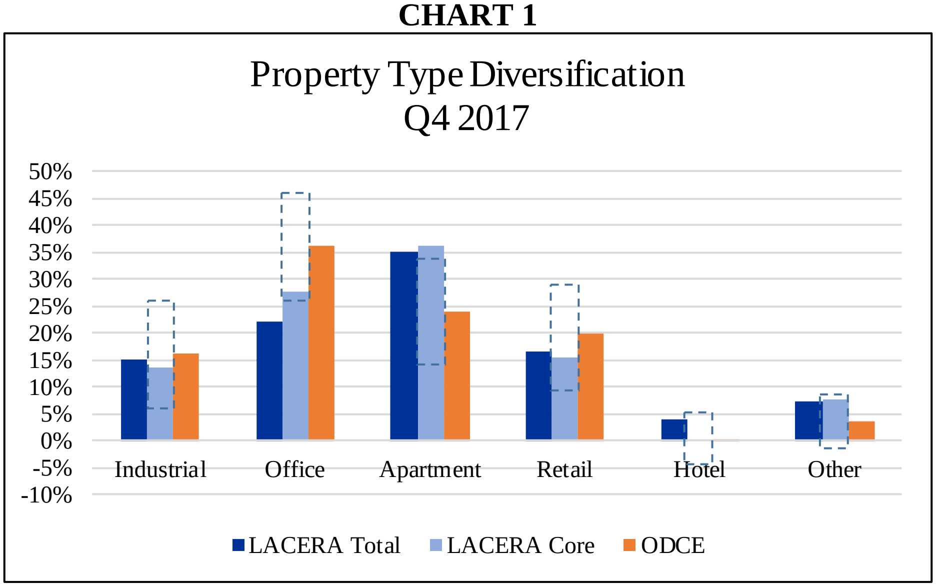
The real estate program has historically placed an emphasis on investing in **lower-risk, core properties**.[3] The LACERA portfolio is 75% invested in core assets which were collectively 93% leased as of December 2017. Greater use of commingled vehicles in both core and non-core risk sectors should reduce risk by spreading LACERA's investment dollars over a larger number of investments.

Diversification

By Property Type:

CHART 1 illustrates the property type composition of LACERA's core and total portfolio compared to the benchmark. Ranges of +/- 10% variance from the benchmark have been outlined using a dashed line. Staff has used the 10% variance range for **core holdings** of the four major property types (office, retail, industrial and apartment) to define a variance as sufficiently material as to merit discussion. A 5% variance range for core holdings of other property types was used to define a variance as sufficiently material as to merit discussion. Non-core holdings are excluded from the measure since non-core investments are intended to be tactical and the benchmark is, by definition, core. All of the property type positions fall within the 10% variance range, except for apartments. The office weighting is near the 10% limit.

CHART 1



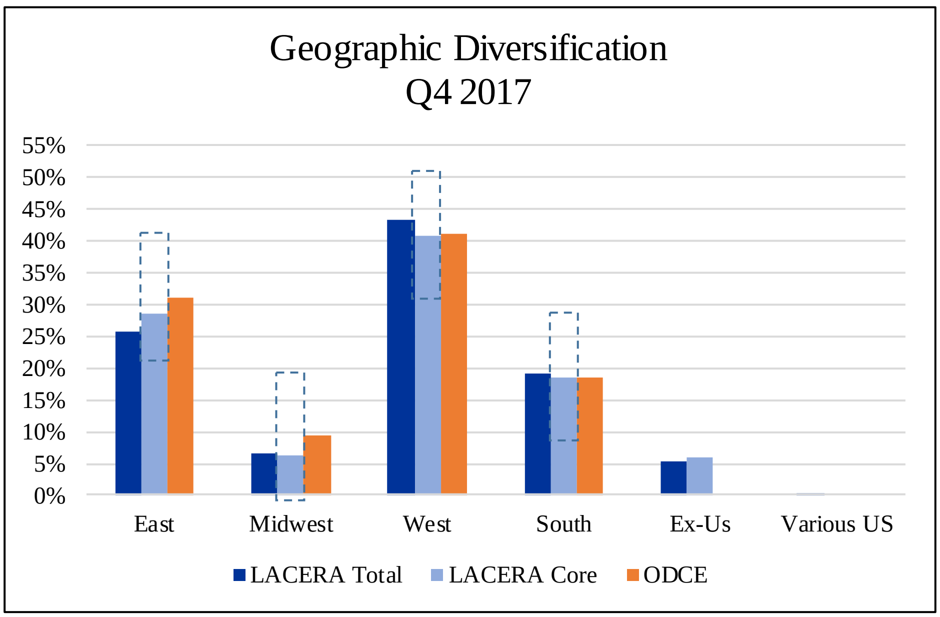
[3] LACERA's Real Estate Objectives, Policies and Procedures require that ≥50% of the portfolio be invested in core properties.

The portfolio is **overweight** to apartments when compared to the benchmark, 35% for LACERA v. 24% for the benchmark. The Plan includes efforts to reduce exposure to apartments to within the 10% variance from the benchmark.[4]

The portfolio is **underweight** office by 8% when compared to the benchmark. The relative underweight position is expected to be maintained. Office properties in the NPI have delivered the lowest return and been the most volatile over the last 20-year period. One of the themes proposed in the Plan is to research how best to achieve exposure to office, if desired.

Diversification
By Geography:
CHART 2 illustrates the geographic region composition of LACERA's core and total portfolio compared to the benchmark. LACERA's portfolio is within a +/- 10% weighting relative to the benchmark for each of the four major regions.

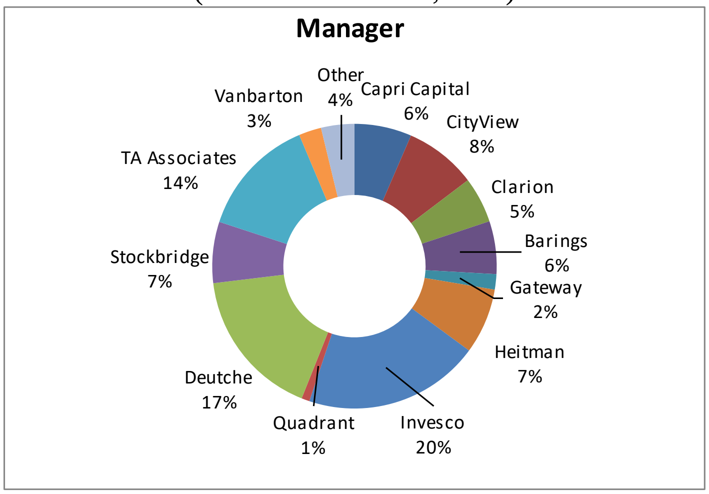
CHART 2



Diversification
By Manager:
The Fund is reasonably diversified by manager. **CHART 5** illustrates that LACERA currently has 13 separate account relationships and 14 commingled funds (domestically and internationally). The 3 largest separate account relations are with Invesco (20%), Deutsche Bank (17%) and TA Realty (14%). The Objectives, Policies and Procedures limit exposure to any single manager to 35% of the real estate allocation.

[4] A portfolio sale occurred in the first quarter of 2018 that reduced apartment exposure by 2%.

CHART 5
DIVERSIFICATION BY MANAGER
(As of December 31, 2017)



Diversification
By Property:
The separate account portfolio holds 101 separate properties. The average equity investment per property is $56 million. The ten largest assets, including gross and net value as well as the percent they represent of the total real estate portfolio are listed in **TABLE 3.**

TABLE 3
TEN LARGEST ASSETS BY GROSS ASSET VALUE
(As of December 31, 2017, $ in millions)

No.	Type	City	State	GAV	NAV	NAV % of Total Real Estate
1	Apartment	New York	NY	$410.8	$260.8	4.1%
2	Hotel	New York	NY	$376.5	$101.5	1.6%
3	Apartment	Los Angeles	CA	$332.0	$182.0	2.9%
4	Apartment	Marina del Rey	CA	$289.0	$165.3	2.6%
5	Retail	New York	NY	$238.0	$140.9	2.2%
6	Industrial	Compton	CA	$235.0	$130.0	2.1%
7	Student Housing	College Park	MD	$219.0	$109.5	1.7%
8	Retail	Collegeville	PA	$212.1	$117.1	1.8%
9	Hotel	Princeville	HI	$200.5	$200.5	3.2%
10	Retail	Cranston	RI	$189.2	$148.0	2.3%

Leverage:
Leverage has historically been a significant source of risk to real estate investors. Leverage becomes a significant source of risk when: i.) a lender requires loan payoff when the borrower does not have access to funds needed; ii.) debt service payments are due and there is insufficient cash flow from the property; iii.) the interest rate on a loan increases to a level where the borrower can no longer afford to make payments; and iv.) the property declines to a value that is less than the loan balance. Each of these circumstances can introduce significant stress to a property owner and could lead to a sale of the asset at an inopportune time.

LACERA has managed its exposure to leverage risk several ways. **First**, the amount of leverage used has been limited. **TABLE 4** summarizes the amount of leverage used for each risk sector in the portfolio. Overall, portfolio debt level is 39% loan-to-value which is below the 50% loan-to-value limit in the Real Estate Objective, Policy and Procedures, yet higher than the 21.4% loan-to-value exhibited in the benchmark.[5] The higher than benchmark deviation is reasonable as: i.) unlike ODCE funds, LACERA does not have quarterly liquidity requirements from real estate; ii.) leverage helps to enhance income returns when the interest rate is lower than the cap rate, and iii.) LACERA was able to take advantage of historically low interest rates.

TABLE 4
LACERA REAL ESTATE PORTFOLIO
LEVERAGE SUMMARY
(as of December 31, 2017, $ in millions)

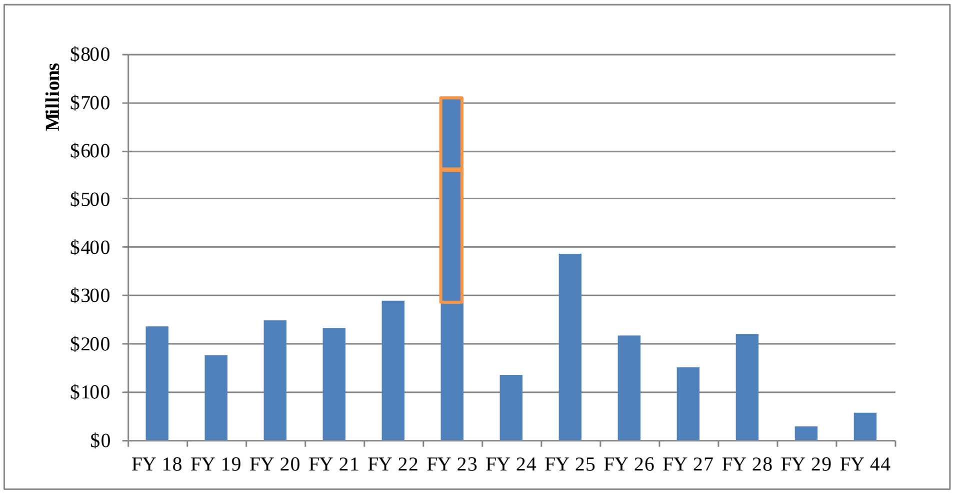
Investment Style	Gross MV	Debt	Net Market Value	LTV *
Core	$7,625	$2,852	$4,773	**37%**
Value Added	$906	$167	$740	**18%**
High Return	$1,369	$552	$818	**40%**
Total	**$9,901**	**$3,570**	**$6,330**	**39%**

*LTV is Loan to Value

Second, the maturity dates for loans have been spread out over several years so that excessive amounts of debt would not have to be repaid in any given year. **CHART 6** illustrates the debt maturity schedule for the Fund's separate account loans. With the exception of fiscal year ends 2023 and 2025, less than $300 million of loans are due and payable in any one year. This is a very manageable annual exposure for an investor the size of LACERA. The fiscal year 2023 exposure is created by two loans on large assets, both located in New York City, arguably the most liquid real estate market in the world. Staff feels comfortable that these two loan exposures can be effectively managed (paid off, extended or refinanced) well in advance of their due dates.

[5] Use of leverage increased in 2012 when the Board-approved Investment Plan allowed three separate account managers to lever a group of 24 of the Fund's core properties up to the 50% LTV level. That effort generated $607 million of proceeds at an average interest rate of 3.3%.

CHART 6
REAL ESTATE PORTFOLIO
DEBT MATURITY SCHEDULE



Third, the debt-service-coverage ratio for the portfolio leverage is 2.5X. This is a very strong coverage ratio and suggests that it is very unlikely that the Fund would find itself in a position where there was insufficient cash flow from the portfolio to keep loan payments current (and thus avoid being in default).

Finally, the Fund has very limited exposure to interest rate changes since the vast majority of the leverage is fixed or has been swapped to a fixed interest rate. [6]

Leverage is managed at the property level by the managers. Staff overlays portfolio level direction to the managers on an ongoing basis.

[6] 86% of the loans are fixed or swapped to a fixed interest rate. The average interest rate is 3.8%.

MARKET UPDATE

Staff notes that each piece of real estate is unique. Whether by property type, state, city or neighborhood, there may be little homogeneity. Consequently, it is very difficult to generalize about the real estate "market" because there are many "markets". Nonetheless, the information presented below attempts to present a generalization about the state of the real estate market primarily in the United States, within which the Plan will be executed. A few global references are included as well.

Fundamentals:
According to Richard Barkham, Global Chief Economist at CBRE Research, a large global real estate research group, "the global economy began - 2018 in its best shape since the Global Financial Crisis ended in 2009. All the major economic regions are growing at or above trend, and economic policy- both fiscal and monetary –remains expansionary."

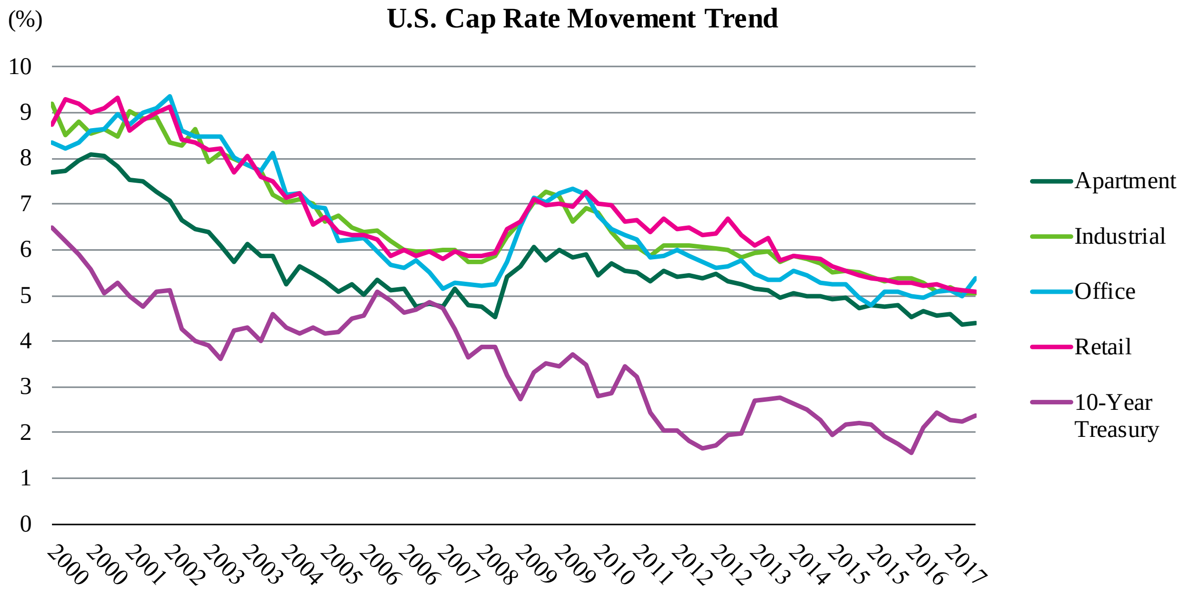
Global demand for real estate remained strong during 2017 with transaction volumes totaling $953 billion.[7] Prospects for continued activity are high with global dry powder estimated at a record $1.8 trillion.[8]

The U.S.:
In the 2018 Spring Global Real Estate Strategic Outlook, Deutsche Bank (DB) observed that the U.S. economy has entered its ninth year of economic expansion, yet prospects for continued expansion remain. In comparison to a year ago, DB believes the outlook for economic growth has improved considerably as evidenced by several factors. First, as a result of improved employment, there has been a sustained tenant demand for property. Second, inflation-adjusted interest rates are low, if not negative, remaining below average, which suggests that there is limited capital market risk. Third, the fiscal policy is supportive of economic growth. Fourth, even though there is a risk of rising short-term rates by the central bank, the marginal increase in interest rates remains below average, which in turn minimizes the risk of a recession. Fifth, there remain pockets of excess supply, however, construction activity remains below average.[9]

Valuations:
Valuations in the U.S. remain quite high, with capitalization rates (cap rates) hovering around record lows. **CHART 7** shows the U.S. cap rate movement trends. Cap rates have declined modestly over the last 5 years, falling from approximately 5.6% to 4.5%. Ten-year U.S. Treasuries over the same period have increased from 1.6% to 2.8%. Thus, the spread between cap rates and 10-year U.S. Treasuries has declined from 400 to 175 basis points, well below the long-term average spread of 250 basis points.[10]

[7] Global Investor Intentions Survey 2018, CBRE Research
[8] The rise and rise of private markets, McKinsey Global Private Markets Review 2018, McKinsey & Company
[9] 2018 Spring Global Real Estate Strategic Outlook, March 2018, Deutsche Bank
[10] Invesco Real Estate, using NCREIF and Moody's Analytics, April 2018

CHART 7



Source: NCREIF, CBRE Research, 2018.

Macro Indicators:
Deutsche Asset Management tracks many of key indicators that can help identify the general condition of the U.S. commercial real estate market. Their "dashboard" of indicators appears on **CHART 8.**

CHART 8
U.S. COMMERCIAL REAL ESTATE INDICATORS DASHBOARD[11]
MAY 2018

Metric		20-Year Average	Standard Deviation	Jan-08	Sign	May-18	Sign
Economy	Yield Curve (long less short)	160 bps	130 bps	-20 bps	□	120 bps	□
	Credit Spread (BBB-Treasury)	180 bps	80 bps	250 bps	□	120 bps	□
Supply	Construction (% of GDP)	0.9%	0.2%	1.1%	□	0.90%	□
REITs	REIT NAV Premium/Discount	2.0%	11.0%	-18.0%	□	-8%	□
Valuations	Cap Rate	6.6%	1.3%	5.5%	□	4.90%	□
	Cap Rate Spread to Treasuries	2.9%	0.9%	1.3%	□	1.90%	□
	Cap Rate Spread to BBB	1.2%	1.1%	-0.6%	□	0.70%	□
Mortgage Debt	Mortgage Debt (% of GDP)	18.6%	2.9%	22.1%	□	20.50%	□
	Average LTV	66.0%	3.1%	69.0%	□	61%	□
	CMBS Option-Adjusted Spread (OAS)	190 bps	100 bps*	370 bps	□	80 bps	□

Sources: Deutsche Asset Management, Federal Reserve (Treasury yields, BBB yields, mortgage debt); NAREIT (REIT NAV and prices); NCREIF (cap rates); American Council of Life Insurers (LTV); Barclays Live (CMBS OAS); Bureau of Economic Analysis (GDP); Deutsche Asset Management calculations.

[11] The "sign" for any dashboard metric is positive when the indicator is more than one standard deviation away from the 20-year average in a beneficial direction, negative when the more than one standard deviation from the 20-year average in a detrimental direction and neutral when in between on standard deviation from the 20- year average.

The dashboard illustrates that prices are relatively high, with: a.) core cap rates averaging 4.9%, which is 170 basis points lower than the 20-year average; and b.) only a 190 basis point premium of cap rates over ten-year treasuries, well below the 20-year average spread of 290 basis points. Nonetheless, real estate fundamentals remain strong and there is minimal risk of a near-term downturn in both the economy or supply. Construction is at the 20-year average which suggests that supply is not out of control. Mortgage debt appears to be under control, which should preclude an early 1990s or 2008-2009 style crash. The indicators from January 2008 are shown on the dashboard for comparison purposes because that date reflects the peak of the market prior to the Global Financial Crisis.

Forecast:
The Pension Real Estate Association conducts a quarterly survey of its members who are asked to predict the annual return from the NCREIF Property Index (NPI) over the next few years. **TABLE 5** summarizes the results from the survey taken during the first quarter of 2018.

TABLE 5
PREA CONSENSUS FORECAST SURVEY
NPI AND SUB-INDICES BY PROPERTY TYPE
Q1 2018

	Total Return (including icome) 2018	Total Return (including icome) 2018	Total Return (including icome) 2018	Total Return (including icome) 2018
National, All Property Types (NPI)	6.0	5.3	4.8	5.2
Office	5.6	4.7	3.6	4.3
Retail	5.1	4.7	4.1	4.7
Industrial	8.9	6.8	5.7	6.3
Apartment	5.4	5.0	4.5	5.2

The forecast survey suggests that returns for all property types will moderate each year over the next three-year period. The forecast returns are significantly lower than actual returns in 2017. The NPI reported an annual return in 2017 of 6.8%, 80 basis points higher than the forecast return in 2018. The largest forecast decline is for industrial properties. After posting a 12.5% return in 2017, the highest of the property types, the forecast for 2018 is 8.9%, a decline of 360 basis points. Nonetheless, industrial is forecasted to remain the best performing property type through 2020.

REVIEW PRIOR YEAR INVESTMENT PLAN

LACERA began the 2017-2018 fiscal year over its target allocation for real estate. The Investment Plan for the year called for selling assets and improving the defensive position of the portfolio.

Four themes guided the Fund's investment activity during the fiscal year. The themes were:

1. Selectively selling assets to reduce allocation closer to its target;

2. Maintaining a defensive position by keeping ≥70% of the portfolio in core;

3. Maintaining vintage year exposure with selective new investments; and

4. Continuing implementation of the International Real Estate Plan.

Selling Assets:
Managers were encouraged to a.) opportunistically cull non-strategic assets from the portfolio; and b.) harvest gains from completed non-core investments.

Separate account managers were active sellers during the year, selling $395 million of assets. One of the largest sales was of a 50% position in a portfolio of apartment assets located in the San Francisco Bay Area. Notwithstanding the $395 million of asset sales, $607 million of new investments were completed, making the Fund a net buyer of $212 million. The 2018-2019 Plan calls for LACERA to be a net seller in the fiscal year as the portfolio is positioned closer to the new asset allocation targets.

Defensive Position:
The amount of investments held in core assets, the lower-risk type of properties, decreased slightly from 76.5% to 74.5%. Core assets are expected to maintain value better than non-core assets in the event of an economic downturn. Core assets also have a history of generating relatively stable cash flow, which serves the needs of the Fund.

Additionally, certain property types have historically performed better in market downturns. Apartment, retail and industrial properties have generally experienced less declines in income and smaller declines in value than office properties. Consequently, managers were encouraged to continue investment in apartment, retail and industrial properties while being extremely selective about any new office investments. New investments completed during the year consisted of three apartments, four industrial and one office investment. There was also one student housing investment completed during the year.

The debt investment program, also considered defensive, struggled to keep capital deployed during the year as accretive new loans were difficult to source in the increasingly competitive loan market and borrowers paid off outstanding loans. Only one new loan was completed during the year. Quadrant closed on one mezzanine loan investment secured by an interest in an apartment located in Norwalk, CT for $31.5 million. Five loans managed by Barings paid off in the fiscal year for an aggregate of $339.3 million (68% of their total allocation). While the loan payoffs resulted in handsome realized returns, the aggregate net return was 8.6%, it is challenging to keep the capital allocated to this strategy invested.

Vintage Year Exposure:
Vintage year exposure was maintained as three $50 million commitments were completed. Commitments were made to two Pan-Asia funds and one European fund. Separate Account investments were made in core, value-added or high return opportunities for a total amount of $607 million. Individual investment sizes ranged from $20 to $115 million of equity.

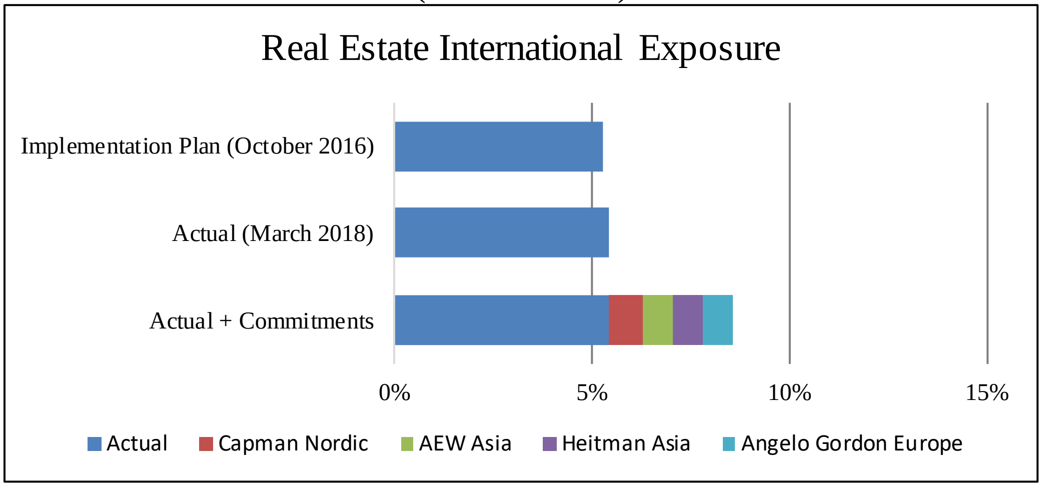
A build-to-core strategy was utilized for one apartment and one office investment.[12] This strategy provides the Fund an option upon completion of a property of either selling it (thus, realizing the gain or loss on the investment), or moving it from high return to a core holding. The strategy has the added benefit of upgrading the quality of the portfolio assets since the properties are constructed to current, modern building codes and standards. Build-to-core investments are classified as non-core until completed and stabilized. This typically takes two to three years.

Up to **$600 million** of new capital was authorized for investment by the separate account equity managers. LACERA made the capital available to the managers throughout the year for investment in core, value-add and high return opportunities. The managers have closed or registered new investments totaling $507 million from the available capital.

International Implementation Plan:
The implementation plan to invest up to 15% of the real estate allocation internationally continued during the fiscal year. Three commingled fund commitments were made, one in Europe and two in Asia. **CHART 11** illustrates LACERA's current international exposure and commitments. The Fund's international exposure, including commitments, has grown to 8% of the real estate portfolio. Approximately 63% of the total international allocation is projected to be invested in Europe and the remaining 37% in Asia.

[12] The office investment is an add on investment to a high-performing stabilized holding.

CHART 11
(As of 12/31/17)



Staff estimated that the 2017-2018 Plan would result in a reduction in the Fund's exposure to real estate by **0.9%.** Exposure to real estate actually declined by 0.8% during the year. The reduction was largely the result of growth in value of the Fund (the denominator), as new real estate investments outpaced asset sales. While the Fund moved closer to the previous target allocation of 11%, the portfolio remains slightly over-allocated.

2018-2019 INVESTMENT PLAN

The Fund will begin the fiscal year with 11.4% invested in real estate. That is 1.4% or $767 million over the new asset allocation target of 10%. Additionally, the current economic expansion in the United States has entered its ninth year, making it the third longest expansion in history. Staff is cautious about how much longer the expansion will continue unabated. Consequently, the Investment Plan calls for disciplined selling of assets resulting in the Fund being a net seller and maintaining the defensive over-weight to core investments in the portfolio.

Eight themes will guide the Fund's investment activity during the fiscal year. The themes are:

1. Reduce the size of the portfolio and rebalance in order to move closer to the new asset allocation targets;

2. Maintain a defensive position by keeping ≥60% of the portfolio in core;

3. Maintain vintage year exposure with selective new investments;

4. Continue implementation of the International Real Estate Plan;

5. Reduce exposure to apartments;

6. Increase exposure to industrial;

7. Evaluate office and retail exposure; and

8. Establish manager-specific performance objectives.

Each theme is discussed below. A summary of the Board-approved capital contemplated by the Plan appears following the discussions. Additionally, the managers that will be permitted access to the Board-approved capital are identified.

1. **Reducing the portfolio size and rebalancing closer to target allocations:**
   As illustrated on **TABLE 1B**, the portfolio will begin the fiscal year $767 million over-allocated to real estate. Reaching the target allocations will require **decreased exposure** to Real Assets and Inflation Hedging and **increased exposure** to Growth and Credit.

   For discussion purposes relating to target allocations, the Plan uses the following words interchangeably for types of real estate investments:

   Real Assets and Inflation Hedging = Core and Value-Add
   Growth = Opportunistic or High Return
   Credit = Real Estate Debt (part of Illiquid Credit)

Core and Value-Add:
To reach the target allocations to Real Assets and Inflation Hedging, a reduction of $1.4 billion is required. Staff proposes to make progress towards achieving the target by causing approximately **$700 million of net core and value-add property sales** to be completed during the year, moving the portfolio halfway towards the new target.

This can be achieved by planned asset sales as well as from portfolio restructuring. Gaining exposure to one or more open-end diversified core commingled funds (ODCE funds) should improve diversification and better match the asset class benchmark. Staff will evaluate contributing/selling assets to ODCE funds in exchange for shares and cash, resulting in net sales. For example, LACERA may sell $1 billion of core assets to an ODCE fund for $500 million of cash and $500 million of shares in the ODCE fund. Any such portfolio restructure would require approval by the Board. Individual asset sales would be completed by the managers.

Value-add commingled funds may be considered and evaluated for new commitments. Investing in value-add using commingled funds should result in greater diversification than LACERA achieves by investing using the separate account managers. Separate account managers **will not** be permitted to make new value-add investments during the year.

Opportunistic/High Return:
Exposure to Growth investments should be net increased by $295 million to meet the asset allocation target. This figure will likely be even larger since some of the current investments in high return (development) are expected to be completed and sold or moved to real assets and inflation hedging. However, nine-plus years into an economic expansion may not be the optimal time to make new investments in this higher-risk sector. Therefore, higher expected returns will be demanded from any new growth investments.

The Plan calls for permitting limited (see separate account summary and **TABLE 6** below) new high return investments to be made by the separate account managers. Notably, development projects are funded over a 24- to 36-month period, so all of the funds will not be deployed at one time. Recent manager-controlled development investments have generated strong returns. The Plan allows for continuation of such investments.

Staff also proposes to evaluate high return commingled fund opportunities. Investing in high return commingled funds should result in greater diversification than LACERA achieves by investing using the separate account managers.

Credit:
Exposure to real estate debt should be increased by $337 million to meet the asset allocation target. The existing separate account managers should be able to meet the target allocation. Both managers have fixed allocations of capital available for investment on a revolving basis. There is approximately $640 million of allocated but un-invested capital between the two managers, more than enough to reach the target allocation. Once the target is reached, staff

will determine whether to permit additional investments within a Board-approved band for real estate debt.

LACERA may be able to effectively move the portfolio closer to desired for property type and geographic region exposure by using the public markets. A REIT completion portfolio may present an attractive way to achieve desired property type and/or geographic over/underweight positions. Staff plans to investigate the potential for using the public markets for this purpose and will present findings to the Board and/or Real Estate Committee for discussion.

2. **Defensive Position:**
The portfolio is positioned quite defensively, with 75% of the investments held in core assets with stable cash flows. Core assets should provide some downside protection to the Fund should an economic downturn occur, since core assets typically maintain value better than non-core assets in such circumstances. However, as noted in Theme 1 above, making progress towards meeting the new target for core and value-add real estate somewhat conflicts with Theme 2, maintaining a defensive position. The Plan addresses the defensive positioning by: i.) pacing the reduction in core assets; ii.) emphasizing investment in more defensive property types, like industrial; and iii.) enhancing diversification by utilizing more commingled fund vehicles. Exposure of 60% or greater will be maintained as required by the Objectives, Policies and Procedures.

Upon completion of the development projects that are underway, managers will be encouraged to keep industrial and selectively sell some of the new apartments. This should increase exposure to the most defensive property type and reduce the portfolio over-weight to apartments.

The debt investment program, also considered defensive, is expected to continue during the year. As discussed in Theme 1 above, both of LACERA's real estate debt managers have allocation available should attractive opportunities be identified.

3. **Vintage Year Exposure:**
The Plan calls for selectively making new investments in order to maintain vintage year exposure. Investments may be made in core, value-add or high return opportunities. Accessing high-quality properties through the build-to-core strategy is expected to continue.

The Plan calls for up to **$550 million** of new investment activity by the separate account equity managers. Only those managers identified in the summary below will be allowed access to this capital for deployment. Staff would "release" this capital periodically throughout the year for investment in core and high return opportunities. Having the capital Board-authorized allows the Fund to take advantage of opportunities that arise in a timely manner.

4. **International Real Estate:**
The International Real Estate Implementation Plan will continue to be executed during the fiscal year. Staff anticipates recommending 1-3 new commitments annually in each of the

European and Asia Pacific regions. Individual recommendations would not be expected to exceed $100 million as the Fund seeks to diversify and gain exposure to numerous vintage years. One or more smaller commitments to Latin America opportunities will also be considered.

5. **Apartments:**
The Plan calls for decreasing the overweight relative to benchmark positions. Apartment exposure will be decreased by:

    1. Encouraging Managers to selectively sell apartments that may not meet future performance targets;

    2. Consider selling some of LACERA's apartment to ODCE funds; and

    3. Focus new commitments, in either separate accounts or commingled funds, on strategies that are focused on other property types.

6. **Industrial:**
The Plan proposes for increasing the underweight relative to benchmark positions. Industrial exposure will be increased by:

    1. Considering select industrial assets (acquisitions and built-to-core) by the Managers; and

    2. Consider investing in additional core/core plus open ended Industrial Funds.

7. **Office and Retail:**
The Plan proposes maintaining an underweight to office. The portfolio is currently underweight to office compared to the NPI ODCE. Office is considered cyclical and requires high capital expenditures. Over the last 20-year period office has generated the smallest return at the highest risk level of the four major property types in the NPI.

    The Plan proposes maintaining the current slight underweight position to retail. U.S. retail is concerning today due to the influence of omni-channel retailing and the financial distress of some soft good retailers. The Plan proposes to retain LACERA's current exposure to outperforming small retail assets and selectively divest the larger underperforming assets, such as malls.

    Staff will evaluate evolving office and retail concepts as well as alternative ways to access these property types in the future. CBD office and regional mall properties are so large that LACERA is effectively precluded from owning them directly. Results of staff's research will be presented to the Real Estate Committee for discussion.

8. **Establishing manager-specific performance objectives:**
The Plan proposes that manager-specific performance objectives be established for each of the separate account managers. Currently, none of the individual engagement agreements contain an individual performance objective. Each agreement refers to the Objectives,

Policies and Procedures, which includes the LACERA benchmark for the program. Managers have been considered contributors to the total portfolio, however, none of the managers are individually held accountable for total portfolio performance. The Plan calls to review individual manager performance and mandate modifications where appropriate and put in place manager performance hurdles to better assess performance. This review may result in one or more manager termination recommendations. Any performance objectives, mandate modifications or termination recommendations will be subject to Board approval.

The proposed capital and investment style that can be made available to the separate account managers for investment during the fiscal year are identified in **TABLE 6** below. Managers that may be permitted access to the capital are indicated by an X. Manager access to new capital will be subject to successful completions of performance reviews that are underway.

TABLE 6
Fiscal Year 2018-2019
Real Estate Investment Plan
Board-Approved Capital
and
Authorized Separate Account Managers

Manager	Growth (High Return) Capital	Real Assets and Inflation Hedging (Core and Value-Add) Capital	Credit (Real Estate Debt) Capital
	$100 Million	$450 Million	No New Capital
Barings-Equity			
Barings-Debt			X
Capri Capital	X		
Cityview			
Clarion	X	X	
DWS	X	X	
Heitman	X	X	
Invesco	X	X	
Quadrant			X
Stockbridge	X	X	
TA	X	X	
Vanbarton			

ATTACHMENT 2

TOWNSEND® GROUP
an Aon company

88 Kearny Street, Suite 800
San Francisco, CA 94105

Memorandum

To: LACERA Real Estate Committee ("REC")

From: Townsend Group, an Aon Company Jennifer A. Stevens

Date: June 13, 2018

Re: LACERA 2018 Real Estate Investment Plan

LACERA Staff provided Townsend with a copy of the LACERA 2018 Real Estate Investment Plan (the "Plan") for review and comment. The memo below summarizes Townsend's comments on the Plan submitted by LACERA Staff for approval. All recommended changes are highlighted in blue font. Townsend's May 2018 View of the World is also attached to this review as **Exhibit A.**

Townsend Comments on Proposed Real Estate Investment Plan

A summary of LACERA Staff's Investment Plan recommendations is provided below. Townsend's additional recommendations/suggested modifications are highlighted in blue for the REC's consideration below.

1. Total Portfolio Rebalancing

a. Rebalance to Target Allocations & Reduce Exposure through Net Sales

Approved LACERA 2018 Asset Class Allocations – Real Estate

Asset Class/Strategy	Target %	Current Market Value $	Target $	Change from Current
Inflation Hedging and Real Assets	7.0%	$5,293	$3,894	($1,399)
Growth	2.0%	$818	$1,113	$295
Credit	1.0%	$220	$556	$337
Total	**10.0%**	**$6,330**	**$5,563**	**($767)**

**Source: LACERA Staff*
** 3% allocation to Credit includes up to approximately 1% in CRE Debt, but is not set target*
**"Change from Current" column reflects amounts required to meet the targets over time, not what is specifically envisioned/recommended for 2018/2019.*

Activities Recommended by Style Sector

- **Core & Value-Add Real Estate/ "Inflation Hedging and Real Assets"**
  1. Activate Sales Plan for Core & Value Add Assets totaling approximately $700 M in Net Sales in 2018

a. Execute on Individual Asset Sales in Separate Accounts
b. Consider Portfolio or Partial Portfolio Sales
c. Consider Portfolio Transfers for Open-End Fund Shares & Cash

2. Introduce Core Open-End Commingled Funds
3. Cease new investment activity in Value-Add Separate Accounts, yet Introduce US Commingled Fund strategies and continue to allow ex-US Value-Add Commingled Fund strategies
4. Townsend Recommendation: Explicitly state in the Plan that LACERA will terminate underperforming Core and/or Value Add Separate Account Managers (as recommended and approved by the REC and BOI in the May Structure Review)

- **Opportunistic Real Estate / "Growth"**
  1. Allow for Net Opportunistic Activity of $295 M
  2. Townsend Comment: The $295 M of available net capital is an estimate provided to Townsend by LACERA Staff. It is assumed that there will be sales from the High Return Portfolio during this time fame and that incremental capital of up to $295 M will be placed in new High Return investments. Townsend recommends maintaining discipline and being mindful of vintage year risk. Though deploying up to $295 M of net capital in High Return will help LACERA to meet the new target allocations set forth by Meketa, heavily weighting High Return in the 2018/2019 vintage also exposes the Real Estate Portfolio to additional risk at peak market levels. We note that of the $295 M available, LACERA's Separate Account Plan only calls for up to $100 M in incremental Separate Account dollars to be placed, the balance of which may be placed in commingled funds or not at all. This helps to mitigate the risk.
  3. Townsend Recommendation: Explicitly state in the Plan that LACERA will terminate underperforming High Return Separate Account Managers (as recommended and approved by the REC and BOI in the May Structure Review)
  4. Townsend Recommendation: Explicitly introduce US & Non-US Closed-End Commingled Funds.

- **Real Estate Debt / "Credit"**
  1. Increase allocation by $337 million to meet the asset allocation target
  2. Townsend recommendation: Revise language to reflect that debt investments may or may not fulfill the envisioned real estate exposure of approximately 1% (of the total 3% Credit allocation). Further clarify that execution will not be limited to the existing separate account managers but may also include strategies sponsored by commingled fund managers.

2. Maintain Defensive Portfolio Position

a. Maintain < 60% of the Portfolio in Core
b. Less than > 40% of the Portfolio in Non-Core
c. Townsend Recommendation: To maintain a defensive posturing of the portfolio, monitor existing debt levels and debt maturity schedules.

1. LACERA's Total Portfolio LTV was 39% as of 12/31/2017, which is predominately driven by debt on Core assets. LACERA's Core LTV of 37% is significantly higher than the ODCE benchmark (21%). Though LACERA was able to lock-in attractive debt on Core assets, Townsend recommends monitoring the Core LTV exposure closely as the cycle matures. Cap rate adjustment may cause additional volatility in a highly levered portfolio. However, in some cases accretive debt will become an asset on specific properties. However, on underperforming assets debt can be a detriment in a declining market value environment. To offset this, consider paying down mortgages for underperforming assets and targeting OECF commitments with leverage closer to the benchmark, resulting in an overall decline in leverage within the Core and Value program. Remain mindful of debt levels and structuring (limit recourse and cross-collateralization) within the High Return Portfolio (currently 40% LTV) when making new commitments.

Townsend concurs with LACERA's Staff Memo regarding the following Investment Plan recommendations:

3. Maintain Adequate Vintage Year Exposure

4. Selectively Pursue International Real Estate Opportunities

5. Decrease Apartment Overweight

6. Increase Industrial Exposure

7. Maintain Office and Retail Underweight

8. Establish Performance Objectives for Separate Account Managers

Additional Townsend Recommendations

Separate Account Capital Chart

Regarding the capital available for Separate Account Managers in the coming year, Townsend suggested that Staff modify the language to signal that several of the managers listed may be terminated following performance reviews and thus not permitted to deploy capital. All terminations will be brought forward to the Board for consideration and this includes a list of managers that MAY receive capital.

Townsend also notes that though this chart contains estimates specifically related to the Separate Account Managers, it does not preclude US commingled fund investments from being brought forward separately to the REC or BOI for approval.

Recent History

Townsend recently completed a multi-phase Performance Attribution Project related to the LACERA Individually Managed Account ("IMA") Program. The goal of the assignment was to dissect the outperformance and underperformance of LACERA's IMA real estate holdings (the dominant position in the LACERA Real Estate Portfolio), draw conclusions based on past performance and make independent recommendations based on key findings. The results and recommendations resulting from this project were included in the LACERA Structural Review, which was approved by the LACERA Board of Investments on May 9, 2018. Key elements of the LACERA Structural Review, summarized below, should be reflected in the LACERA Investment Plan presented today.

Townsend's recommendations, resulting from the key findings of the LACERA IMA Attribution Project, are summarized for the LACERA BOI below.

Townsend Recommendations Resulting from LACERA IMA Attribution Project

1. **Terminate Underperforming IMA Managers**
   - Consider direct asset sales and/or portfolio sales (*Note: Sales of Industrial and Apartment IMA assets were recently executed by DB and CityView via disposition of a 50% stake),*
   - Consider transfer to Open-End Commingled Funds.

2. **Retain Outperforming IMA Managers**
   - Restructure IMA Contracts for Retained IMA Managers,
   - Hold IMA Managers Accountable for Performance,
   - Set IMA Primary and Secondary Performance Target,
   - Recommend managers sell assets that will not meet future performance targets,
   - Continue approving dollars available for deployment of capital on an annual basis, while limiting Non-Core exposure. Note: ODCE allows for Non-Core of up to 20%.

3. **Establish Mix of Open-End Commingled Funds & Separate Accounts for US Core Investment Portfolio**
   - Compliment IMA Exposure with Commingled Fund Exposure,
   - Allow for periodic rebalancing of positions to achieve competitive risk adjusted returns and/or take advantage of market opportunity.

4. **Re-introduce US Closed-End Non-Core Commingled Funds**
   - Target specific Non-Core strategies that cannot be replicated in IMA format (specific examples provided to the LACERA Real Estate Committee).

LACERA IMA Attribution Project Key Findings*

- **Overall IMA Program**
  - Despite generating positive income returns, LACERA's IMA Portfolio lags the Benchmark with respect to appreciation and total return,
  - Greater diversification could be achieved by including a mix of commingled funds and IMAs,
  - Vintage is a key factor in determining performance of Non-Core IMAs,
  - Setting performance targets may help to hold IMA managers accountable in the future,

- LACERA's choice to exclusively execute through US IMAs following the Global Financial Crisis has an associated opportunity cost.

- **Core IMA Program**
  - The LACERA Core Separate Account program has met the three primary objectives of the LACERA OPP:
    - Generates strong income returns,
    - Achieves a total net return that is competitive with other asset classes (8.14% since inception),
    - Provides a level of diversification to the Plan (albeit Townsend believes that superior diversification is achievable through Core and Core Plus open-end commingled fund execution).

- **Value IMA Program**
  - As a whole, Value Separate Accounts have not performed well,
  - The LACERA Value Separate Account program has consistently lagged LACERA's Value benchmark to-date,
  - Current J-Curve effect may be impacting near-term performance, which has yet to materialize into stabilized performance,
  - The Value Separate Account Composite lags the LACERA actuarial target for the Plan (6.47% since inception).

- **High Return IMA Program**
  - The LACERA High Return Separate Account program has achieved strong performance post Global Financial Crisis,
  - Over the fifteen and since inception time intervals, the program inured losses (-3.46% since inception).

**Additional findings regarding property type and geographic selection were included in Phase I of the LACERA IMA Attribution Project. Historical findings regarding property type and geography were shared with the LACERA Real Estate Committee and the IMA Managers and should be considered in positioning the LACERA Portfolio going forward. Examples include the underperformance of Office investments and the outperformance of Apartment & Industrial investments in the IMA Portfolio.*

Recommendation

The LACERA Investment Plan takes in to account the key findings and recommendations outlined in Townsend's LACERA IMA Attribution Project and the approved LACERA Real Estate Structure Review. **Townsend recommends that the REC consider and discuss the additional changes outlined in this memo prior to adoption of the LACERA 2018 Investment Plan.**

Exhibit A

TOWNSEND® GROUP
an Aon company

View of The World 2018

The Townsend Group

LACERA Los Angeles County Employees Retirement Association

Los Angeles County Employees Retirement Association

June 13, 2018

TOWNSEND® GROUP
an Aon company

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Global Economies Continue to Grow

- Growth is expected across all the major countries, but a few like the U.S., Australia, India and Brazil are likely to witness an acceleration of growth
- Growth is likely to fuel higher inflation and, consequently, higher interest rates
- Growth and inflation are likely to be positive for real estate, especially higher quality real estate in desirable locations
- A rising interest rate environment will extend investor appetite for yield in investments with income growth potential
- Investors can leverage diversification by focusing on growth-driven opportunities in the U.S. as well as Australia, a higher current income profile in the Eurozone, and any future distress opportunities in the U.K.
- Emerging markets are also likely to offer improving fundamentals, albeit execution opportunities might be limited

Real GDP (YoY%)

	2016	2017	2018F	2019F
United States	1.5%	2.3%	2.7%	2.4%
Eurozone	1.8%	2.5%	2.3%	1.9%
United Kingdom	1.9%	1.7%	1.5%	1.5%
Japan	0.9%	1.6%	1.3%	1.0%
Australia	2.6%	2.3%	2.8%	2.8%
China	6.7%	6.9%	6.5%	6.3%
India	8.2%	7.1%	6.6%	7.4%
Brazil	-3.5%	1.0%	2.5%	2.7%

Inflation (CPI YoY%)

	2016	2017	2018F	2019F
United States	1.3%	2.1%	2.3%	2.2%
Eurozone	0.2%	1.5%	1.5%	1.6%
United Kingdom	0.7%	2.7%	2.5%	2.1%
Japan	-0.1%	0.5%	1.0%	1.0%
Australia	1.3%	1.9%	2.2%	2.3%
China	2.0%	1.6%	2.3%	2.3%
India	5.0%	3.3%	3.7%	4.6%
Brazil	8.8%	3.5%	3.7%	4.2%

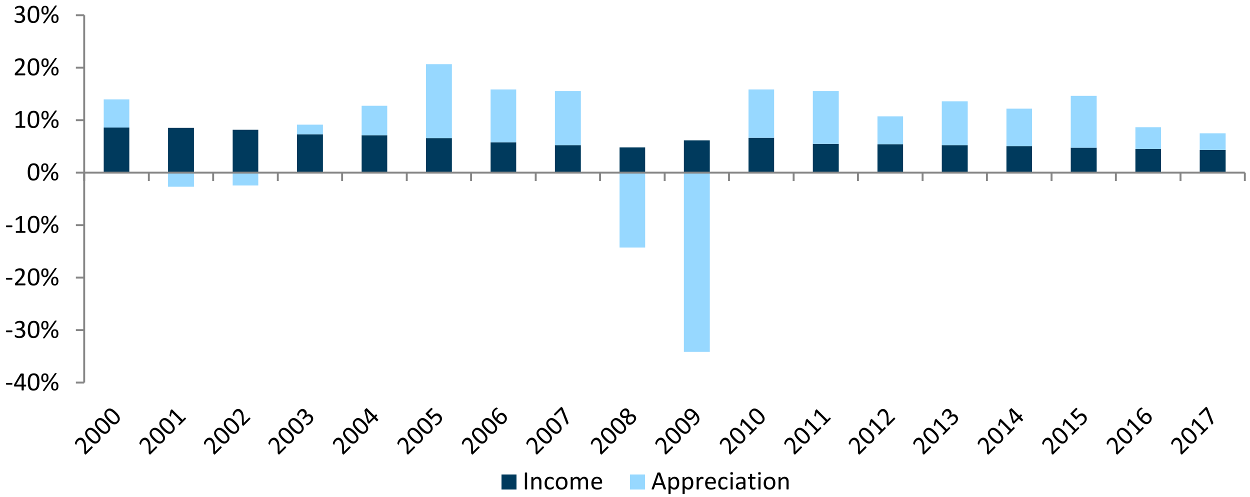
Source: Bloomberg

Real Estate Yields Are Low, But Economic Outlook is Positive

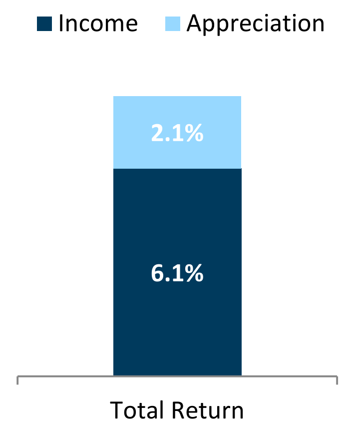
- Fundamentals remain strong, but valuations across real estate and other asset classes are rich. Long-term return expectations have normalized back to historical norms. Prefer investments that offer relatively strong rental income growth, or value-add potential with near-term income generation potential
- Critical to identify sub-sector and sub-market driven themes in the current environment; Unlike the last 6-7 year period, assets are no longer trading at deep discounts to replacement value
- Rising interest rates have led to asset value correction fears across various asset classes; within real estate, investors can mitigate these risks by shifting preference to investments that can participate and benefit from economic growth, with downside protection offered by current income
- Despite growth and low cost of debt, supply is generally limited to select regions and sectors, typically those most in need of product to replace tired assets or accommodate shift in desired specs; supply has been constrained by rising construction cost, risk avoidance and banks' reluctance to back speculative developments
- Uncertainties surrounding global political and economic events are concerning some investors, but real estate specific risks relating to over-supply and over-leverage remain muted. Examples of suggested execution alternatives include:
  - Seek levers of NOI growth that are not predicated on continued market uplift, by tilting portfolios towards sectors benefiting from secular changes (e.g. Industrial and e-commerce), acquiring in-place rents below current market terms, and improving operational efficiency
  - Acquire with appropriate capital structure which typically includes a conservative advance rate, no recourse or interim covenant tests, term and re-financeable, and the willingness to hold for longer time horizons
  - Focus on investments generating a substantial portion of the projected return from income and avoiding deals with binary risk, e.g. delivering new condos into a less favorable economic backdrop
  - Aggregate capital in order to access favorable investment dynamics such as pre-specified portfolios with embedded value, lower management fees and investor friendly legal terms
  - Investing in debt structured with downside protection preferably with potential upside participation
  - Internationally, leverage low cost of debt to generate high cash-on-cash yields on stable operating properties, and/or invest in high-growth regions

Returns Continue to Moderate

Core Real Estate Gross Annual Return



Core Real Estate Return Since 2000

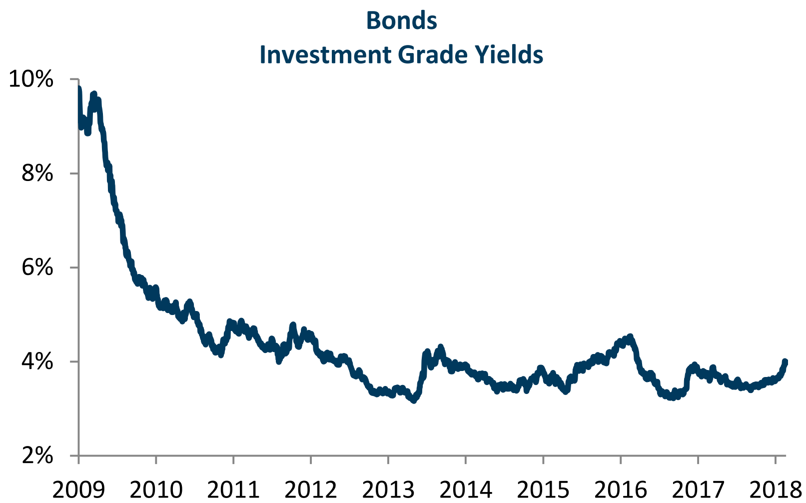


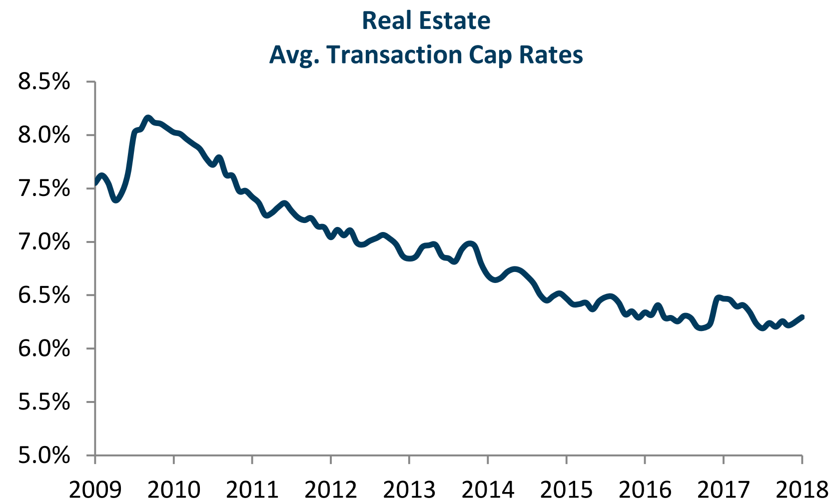
- High-quality real estate income generation has been very resilient, even during the toughest of economic times
- Over the period 2000 – 2016, around 70% of the total return generation of quality Core real estate has been through income
- During the current period, since cap rates are low, investors may benefit from focusing on high-quality assets
- Given that income is so stable, Core-Plus strategies that invest in high-quality real estate with higher leverage levels may produce higher returns especially due to the low cost of debt

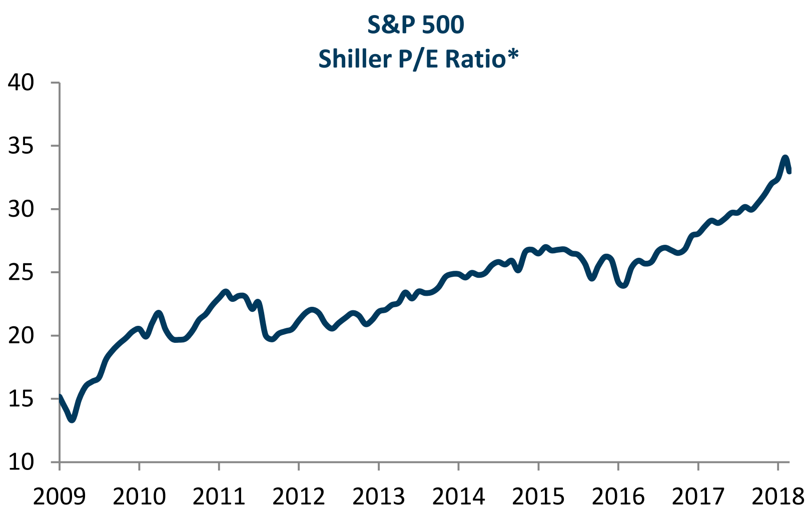
Source: NCREIF, December 31, 2017.

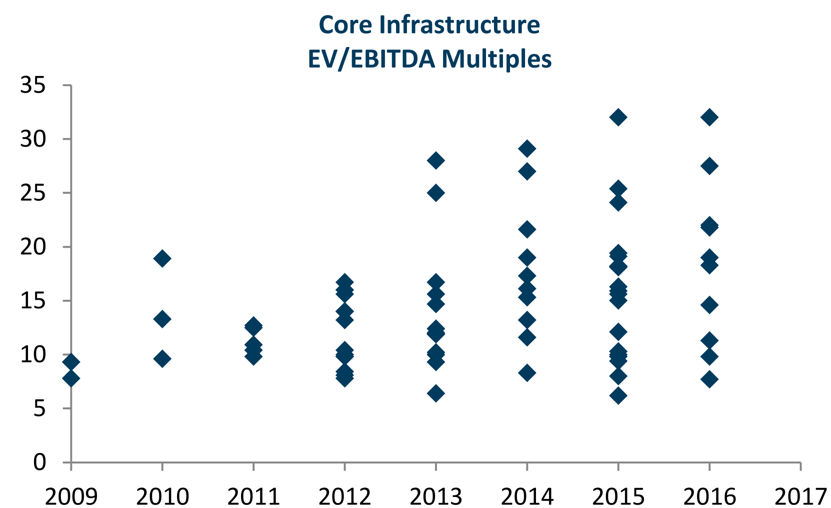
Townsend's views are as of the date of this publication and may be changed or modified at any time and without notice.

Valuations Stretched Across Asset Classes



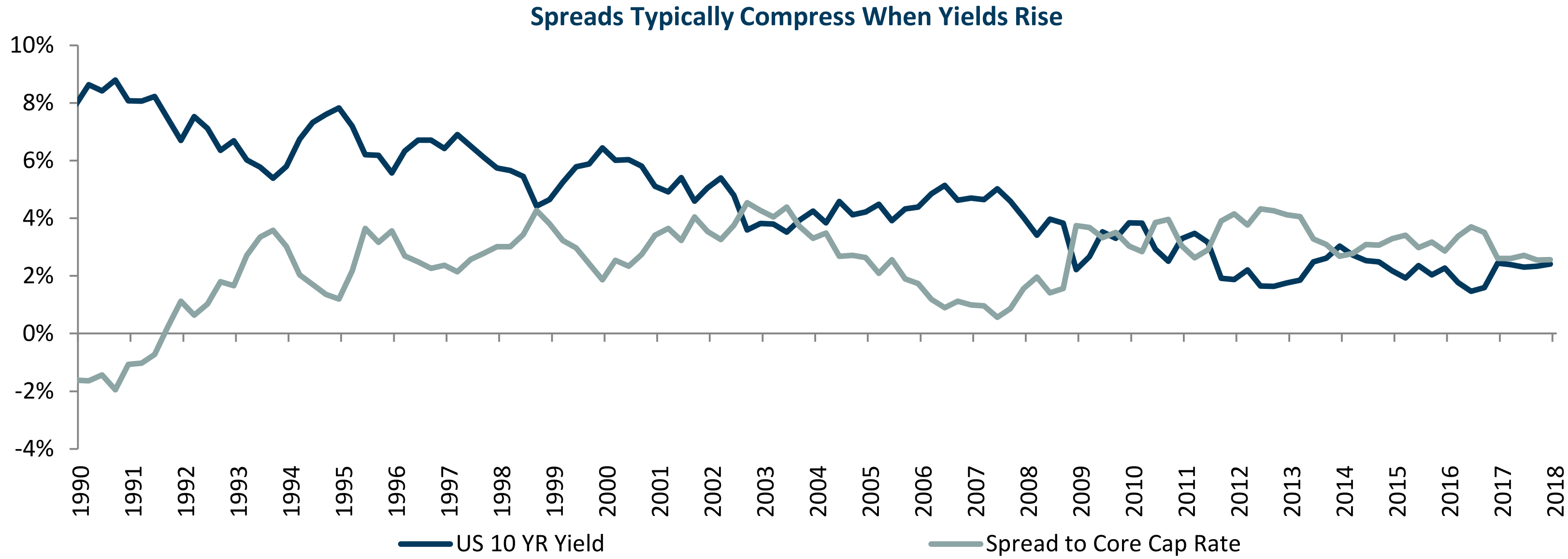






Source: The Townsend Group, RCA, St. Louis Fed, Multpl, Bloomberg
*Schiller P/E Ratio is a cyclically adjusted measure, which utilizes the 10 year moving average of earnings adjusted for inflation.
Townsend's views are as of the date of this publication and may be changed or modified at any time and without notice. Past performance is not indicative of future results.

As Rates Rise, Investors Prefer Real Estate Due to Income Growth Potential



- Real estate investments offer attractive characteristics in a period of rising interest rates
  - Ability to benefit from inflation by growing rents unlike other fixed income investments
  - Current income generation that offers downside support to valuations
  - Strong diversification to listed equities, a feature highly desirable during a period of overall valuation uncertainty when rates rise
  - Potential to invest in sectors like senior housing, student housing, and self-storage that offer returns with low correlation to the broader economy, an attractive quality over a period when rising rates may introduce economic growth uncertainty

Source: Bloomberg, NCREIF

Global Economic Outlook and Real Estate Investment Opportunities

TOWNSEND® GROUP
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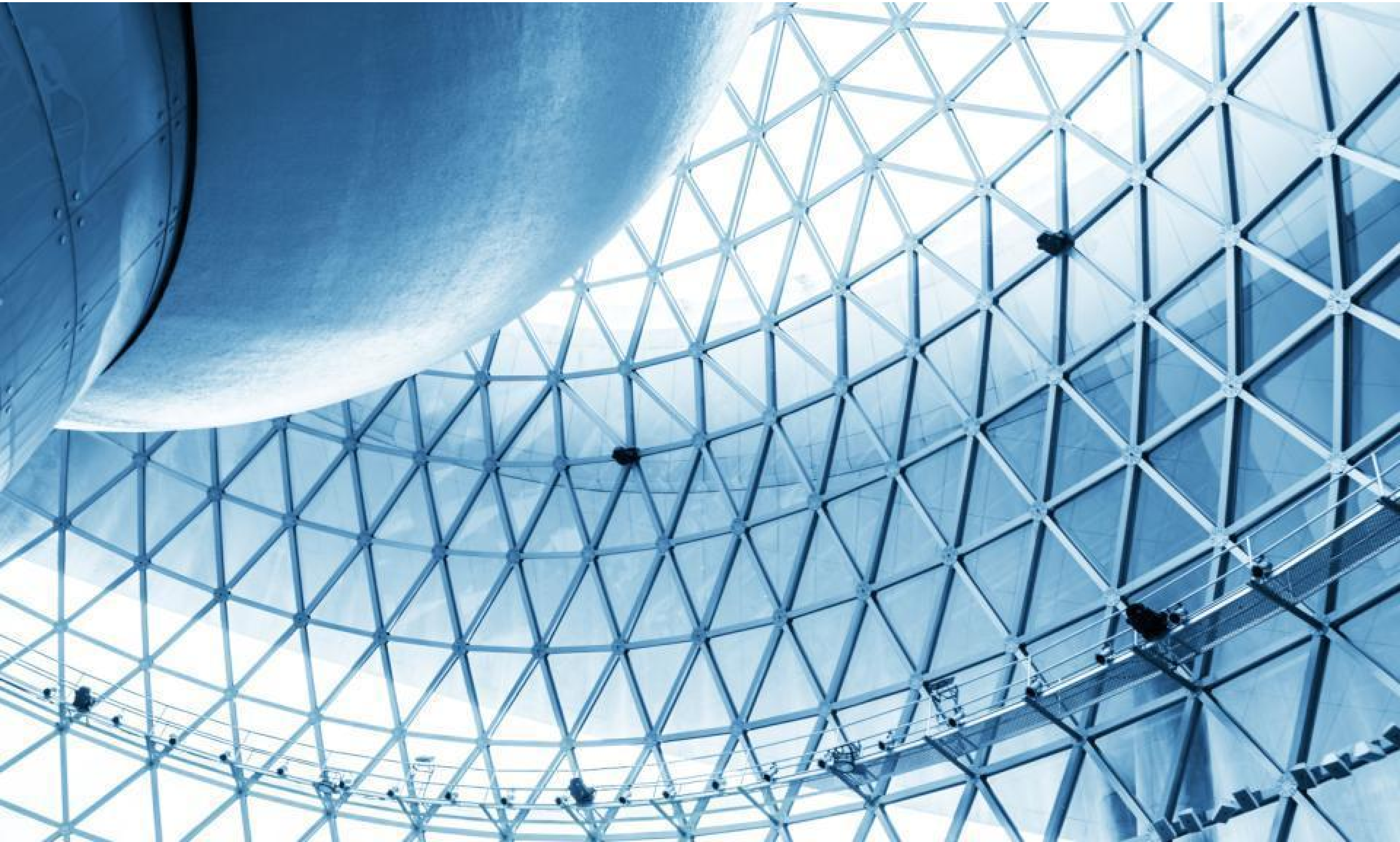
Macro Factors	U.S.	Europe	China	Japan
GDP ('18)	2.7%	2.3% (U.K. 1.5%, DE 2.4%, FR 2.1%)	6.5%	1.3%
Unemployment ('18)	3.9%	8.4% (U.K. 4.3%, DE 5.4%, FR 9.1%)	4.0%	2.7%
Key Real Estate Themes	Fundamentals diverge significantly across sectors and submarkets Core offers good income and protection against a potential slowdown Non-Core selectively mispriced	Income returns typically higher than in the U.S., but lower growth Repositioning opportunities attractive Low debt cost offers good leverage, without adding much risk	Slowing growth raising oversupply risks, but continued strong urbanization Focus on Tier I and II cities Leverage preferred equity/mezz structure to lower risk	Low growth despite easing Existing stock old, provides attractive repositioning opportunities Low debt cost offers good leverage, without adding much risk
Office	Select markets offer good rent growth; southern markets witnessing net migration likely to benefit Repositioning and high income-producing investments likely to outperform low cap rate opportunities	Recovery in continental Europe providing modest rent tailwind; attractive income generation potential In the U.K., Brexit-related demand slowdown and significant new supply to limit returns	High supply, credit risk, and slowing economy could lead to pockets of oversupply Prefer asset repositioning opportunities at attractive basis	Modestly rising rent growth outlook Old stock in good locations in Tokyo/ Osaka offers attractive upgrading opportunities
Industrial	E-commerce and imports driving demand at record high level Supply rising in hotbeds, requiring focus on quality assets in neglected markets	Strong demand from logistic players and e-commerce Stable fundamentals offer attractive cash returns boosted by low-cost debt	Strong demand for industrial properties conforming to modern standards Limited deal flow due to delay in land availability	Strong demand for modern logistics assets driven by 3PLs Supply building in town peripheries that is likely to limit rent growth
Retail	E-commerce reshaping landscape leading to shrinkage in per capita space Neighborhood retail presents interesting side play	E-commerce driven reshaping will put retail at risk	Shift to consumer economy leading to strong demand for productive sites Oversupply in central locations, but Non-Core locations still undersupplied	Select repositioning opportunities appear attractive given poor existing asset quality E-commerce likely to be a headwind
Residential	Rent affordability remains stretched in higher-end apartments; supply glut is being worked through Refurbishing Class B attractive, prefer debt oriented entry point	Most large cities undersupplied with dwellings, but still limited opportunities Select condo conversion and repositioning plays attractive	Urbanization trend driving strong demand albeit very volatile Favor preferred equity/mezz structures to limit risk	Attractive residential development opportunities in high-growth cities like Tokyo and Osaka Secular demand growth for aged care

Actively Pursuing | Neutral | Selectively Pursuing

Source: The Townsend Group, Consensus Estimates: Bloomberg (February 2018)

United States: Investment Themes



E-Commerce Continues to Be a Drag on Retail Rent Growth

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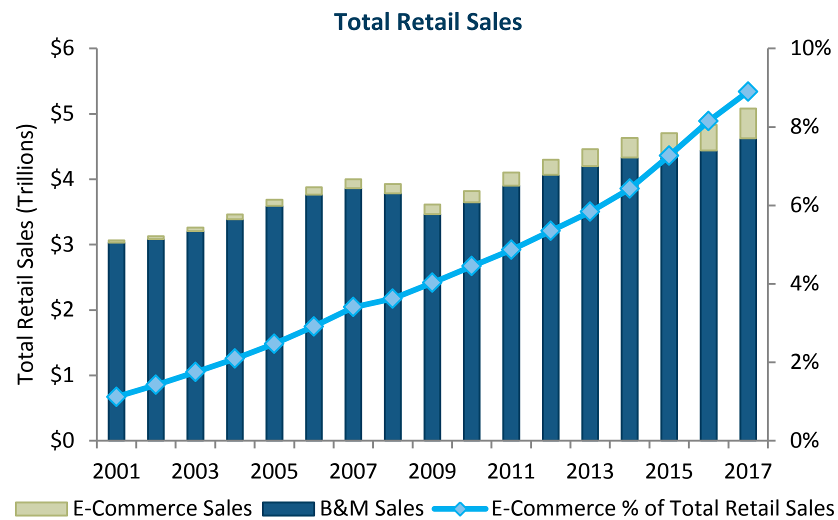
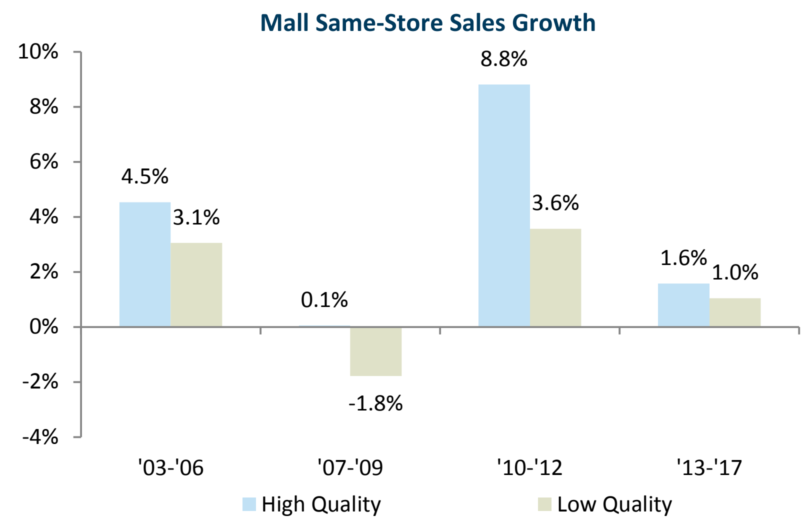
- U.S. households are less levered today, and therefore, an improving economy has translated into rising consumer spending
- Wage growth has lagged overall GDP growth, and rising apartment rents and healthcare costs could limit overall retail sales growth
- Additionally, a rising interest rate environment could make the cost of servicing some types of personal debt more expensive and encourage savings, further dampening retail sales growth
- It is not a surprise that the pace of buying online has continued to be high
- As development and innovation in logistics networks continues to improve the e-commerce offerings to consumers, even high-quality malls have witnessed a sharp slowdown in sales growth





Source: Green Street, Public REIT Disclosures, U.S. Census Bureau

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These Headwinds Are Likely to Strengthen

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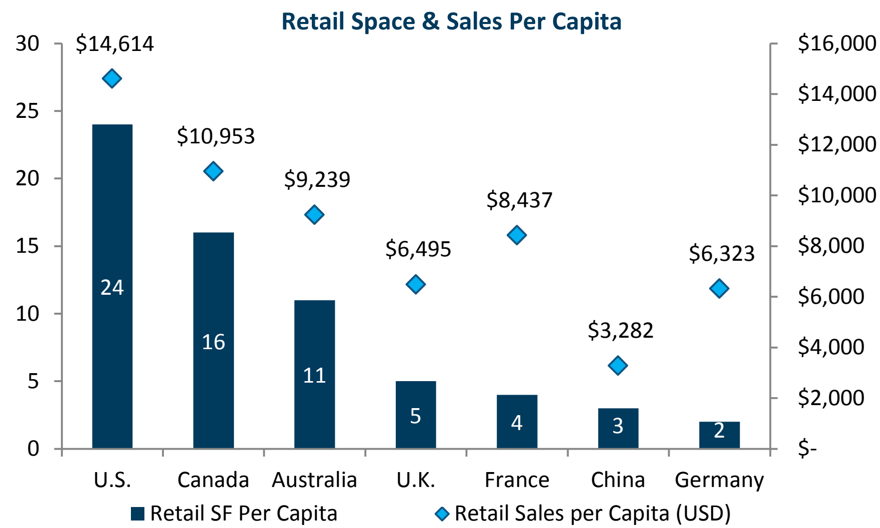
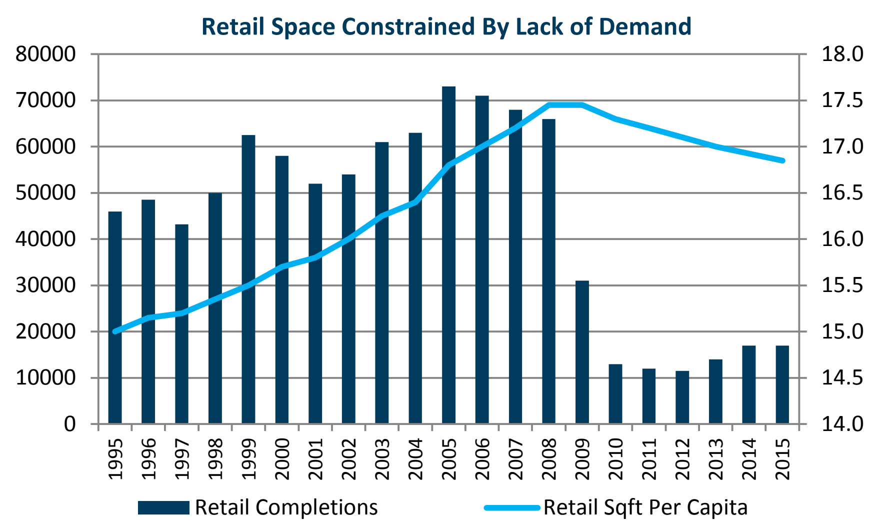
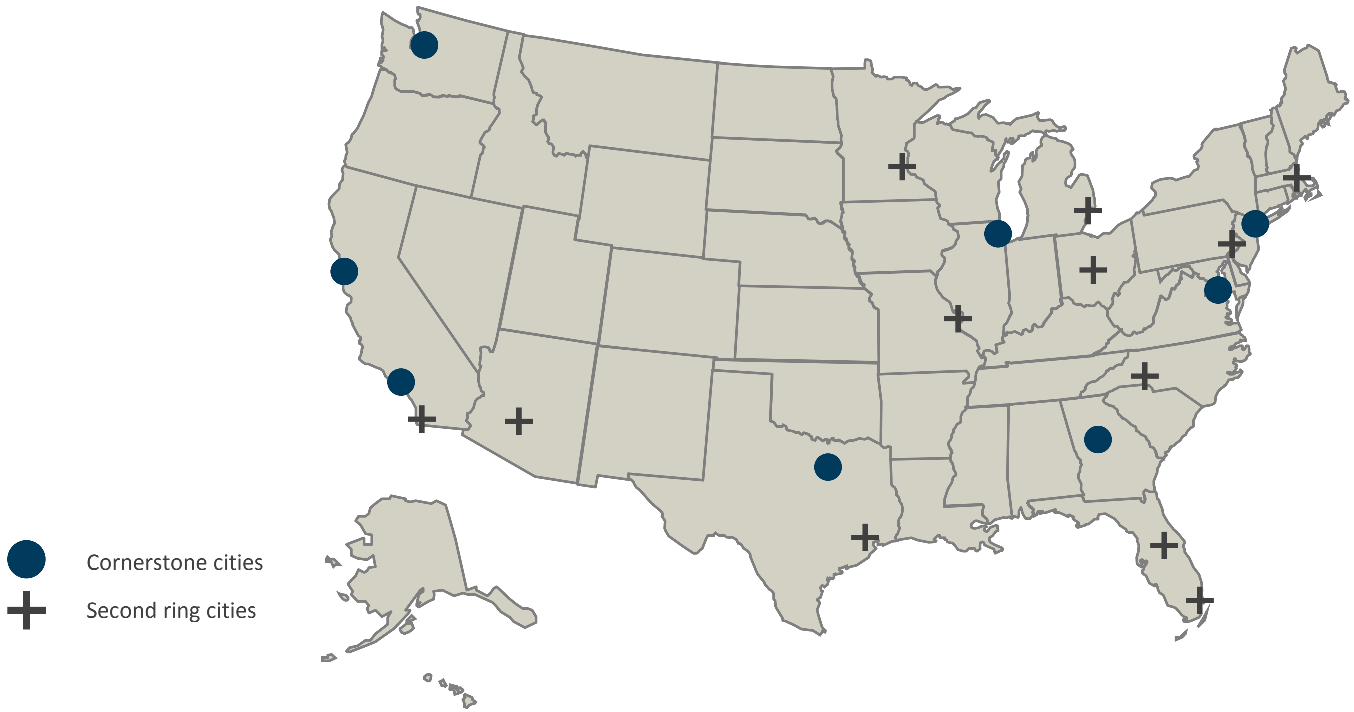
- U.S. retail space per capita is one of the highest in the world, this was in part justified by much higher retail sales per capita
- However, the U.S. is also witnessing the fastest development and innovation in logistics, fueling long-term e-commerce growth
- Consequently, retail space has been shrinking in the U.S. post-GFC
- Retailers' initial reaction was to focus on high-productivity sites which has led to a very rapid declining demand for lower-productivity sites
- We expect this process of consolidation of space on the part of retailers to continue
- Select retail opportunities around new, up-and-coming, live-and-work neighborhoods and select high-productivity sites are likely to escape further consolidation and perform better





Source: GGP March 2017 Investor Presentation, ICSC Country Fact Sheet, CBRE

On the Flip Side, Logistics Development Continues to Gain Momentum



- Today, 80% of the U.S. is covered by one-day delivery, up from 50% just four to five years ago
- This is made possible by a large number of mega-warehouses around cornerstone cities like New York, Los Angeles, San Francisco, Dallas, etc., and significant development around second-ring cities like Charlotte, Boston, Philadelphia, Miami, etc.
- It is estimated that around 70-80% of construction activity in the industrial sector over the last four to five years was for large warehouses

Source: The Townsend Group, CBRE

Industrial Landscape Evolving Rapidly Creating Lucrative Opportunities

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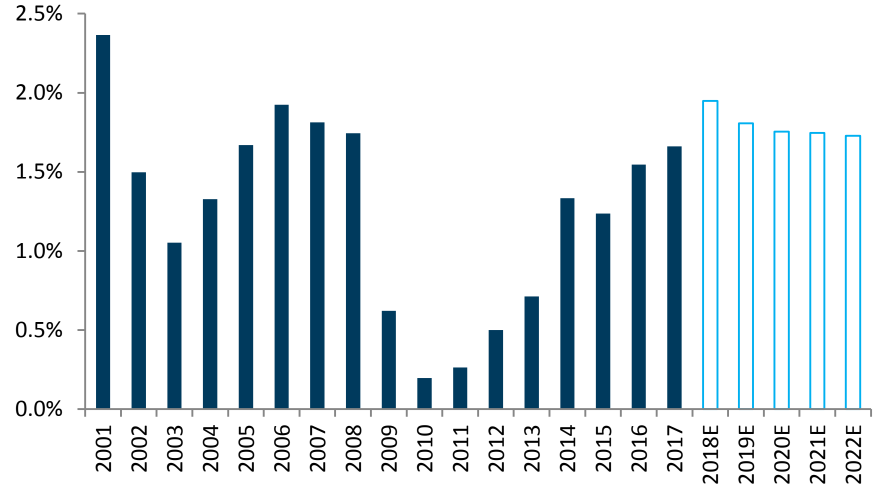
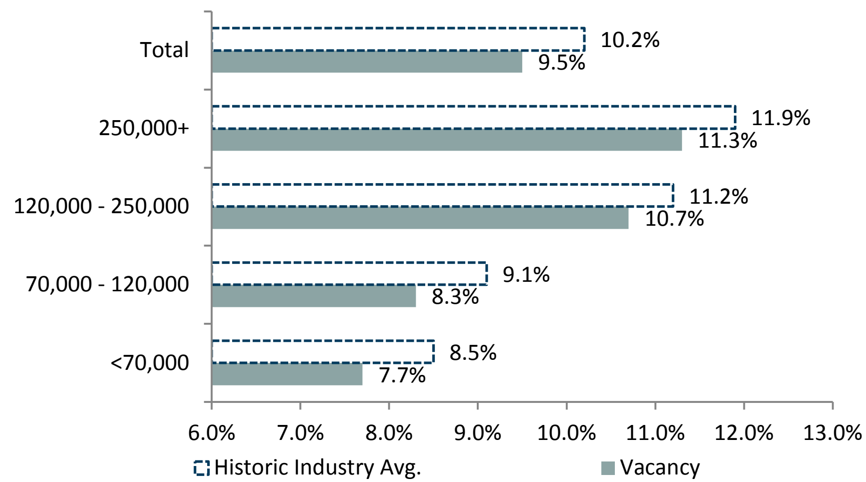
- Industrial construction activity is likely to continue as the demand for such space is rising at a very rapid rate
- Initial construction activity supported the roll-out of retail innovators like Amazon, while current activity is also supporting retail followers like Wal-Mart and other established retailers
- While large warehouse demand is still expected to grow, demand for smaller warehouses serving the last mile and located in population-dense locations are expected to rise rapidly
- Vacancy rates of smaller warehouses are already very low, which is expected to lead to rent growth and also attract new supply
- Acquiring well-located smaller warehouses and repurposing them for e-commerce will be an attractive investment opportunity

Industrial Supply Growth As % of Total Stock



Warehouse Availability by Size (%)



Source: Green Street, CBRE

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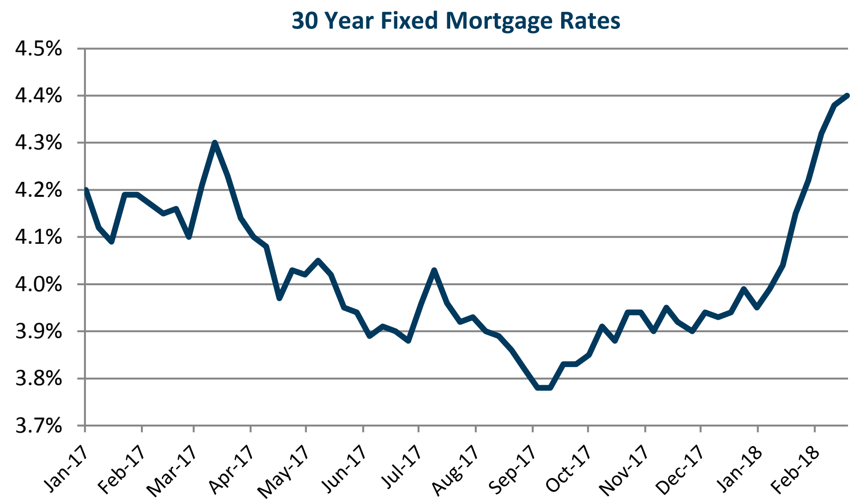
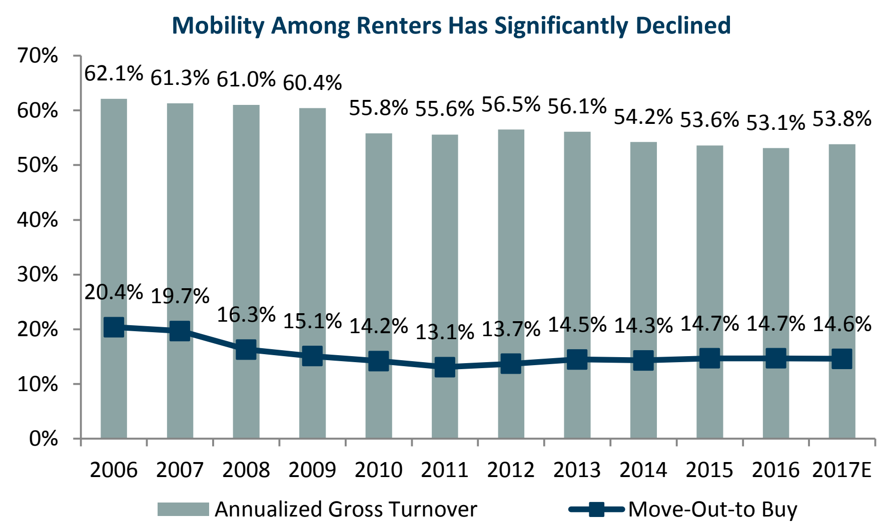
Multifamily Rent Growth Hindered by Supply

- The home ownership rates that declined post-GFC have started to stabilize, but the rise in mortgage rates is likely to limit growth in ownership in the long run
- Over the last four to five years, the supply of apartments, especially at the higher-end, has been elevated, but millennials and seniors have shifting preferences towards apartments over houses
- Growing rents have stretched the affordability of apartments, and, given that over 40% of disposable income is currently servicing rent, we expect rent growth to moderate
- B-grade apartments with lower rents have become more attractive to renters due to affordability issues
- Given the stability of the income, we expect low cap rates to be justified and we continue to favor the sector, albeit with lower return expectations for the near term





Source: St. Louis Fed, Green Street

Office Market Recovery Extends to Non-Traditional Markets

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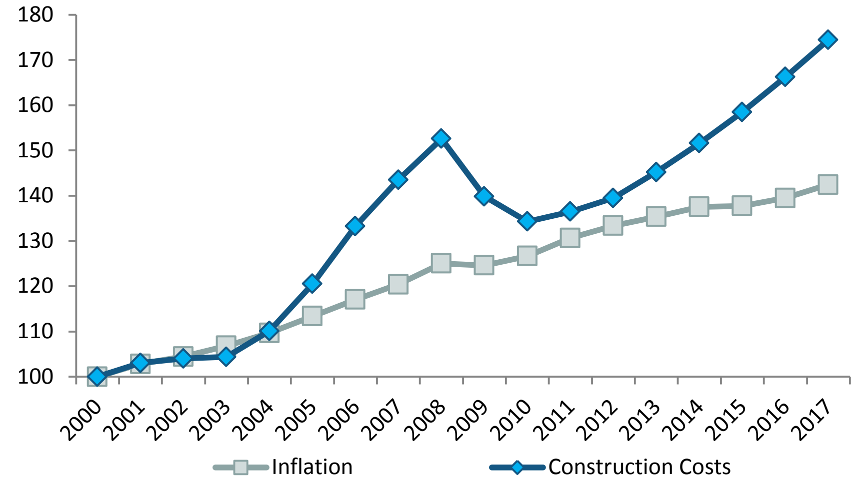
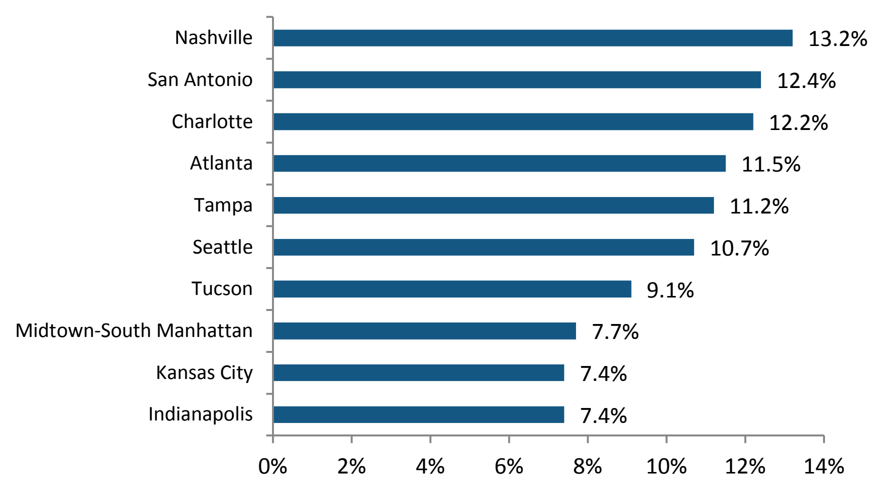
- Improving economic growth expectations are likely to favor job creation and demand for office space
- Given that the property type is cyclical, investors benefit from acquiring assets in the sector at the right time in the cycle
- However, the opportunity is very regional and sub-market dependant with certain cities like San Francisco witnessing very high rents and valuations, while many non-traditional markets like Nashville, San Antonio, Charlotte, etc., are witnessing impressive rent growth
- A gradual population migration to cities with better weather and taxes continues, which will fuel office demand in those cities
- However, we continue to favor strategies with a four to six year exit time horizon and those that develop cash flow at the onset as they offer better risk-return tradeoff

Construction Costs Outpacing Inflation



Rent Growth (YoY %)



Source: U.S. Census Bureau, Turner Construction, CBRE

Senior Housing: Benefitting From Long-Term Demographic Trend

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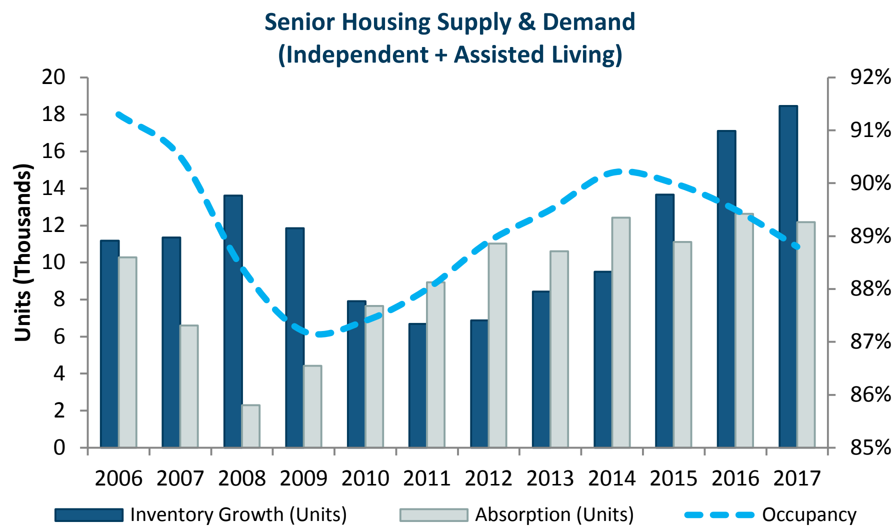
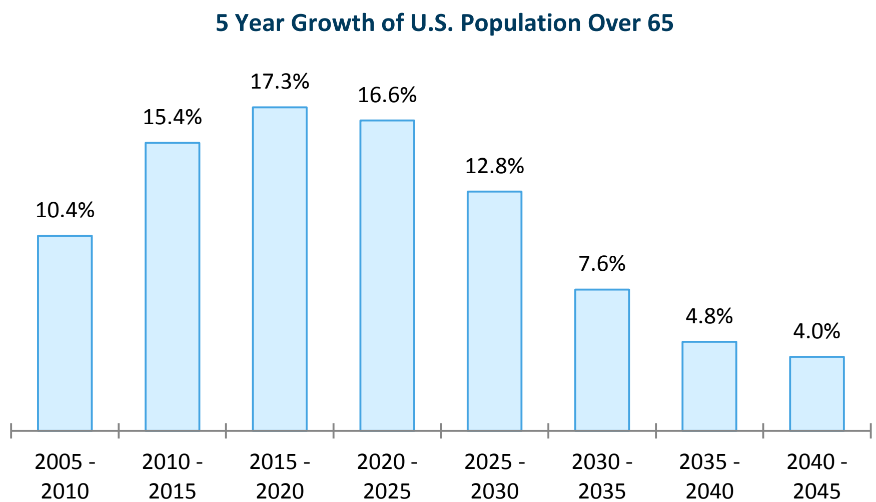
- The senior population growth rate in the U.S. will continue to remain high in the coming years, providing a very attractive demand tailwind
- There has been considerable innovation in the product for seniors with locations near town centers and a number of age-appropriate amenities
- A good economic outlook continues to allow seniors to achieve the change in lifestyle that they desire especially by being able to sell their existing houses
- The rising demand has attracted a lot of supply; therefore, investors need to carefully select the right locations and product, as we expect older product and new developments in less desirable locations to underperform





Source: Bloomberg, NIC, U.S. Census Bureau
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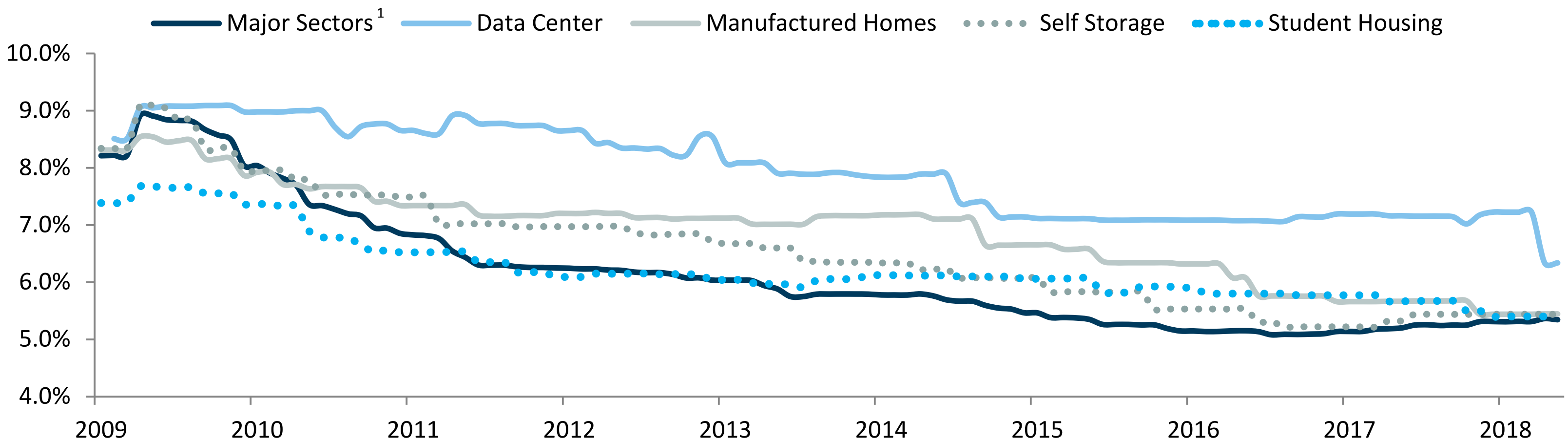
Additional Alternative Sector Themes

Alternative Sector Cap Rates Converging Towards Traditional Property Types



- **Self storage** is facing supply headwinds in select markets. Townsend's preference has shifted to outside of the U.S., investing in less developed self-storage markets with strong demand growth and limited supply, such as Singapore, Japan, and Australia

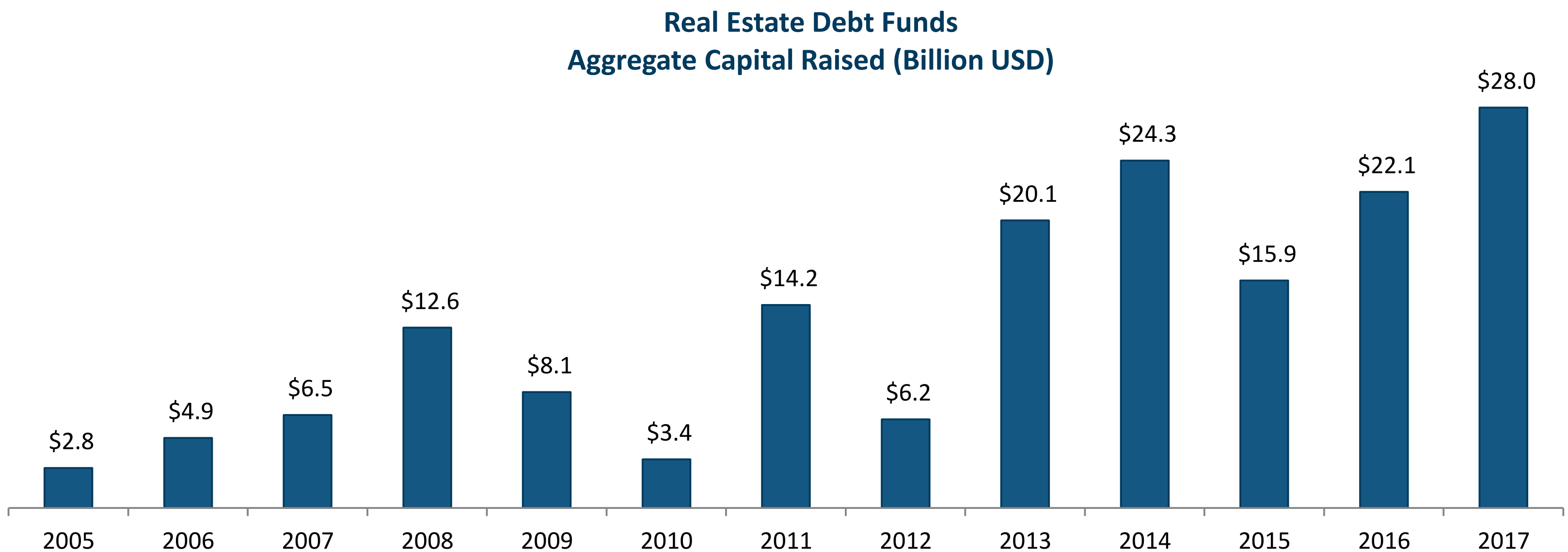
- **Data Centers** are benefiting from the strong demand tailwind supported by the digitalization of the economy. Valuations have risen, as in other property types, but total return expectations are above traditional property types. Overall, there are limited execution options

- **Student Housing's** yield premium to multifamily has compressed over this cycle. With pockets of temporary over-supply, there are significant fundamental divergences across universities

- **Manufactured Housing** is an emerging sector in the institutional space, with limited deal flow and execution opportunities to date

[1]Apartments, Industrial, Office, and Retail
Source: Green Street

Proliferation of Debt Strategies Late in the Cycle



- The market has witnessed a proliferation of debt strategies in the real estate universe competing for two separate pools of capital:
  - Senior debt strategies offering downside protection
  - High-yield debt strategies offering higher return expectations
- The market perception of debt strategies seems to downplay the inherent risk of leveraged debt strategies, e.g., putting fund-level leverage on transitional debt, as investors have grown more yield-focused in an environment with abundant cheap capital
- Volatility negatively impacts the implied value of debt strategies, given limited participation in the upside, with partial to full participation in downturns; investors must recognize there is a narrow range of scenarios in which debt strategies are optimal
  - The optimal scenario involves low growth, low inflation, and low volatility
- While debt strategies have their place within a portfolio, Core equity positions will continue to be the favored strategy long term

Source: Preqin, The Townsend Group
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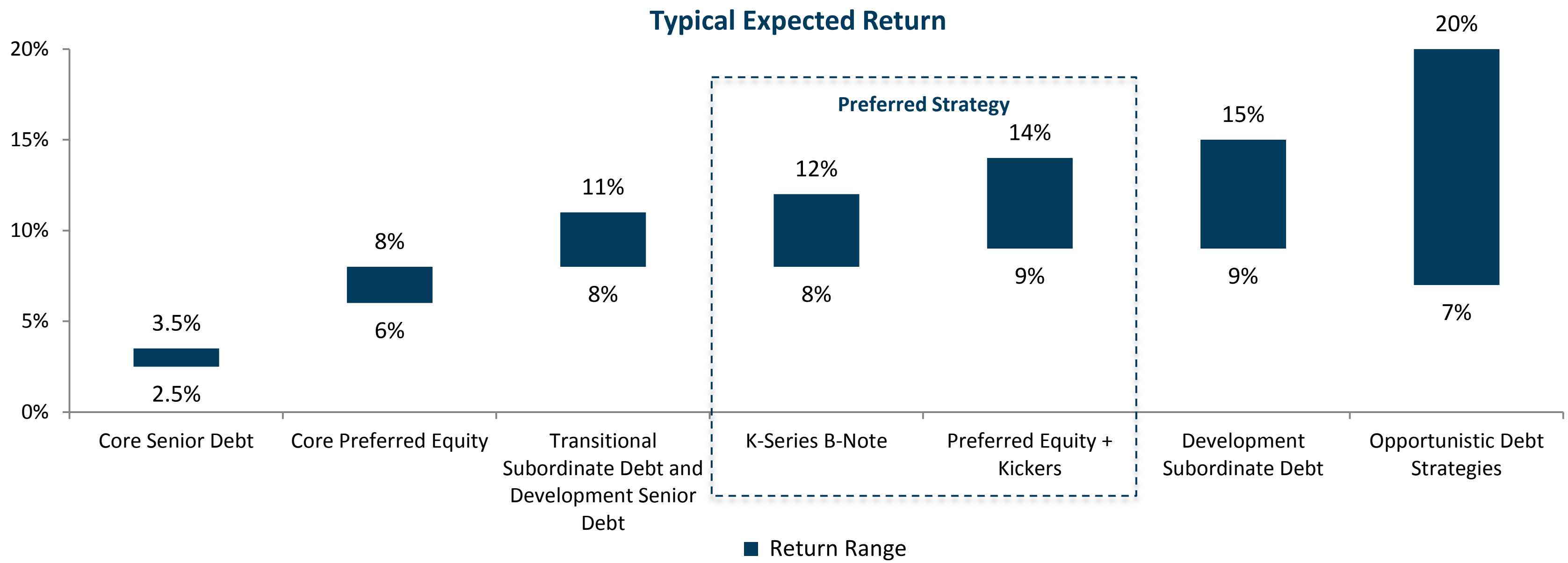
Hybrid Strategies Offers Attractive Risk Return Tradeoff



- In a low interest rate environment, real estate debt offers attractive alternatives with reasonable risk given that U.S. real estate is experiencing an upward cycle of rent growth
- Debt for transitional assets offers attractive returns given that CMBS issuance is scaling back amid very high levels of expiries and banks are unwilling or unable to increase real estate exposure; however, poor asset selection could result in downside in the event of an unexpected slowdown
- Senior debt for development also offers attractive returns as banks are not that active, but caution is needed to avoid good assets in poor locations with elevated leasing risk
- Preferred equity with kickers is a good way to enhance returns without full equity risk, but such options are typically only possible on transitional assets or assets that require major renovations
- Opportunistic debt strategies could have a wide range of outcomes; execution options could be very limited

Source: The Townsend Group (based on various manager interactions)

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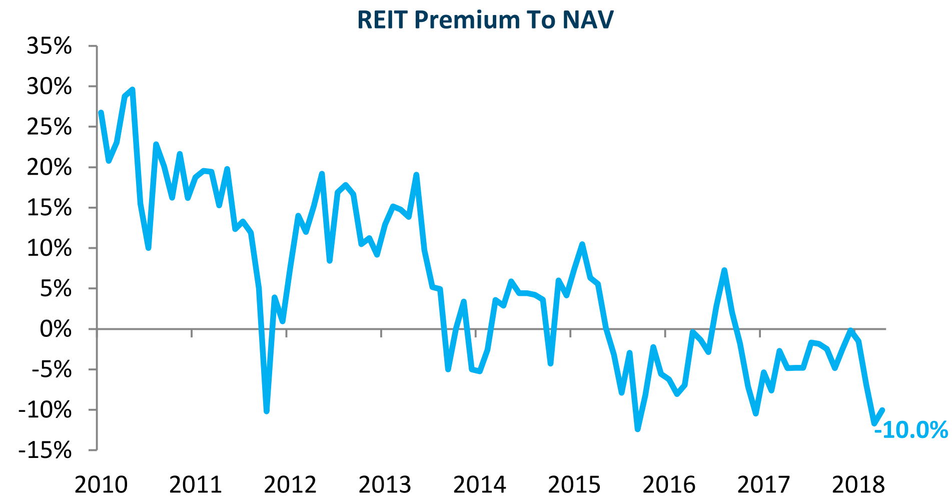
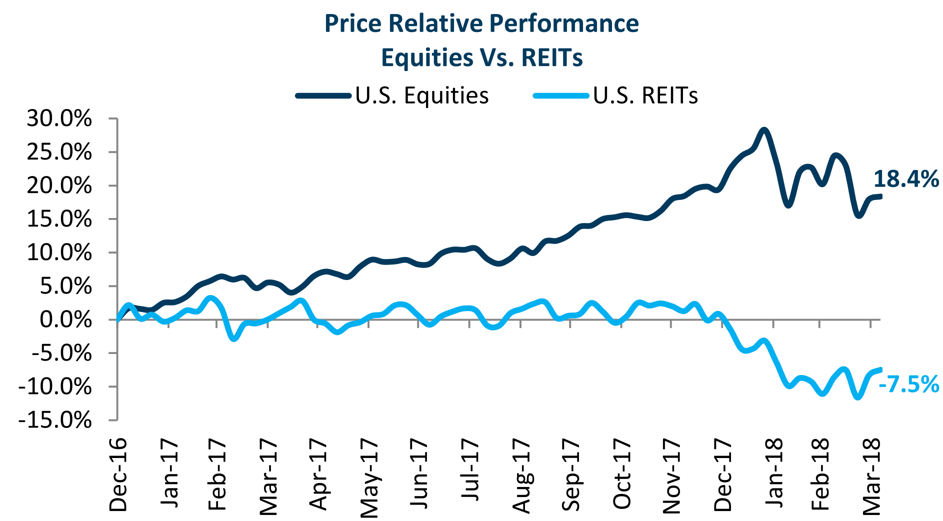
REITs Downtrodden by Rising Interest Rates

- Rising interests rates have negatively impacted sentiment amongst public REIT investors
- REITs are trading at a discount to NAV estimates made by analysts; this discount/premium varies across sectors e.g., the retail sector is trading at a discount in the public market, while the senior housing sector is trading at a premium
- The REIT sector continues to be volatile despite aggregate leverage on the MSCI US REIT index now closer to 30%; which, is much lower than the pre-GFC period
- REITs have also underperformed the broader equities market
- Investors looking to add exposure to REITs should take into account continued volatility in the sector on account of further interest rate rises
- Private real estate investors will benefit from select managers who are likely to focus efforts on taking REITs private and/or making asset purchases from the public REITs





Source: Green Street (April 2018), Bloomberg (4.6.2018)

Europe: Investment Themes

Europe Execution Strategies

United Kingdom

- Brexit-related concerns coupled with elevated supply have tempered U.K. investment opportunities
- Valuations remain elevated and do not fully reflect the uncertainty surrounding Brexit

Continental Europe

- Demographic trends across developed continental Europe remain weak and result in lower long-term interest rate expectations
- Low cost of debt provides a strong positive leverage effect to equity; unlevered yields have compressed, but levered income return is very attractive
- Core properties are experiencing high interest from domestic and international investors and, therefore, are priced in line with core U.S. properties
- The office sector is witnessing healthy fundamentals, with growth expected to be in 1-3% p.a. and limited supply on the horizon, creating attractive value-add opportunities
- The industrial sector continues to be very attractive, considering yields are higher relative to office or retail assets, and e-commerce and positive economic growth are providing rent growth tailwinds
- Rental housing offers attractive alternative low-risk investment, as most major European cities continue to suffer from chronic undersupply of housing
- Emerging real estate sectors like senior housing and student housing are becoming institutionalized and offer attractive returns, but execution opportunities remain limited

Positive Gradual Real GDP Recovery in Europe Expected to Continue

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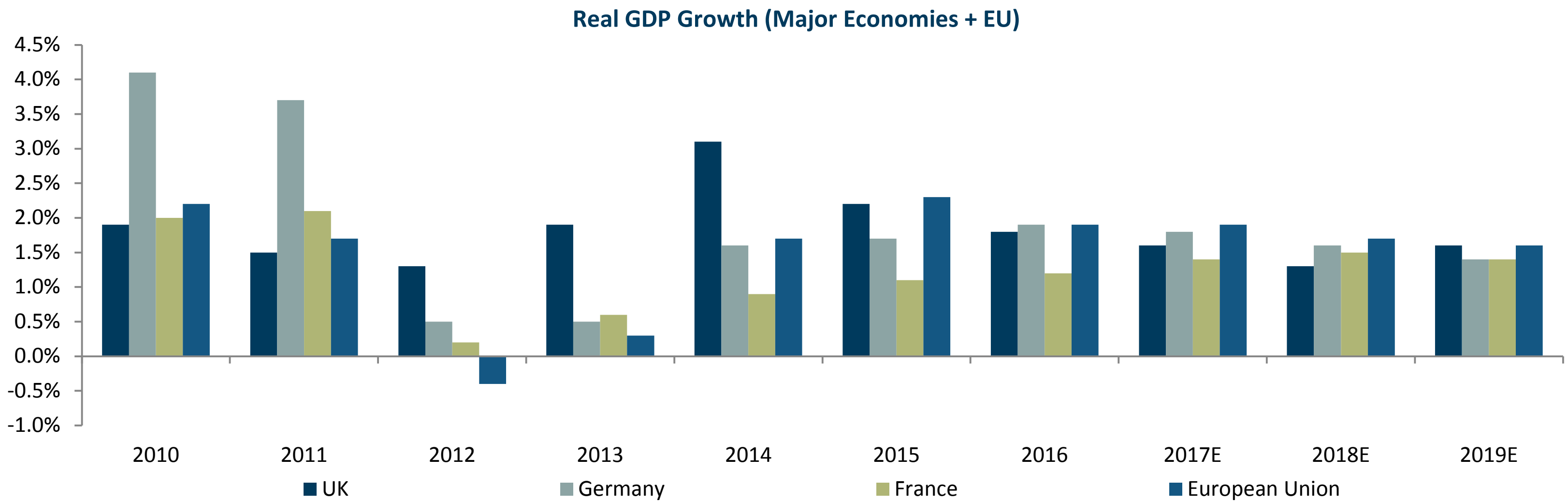

- Growth in the UK, continues to be weighed down by Brexit concerns with 2018 expected to witness another pull back in growth
  - Concerns of a sharp decline in growth rate have subsided, but Townsend continues to remain cautious due to economic uncertainty
- Continental Europe has been experiencing low but steady growth which is expected to continue; a few economists also expect this growth to pick up slightly
- Inflation is expected to rise slightly but remain low keeping the interest rates low despite ECB scaling back its program
- Long-term demographic trends of an aging society is likely to keep overall long-term growth expectations and interest rates low; however, major cities across Europe will do better due to continued urbanization trend

Source: Bloomberg (as of 6/21/2017)

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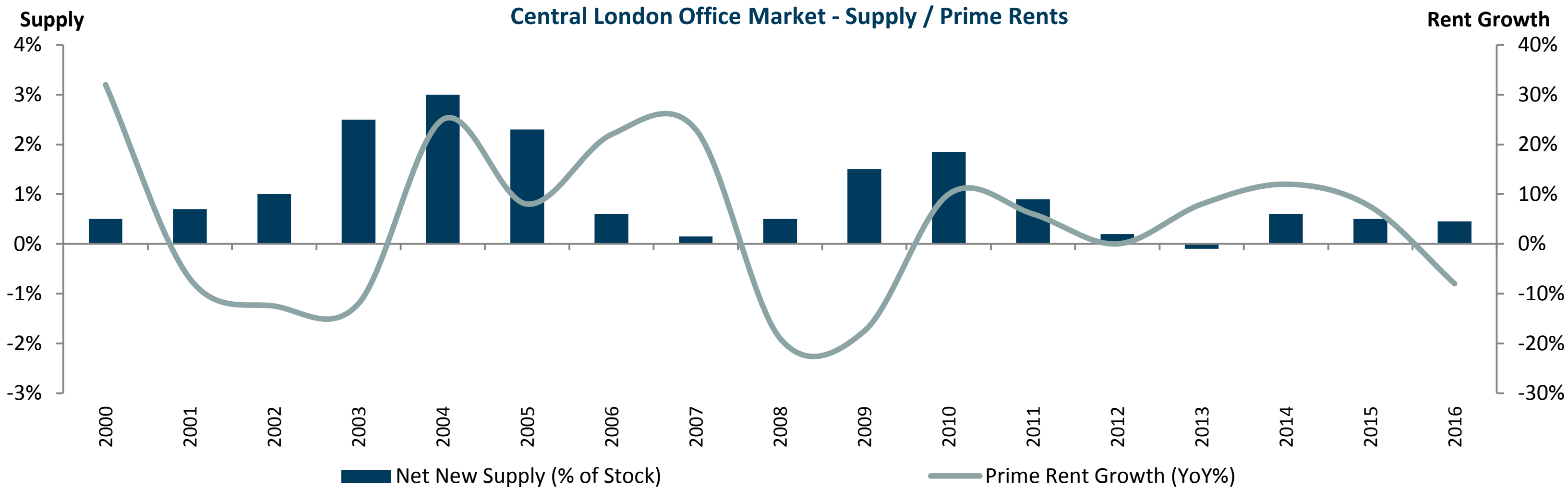
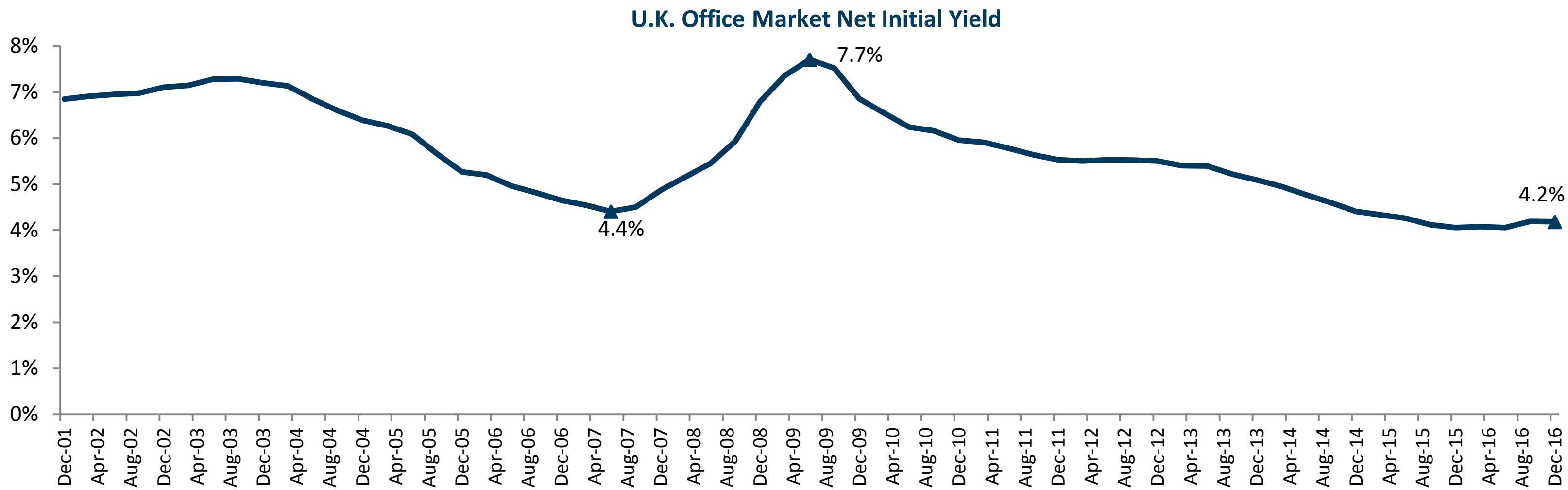
Office: London Faces Elevated Risk from Brexit, but No Signs of Distress





Source: Green Street, CBRE, Townsend

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On the Contrary, Continental European Office Fundamentals Healthy

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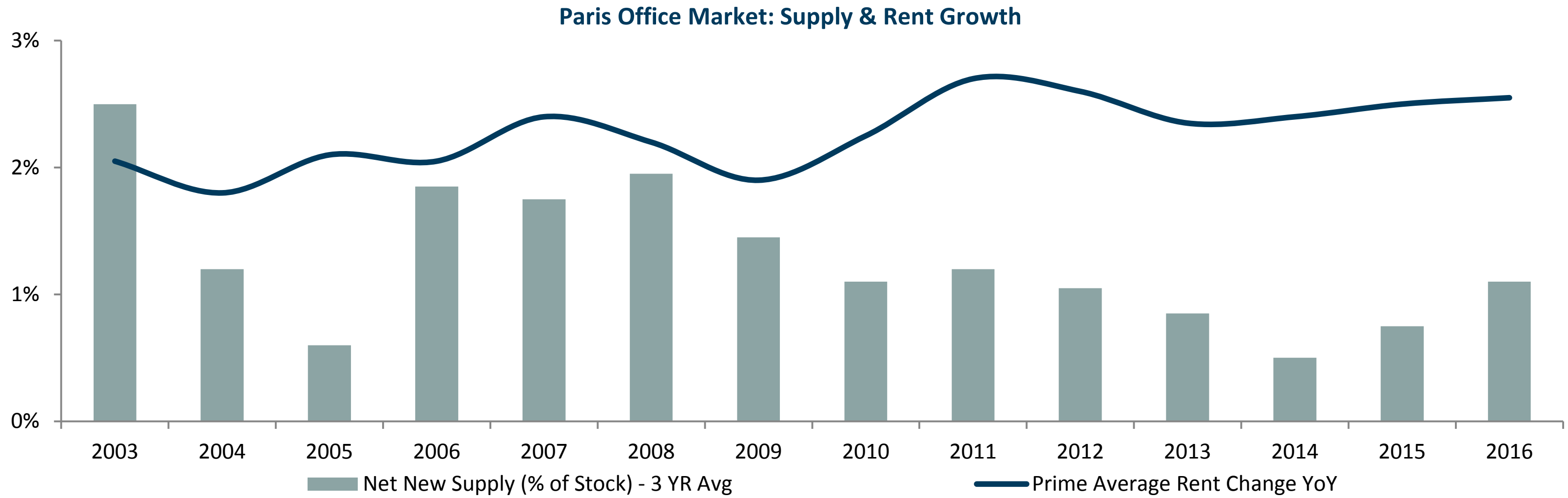

Source: Green Street, CBRE

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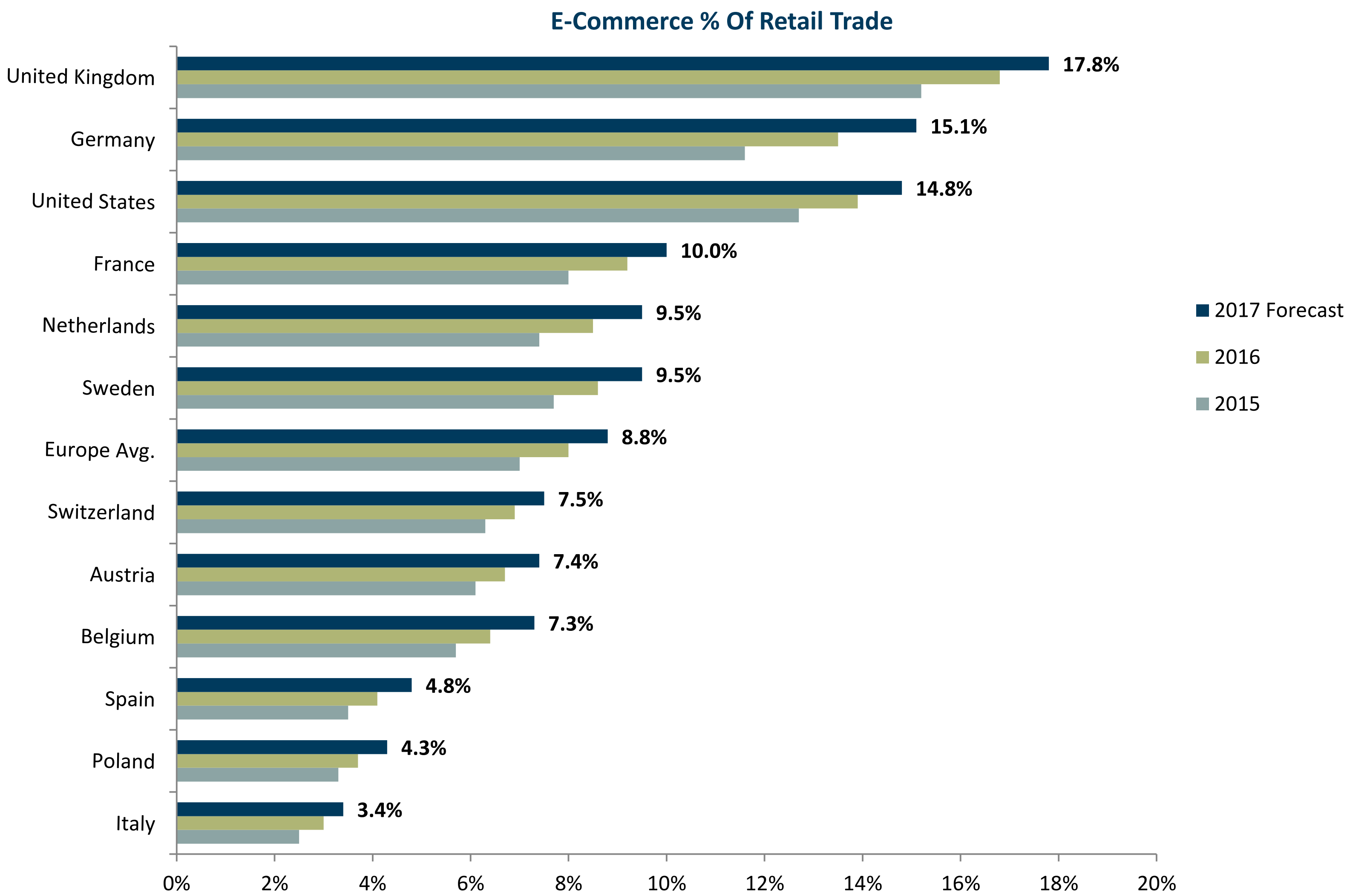
Retail: E-Commerce Gaining Ground in Europe



Source: Statista

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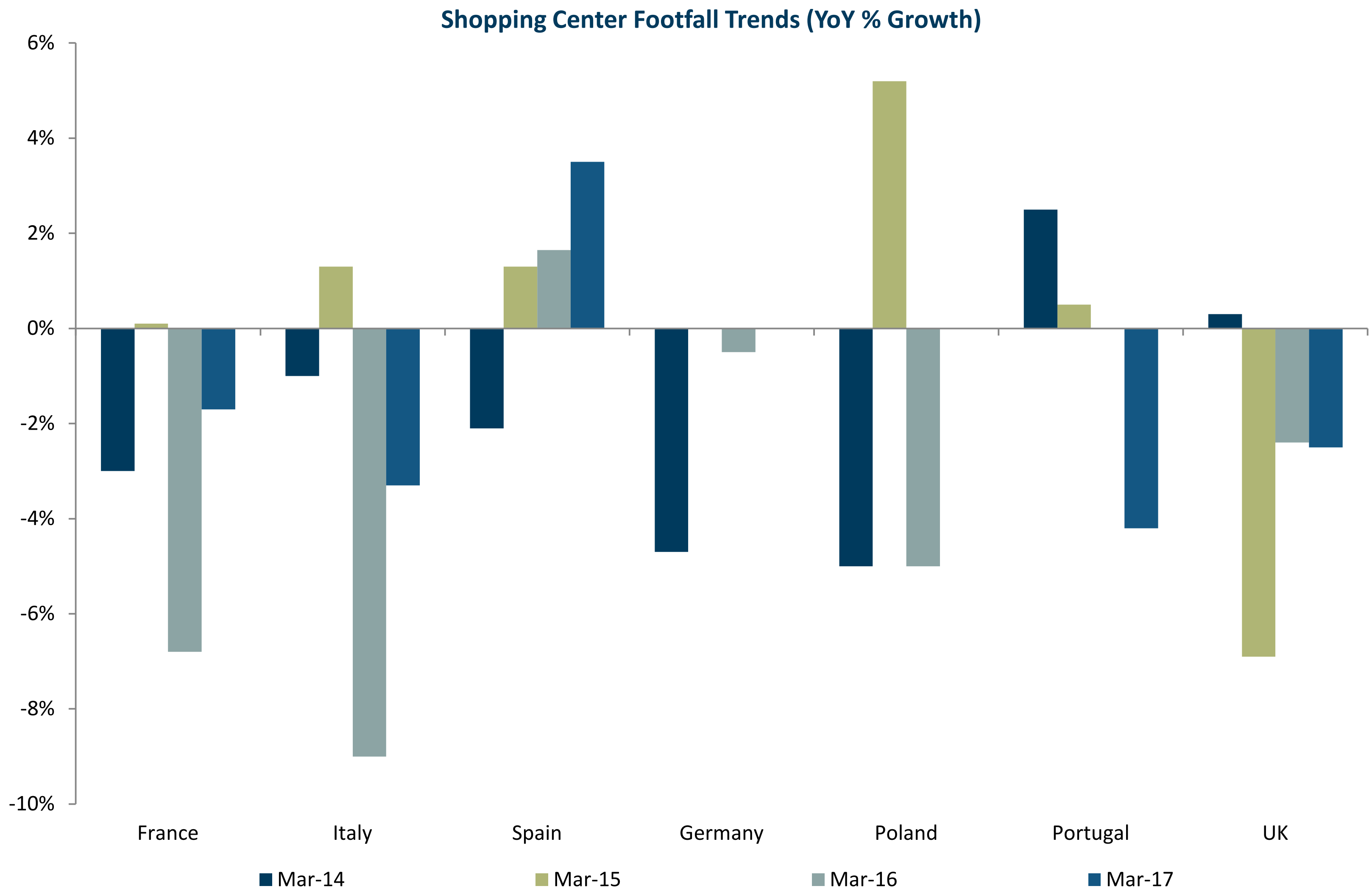
Retail: Leading to Shopping Center Footfall Reduction Across Most Countries



Source: Experian, Green Street Advisors
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Industrial Sector is Offering an Attractive Premium to Interest Rates

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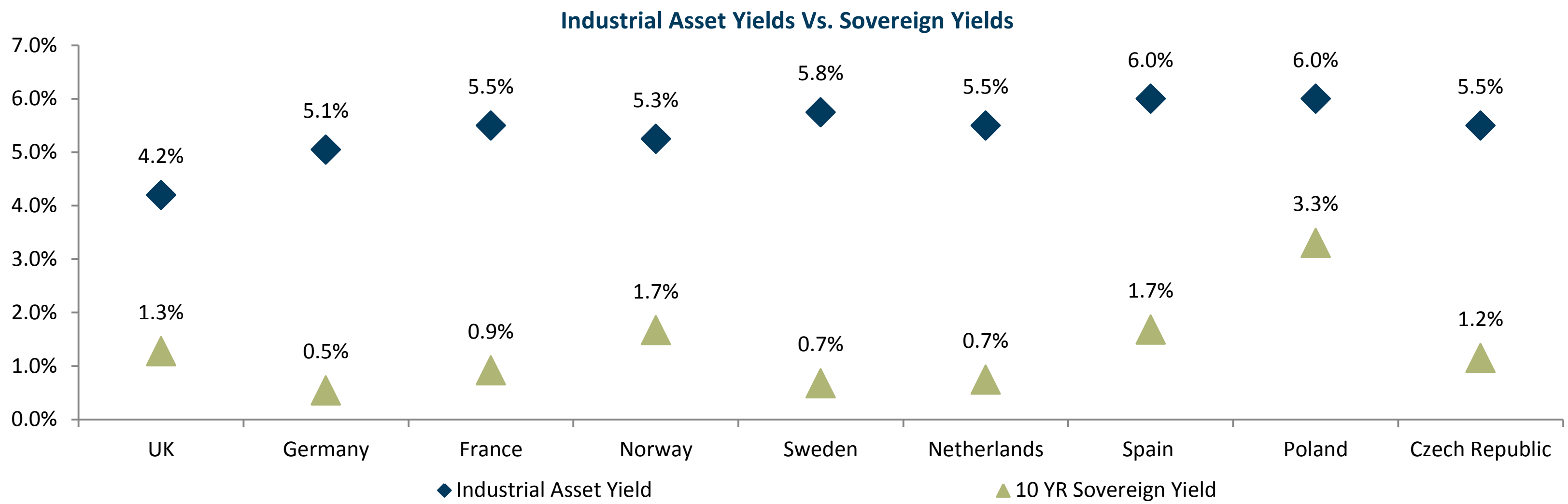

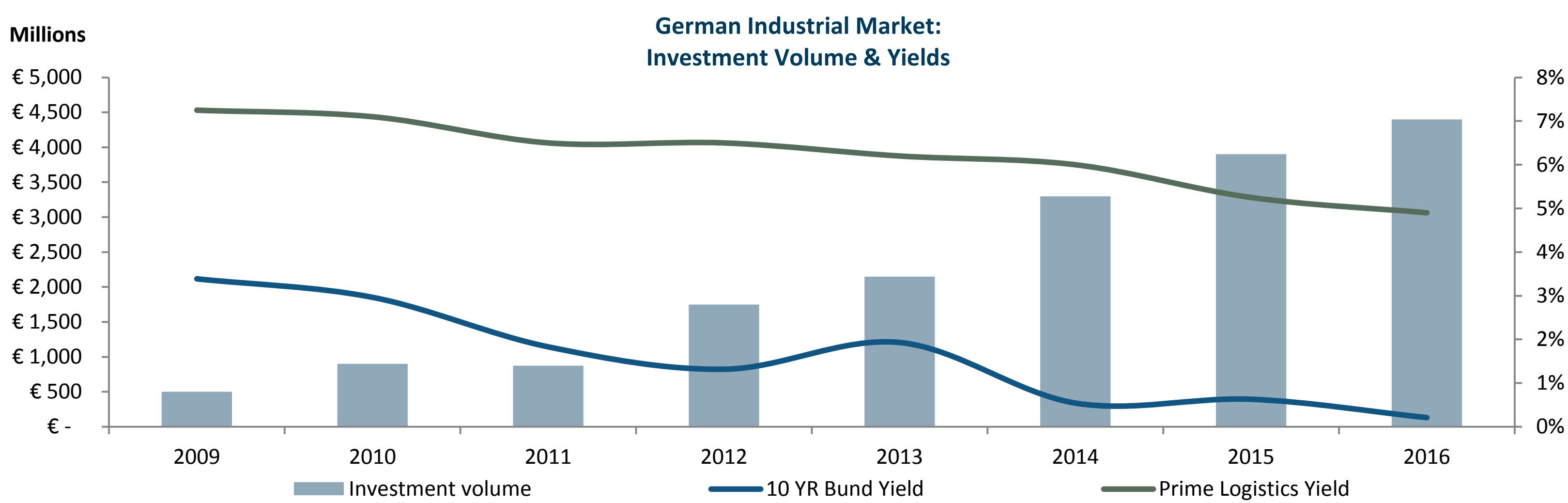

Source: USAA, Square Mile Capital, Bloomberg

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Across Most Markets in Europe, Student Housing Remains Under-Supplied

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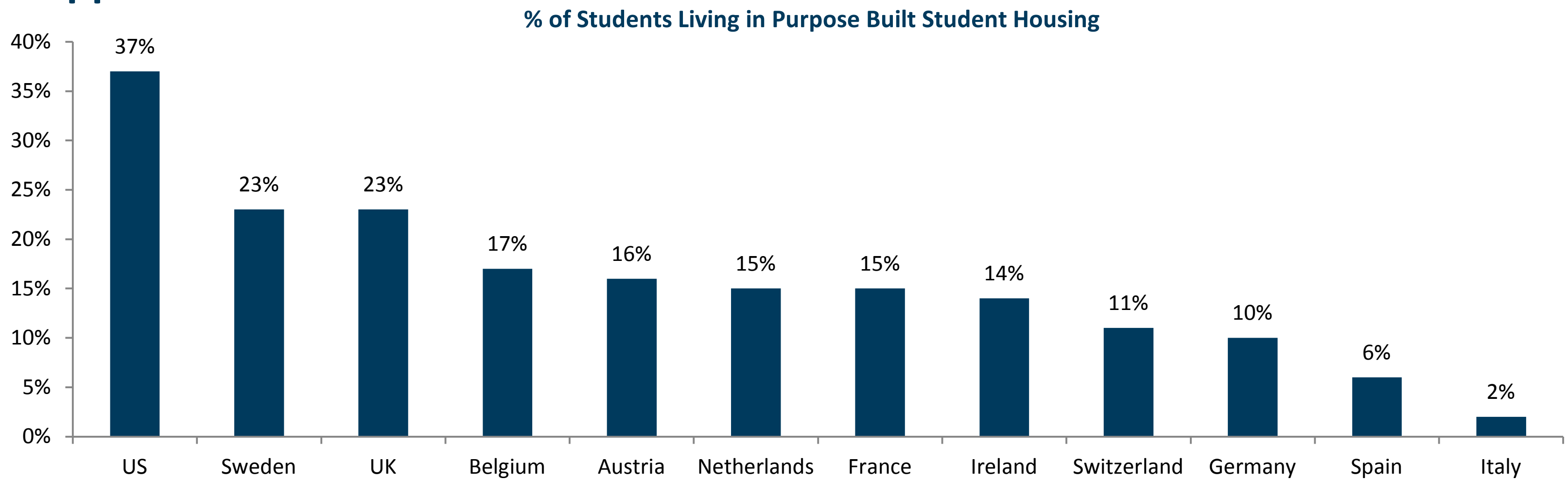

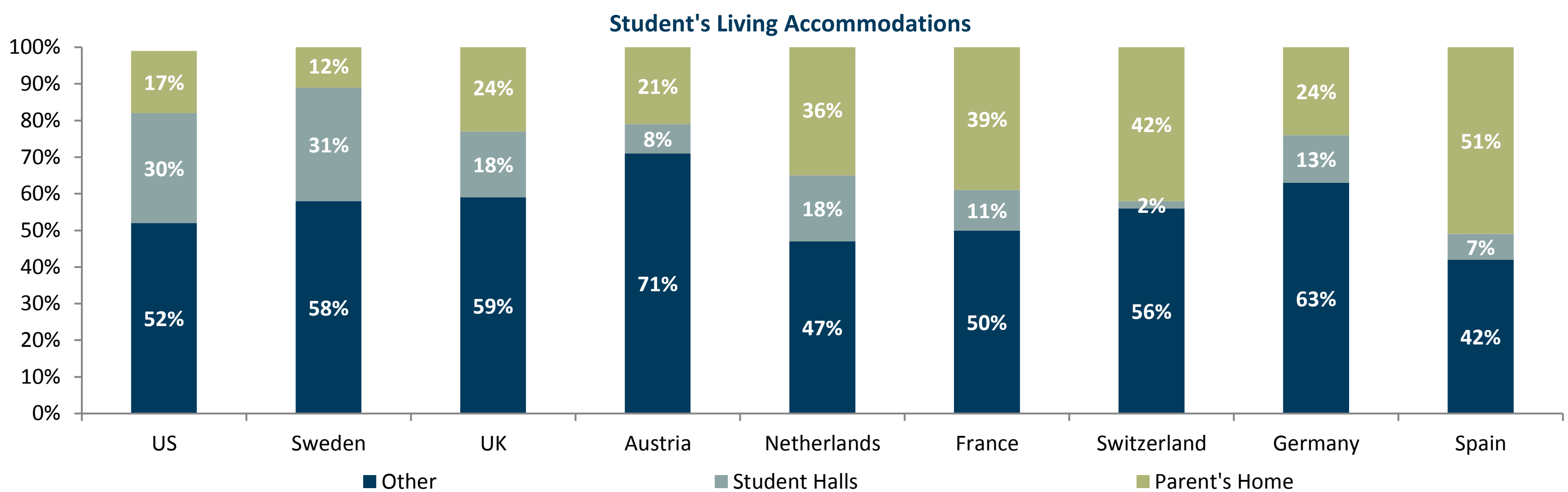

Source: Harrison Street, Eurostudent IV, Savills

Student Housing: Investor Interest in this Sector is Growing

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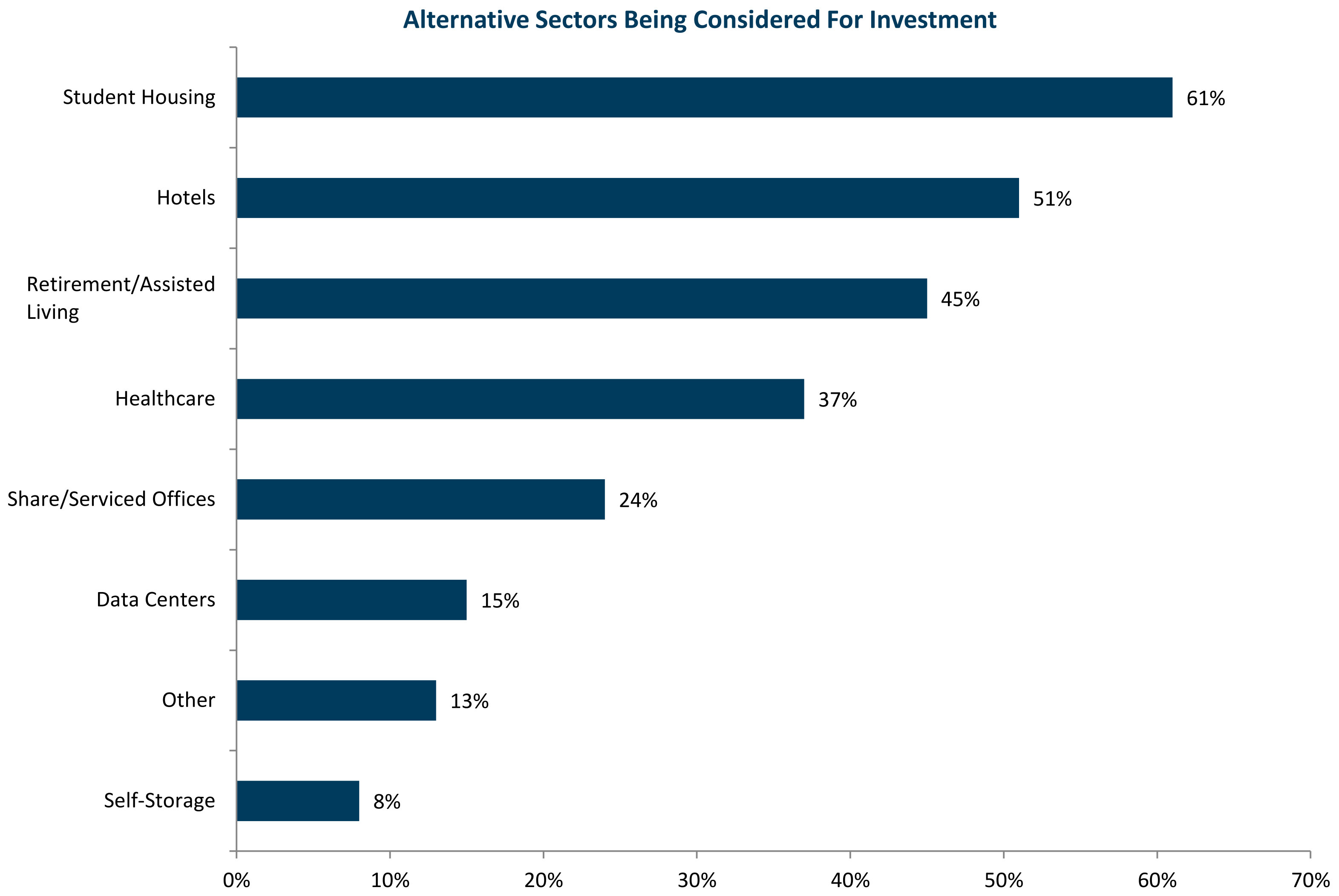
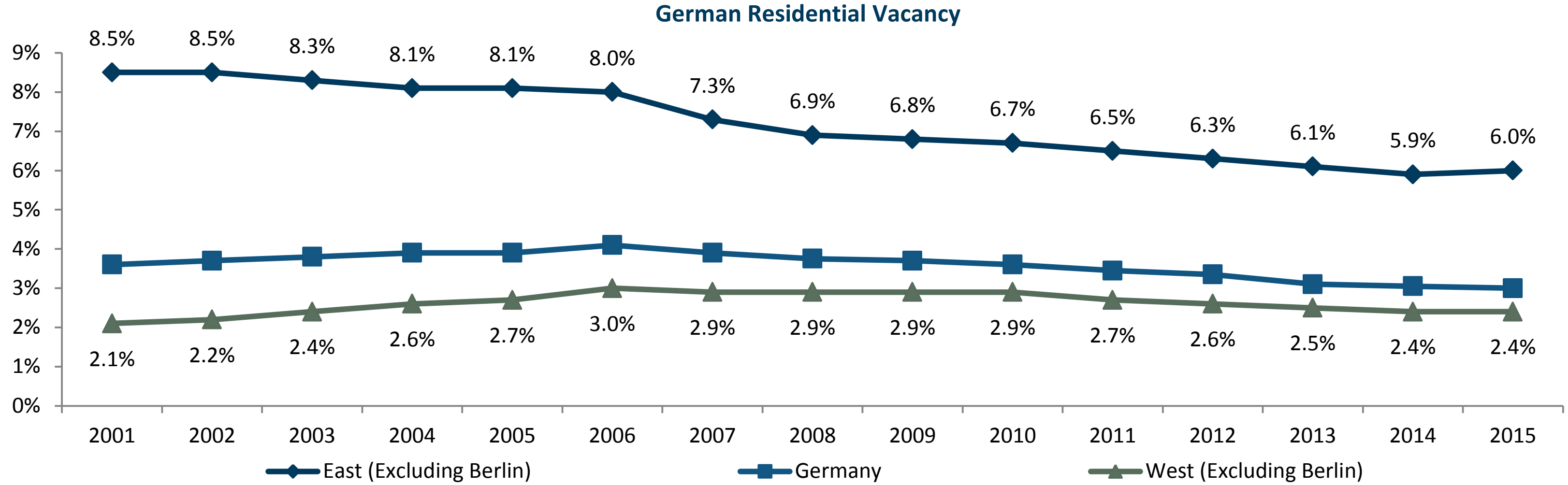
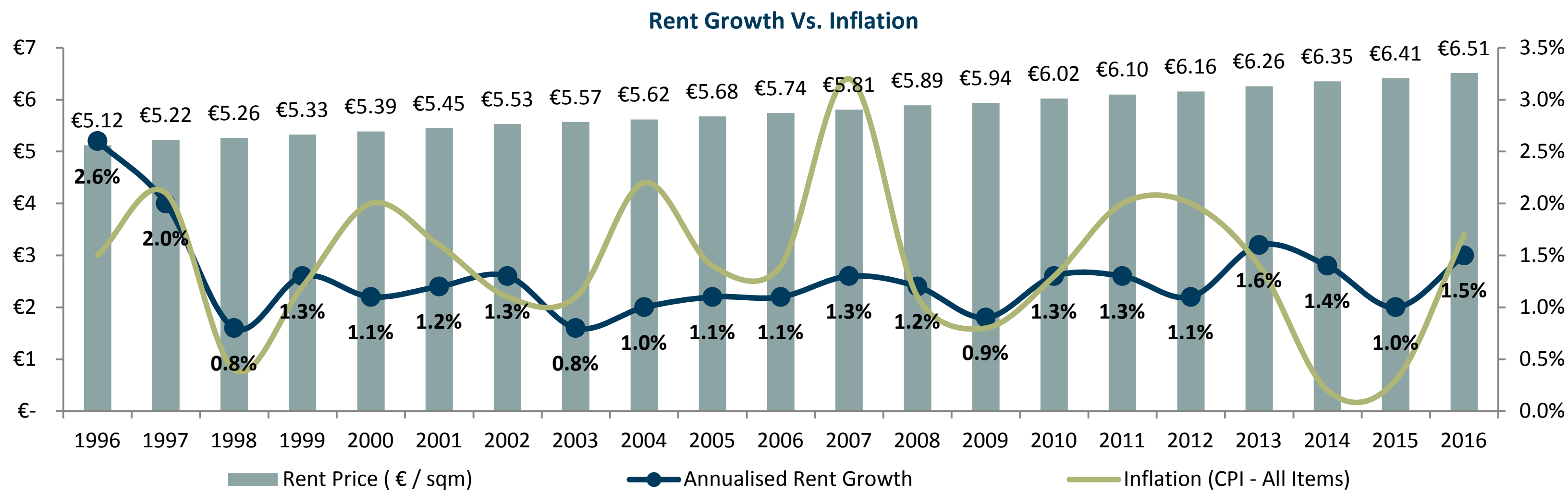


Source: PwC – Emerging Trends Europe 2017

German Residential Market, Though Regulated, Offers Reliable Returns





Source: Green Street

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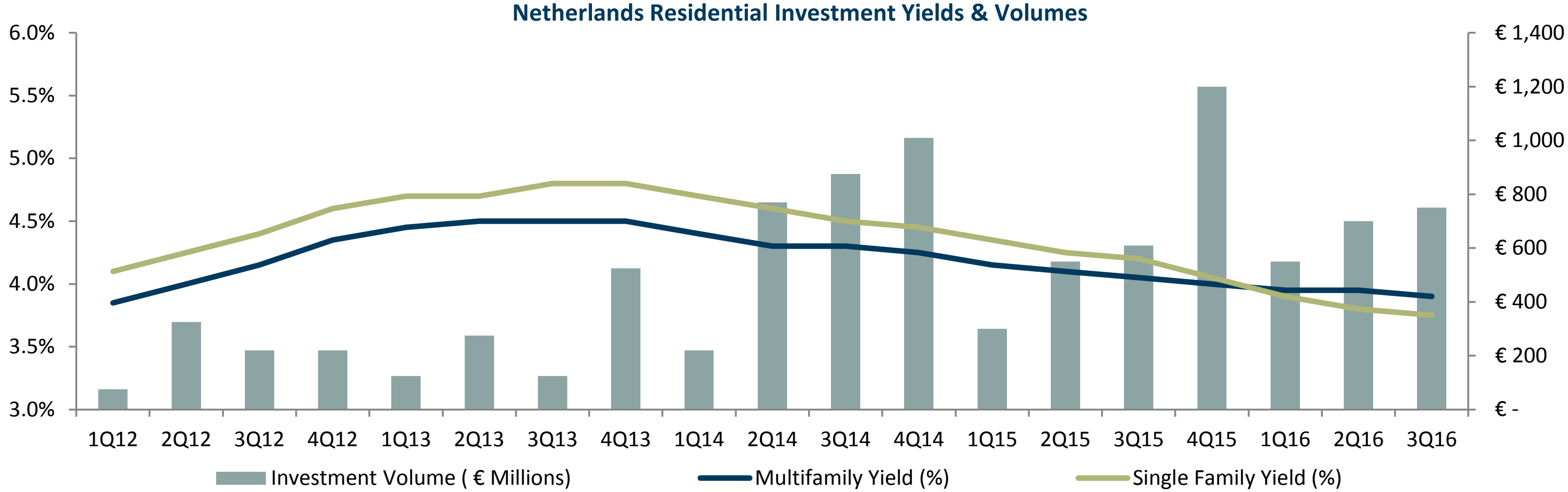
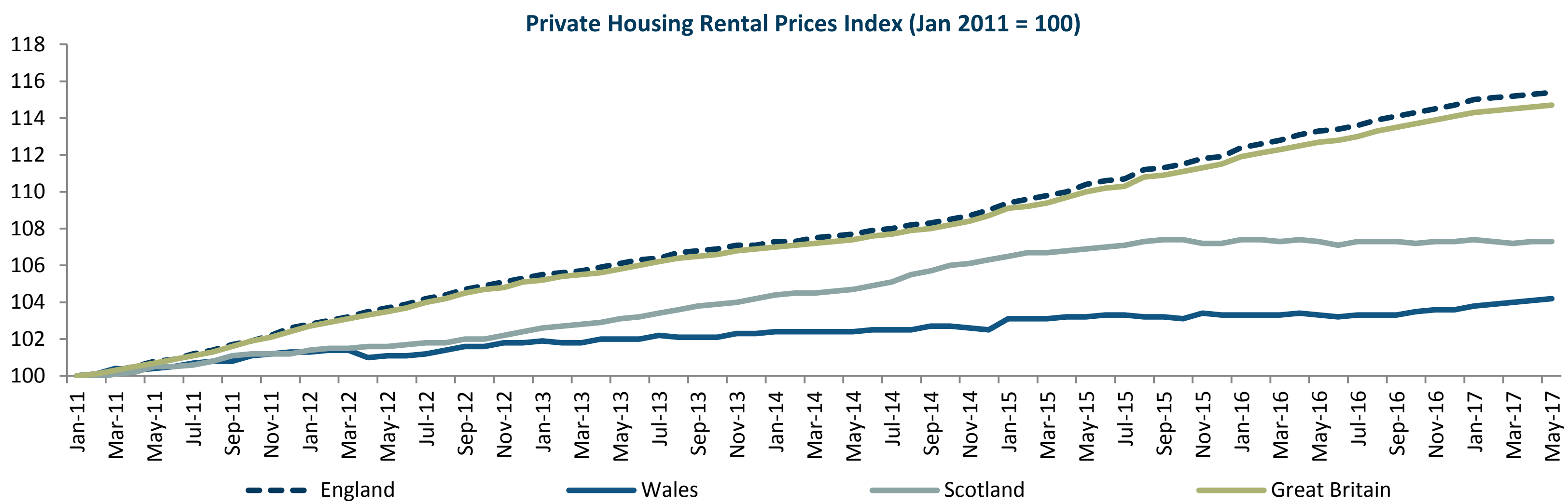
Likewise, Healthy Fundamentals Exist in Netherlands and U.K. Residential Sectors





Source: CBRE, U.K. Office for National Statistics

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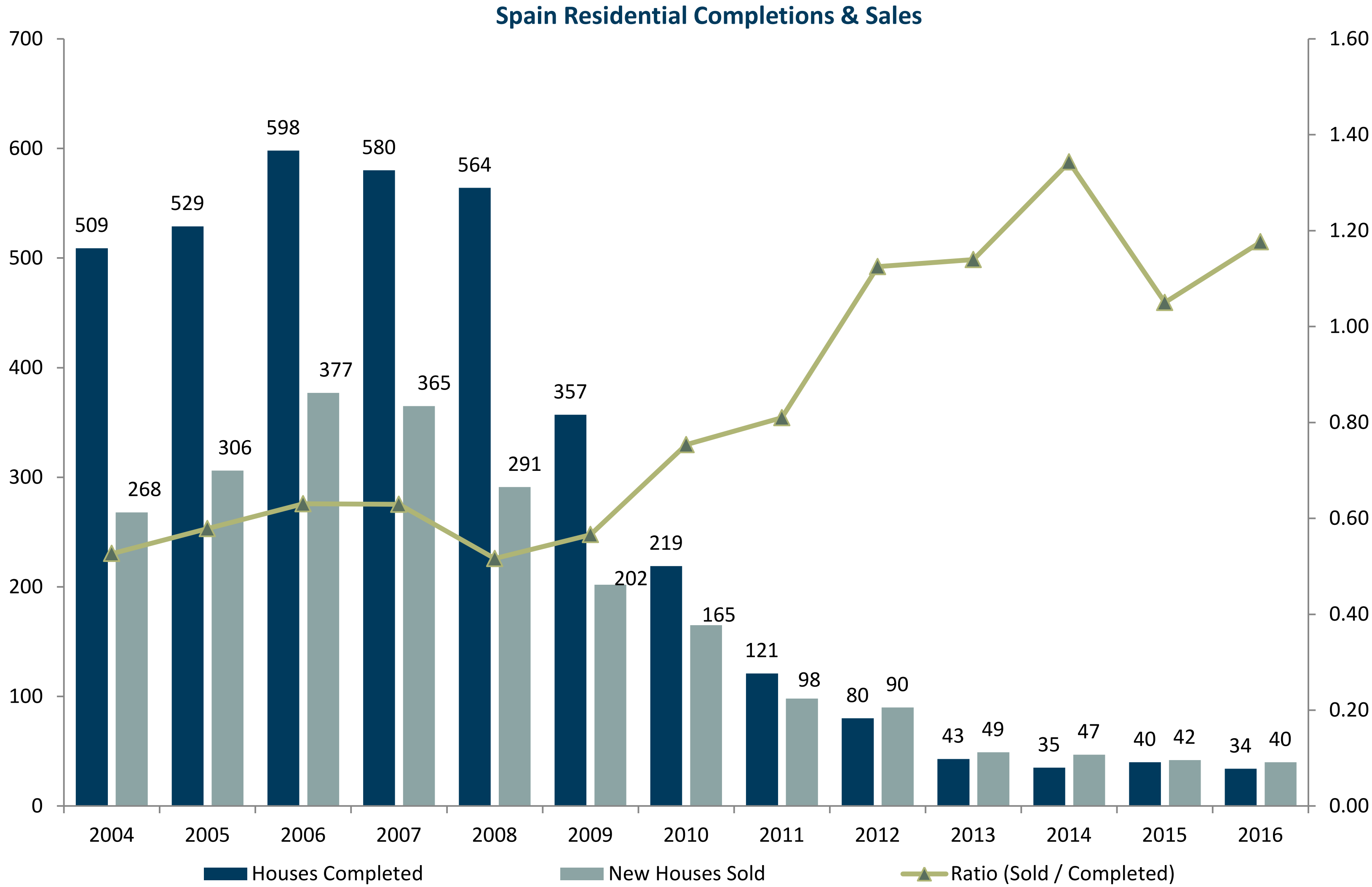
Spain Residential Experiencing Gradual Recovery In Market Fundamentals

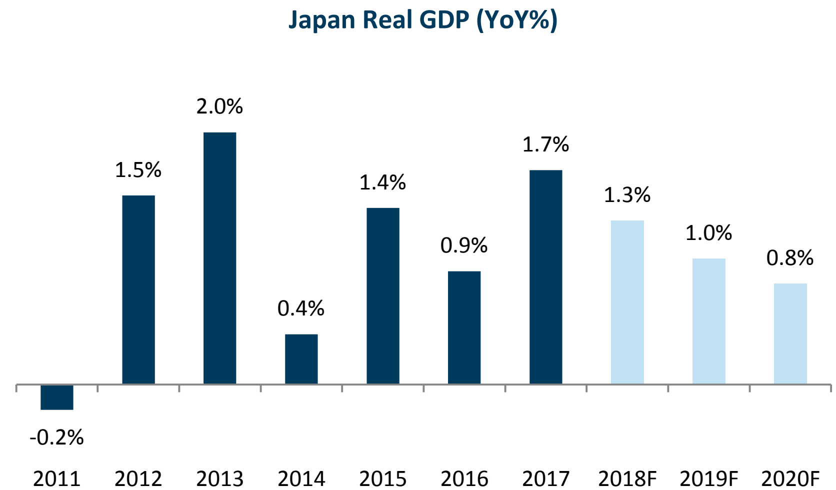


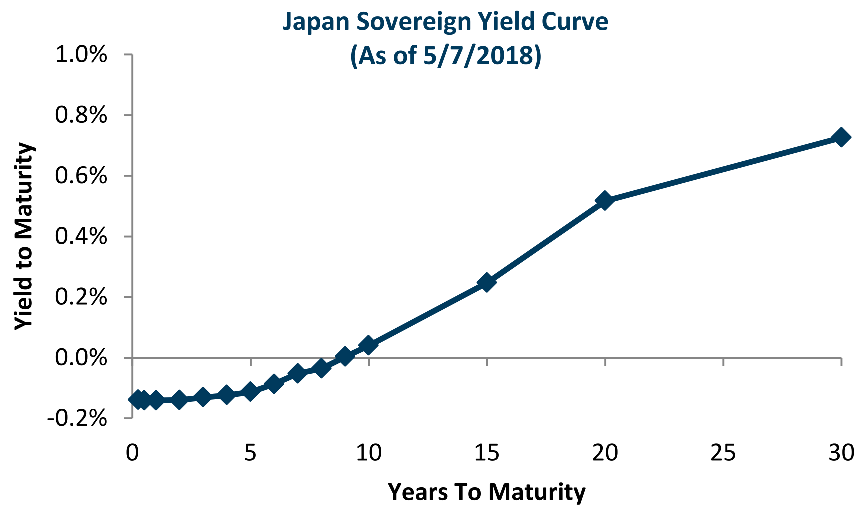
Source: Colliers International, Housing Ministry

Asia Pacific: Investment Themes

Japan: Positive Growth Promoted by Monetary Policy

- Japan's economy has benefitted from continued loose monetary policy, but growth forecasts going forward are moderating
- The long end of the yield curve and real GDP growth prospects are driven by population growth, which continues to be the limiting factor
- Low unemployment (~3%) should lead to moderate real wage growth, assuming the economy continues to expand
- 3-month JPY Libor is below 0%, and financing may be available for L + 175 bps or less for good quality real estate, providing a very attractive boost to equity returns
- Given limited growth prospects, preference should be to execute on transactions which primarily derive returns from the income component of the real estate, with modest value-add component

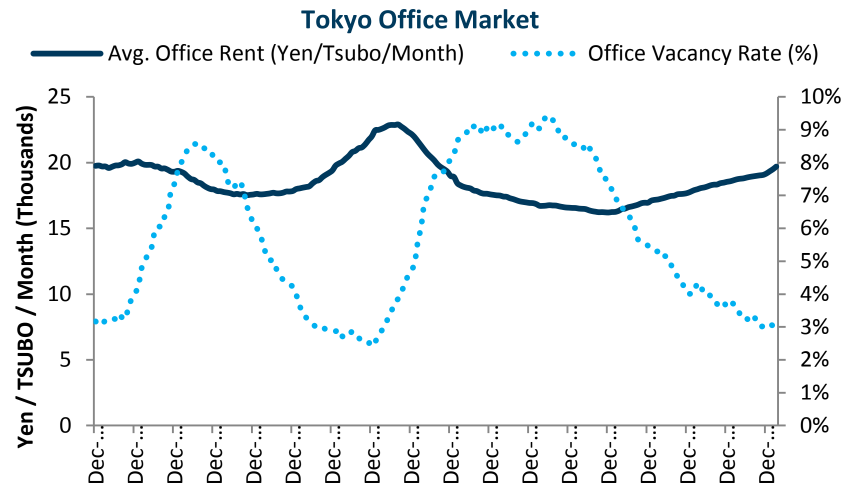


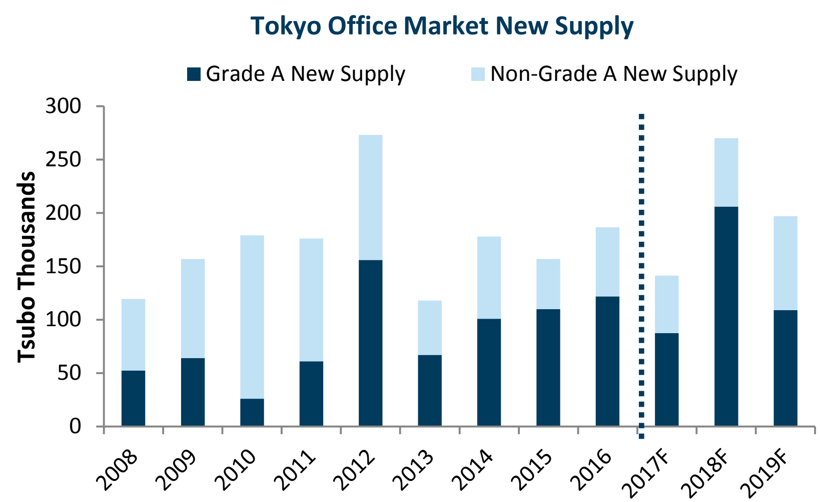


Source: Bloomberg

Japan: Tokyo Office Market Faces Rising Supply

- Given an improving economic back drop and a moderate urbanization trend, Tokyo's office market fundamentals have improved, with vacancy reaching the low single digits and rent trending upwards since late 2013
- Prime office assets currently trade around 3.5-4.0%; although these asset valuations have recently begun showing softness, given similar assets were trading below 3.5% in 2016
- Going forward, new supply is forecasted to outpace demand and limit rent growth, particularly in the higher-quality space
  - Despite low vacancy rates, the wave of new supply in 2018 is expected to limit or even decrease effective rent growth year over year
  - Grade A minus and B office assets will likely see a limited impact from the new supply
- The labor market is becoming increasingly tight in Japan, with employment dropping below 3%, which has the possibility of translating to real wage growth and higher rates of inflation
- Regional cities have also witnessed limited new supply and compressing yields, but lack the liquidity and breadth of opportunity that Tokyo provides and require more experienced managers





Source: Bloomberg, Miki Shoji, Colliers, CBRE

Townsend's views are as of the date of this publication and may be changed or modified at any time and without notice. Past performance is not indicative of future results.

Japan: Industrial Market Experiencing Wave of New Supply

- Japan's industrial sector has benefitted from strong e-commerce and trade-driven take-up, but continues to experience elevated levels of supply

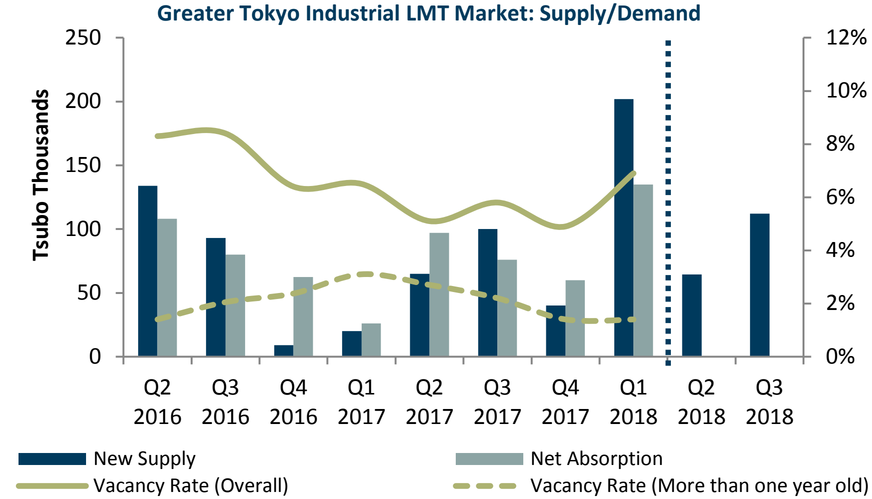
- Industrial cap rates have compressed to 4.5-5.0% in Tokyo and 5.0-5.5% in Osaka

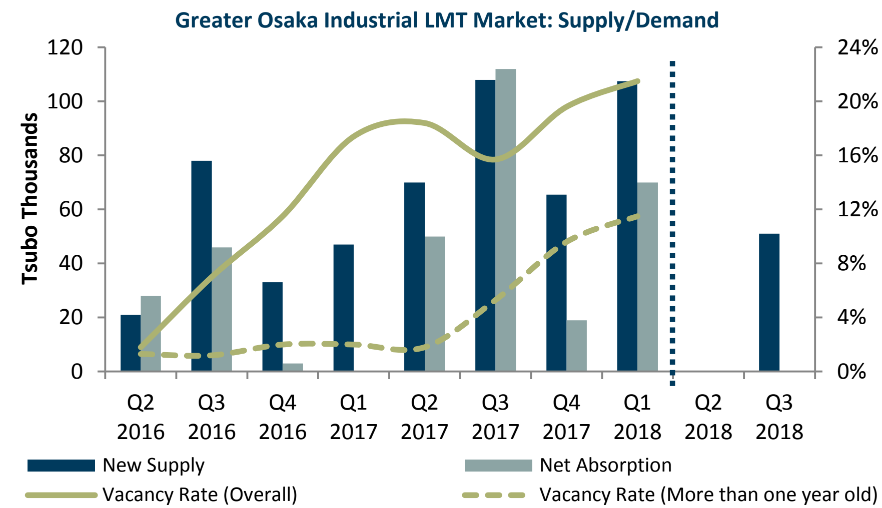
- Osaka is at the forefront of the oversupply issue, with vacancy rates for the general market rising above 20%, which translated to a 3.5% rental decline year-over-year

- Low cost of financing will continue to fuel new supply and has already begun softening rent growth forecasts

- Old spec buildings, which don't meet the requirements of the third-party logistics companies, are at the highest risk of obsolescence

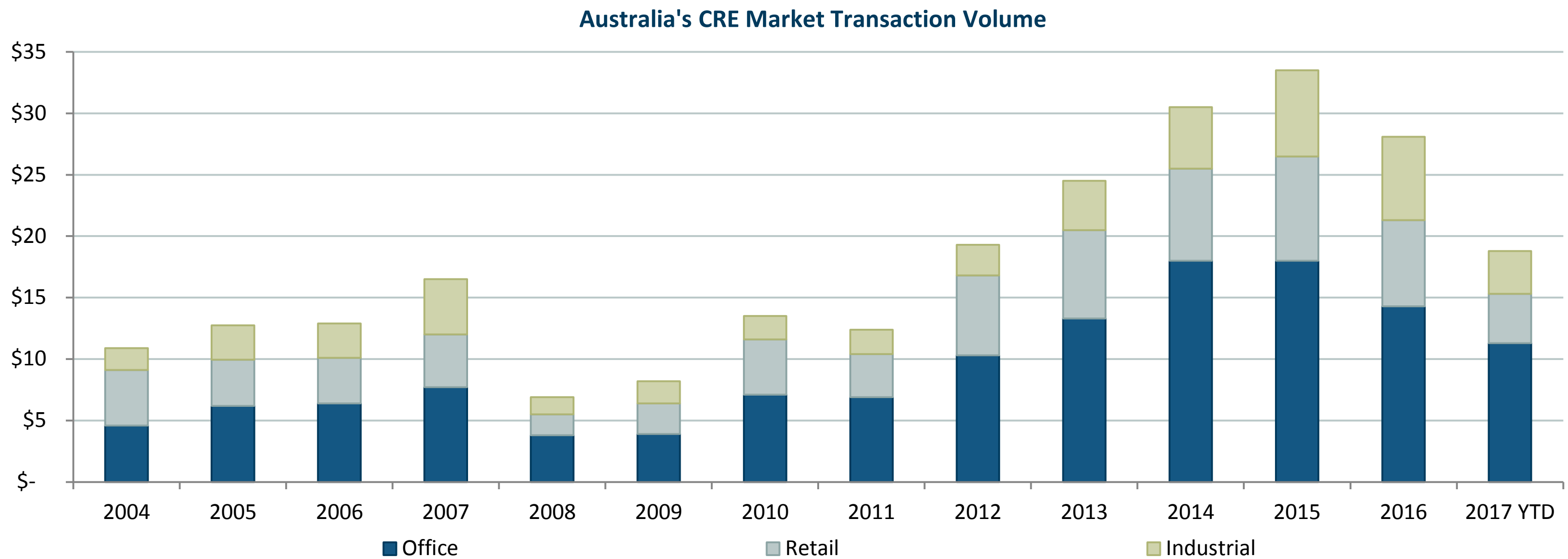
- Given market conditions, Townsend favors acquiring properties where rents are still below market and have the ability to grow rents through value add activities and taking re-leasing risk





Source: Bloomberg, CBRE, Savillis, JREI

Australia: Real Estate Transaction Markets Remain Robust

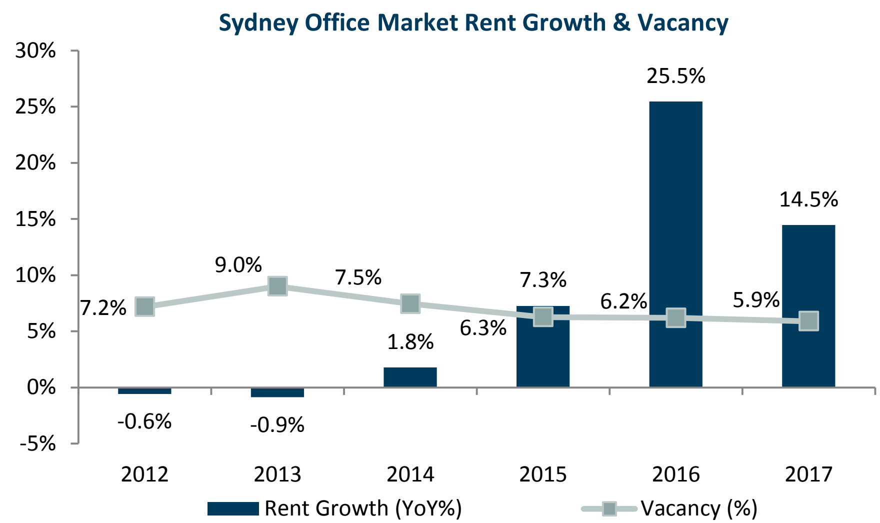


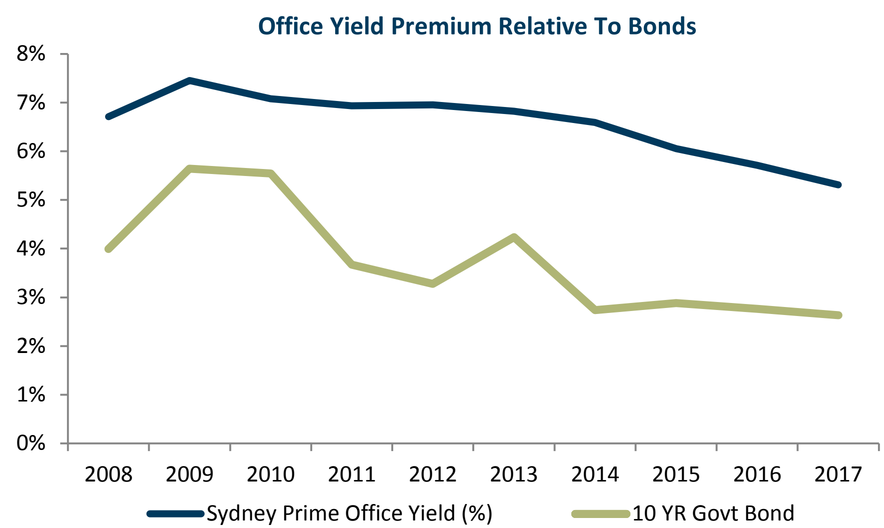
- Foreign investor share of transaction volume in Australia is 37%, despite the incremental tax burden of investing in Australia, which typically reduces total returns by a minimum of 15% (even with the most efficiently managed investment trust vehicles)
- Similar to many developed economies, property and bond yields have declined significantly in tandem, at least in part driven down by foreign investors seeking to harvest the attractive yield premium Australia presented relative to other developed economies
- Near term, property yields are expected to remain flat with the potential for yield spreads over bonds to temporarily tighten, as the Reserve Bank of Australia may raise rates to temper asset pricing in the midst of the global economic upswing
- Office markets, especially in the CBD of Sydney and Melbourne, continue to harbor much of the liquidity within Australia's commercial real estate market

Source: JLL

Australia: Rent Growth Driven Office Market (Sydney)

- The Sydney office market has come roaring back, featuring double-digit rental rate growth for the last two years
- Double-digit rent growth is expected to continue in the near term, driven by very limited product coming online until 2020-2021 and an already low vacancy rate in the single digits (~6.0%)
- Healthy vacancy rates, economic growth, and population growth will continue to support fundamentals of an already boisterous office market
- Given a story supporting the underwriting of such high growth rates, prime Sydney office has transacted more recently within the low 4.0% cap rate range
- Office yields remain at a healthy premium over government bond yields, indicating asset pricing remains reasonable
- Planned substantial investment in infrastructure is occurring in Sydney, leading to up-and-coming markets such as the Parramatta submarket, located outside of the downtown CBD



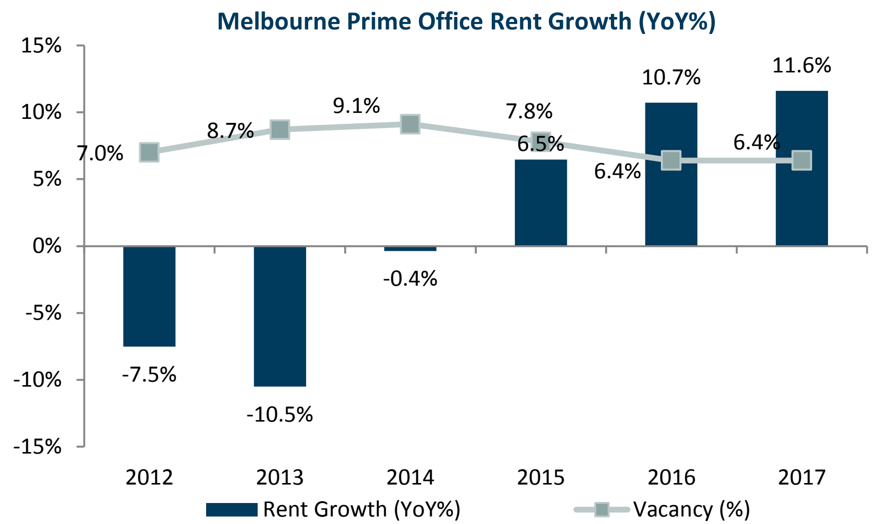


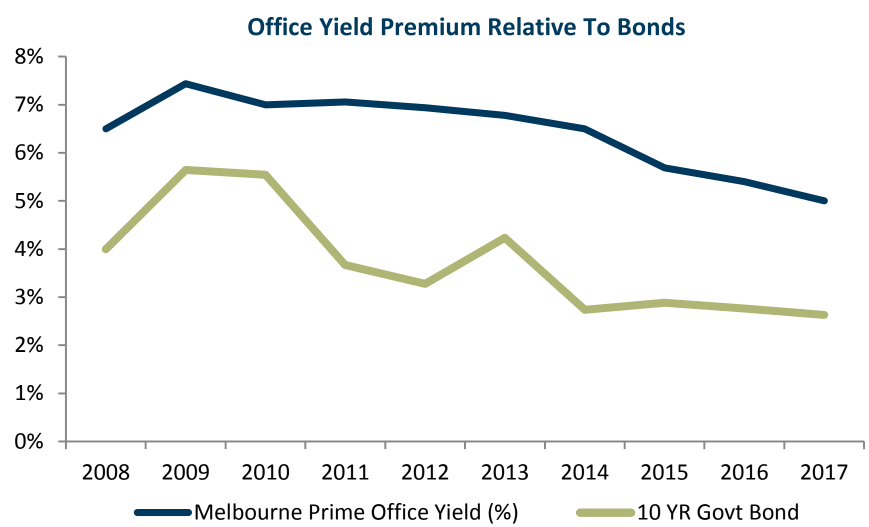
Source: Colliers, Bloomberg, JLL

Australia: Rent Growth Driven Office Market (Melbourne)

TOWNSEND® GROUP
an Aon company

- Similar to Sydney, Melbourne has more recently posted double-digit rental growth on the back of a tightening office market, indicated by single-digit vacancy rates
- While Melbourne has more near-term supply in its pipeline and vacancy rates are expected to rise 3-4% over the next few years, the city has a few enhanced demand factors relative to Sydney:
  - Higher population growth rate (+2.4% p.a.)
  - Higher job growth rate (+3.2% p.a.)
- Melbourne has also planned substantial investment in infrastructure to support the rapidly growing population
- The University of Melbourne, the second-highest rated university in Australia, provides a continuous source of economic stimulus for the local economy with over 40,000 enrolled students
- While office yields have tightened similar to Sydney, the yield premium remains healthy over government bond yields
- Both cities are supported by additional intangibles such as beautiful weather and English as a first language, both of which are particularly attractive to international students



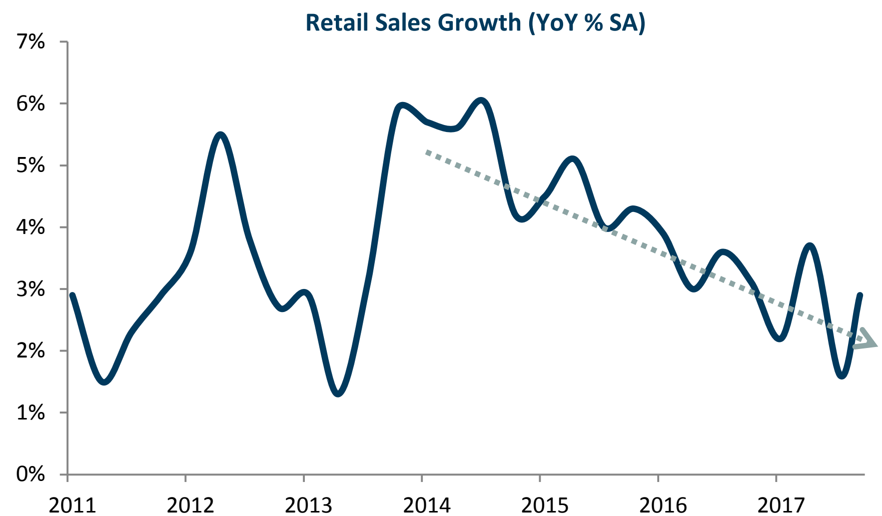


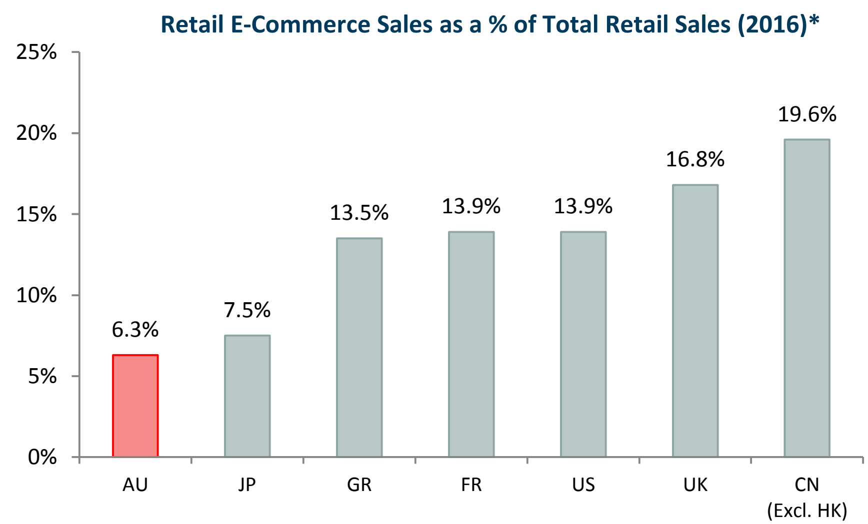
Source: Colliers, Bloomberg, Dexus, JLL, QS World University Rankings
Townsend's views are as of the date of this publication and may be changed or modified at any time and without notice. Past performance is not indicative of future results.

Australia: Retail Yields Tight, Despite Muted Growth Expectations

TOWNSEND® GROUP
an Aon company

- On the surface, strong GDP growth and elevated population growth would historically provide an exciting back drop for retail, but…
- Retail asset yields remain tight, recently trading between 4-5% in Sydney and Melbourne
- Broadly speaking, retail sales growth in Australia has already begun moderating, which is not a promising trend given limited e-commerce competition
- E-commerce continues to be a relatively small force in the retail market (~6% of sales), but we expect this to trend more inline with other developed economies long term
- Amazon announced in the summer of 2017 that it will be opening its first logistics warehouse in Australia, with an expansion of its service in Australia expected to follow suit
- As we've witnessed in the U.S., a repricing of retail assets will need to take place as managers underwrite elevated capital expenditures to stay competitive in the shifting retail landscape

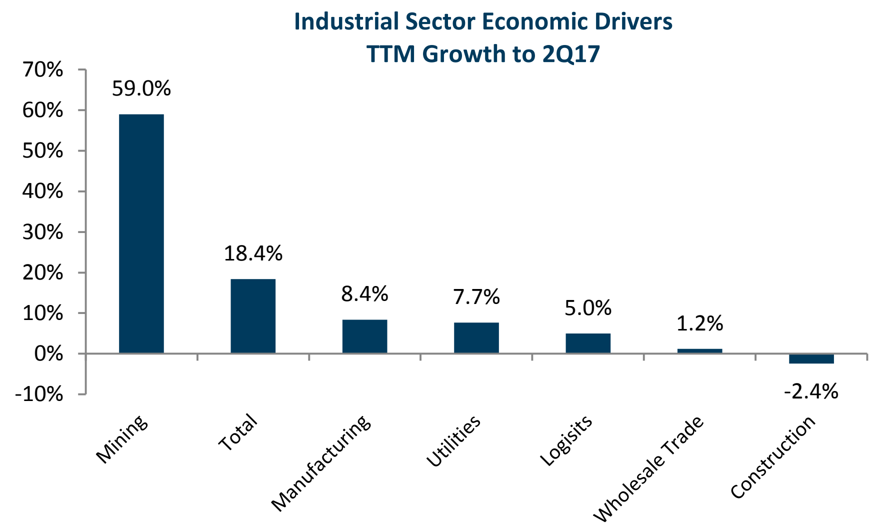


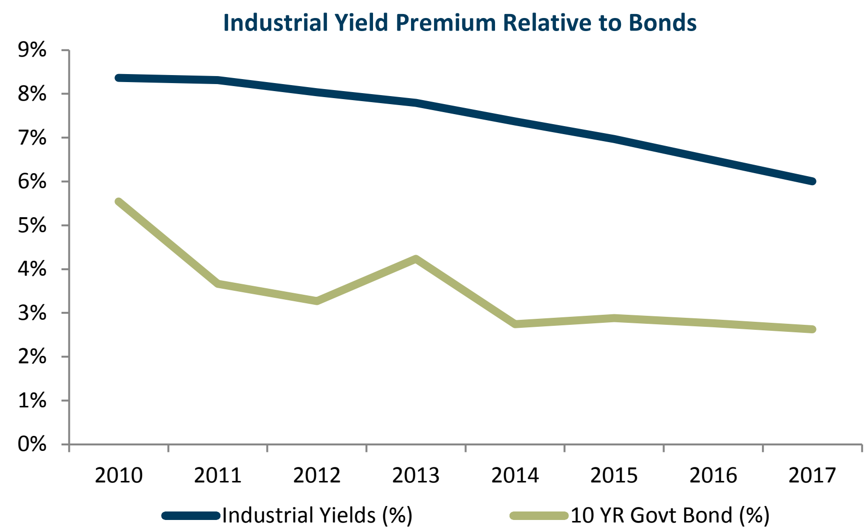


Source: Bloomberg, Colliers, RCA, Statista, Emarketer
Townsend's views are as of the date of this publication and may be changed or modified at any time and without notice. Past performance is not indicative of future results.

Australia: Industrial Cap Rate Compression with Continued Strong Demand

- Significant cap rate compression has occurred in industrial assets, equaling nearly 250 bps on average in Sydney and Melbourne to 6.0%
- Given sufficient land available for development on the outside of the downtown metros, barriers to entry for industrial are weak and supply is more likely able to meet demand
- There is very limited opportunity in the Core space for industrial assets, given competition from superannuation funds that are more tax efficient and heavily favor assets with long WALEs
- Opportunity to create higher returns exists by taking the lease-up risk of assets with near-term rollover and then exiting to Core or superannuation funds
- Rent growth has historically been moderate to flat in areas such as West Melbourne or South Brisbane, with areas like West Sydney, where growth is stronger, being the exception
- While Amazon's entrance into the industrial market in Australia is a negative for the retail industry, it could create stronger demand in the industrial and warehouse sectors

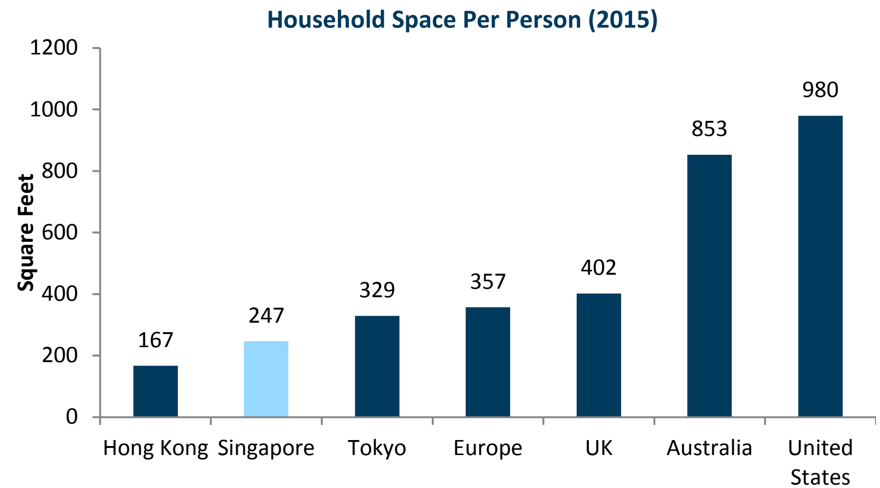


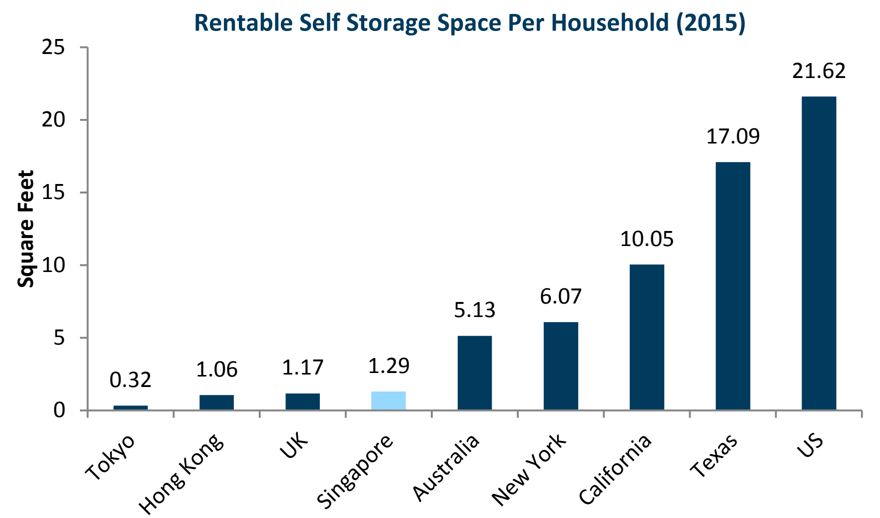


Source: Bloomberg, Colliers, JLL Research, Savillis

Singapore: Self-Storage an Emerging Investment Opportunity

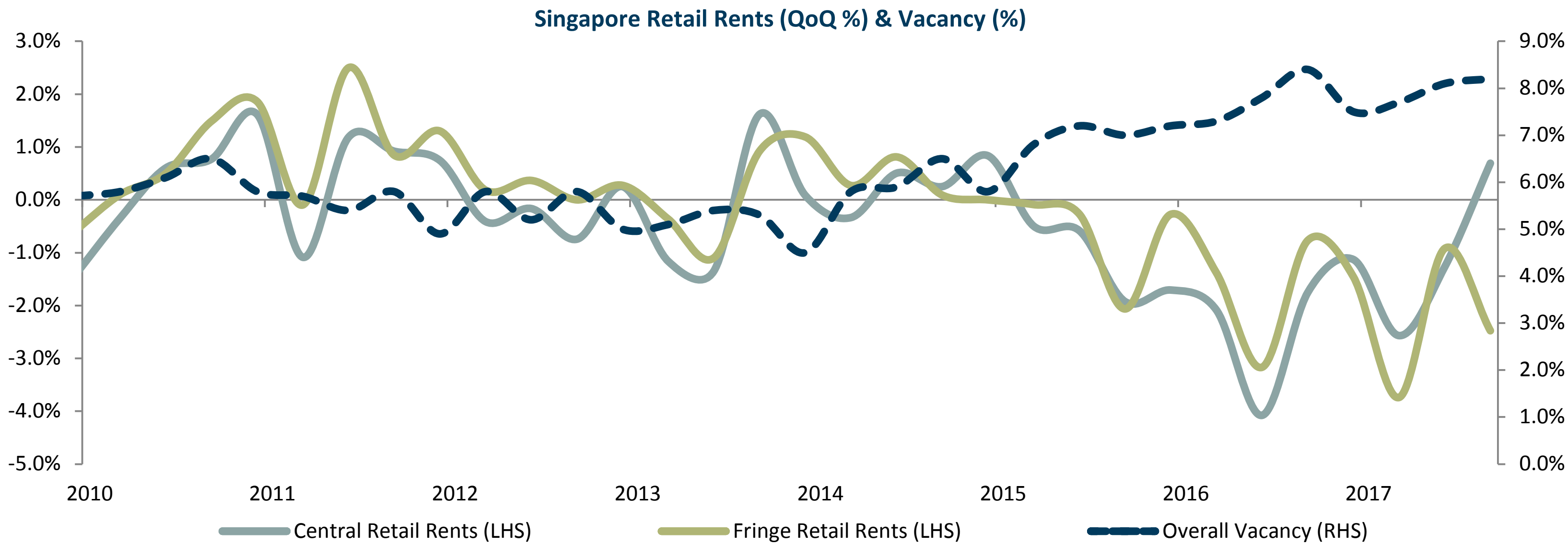
- Self-storage in Singapore remains an emerging product type, with limited supply in circulation
- Given the complete lack of affordable residential space, economic circumstances force consumers to seek out temporary storage primarily due to three major life events:
  - Divorce: Becoming more commonplace
  - Death: Aging population will drive rates upward
  - Relocation: Naturally in transitional periods of life
- Economically, self-storage presents a higher and better use than industrial, thus industrial assets present an economically attractive acquisition
- Development of self-storage space is structurally simple, with limited lead time to finished product; initial j-curve of investment period with no cash yield minimized





Source: Heitman, CBRE, Hong Kong Census and Statistics Department, Japan Ministry of Internal Affairs and Communications, Singapore Department of Statistics, Demographia, Japan Property Central, Eurostat, Australia Institute of Family Studies, U.S. Census Bureau, REIT Disclosures, Quraz, Self Storage Association Asia

Singapore: Retail Continues To Struggle



- Singapore retail continues to struggle with the shifting landscape, where consumer preferences and spending habits have tilted towards experiential retail (e.g. food, beverage, gyms, etc.)
- Retailers' struggle to adapt has been amplified by Singapore's history as a luxury shopping destination, particularly wealthy Chinese whose personal preference has shifted more towards domestic consumption
- In recent years, increasing retail vacancy rates have placed additional stress on rental rates, which have consistently decreased quarter over quarter since early 2015
- Given Singapore's retail is trading at yields in the low 5% range, even with negative rent growth and increasing vacancy, the pricing of these assets continues to be unattractive; Super Core assets rarely, if ever, trade in these markets

Source: Bloomberg, Urban Development Authority, Colliers

Disclosures

Disclosures

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The NFI-ODCE Index is a capitalization-weighted, gross of fees, time-weighted return index with an inception date of 1/1/1978. Published reports may also contain equal-weighted and net of fees information. Open-end funds are generally defined as infinite-life vehicles consisting of multiple investors who have the ability to enter or exit the fund on a periodic basis, subject to contribution and/or redemption requests, thereby providing a degree of potential investment liquidity. The term Diversified Core Equity style typically reflects lower risk investment strategies utilizing low leverage and generally represented by equity ownership positions in stable U.S. operating properties (as defined herein). The NFI-ODCE is a quasi-managed index based on the periodic review by the Index Policy Committee ("IPC") of the index's criteria thresholds.

The S&P 500 Index is an unmanaged market capitalization weighted index of 500 common stocks chosen for market size, liquidity, and industry group representation to represent U.S. equity performance.

The Barclays U.S. Aggregate Bond Index is a broad-based benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate and hybrid ARM pass-throughs), ABS and CMBS (agency and non-agency).

Index figures do not reflect deduction of fees, expenses, or taxes. One cannot invest directly in an index.

Value-Added: Funds that generally include a mix of core investments and others that will have less reliable income streams. The portfolio as a whole is likely to have moderate lease exposure and moderate leverage. As a result, such portfolios should achieve a significant portion of the return from appreciation and are expected to exhibit moderate volatility.

Opportunistic: Funds of preponderantly non-core investments that are expected to derive most of their returns from appreciation and/or which may exhibit significant volatility in returns. This may be due to a variety of characteristics such as exposure to development, significant leasing risk, high leverage, or a combination of risk factors.

L/// CERA

June 26, 2018

TO: Each Member
Board of Investments

FROM: Robert R. Hill RRH
Interim Chief Executive Officer

FOR: Board of Investments Meeting of July 10, 2018

SUBJECT: National Association of Corporate Directors – Direct Professionalism
August 15-17, 2018 in Westlake Village, California

The National Association of Corporate Directors (NACD) - Direct Professionalism will take place on August 15-17, 2018 at the Four Seasons Hotel in Westlake Village, California. The Direct Professionalism course in boardroom fundamentals will convene new and aspiring public company directors. Through panel discussions, case studies, and keynote presentations with experienced directors, you will benefit from real-world and real-time insights into board effectiveness and the evolving role of key committees in today's dynamic business environment.

The main conference highlights include the following:

- Fiduciary Duties of Corporate Boards
- Future Casting Disruption
- Advanced Finance: The Board's Role in Utilizing Financial Statements to Drive Long-Term Value Creation
- Identifying Issues in Financial Statements

The conference meets LACERA's policy of an average of five (5) hours of substantive educational content per day. The standard hotel rate at the Four Seasons Hotel is $239.00 per night plus applicable taxes and the registration fee to attend is $4,995.00.

If the registration fee is insufficient to pay the cost of the meals provided by the conference sponsor, LACERA must reimburse the sponsor for the actual cost of the meals, less any registration fee paid. Otherwise, the attendee will be deemed to have received a gift equal to the value of the meals, less any registration fee paid, under California's Political Reform Act.

IT IS THEREFORE RECOMMENDED THAT YOUR BOARD:

Approve attendance of Board members at the National Association of Corporate Directors - Direct Professionalism on August 15-17, 2018 in Westlake Village, California and approve reimbursement of all travel costs incurred in accordance with LACERA's Education and Travel Policy.

RH/lg
Attachment

NACD Director Professionalism® Agenda

AUGUST 15–17, 2018 | THE FOUR SEASONS WESTLAKE VILLAGE | WESTLAKE VILLAGE, CA

DAY 1. WEDNESDAY, AUGUST 15

7:00 a.m. – 8:00 a.m.

Registration and Breakfast

8:00 a.m. – 8:10 a.m.

Program Welcome and Introductions

In the spirit of helping corporate directors foster boardroom cultures that are focused on continuous improvement, long-term value creation, and strengthening investor trust and public confidence, NACD has established the standard for director education. NACD's Director Education Framework maps core responsibilities of the board to critical areas of director knowledge that are essential to a director's ability to lead with confidence in the boardroom. These responsibilities range from board governance and structure to ongoing board activities, shareholder considerations, and emerging issues. These core responsibilities will provide a framework for your continuing education as we discuss a multitude of boardroom issues over the next three days. NACD's standard is incorporated throughout our foundation courses and creates the most comprehensive director knowledge pathway—from awareness to insights to mastery.

Erin Essenmacher
Director, Gandhi Brigade; Chief Programming Officer, NACD

8:10 a.m. – 9:30 a.m.

Roles and Responsibilities of the Board Member

This session will focus on developing an understanding of the fundamental roles and responsibilities of a board member as well as the different types of boards you might be asked to serve on and how they function. Key topics include

- Differentiating between public, private, nonprofit, and advisory board service
- Review of NACD's Key Agreed Principles
- Understanding the difference between oversight and management
- Governance requirements for boards
- Board size and composition
- Board roles

Michele J. Hooper
Director, PPG Industries, UnitedHealth Group, United Continental Holdings; President & CEO, The Directors' Council

9:30 a.m. – 9:45 a.m.

Networking Break

9:45 a.m. – 11:00 a.m.

Fiduciary Duties of Corporate Boards

The board's fiduciary duties lie at the heart of corporate governance. Here we explain why board members are legally obligated to act on behalf of an organization's shareholders to ensure that the company is properly managed, and describe the corporate laws to which boards are held accountable. Key topics include

- History of expectations of directors
- Overview of Delaware law
- D&O liability

Professor Charles M. Elson
Director, HealthSouth Corporation, Bob Evans Farms, John L. Weinberg Center for Corporate Governance, University of Delaware

11:00 a.m. – 11:15 a.m.

Networking Break

11:15 a.m. – 12:15 p.m.

Futurecasting Disruption

Directors face more uncertainty and complexity than ever before, whether from globalization and social demographic shifts or from a major disruption created by technology and competition. With the many regulatory and quarterly pressures facing companies, it can be hard to focus on the long term, but that's precisely what the board is meant to do. In this session, we'll get an overview of some of the latest disruptive trends shaping the business landscape and discuss how horizon and scenario planning play key roles in creating long-term shareholder value. Key topics include

- External trends and disruptors
- Cyber
- Technology
- Economic/geopolitical shifts
- Changing demographics
- Regulatory proposals
- Dodd-Frank proposed rules and standings
- SEC priorities
- Proxy season trends/findings
- GDPR

Jennifer C. Wolfe
Founder & CEO, Dot Brand 360; Managing Partner, Wolfe, Sadler, Breen, Morasch & Colby

12:15 – 1:45 p.m.

Networking Lunch

1:45 p. m. – 3:15 p.m.

CONCURRENT FINANCE SESSIONS

Here we examine the skills and behaviors directors must bring to the boardroom in order to monitor performance, challenge results and practices, assess performance, drive sound decisions, and increase value. Select the breakout session that best matches your own level of financial expertise, and develop new skills to enhance your risk oversight.

OPTION 1

Advanced Finance: The Board's Role in Utilizing Financial Statements to Drive Long-Term Value Creation

Examine a framework for tying financial statements to value creation, explore traditional and value-based performance metrics, and discuss the major decisions that drive value, as well as financial risks and red flags. Key topics include

- Important metrics
- Framework for tying financial statements to long-term value creation
- Financial risks and red flags

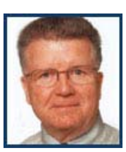
Robert A. Howell
Director, Spectra Group Ltd.; Senior Partner, The Howell Group LLC

OPTION 2

Intermediate Finance: Identifying Issues in Financial Statements

Directors from every background are responsible for protecting shareholder value. Sharpen your financial oversight skills and learn the right questions to ask the CFO. Key topics include

- Overview of key financial documents
- Proxy
- 10-K
- 10-Q
- 8-K
- S1
- Interpreting financial statements
- Important metrics
- Capital structure and allocation



John C. Fletcher
Managing Director, Delta Control Group LLC; Director, Headquarters Consulting Group LLC, Zenia Business Services

3:15 p.m. – 3:30 p.m.

Networking Break

3:30 p.m. – 4:45 p.m.

The Board's Operating Model

How you approach board service, and how the board as a whole approaches its work, is critical to success. Ensuring you get the most out of your board service and your board gets the most out of your knowledge for board meetings, explore best practices for agenda setting, and prioritize the various critical issues that compete for the board's attention. Key topics include

- Components of an effective meeting
- Components of effective executive sessions
- The board calendar
- Onboarding
- Voting
- Board dynamics

D'Anne Hurd
Director, Peckham Industries, EILEEN FISHER, Inc.; Independent Trustee, Pax World Funds, Pax Ellevate; Chair, Monzite Corp.

Steven R. Walker
General Counsel and Managing Director of Board Advisory and Recruitment Services, NACD; Director, ContractRoom, Objective Interface Systems

5:00 p.m. – 6:30 p.m.

Networking Reception

6:30 p.m. – 8:30 p.m.

OPTIONAL PEER-EXCHANGE DINNER

Topic to be announced. Space is limited. Onsite registration is required.

DAY 2. THURSDAY, AUGUST 16

7:00 a.m. – 8:00 a.m.

BREAKFAST SESSIONS

OPTION 1

Private Company: Developing Effective Boards

During this fast-paced, peer-to-peer director exchange and Q&A we will examine the key issues affecting today's private-company boards and review resources, tools, and tips that help make these boards effective.

Thomas Bakewell
CEO & Board Counsel, Bakewell & Co.; Author, *Claiming Your Place at the Boardroom Table: The Essential Handbook for Excellence in Governance and Effective Directorship*

OPTION 2

Nonprofit Governance: Notable Trends and Best Practices

We'll take a look at notable governance trends in the nonprofit world, review several best practices, and wrap with a lively open discussion, including questions, answers, and conversation.

Deborah Cannon
Director, Bancorp South Inc., Memorial Hermann Health System, Deltic Timber Co.; Former President & CEO, Houston Zoo Inc.

Sharon Rossmark
CEO & Founder, Women and Drones; Vice Chair, Special Olympics Illinois; Audit Committee Chair, BoardSource; Director, National Children's Center Inc.

8:00 a.m. – 8:15 a.m.

Networking Break

8:15 a.m. – 9:45 a.m.

Best Practices for Investor and Shareholder Engagement

Investors and shareholders play a critical role in ensuring the company's long-term health and success, and effectively engaging with these constituencies is a critical part of board strategy. In this session, we will discuss best practices for engaging with these groups, including how to create a strong, effective, and proactive communication plan. Key topics include

- Areas of focus for proxy season
- Executive compensation
- Board composition and director tenure
- Strategy and risk oversight and disclosure
- Political spending/lobbying
- Sustainability and risks
- Talent development and succession planning
- Growth of shareholder activism
- Themes of activist campaigns

Michele J. Hooper
Director, PPG Industries, UnitedHealth Group, United Continental Holdings; President & CEO, The Directors' Council

9:45 a.m. – 10:00 a.m.

Networking Break

10:00 a.m. – 11:15 a.m.

Key Committees

The next few sessions are devoted to giving you a solid grounding in the responsibilities of each of the key committees of the boardroom: nominating and governance, compensation, and audit.

The Nominating and Governance Committee: New Challenges and Opportunities in Board Composition

Recent regulation has broadened the scope and importance of the work of the nominating and governance committee. All aspects of the committee charter are examined and characteristics of the ideal board are outlined, including director recruitment and evaluations. Key topics include

- Board succession planning
- Leading practices for director evaluations
- Director recruitment
- Onboarding

Mary Beth Vitale
Chair, Nominating and Governance Committee, CoBiz Financial Inc.; Chair, Risk and Technology Committee, GEHA; Co-Chair, Women Corporate Directors: Colorado Chapter

11:15 a.m. – 11:30 a.m.

Networking Break

11:30 a.m. – 12:45 p.m.

Compensation Committees: Navigating the Six Seas

This is a comprehensive overview designed to make sure your committee charter, philosophy, procedures, decisions, and disclosures meet compliance requirements. We sum it all up with a look at pertinent action steps that include training and retaining high performers, the use of independent consultants, benchmarking issues, performance criteria, and benefits and perquisites. Key topics include

- Compensation landscape
- Primer on pay
- Key steps for the full board
- Key steps for the compensation committee

Robert M. Galford
Lead Independent Director, Forrester Research Inc.; Director, Sakonnet Point Club; Board Advisor, Shepley Bulfinch; Managing Partner, Center for Leading Organizations

12:45 p.m. – 2:00 p.m.

Networking Lunch

12:45 p.m. – 2:00 p.m.

OPTIONAL LUNCH SESSION

Positioning Yourself for Boardroom Service

An overview of how to think about your skills and experience in the context of potential board service, how to best position yourself to serve on a board, best practices for creating board resumés, and how to evaluate a potential board opportunity.

Rochelle Campbell
Director, Child Steps International; Senior Manager, Board Recruitment Services, NACD

Mary Beth Vitale
Chair, Nominating and Governance Committee, CoBiz Financial Inc.; Chair, Risk and Technology Committee, GEHA; Co-Chair, Women Corporate Directors: Colorado Chapter

2:00 p.m. – 3:15 p.m.

CONCURRENT AUDIT SESSIONS

Audit Committee: Effectiveness in the New Environment

Choose from one of two sessions that provide an overview of the role and responsibilities of the audit committee—one focused on public-company directorship and the other focused on private-company directorship.

OPTION 1

Public Company Audit Committee

An overview of the role and responsibilities of the audit committee at publicly traded companies, including its composition and its keys to effectiveness. The session will examine core areas of oversight—financial reporting and controls and risk oversight. Discussion includes managing interactions with other participants in the financial reporting process. Key topics include

- Overview of responsibilities
- Role of financial experts
- Overseeing financial reporting and controls
- Risk oversight

Deborah DeHaas
Vice Chair, Chief Inclusion Officer and National Managing Partner, Center for Board Effectiveness, Deloitte & Touche LLP

OPTION 2

Audit Oversight for Private Companies

An overview of the role and responsibilities of the audit committee, including its composition and its keys to effectiveness. The session will explore core issues of oversight but also discuss issues unique to audit oversight at private companies. Key topics include

- Overview of responsibilities
- Essentials for audit committee effectiveness
- How the audit committee supports the CFO
- Audit challenges and how to overcome them

D'Anne Hurd
Director, Peckham Industries, EILEEN FISHER, Inc.; Independent Trustee, Pax World Funds, Pax Ellevate; Chair, Monzite Corp.

3:15 p.m. – 3:30 p.m.

Networking Break

3:30 p.m. – 5:00 p.m.

Talent Oversight

Having a strong bench is critical to a company's short- and long-term success. The board is responsible for hiring, evaluating, and compensating the CEO, but should also have an eye toward overseeing talent management at other critical levels of the business. Hear seasoned nom/gov chairs discuss best practices for talent management and oversight. Key topics include

- Leading practices for CEO evaluation, selection, and succession planning
- Management talent pipeline

Robyn Bew
Director of Strategic Content Development, NACD

Michele J. Hooper
Director, PPG Industries, UnitedHealth Group, United Continental Holdings; President & CEO, The Directors' Council

DAY 3. FRIDAY, AUGUST 17

7:00 a.m. – 8:00 a.m.

BREAKFAST SESSION

Cyber-Risk Oversight

As the quantity and complexity of cyber-threats continue to increase and evolve, the need for rigorous cyber-risk oversight has never been more imperative for boards. In this engaging breakfast, industry experts will take a look at disruptive trends, leading best practices around cyber-risk, and the questions your board needs to be asking of management in order to keep your company relevant and protected.

8:00 a.m. – 9:00 a.m.

Risk Oversight

Risk oversight is a critical part of the board's fiduciary responsibility. In this session, we will explore the board's role in risk oversight, key attributes of effective risk reporting, the importance of balancing risk with strategic growth, and best practices for board/C-suite communication around risk. Key topics include

- Board risk governance and oversight
- Strategic risk management
- Risk policy, appetite, and reporting
- Case study: E*TRADE Financial

James Lam
Chair, Risk Oversight Committee, E*TRADE Financial Corp.; President, James Lam & Associates

9:00 a.m. – 9:15 a.m.

Networking Break

9:15 a.m. – 10:15 a.m.

Corporate Transformation

A key part of board responsibility is overseeing strategy and risk. Perhaps nowhere are these two responsibilities more intertwined than in corporate transformation. Boards might have to consider questions of growth through acquisition, whether the company should engage in a joint venture, and even ultimately the sale of the enterprise. In this session, we will discuss the role of the board in corporate transformation and consider how to evaluate various strategies at different points in the company's lifecycle. Key topics include

- M&A
- Changes in corporate status
- Restructurings

Howard Brod Brownstein
President, The Brownstein Corp, NACD Philadelphia Chapter; Director, NHS Human Services, Inc., P&F Industries, Inc.

Courtney B. Spaeth
CEO, growth[period]; Director, Momentum Aerospace Group, Campaign Partners, Greater Washington Board of Trade, Hope for the Warriors, The Stimson Center, Marymount University, University of Pennsylvania Trustees' Council of Penn Women

10:15 a.m. – 10:30 a.m.

Networking Break

10:30 a.m. – 12:00 p.m.

Strategy From a Board Perspective

Strategy is the key component of a board's responsibility, but what does that mean as a practical matter, and how can you and fellow directors function as true assets to the company during the strategy-setting process? In this highly interactive exercise, you will be stepping into the shoes of the Ajax Company board at their strategy offsite, and helping the management team identify game-changing opportunities as well as potential risks associated with key disruptive trends facing the industry.

Robyn Bew
Director of Strategic Content Development, NACD

D'Anne Hurd
Director, Peckham Industries, EILEEN FISHER, Inc.; Independent Trustee, Pax World Funds, Pax Ellevate; Chair, Monzite Corp.

12:00 p.m. – 1:30 p.m.

Networking Lunch

1:30 p.m. – 2:30 p.m.

New Era Case Study

An opportunity to apply some of the course learnings in a lively, interactive exercise led by an experienced nonprofit and private company director who is both an attorney and a CPA.

Thomas Bakewell
Counsel to Boards and Executives; former Director, Lindenwood University, Bethesda Health Group, Rotometrics; Author, *Claiming Your Place at the Boardroom Table: The Essential Handbook for Excellence in Governance and Effective Directorship*

2:30 p.m. – 2:45 p.m.

Networking Break

2:45 p.m. – 3:15 p.m.

Tying It All Together: Habits of Highly Effective Boards

In today's ever competitive and evolving business environment, boards must be at the top of their game to become strategic assets to management and stakeholders. We will review the key takeaways from the previous sessions and share practical applications of these principles in boardrooms around the world.

Michele J. Hooper
Director, PPG Industries, UnitedHealth Group, United Continental Holdings; President & CEO, The Directors' Council

3:15 p.m.

Program Adjourns

Attendance at the entire course is mandatory for NACD Fellowship® credit.
Please make your travel plans accordingly.

Public Equities Active U.S. and Non-U.S. Emerging Manager Search

Board of Investments Meeting
July 10, 2018

TED WRIGHT
PRINCIPAL INVESTMENT OFFICER, GLOBAL EQUITIES

BRENDA CULLEN
INVESTMENT OFFICER

MEL TSAO
INVESTMENT ANALYST

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XI. APPENDIX

June 25, 2018

TO: Each Member
Board of Investments

FROM: Ted Wright, CFA, FRM, PRM, CAIA
Principal Investment Officer

Brenda Cullen
Investment Officer

Mel Tsao
Investment Analyst

FOR: July 10, 2018 Board of Investments Meeting

SUBJECT: **PUBLIC EQUITIES ACTIVE U.S. AND NON-U.S. EMERGING MANAGER SEARCH**

RECOMMENDATION

Invite the following emerging manager firms to interview with the Board of Investments (Board) for direct public equity active mandates: 1) CornerCap Investment Counsel (CornerCap), 2) Global Alpha Capital Management (Global Alpha), and 3) Matarin Capital Management (Matarin).

EXECUTIVE SUMMARY

On September 11, 2017, the Board of Investments unanimously approved restructuring the public equity emerging manager program (EMP) from its then-current indirect, or fund-of-funds model to a direct investment program that utilizes LACERA's Board-approved standard public markets search process and emerging manager selection criteria to identify emerging firms to manage direct mandates. As part of the recommendation, the Board authorized staff to issue a Request for Proposal (RFP) for active U.S. and Non-U.S. public equity emerging managers.

On October 2, 2017, an RFP was issued for active U.S. and Non-U.S. public equity emerging managers in accordance with the investment manager search process for public markets and the emerging manager selection criteria (minimum qualifications, or MQs) as specified in LACERA's Investment Policy Statement (IPS). In an effort to narrow the universe to those managers with solid, consistent longer-term track records, the MQs included an excess return performance requirement consistent with other public market searches as directed in the IPS that varied based on geography and market capitalization.

Fifty-one responses to the RFP were received, 13 of which ultimately met the search's minimum qualifications. Staff evaluated and ranked the 13 managers using LACERA's two-phase assessment process: 1) evaluation of the written RFP response, and 2) in-house and on-site interviews.

The first phase, evaluation of RFP submissions, is comprised of a quantitative and qualitative review of each manager. The quantitative review is intended to assess the quality and consistency of each manager's performance while the qualitative review evaluates factors historically associated with continued success. The qualitative criteria reviewed include an assessment of each manager's organization (such as ownership and independence, oversight and risk controls, regulatory reviews, financial strength (both the firm and any significant outside partners), and the characteristics and risk profile of the firm's asset base); investment team (breadth and depth as well as alignment of interests); philosophy, process, and research; performance, trading, and operations; and, finally, fees. Submissions were ranked according to the weighted average of each manager's qualitative (70%) and quantitative (30%) scores.

Firms with a combined score of 75 or above out of 100 were invited to continue into the second phase of the evaluation process, in-house and on-site interviews. The purpose of this second portion of the evaluation process is to provide a deeper understanding of each firm's investment process, greater familiarity with key decision-makers, and comfort with the manager's risk controls and back office functions. In this search, twelve firms were invited for in-house interviews at LACERA, six of which advanced to the more rigorous part of the process, on-site due diligence.

Upon the completion of the second phase, final scores were assigned to each of the six managers who had completed the entire process, reflecting a critical assessment of all information gathered throughout the evaluation process. The scores for all six are presented in **Table 1** below. Staff is recommending that the Board invite for interviews the managers denoted in **bold**.

Table 1
Finalist Managers

Investment Manager	Strategy	Final Score
Global Alpha Capital Management	**Global Alpha International Small Cap**	**95**
CornerCap Investment Counsel	**Fundametrics® Small Cap Equity**	**93**
Matarin Capital Management	**Matarin North America Small Cap**	**91**
Redwood Investments	International Developed Markets	90
Pacific Ridge Capital Partners	US Micro Cap Value Equity	85
Cedar Street Asset Management	International Small Cap Value	did not meet MQs

A brief summary of the three recommended finalists is included below, while a more detailed discussion of each finalist firm is located in the **Manager Assessment** section of this memo.

Global Alpha Asset Management – Global Alpha International Small Cap
Final Score 95
Global Alpha, founded in 2008 as an affiliate of Connor, Clark & Lunn Financial Group Ltd, began managing an international small cap equity strategy in 2009. The investment team consists of eight well-rounded team members with solid backgrounds and experience in the industry. The team displayed acumen in fundamental analysis and was succinct in its description of their investment process which focuses on recognizing capital markets inefficiencies and identifying “unrecognized growth” companies. The breadth and depth of experience of Global Alpha’s investment team, including its knowledge of local markets and securities, offers a comparative advantage relative to peers in the international small cap space.

CornerCap Investment Counsel - Fundametrics ® Small Cap Equity
Final Score 93
Headquartered in Atlanta, Georgia, CornerCap provides investment management services to a variety of clients including high-net-worth individuals, retirement plans, foundations, and endowments. The firm was co-founded in 1989 by the former management team of RJR’s Nabisco’s Retirement Fund and is 100% employee-owned. The Fundametrics® Small Cap strategy is managed by a three-person team led by Mr. Jeffrey Moeller, Director of Research and Portfolio Manager, and Mr. J. Cannon Carr, Chief Investment Officer. Key strengths include the experience of the investment team and the strategy’s Fundametrics® investment process that is based on a quantitative model with a robust fundamental overlay.

Matarin Capital Management – Matarin North America Small Cap
Final Score 91
A women-owned business, Matarin has been managing its North America Small Cap equity strategy since January 2011. The firm was co-founded in 2010 by Mr. Stuart Kaye, Ms. Nili Gilbert, and Ms. Valerie Malter and is 100% employee-owned. Key comparative advantages include the experience of the investment team, the strategy’s investment process, and the firm’s collegial culture. Matarin employs a distinctive investment approach that blends fundamental and quantitative investment practices. Matarin was a sub-manager in LACERA’s fund-of-funds emerging program from May 2017 until the program’s termination in September 2017 managing a U.S. large cap core strategy.

Two of the remaining managers selected for on-site interviews, Redwood Investments and Pacific Ridge, were well regarded but ranked lower than the recommended managers due to lower relative scores, primarily in the staffing and research categories. Redwood experienced the departure of two recently hired investment professionals during the search and, despite the subsequent hire of two qualified individuals and a quant-heavy investment process developed and run by existing personnel, staff and Meketa agreed that additional monitoring is advisable prior to any Board recommendation. Pacific Ridge scored relatively lower than the other finalists did on research capabilities, while Cedar Street scored highly across all qualitative metrics but ultimately did not meet the search's MQs. The consistency of scoring across all categories was an additional consideration in reaching this recommendation.

From a performance perspective, all three finalists have regularly exceeded LACERA's excess return expectation for strategies in their categories for the three-year period ending June 30, 2017; while from a fit perspective, the low correlation of each manager's excess returns to its corresponding LACERA equity composite indicates their potential to add positively to portfolio diversification (detailed results are provided in the **Performance and Risk Analysis** section of this document).[1] **Table 2** below presents historical performance and risk metrics for the proposed portfolio of recommended emerging managers relative to public equity's blended benchmark (included as a proxy for LACERA's public equity composite which, with its large allocation to passive strategies, has experienced a low tracking error in recent years) and the proposed portfolio's blended benchmark.[2] As illustrated in the table below, the portfolio of managers performs favorably on various performance and risk metrics relative to a weighted average index of its constituents' benchmarks and LACERA's public equity composite proxy.

Table 2
Recommended Emerging Manager Portfolio Performance and Risk Metrics
Common Period July 2014 – March 2018

Relative to:	Information Ratio	Up Capture	Down Capture
Public Equity Blended Benchmark	0.9	108.4%	70.1%
Custom EMP Benchmark	1.5	107.2%	82.5%

Returns are gross of fees

The three managers are also complementary to each other differing in terms of geographic focus as well as investment philosophy and process. Global Alpha's process relies on rigorous fundamental analysis to construct concentrated, core/growth portfolios while CornerCap and Matarin both employ distinct quantitative processes with fundamental overlays to construct diversified, core/value portfolios. Finally, all three managers rank highly on qualitative characteristics that have historically been associated with continued success such as sound philosophies; disciplined investment processes; stable, experienced investment teams; and adequate back office and risk control functions, the latter being prerequisites to managing institutional assets.

In sum, from a pool of active U.S. and non-U.S. managers who met the requirements for LACERA's emerging manager search, staff believes it has identified three talented, institutional-quality firms that exhibit the performance and fit characteristics capable of providing a benefit to LACERA's public equity composite. Accordingly, staff recommends

[1] Excess return correlation measures how similar a manager's excess return stream is to that of LACERA's existing equity composites.

[2] Proposed allocation of $60 mm to CornerCap Fundametrics® Small Cap Equity, $125 mm to Matarin North America Small Cap, and $160 mm to Global Alpha International Small Cap. The custom EMP benchmark is a weighted average of the proposed portfolio constituents' benchmarks.

that Global Alpha Capital Management, CornerCap Investment Counsel, and Matarin Capital Management be invited to interview with the Board for direct public equity mandates.

BACKGROUND

On May 10, 2017, investment staff and Meketa presented a recommendation to the Board's Equity: Public/Private Committee (the Committee) to restructure the public equity Emerging Manager Program. To better position the program to achieve its objectives, staff recommended that it be transitioned from an indirect fund-of-funds model to a direct investment program that would use LACERA's standard public markets search process and emerging manager selection criteria to identify managers for direct mandates with an expectation that the resulting intentional, integrated portfolio could yield: 1) better investment performance, 2) improved risk management, and 3) a potential reduction in fees. Accordingly, staff made three recommendations: 1) revise LACERA's Emerging Manger Policy to include a target range of 0-5% within the Non-U.S. equity composite, 2) approve a direct investment program for the public equity emerging manager program, and 3) utilize an ongoing Request for Information (RFI) process to evaluate emerging managers for LACERA's direct program. The first recommendation passed unanimously while a vote on the second and third recommendations was postponed pending additional detail on the transition plan.

On August 9, 2017, staff presented an updated recommendation to the Committee that included staff's original recommendation to approve a direct investment program as well as recommendations to approve a detailed transition plan and update the Emerging Manager Policy to reflect all other recommendations, if approved (staff's earlier recommendation for an ongoing RFI was withdrawn as they concluded that a periodic screening of the eVestment database would be just as effective and less time-consuming). After discussion, the Committee voted unanimously to forward the recommendations to the Board for approval, and on September 11, 2017, the Board of Investments voted unanimously to approve August's recommendations as written.

EVALUATION PROCESS

LACERA's active U.S. and Non-U.S. public equity emerging manager search was initiated in October 2017 using the Board-approved investment manager search process for public markets and the emerging manager selection criteria, or MQs, specified in LACERA's Investment Policy Statement. A detailed explanation of the two-phase evaluation process is presented in the **Evaluation Process** section of this document while a summary is provided below.

Phase one of the evaluation process consisted of a qualitative and quantitative assessment of RFP responses aimed at evaluating the quality and consistency of each manager's performance and determining the prospect for each manager to enjoy continued success. Qualitative criteria examined include each manager's organization; professional staff; investment philosophy, process, and research; performance, trading, and operations; and fees. Metrics used for the quantitative portion of the evaluation were information ratio, upside capture, downside capture, and excess return correlation. Submissions were ranked based on the weighted average of each manager's qualitative (70%) and quantitative (30%) scores, and the twelve highest-ranked managers with scores of 75 or above were advanced to the next phase of the evaluation process. Consistent with staff's normal search procedures, phase one scores were set aside so that candidates advanced to phase two with a clean slate. A table detailing each manager's ranking is presented in the section labeled **Phase One Scoring Matrix**.

Phase two of the evaluation process consisted of in-house and on-site manager interviews. The interviews provided staff with an opportunity to further clarify RFP responses as well as to gain a greater appreciation for the managers' investment processes; investment professionals; trading, operations, and compliance functions; and other areas of potential risk or competitive advantage. In the first part of this stage, staff conducted in-house interviews at LACERA with the twelve highest-scoring phase one candidates (**Table 3**).

Table 3
Respondents Invited for In-House Interviews

Investment Manager	Phase One Score
Redwood Investments	91
Global Alpha Capital Management	87
Matarin Capital Management	86
Summit Global Investments	84
CornerCap Investment Counsel	82
Isthmus Partners	80
Pacific Ridge Capital Partners	80
New Amsterdam Partners	79
Pacific View Asset Management	79
Granite Investment Partners	78
Bridge City Capital	78
Cedar Street Asset Management *(did not meet MQs)*	77

Of the twelve managers invited, the following six firms with the highest scores from this portion of the interview process advanced to the second part of phase two, on-site due diligence: Cedar Street Asset Management, CornerCap Investment Counsel, Global Alpha Capital Management, Matarin Capital Management, Pacific Ridge Capital Partners, and Redwood Investments.

Upon completion of the second phase, final scores were assigned to each of the six managers, reflecting a critical assessment of all information gathered throughout the evaluation process. The scores for these six firms are presented in **Table 1** on page 2 of this memo in order of highest to lowest rank. While all six firms are highly regarded, staff is recommending the Board interview the top three at this time due to the reasons enumerated above.

CONCLUSION

On October 3, 2017, staff issued an RFP for active U.S. and Non-U.S. public equity emerging managers in accordance with LACERA's standard investment manager search process for public markets and Board-approved emerging manager selection criteria as specified in LACERA's Investment Policy Statement. Thirteen responses ultimately met the search's minimum qualifications. Staff assessed the qualifying investment managers using its customary two-phase evaluation process. This process resulted in the identification of the following three finalists that staff recommends the Board interview for direct emerging manager mandates: Global Alpha Capital Management (Global Alpha International Small Cap), CornerCap Investment Counsel (Fundametrics® Small Cap Equity), and Matarin Capital Management (Matarin North America Small Cap).

The three recommended firms are quality managers that exhibit the characteristics expected of participants in an emerging manager program: all are independent, employee-owned firms with small asset bases and dedicated, incentivized investment professionals whose singular focus is to generate sustained outperformance for their client partners. Further, all three firms utilize disciplined, differentiated investment processes that have resulted in multiple years of positive risk-adjusted performance. Operational infrastructure and risk controls are in line with institutional expectations while cash flow and balance sheet metrics indicate a low probability of financial concern. Finally, though all three managers independently exhibit return characteristics that could benefit LACERA's existing public equity composite, the positive impact of the proposed portfolio in aggregate on the composite could be even larger (**Table 2** above).

For the reasons stated above, staff would propose hiring all three managers in the following allocation using separate account vehicles: $160 million to Global Alpha International Small Cap, $125 million to Matarin North America Small Cap, and $60 million to CornerCap Fundametrics® Small Cap Equity. Under the proposed separate account structure, LACERA would retain all beneficial ownership rights, including proxy voting authority, and vote proxies of underlying securities in accordance with LACERA's *Corporate Governance Principles.* The funding for these mandates would come from passive public equity strategies.

LACERA's general consultant, Meketa Investment Group (Meketa), collaborated closely with staff throughout this search and concurs with conclusions reached.[3]

Accordingly, staff recommends that the Board of Investments invite CornerCap Investment Counsel, Global Alpha Asset Management, and Matarin Capital Management to interview for active emerging manager public equity mandates.

[3] Meketa's memo is included in section X of this document labelled **Meketa Memorandum**.

The remainder of this presentation report is as follows:

Section II:	Evaluation Process
Section III:	Manager Assessments
Section IV:	Phase One Scoring Matrix
Section V:	Performance and Risk Analysis
Section VI - IX:	General Manager Information (information provided by the firm about their organization, answers to additional questions, and key personnel biographies)
Section X:	Meketa Memorandum
Section XI:	Appendix

Attachments

Noted and Reviewed:

Jonathan Grabel
Chief Investment Officer

TW:BCC:bcc:cl

EVALUATION PROCESS

OVERVIEW

The public equities active emerging manager search was conducted using staff's customary two-phase approach. Phase one consists of a qualitative and quantitative evaluation of RFP responses that met the search's minimum qualifications. The factors reviewed as part of the qualitative analysis are: 1) organization, 2) professional staff, 3) investment philosophy, process, and research, 4) performance, trading, and operations, and 5) fees, while those that comprise the quantitative portion are: 1) information ratio, 2) upside capture, 3) downside capture, and 4) excess return correlation. Phase one scores for each manager are calculated by combining each firm's qualitative score (weighted 70%) with their quantitative score (weighted 30%). A complete list of phase one scores for this search is located behind the tab labeled **Phase One Scoring Matrix**.

In phase two of the evaluation process, staff conducts in-house interviews in LACERA's office and on-site interviews at each manager's principle place of business.

PHASE ONE: REQUEST FOR PROPOSAL (RFP) EVALUATION

Phase one of the evaluation process evaluates the quality and consistency of a manager's performance and, equally importantly, assesses the qualitative factors that have historically been associated with continued success. As managers advancing to this stage in this search had strong performance but generally brief track records, the sustainability of each manager's performance took on a greater level import. Accordingly, the qualitative portion of this phase was given a weight of 70% while a 30% weight was assigned to the quantitative portion. The following is a discussion of both components of this phase.

Qualitative Evaluation

The following four categories are used in the qualitative assessment of the RFP responses (weighted as noted after each heading):

Organization (20%)

This section includes a review of the firm's history, ownership structure, products offered, assets under management (AUM), capacity limits, client base, and client/account turnover. Securities and Exchange Commission (SEC) audits and past or pending litigation are also reviewed.

A firm's ownership structure is considered important for two primary reasons. First, the availability of direct ownership opportunities for employees generally improves recruitment and enhances retention of talented people. Second, privately owned firms may not have the same pressure to generate profits as firms owned by public entities and may be better positioned to manage asset growth in an effort to sustain outperformance. Beyond the Emerging Manager Program's guideline and minimum qualification (MQ) which states that no other person or entity other than principals or employees of the firm should own more than a 49% interest in the firm, firms that were either entirely employee-owned or partially externally owned (but could demonstrate financial strength and independence) and offered ownership opportunities for stakeholders were viewed more favorably than those where an external entity owned a significant stake and exercised greater influence or presented a conflict of interest.

Recent organizational changes are reviewed for their potential impact on the firm, its investment team, and its investment philosophy and process. Organizational changes that were deemed to be disruptive or have the potential for disruption were scored negatively.

Additionally, each manager's AUM characteristics are examined as rapid growth rates and/or high asset levels could have a negative impact on a manager's performance. Rapid growth or a large asset base may result in the dilution of a manager's best ideas or may curtail investment in the smallest capitalization (cap) securities in the manager's universe, two factors often identified as the basis for outsized emerging manager returns. Conversely, a firm with insufficient assets may lack the resources needed to provide the robust risk controls, compliance, infrastructure, or personnel needed to support an institutional quality investment team. As the ability of smaller, emerging managers to access the smallest cap names in their universe is key to providing a higher degree of alpha relative to their larger counterparts, asset growth and capacity limits were heavily scrutinized with managers committed to reasonable growth and suitable capacity limits viewed more favorably.

Each manager's client base is also evaluated as various client types tend to have distinct investment horizons, potentially affecting performance or the financial strength of the firm. Firms with client bases weighted towards institutional rather than retail accounts were given preference as longer institutional investment horizons may result in fewer flows, exerting less selling pressure on illiquid securities. Material client turnover attributable to manager-related deficiencies was scored negatively.

Responses to questions concerning regulatory issues and past or potential litigation are evaluated and an internet search is performed on each phase one finalist. Firms with clean SEC audits, no current or previous litigation, and no investigations were viewed more positively.

Finally, a review of each firm's SEC Form ADV (parts I and II), code of ethics, personal trading policies, and disaster recovery/business resumption plans is conducted and scores assigned. An assessment of a firm's use of placement agents, if any, is also performed.

Professional Staff (15%)

Skilled and experienced investment professionals are critical to the continued success of any investment strategy. Important factors in this category include portfolio manager continuity, staff turnover, size and depth of the investment/research team, and investment personnel's experience investing in the proposed strategy. Diversity of the investment team and members of senior management is noted.

While portfolio managers are the individuals principally responsible for developing, defining, implementing, and monitoring the investment process, analysts, traders, and other research personnel play an important role in gathering information needed to make the buy, hold, and sell decisions that ultimately determine the portfolio's performance. Therefore, well-established investment firms with seasoned professionals were viewed favorably as was low turnover within key investment professional ranks. Further, firms with portfolio managers and research analysts responsible for multiple, dissimilar products received lower scores than those with teams that focused on a single or related products.

With respect to small cap and emerging market strategies, less extensive sell-side coverage necessitates a greater degree of internal research for both quantitative and fundamental strategies. Accordingly, staff viewed firms with deep and experienced teams and strong internal capabilities as having a competitive advantage over those that relied primarily on external research. Additionally, products employing a unique or specialized research focus or process were viewed more favorably.

Finally, organizations with recent turnover (or reassignment) at the senior management level were viewed less favorably than those that were more stable due to the potential negative impact on the organization's corporate culture and the possibility of additional departures.

Investment Philosophy, Process, and Research (15%)

This category evaluates each manager's core investment principles, decision-making process (including security analysis, portfolio construction, and buy/sell disciplines), and investment-related risk controls.

In its review of this category, staff evaluates how investment ideas are initially identified. Although many managers employ some form of quantitative screening in identifying investment opportunities, many also use qualitative tools. Staff viewed the use of multiple approaches to idea generation more positively than approaches relying solely on a single quantitative screen.

The consistent and disciplined application of an investment process is another key determinant of a manager's ability to repeat past successes. Managers who have shown consistency in security selection, portfolio construction, and the implementation of buy/sell decisions, as well as those who exhibit strong portfolio risk controls, were viewed more favorably than those who did not.

Regarding strategies focused on less liquid (and less well covered) areas of the market such as small cap or international, preference was given to managers with strong internal research capabilities and robust analytical methods for identifying investment opportunities as well as ones who incorporated liquidity considerations into the security selection process.

Although a team approach can provide advantages related to portfolio construction and key man risk, other methods of organizing the investment team may sometimes be preferable. With respect to this item, staff generally gave preference to managers with a clearly identified decision-maker as it is typically easier to gain insight into, and therefore confidence in, the thought process(es) of one or two individuals as opposed to a group. Nevertheless, strategies that utilized a team-based method were scrutinized to determine what advantages, if any, their approach offered.

Each product's style bias was evaluated for consistency and for the potential impact that volatility may have on performance and on the financial health of the firm. Due to a higher level of volatility in less liquid segments of the market such as small cap and emerging markets, strategies in those areas that were not highly stylized (i.e., neither deep value nor aggressive growth) were viewed more favorably. Mitigating factors include diverse investment strategies, a client base characterized by longer-term investment horizons, and stable, recurring revenue streams.

Finally, managers who incorporated Environmental, Social, and Governance (ESG) issues in the investment process were viewed more positively.

Performance, Trading, and Operations (15%)

This category assesses each manager's infrastructure support including trading, operations, performance, compliance, and risk management capabilities.

Regarding performance, staff verifies that the returns submitted by respondents have been calculated in compliance with the CFA Institute's Global Investment Performance Standards (GIPS). Although certification of GIPS compliance by an independent third party is not required per LACERA's Emerging Manager MQs, it is preferred and LACERA specifies that managers not meeting this MQ must make a good faith effort to comply with such standards within one year of hire.

The dispersion of each manager's investment returns is also evaluated as large discrepancies among client accounts may be indicative of underlying issues. In general, staff preferred managers whose performance exhibited lower dispersions than those with higher but assessed explanations for large differences for reasonability.

The depth of experience of a manager's trader(s) can also have a marked impact on performance, particularly for concentrated strategies in less liquid markets. Accordingly, managers who exhibited the following characteristics were viewed more favorably: traders with extensive experience, knowledge, and relationships suitable to the strategy's market segment; robust, risk-controlled trade processes; and analytics to monitor and evaluate trade costs on a regular basis.

A review of each firm's trade order management system and operations processes is conducted to evaluate, understand information flows and the types and capabilities of systems used. Firms that use automated systems to integrate portfolio management, trading, compliance, risk management, settlement and accounting were viewed positively as increased automation of such processes should minimize manual errors.

Fees (5%)

This category assessed managers based on provided fee quotes. Separate accounts were preferred and managers with lower fees received higher scores.

Quantitative Evaluation

The following four categories were used in the quantitative assessment of the RFP responses (metrics were calculated using Zephyr Associates StyleADVISOR). Each manager was ranked relative to the other managers on each metric and the ranked scores for all metrics averaged to arrive at each manager's total quantitative score.

1. ***Information Ratio*** – measures a manager's excess return per unit of excess risk incurred (i.e., the extent to which a manager has outperformed its benchmark divided by the amount of risk the manager took relative to that benchmark). Higher information ratios indicate that investors are better rewarded per unit of risk incurred.
2. ***Upside Capture*** – a measure of a manager's ability to keep up with its benchmark in a rising stock market environment. For example, if the benchmark increases 10% during a year and the manager's portfolio rises 12%, the manager's upside capture is 120% of his benchmark's return. Conversely, if the benchmark increases 10% and the manager's portfolio only rises 8%, the manager's upside capture is 80%. All else equal, a higher upside capture ratio is superior to a lower one.
3. ***Downside Capture*** – a measure of a manager's ability to preserve capital relative to its benchmark in a declining stock market environment. For example, if the benchmark falls 10% during a year but the manager's portfolio declines only 7%, the manager's downside capture is 70%. Conversely, if the benchmark falls 10% and the manager's portfolio declines 11%, the manager's downside capture is 110%. A lower downside capture ratio is superior to a higher one.
4. ***Excess Return Correlation*** – the correlation of each manager's excess returns to those of LACERA's existing U.S. or Non-U.S. equity composites. Managers exhibiting a low correlation of excess returns relative to LACERA's existing managers would be expected to provide a diversification benefit and would thus rank higher than a manager with a higher level of correlation would.

Total scores for phase one were calculated using each manager's RFP qualitative score (70% weight) and each manager's aggregate quantitative score (30% weight). Detailed manager scores are located behind the **Phase One Scoring Matrix** tab. The firms with phase one scores of 75 or higher advanced to phase two of the evaluation process, the interview phase. Consistent with LACERA's approved public markets search procedures, phase one scores were set aside so that candidates advanced to phase two with a clean slate.

PHASE TWO: INTERVIEW PROCESS

In-House Interviews

The first stage of the interview phase consists of presentations by managers that advanced from phase one to staff at LACERA's office. These interviews, usually attended by one or more key investment professionals, allow staff to go beyond the written RFP responses and gain a deeper understanding of each manager's investment philosophy and process. Staff can clarify outstanding questions from the RFP and identify and evaluate each firm's competitive advantage.

Staff scored each manager on a more robust understanding of the firm's philosophy, people, process, and organization as well as the ability of the presenter to clearly articulate these items. Each participating manager was ranked accordingly and the six highest-ranking firms chosen to advance to the next step, on-site due diligence.

On-Site Interviews

An on-site interview at the investment manager's office allows staff to obtain an even greater understanding of each firm. During on-site meetings, staff meets with each firm's senior management, remaining investment team members, and individuals responsible for operations, compliance, and trading. Staff reviews each manager's investment process, ensuring consistency with previous presentations and RFP responses.

On-site interviews also provide staff with the opportunity to assess each organization's culture and gain additional insight into the manager's values and business practices. A firm's corporate culture affects its ability to recruit and retain talented individuals and has the potential to influence employee morale. As is the case for presentations at LACERA's office, each manager is re-ranked on these attributes and all information gathered during the evaluation process and finalist firms are aggregated.

Final Fee Quote

Following the selection of finalist firms, staff requests a final fee quote based on a maximum allocation given current firm and strategy asset levels as well as the specific needs of LACERA's equity portfolio. To preserve the integrity of the evaluation process and ensure that each manager negotiates in good faith, staff has the ability to withdraw any recommendation to retain a manager if the manager attempts to renegotiate fees subsequent to staff's recommendation.

Final Manager Scores

Final scores are based on information gathered throughout the entire evaluation process. Reference checks are also conducted and the final scores for the active U.S. and Non-U.S. public equity emerging manager search are presented in **Table 1** below.

Table 1

Investment Manager	Strategy	Final Score
Global Alpha Capital Management	Global Alpha International Small Cap	95
CornerCap Investment Counsel	Fundametrics® Small Cap Equity	93
Matarin Capital Management	Matarin North America Small Cap	91
Redwood Investments	International Developed Markets	90
Pacific Ridge Capital Partners	US Micro Cap Value Equity	85
Cedar Street Asset Management	International Small Cap Value	did not meet MQs

MANAGER ASSESSMENT

CORNERCAP INVESTMENT COUNSEL LLC (FINAL SCORE 93)

Organization

CornerCap Investment Counsel (CornerCap) was co-founded in 1989 by two former employees of RJR Investment Management, President Gene Hoots and Chief Investment Officer, Tom Quinn, after the leveraged buyout of RJR Nabisco by Kohlberg Kravis Roberts. Prior to founding CornerCap, Mr. Quinn and Mr. Hoots oversaw the $4 billion RJR Nabisco pension fund and served as the in-house advisers with day-to-day management responsibility for the portion of the plan managed internally. Headquartered in Atlanta, CornerCap is 100% employee-owned with approximately 95% of the ownership controlled by six principals of the firm.

As of May 31, 2018, CornerCaps's total assets under management were $1.1 billion, of which $168.4 million was in the Fundametrics® Small Cap Equity strategy proposed for this search. CornerCap estimates approximately $1.4 billion in capacity remaining in the proposed strategy.

Professional Staff

CornerCap's Fundametrics® Small Cap Equity strategy is managed by a team of three investment professionals based in Atlanta, Georgia. Mr. Jeffrey Moeller, Director of Research and Portfolio Manager (PM), would be the lead portfolio manager for the LACERA account. Mr. Moeller has 18 years of investment experience, 17 of which have been with CornerCap. Mr. Moeller's broader responsibilities include overseeing the day-to-day execution of CornerCap's Fundametrics® Research System and directing research related to the firm's investment products. Mr. Moeller co-manages the strategy with J. Cannon Carr, Chief Investment Officer (CIO) of CornerCap, and Joshua Tucker, the firm's research analyst. The team of three has an average of 16 years investment experience.

CornerCap's larger investment team includes three additional members who, alongside Mr. Moeller, Mr. Carr, and Mr. Tucker, comprise the Investment Committee, the body responsible for approving any changes to the Fundametrics® Research System. CornerCap's Small Cap Equity strategy relies heavily on the model for decision-making. Although the strategy's PMs do not make buy/sell decisions, they do provide oversight of the model by validating data accuracy and ensuring model integrity.

Investment Process

It is CornerCap's view that markets can be inefficient, particularly those at the smaller end of the market cap spectrum. The firm believes that these inefficiencies, which result from human emotion, create valuation discrepancies and, therefore, investment opportunities. Adhering to a strict and independent investment discipline irrespective of market conditions can minimize the impact of human emotion in the investment process and has the potential to yield favorable long-term results.

Independent thinking and a conservative value orientation are core investment beliefs and the identification of securities with attractive valuations and, therefore, favorable appreciation characteristics, begins with CornerCap's proprietary multi-factor fundamental research system called Fundametrics®.

The Fundametrics® Alpha Composite is an unbiased, disciplined method of ranking investment candidates that principally favors stocks with attractive valuations but also takes into account GARP (growth at a reasonable price), momentum, and risk characteristics when ranking securities (typically, value represents 65–75% of the model whereas GARP and momentum factors comprise 25–35%). The firm's proprietary Financial Warnings Overlay seeks to identify and avoid stocks that exhibit excess risk. Using scores from the Alpha Composite (but discarding those identified in the financial warning overlay), stocks within CornerCap's small cap investible universe (1,500+ companies) are ranked into deciles based on relative attractiveness. The stocks that rank in the top 30% of the model are considered to be the strategy's internal benchmark, or theoretical return, assuming frictionless trading and using Friday's closing price (model is run weekly). The portfolio construction process attempts to replicate the strategy's internal benchmark as closely as possible. By purchasing stocks from the internal benchmark, CornerCap's Fundametrics® Small Cap Equity strategy has the potential to outperform its Russell 2000 benchmark.

The strategy's portfolios are constructed using proprietary software called the Optimizer Portfolio Management system. This optimization software, which is fully integrated with the Fundametrics® Research System, compares the composition of client portfolios to the strategy's internal benchmark (or, the top three deciles of its Alpha Composite). Stocks in the Alpha Composite's first decile in GICS sub-industries that are most underweight are prioritized for new buys although stocks in the second decile can be purchased if first decile stocks are either already owned or not otherwise available.

The strategy's sell decision is also systematic and unemotional in its execution. A stock is sold from the portfolio when it's Alpha Composite ranking drops into the fifth decile or when it fails the Financial Warnings Overlay. Sells are also triggered when the market cap of a company falls below $50 million or exceeds $5.5 billion. Further, there is a 10% absolute aggregate limit to fourth decile portfolio holdings. When that limit is exceeded, the lowest ranked fourth decile stock(s) is(are) sold.

The result of this process as it relates to the Fundametrics® Small Cap Equity strategy is a diversified portfolio of 200-250 equally weighted stocks. Individual positions are allowed to grow to 150% of the portfolio's average position size (200 stock portfolio = 50 bps positions) before trims are executed. CornerCap expects the Fundametrics® Small Cap Equity strategy to achieve an annual excess return of 3-4% over a full market cycle.

CornerCap does not currently incorporate ESG factors in its investment process. The firm is in the process of evaluating an ESG data provider and determining whether the data provided can be used effectively within the Fundametrics research process. At this time, CornerCap is not a signatory to the UN Principles for Responsible Investment.

Staff's Observations

Staff views the investment team's experience and investment approach as key comparative advantages. During the in-house interview at LACERA, staff came away with a favorable impression of both Mr. Moeller, lead PM, and Mr. Carr, PM and CIO. Both PMs have extensive experience in small cap quantitative investing and a long history of working effectively together.

During on-site due diligence, staff met Mr. Tucker, the strategy's research analyst, a newer addition to the team but who seemed well qualified. Mr. Tucker demonstrated a deep knowledge of the Fundametrics® Research System and provided further insight into CornerCap's investment and research processes. Staff also met with Investment Committee members, Thomas Quinn, CEO and co-founder, and Richard Bean, client servicing PM. Although small in number, the team appeared more than capable of executing their investment duties, both in terms of resources and knowledge.

In staff's view, one of CornerCap's key comparative advantages is the robustness of their proprietary quantitative model. The firm's Fundametrics® model efficiently and effectively reduces the strategy's investment universe of thousands of stocks to a much narrower list of potentially attractive investment opportunities. Other key differentiators include the use of a Financial Warning System that makes detailed use of financial data to avoid value traps and the strict level of discipline used in portfolio construction. CornerCap's distinctive process has resulted in portfolios that have delivered positive performance over various market cycles. This same approach has been implemented across CornerCap's strategies since the inception of the firm.

Lastly, CornerCap has a strong performance track record. The Fundametrics® Small Cap Equity strategy has outperformed its benchmark, the Russell 2000 Index, by 230 bps on a net-of-fees basis since the strategy's inception on August 31, 2006. Further, performance has been consistent with the strategy outperforming the index in 34 of 35 three-year quarterly rolling periods.

A primary concern with respect to CornerCap's Fundametrics® Small Cap Equity was the make-up of the firm's client base. The majority of CornerCap's assets are private client in nature (approximately 75%) with the remainder institutional. Private wealth clients typically have smaller account sizes than institutional clients and can require higher levels of customization and, therefore, attention. Mitigating this concern is the recent hire of a dedicated institutional sales and client service professional whose primary responsibilities are to grow and service the firm's institutional client base. Additionally, CornerCap's private client base is characterized by long-standing relationships capable of providing a relatively stable revenue stream throughout market cycles, thereby insulating CornerCap from large cash flows.

Staff believes that CornerCap's process is differentiated and the firm's trading, operation, compliance and risk functions sufficiently developed for the management of institutional assets. The investment team is intelligent, experienced, and dedicated to the disciplined execution of the investment process and the continuous improvement of its quantitative model.

Staff has confidence in CornerCap Investment Counsel and recommends CornerCap's Fundametrics® Small Cap Equity strategy as a finalist candidate for LACERA's active U.S. and Non-U.S. emerging manager mandate.

MANAGER ASSESSMENT

GLOBAL ALPHA CAPITAL MANAGEMENT (FINAL SCORE 95)

Organization

Global Alpha Capital Management (Global Alpha), headquartered in Montreal, Canada operates as a majority employee-owned affiliate of the Connor, Clark & Lunn Financial Group, Ltd. (CC&L). Since 2012, Global Alpha has been a signatory to the Principles for Responsible Investment (PRI) and a member of the regional Responsible Investment Association (RIA), a Canadian association for responsible investing.

As of May 31, 2018, Global Alpha's firm assets under management were $1.3 billion, of which approximately $600 million was in the International Small Cap strategy. Global Alpha estimates the capacity for this strategy to be roughly $4-6 billion. Founded in 2008, Global Alpha received financial backing from Connor, Clark & Lunn, a group that provides the firm with back office, compliance, and marketing support. Despite the initial investment, Global Alpha remains a majority employee-owned and independent entity, with an eight member board of directors, six of whom are Global Alpha employees while the remaining two CC&L personnel (according to both entities, CC&L's role on the board is largely that of a sounding board and support mechanism).

Professional Staff

Global Alpha's International Small Cap strategy is managed by a team of eight investment professionals. With the team primarily based in Montreal, Robert Beauregard, CFA is Global Alpha's Chief Investment Officer and Portfolio Manager (PM). Prior to his ten years with Global Alpha, Robert was with the National Bank of Canada (Natcan) where he worked alongside David Savignac, CFA who was also at Natcan at the time. Both focused on the investment management of small cap equities. When Global Alpha was founded in 2008, they brought on Qing Ji, CFA to supplement the investment team. At the time, David focused on developed Europe while Qing focused on developed Asia and the Pacific. In their current roles, Robert, David, and Qing are the strategy's lead PMs, supported by Serge Depatie, PM, who focuses on materials and healthcare industries. In addition to the four PMs, an additional associate PM and two analysts comprise the International Small Cap investment team. Collectively, the team averages 15 years of investment experience.

Investment Process

Global Alpha believes that the international small cap market offers greater opportunities for growth and pricing inefficiencies as compared to developed markets and large/middle-cap markets where investment sell-side research and coverage is more plentiful. The lack of coverage and information in the international small cap market allows the Global Alpha team to utilize their experience and expertise in fundamental analysis, portfolio construction, and risk management to add value to the client's investment portfolio.

The focus of Global Alpha's fundamental analysis is the identification of "unrecognized growth" companies as characterized by strong balance sheets, high insider equity ownership, and business strategies that may be misinterpreted by investors. To support the rigorous fundamental analysis necessary for an advantage relative to peers, the team brings solid experience and an array of financial designations. Robert Beauregard is a Certified Public Accountant, (CPA) by training and a CFA charter holder. Prior to joining Global Alpha, Qing Ji spent five years at Credit Lyonnais where she developed her skills in credit analysis, worked at Laurentian Bank in equity research focusing on the financials sector, and earned her CFA designation in 2011. Portfolio manager Serge Depatie, who joined the firm as an analyst and was promoted to portfolio manager in 2016, has a background in engineering and work experience in the biotech field now leverages his knowledge in covering biotechnology and materials. Serge also worked at Natcan alongside Robert and David prior to Global Alpha's inception, and the team chemistry works very well in the fundamental analysis of companies and the team decision-making process.

In Global Alpha's fundamental research process, the team first screens the MSCI EAFE Small Cap universe which consists of roughly 2,200 constituent companies. The PMs then participate in on-site company visits and industry conferences. Information is aggregated and digested to build out business models and growth projections to identify the "unrecognized growth" companies. Companies with good secular tail winds, positive intrinsic values on their balance sheet, and high ranks in environmental, social, and governance factors qualify for an approved list of approximately 150 high conviction names. Global Alpha's International Small Cap strategy consists of a concentrated portfolio of 50-70 holdings of these best ideas once portfolio construction is complete.

Staff's Observations

Global Alpha's International Small Cap strategy launched in 2009, has regularly outperformed its blended benchmark of the MSCI EAFE Small Cap and MSCI EAFE Small Cap + Canada. In additional to its headquarters in Montreal, Global Alpha operates a regional office in Vancouver to help facilitate access to Asia when meeting with companies that may fit Global Alpha's investment theme. The organization includes both the breadth and depth of experience of a seasoned investment team that work well together and operates in a cohesive and efficient manner. In meeting with the Global Alpha investment team, each member discussed the value of the culture at Global Alpha and made that a priority as one of the key assets of the firm. The team at Global Alpha is diverse, young, and talented. With strategy assets of $600 million, LACERA is able to allocate a meaningful allocation to the International Small Cap portfolio and truly become a partner, as Global Alpha aims to exceed $2 billion in firm assets. In the prior three years, Global Alpha has not lost any mandates, nor have they lost any key staff members. They have, however, managed to grow the business organically, add experienced professionals to the team, and promote from within the organization, reinforcing a culture that the employees have come to value.

In summary, staff believes that the international small cap space is an opportunity to capitalize on market inefficiencies and that Global Alpha is able to capitalize on these inefficiencies. Staff considers Global Alpha's investment team to be knowledgeable and insightful, its process to be differentiated and rigorous, and its operational procedures and controls to be of institutional quality. For these reasons, staff recommends Global Alpha's International Small Cap strategy as a finalist for LACERA's active U.S. and Non-U.S. emerging manager mandate.

MANAGER ASSESSMENT
MATARIN CAPITAL MANAGEMENT LLC (FINAL SCORE 91)

Organization

Matarin Capital Management LLC (Matarin), founded in 2010 by Stuart Kaye, Nili Gilbert, and Valerie Malter, is a women-owned business and is 100% employee-owned by the firm's five principals. Matarin is headquartered in New York and offers investment management services for U.S. large and small capitalization (cap) equity strategies.

Matarin offers four primary investment strategies: 1) Matarin Large Cap Core, 2) Matarin North America Small Cap (NASC), 3) Matarin MicroCap, and 4) Matarin Market Neutral U.S. Plus (LP fund). The firm has eight employees, four of which comprise the investment team.

As of May 31, 2018, Matarin's assets under management were $1.4 billion, of which $1.2 billion is in the North America Small Cap product. Matarin estimates approximately $200-300 million in capacity remaining in the proposed strategy.

Previously, Matarin was a sub-manager within LACERA's U.S. Equity Emerging Manager of Manager Program from May 2017 until LACERA's termination of the program in September 2017, managing a Large Cap Core strategy for LACERA through Northern Trust, one of LACERA's two fund-of-funds emerging manager advisors.

Professional Staff

Matarin's investment team consists of Stuart Kaye, Nili Gilbert, and Ralph Countant. The three portfolio managers (PMs) are responsible for Matarin's proprietary model development, portfolio construction, and the day-to-day management of all investment strategies. Mr. Kaye, Ms. Gilbert, and Mr. Countant have extensive investment experience, managing client assets for over 28, 14, and 18 years, respectively. In sum, the team of three has an average of 20 years of investment experience and has worked together for over 14 years. Further, prior to founding Matarin in 2010, all three members of the investment team worked together at Invesco managing strategies similar to those at Matarin.

With respect to investment team interaction in the portfolio construction process, Matarin's portfolio managers have no latitude individually. Rather, all portfolios are managed identically across the strategy by the entire team utilizing Matarin's quantitative approach to capture fundamental investment insights**.**

Investment Process

With an investment process that combines both fundamental and quantitative methods of investing, Matarin believes it can add value as an active manager by taking advantage of stock market inefficiencies that occur in short and intermediate time frames. Factors that drive these market inefficiencies are behavioral biases exhibited by market participants. These biases are natural in human decision-making but can be detrimental to investment results if left unchecked. The firm's investment process is focused on identifying long term fundamentals that drive stock returns and then quantifying these fundamental insights so they can be expressed in the marketplace absent typical investor emotions and biases. This allows the firm to take advantage of inevitable pricing inefficiencies as they occur. Further, Matarin's quantitative model attempts to forecast the type of inefficiency that will be most rewarded in the current market environment (e.g. valuation vs. momentum) and gradually tilts the portfolio towards those investments that are expected to be most successful in the near term.

The firm's process for stock selection are focused on four fundamental investment concepts: 1) business, 2) people, 3) price, and 4) catalyst. The team's research focuses on identifying new aspects of these fundamental concepts which are significant and consistent over time and, when incorporated, have the potential to improve the strategy's risk/return profile. Once the model has been determined, it is used consistently to capture these factors in a multi-step process that includes portfolio construction, peer group classification, and the implementation of the firm's proprietary stock selection model. A risk model is then introduced and portfolio optimization performed taking into account transaction costs. Matarin uses Northfield's risk model to optimize the risk characteristics of the portfolio and is able to minimize expected total risk for a given expected return or maximize total expected return on a risk-adjusted basis.

Matarin constructs portfolios using a "bottom-up" approach such that the primary determinant of excess return is stock selection and the corresponding weight of each security within the portfolio. Accordingly, portfolio sector and industry weights may differ materially from those of its benchmark. These positive and negative exposures are typically established when the team's multi-factor model identifies opportunities to exploit mispricing that is broader than a single stock investment. In managing risk, portfolios may be constructed to maintain exposures within a tighter (or broader) range around the benchmark's sector and industry weights.

The result is a well-diversified portfolio holding approximately 120-180 stocks. Individual positions are typically established with a maximum overweight of 1% but are allowed to increase to a 2% overweight given valuation characteristics relative to other investment opportunities. The portfolio is evaluated daily to ensure its holdings are in line with the desired characteristics and objectives of the model.

Although Matarin does not have an overarching Environmental, Social, and Governance (ESG) policy, the firm has made a significant effort to identify and test potential ESG factors. Matarin believes they have identified several factors that have the potential to add value, either from a return or risk perspective, and the team continues to investigate ESG data for possible inclusion in the investment process. As of this writing, Matarin is not a signatory to the Principles for Responsible Investment.

Matarin expects the NASC strategy to achieve an annual excess return of 4-6% relative to the Russell 2000 Index with an expected tracking error of 4-7% across a full market cycle.

Staff's Observations

Staff views the portfolio management team's experience, knowledge, investment approach, and collegial culture as the firm's key comparative advantages. During the in-house interview, staff met with Stuart Kaye and was impressed with his understanding and explanation of small capitalization stocks as it relates to Matarin's quantitative Alpha model. Mr. Kaye's experience with small cap quantitative investing began twenty-four years prior when he served as CIO of Invesco's Quantitative Strategies Group. In this role, Mr. Kaye worked alongside Matarin's two other NASC PMs, Ralph Countant (since 1999) and Nili Gilbert (since 2003).

Further confidence in Matarin's investment team was gained during the on-site due diligence visit. Staff found all three team members to be succinct in describing Matarin's investment process and able to explain its complex concepts. Ms. Gilbert and Mr. Countant articulated their individual roles on the team and very clearly shared Mr. Kaye's passion for investing. Both PMs appeared comfortable with their roles and responsibilities and appeared to have the full confidence of each of their peers**.**

Staff also determined what distinguishes Matarin from its peers is its blended investment approach that combines both fundamental analysis and quantitative models. The fundamental portion of the process relies on years of research identifying the fundamental drivers of future stock returns while the quantitative piece focuses on mitigating the risk of behavioral bias that is typically found in fundamental investment processes.

Lastly, Matarin has a flat organizational structure that eliminates multiple layers of decision-making and creates an environment that is nimble and where employees are engaged. The firm's culture is collegial and collaborative, allowing for investment decisions to be made with unfettered input by the entire team. Given the firm's team-based approach to investing, there would be minimal impact if one were to leave.

A primary concern regarding Matarin relates to the potential for a conflict of interest between key personnel. During the firm's in-house interview at LACERA, staff learned Ms. Malter, who oversees the executive team (including the areas of finance, operations, and compliance), is the spouse of Mr. Kaye who heads the investment team. Concern that the couple's personal relationship would result in weaker risk controls and compliance oversight has been adequately mitigated as the firm's chief compliance function is neither under Ms. Malter's nor Mr. Kaye's purview (although compliance duties are temporarily being performed by Matarin's director of operations (who is, in turn, overseen by an external compliance consultant) while the firm works to replace its prior CCO who departed (for personal reasons) during the search process). Staff intends to continue to monitor the firm with respect to this issue.

Staff perceives that Matarin's investment philosophy and process are differentiated and the firm's trading, operations, compliance, and risk functions sufficiently developed and suitable for an institutional client. The investment team is intelligent, experienced, and engaged and positively benefits from the firm's collegial culture.

Staff has confidence in Matarin Capital Management and recommends Matarin's North America Small Cap equity strategy as a finalist for LACERA's active U.S. and Non-U.S. emerging manager mandate.

PHASE ONE: TOTAL MANAGER SCORE

	Investment Manager	RFP (Qualitative) 70%	Risk Factors (Quantitative) 30%	Total 100%
1	Redwood Investments	90	95	91
2	Global Alpha Capital Management	86	90	87
3	Matarin Capital Management	87	84	86
4	Summit Global Investments	78	100	84
5	CornerCap Investment Counsel	81	84	82
6	Isthmus Partners	77	86	80
7	Pacific Ridge Capital Partners	76	87	80
8	New Amsterdam Partners	81	76	79
9	Pacific View Asset Management	75	91	79
10	Granite Investment Partners	76	81	78
11	Bridge City Capital	73	89	78
12	Cedar Street Asset Management (did not meet minimum qualifications)	72	88	77
13	Oak Associates Large Cap Growth	70	79	72
14	Oak Associates All Cap Core Growth	70	75	71

ANNUALIZED MANAGER PERFORMANCE

AS OF MARCH 31, 2018

	YEARS				
	ONE	THREE	FIVE	SEVEN	SINCE INCEPTION*
CornerCap Fundametrics® Small Cap Equity (gross of fees)	7.1%	9.9%	14.5%	13.3%	11.3%
CornerCap Fundametrics® Small Cap Equity (net of fees)[1]	6.0	8.7	13.2	12.3	10.4
Russell 2000 Index	11.8	8.4	11.5	10.4	8.2
eVestment Small Cap Median	11.7	8.9	12.1	11.4	

**Inception date September 2006*

	YEARS				
	ONE	THREE	FIVE	SEVEN	SINCE INCEPTION*
Global Alpha International Small Cap (gross of fees)	26.3%	16.7%	16.3%	12.4%	14.4%
Global Alpha International Small Cap (net of fees)[1]	25.3	15.8	15.3	11.4	13.5
MSCI EAFE Small Cap Index (Net)	23.5	12.3	11.1	8.7	10.4
eVestment EAFE Small Cap Median	24.4	12.9	12.1	10.3	

**Inception date January 2010*

	YEARS				
	ONE	THREE	FIVE	SEVEN	SINCE INCEPTION*
Matarin North America Small Cap (gross of fees)	10.3%	8.7%	13.7%	13.5%	13.8%
Matarin North America Small Cap (net of fees)[1]	9.5	7.9	12.9	12.6	13.0
Russell 2000 Index	11.8	8.4	11.5	10.4	11.2
eVestment Small Cap Median	11.7	8.9	12.1	11.4	

**Inception date January 2011*

[1] Net of fee returns are actual composite returns and are not representative of the more favorable fee structures offered to LACERA.

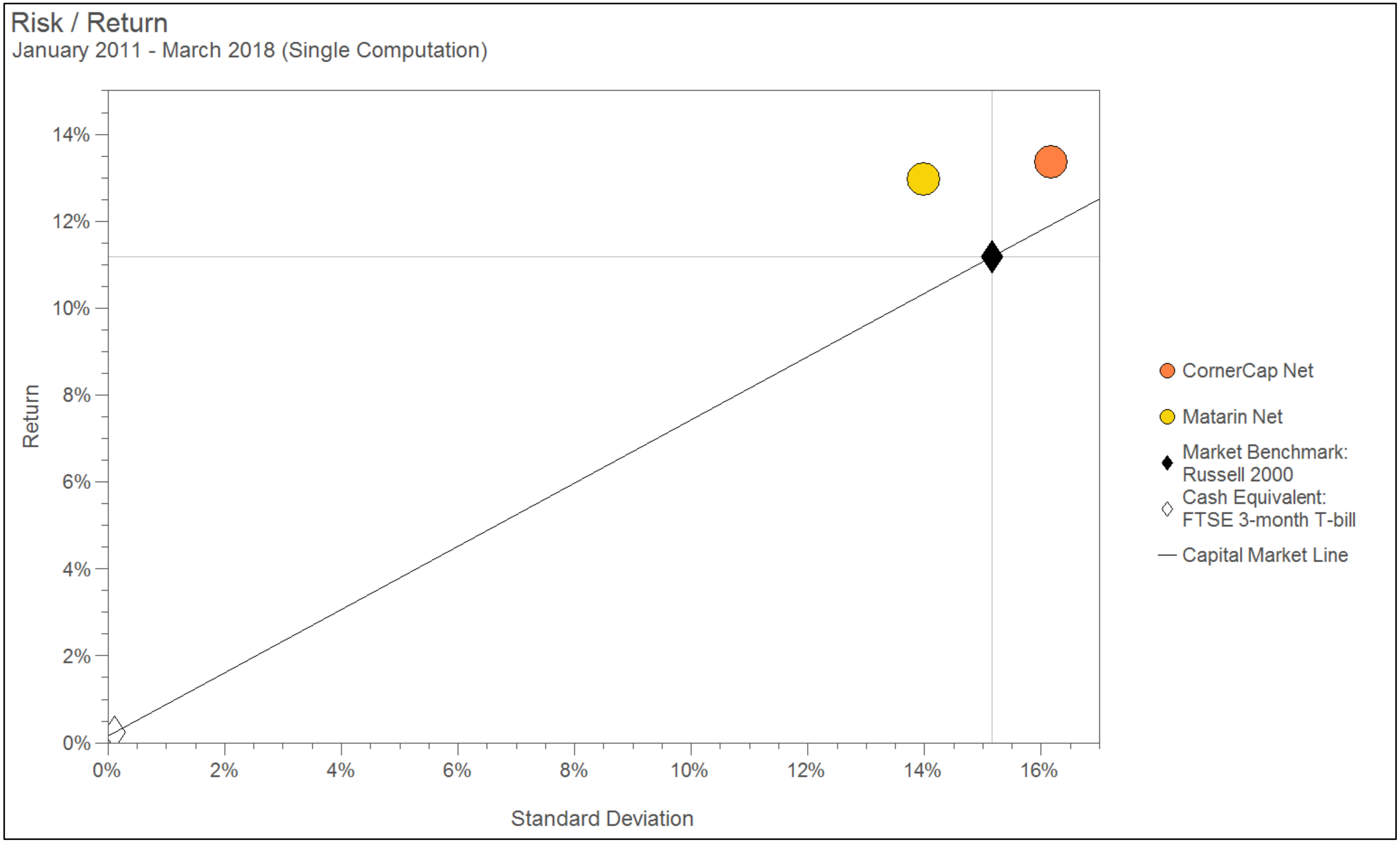
CALENDAR YEAR MANAGER PERFORMANCE
AS OF DECEMBER 31, 2017

YEARS								
	1Q18	2017	2016	2015	2014	2013	2012	2011
CornerCap Fundametrics® Small Cap Equity (gross of fees)	-2.6%	9.3%	30.3%	-0.9%	7.0%	49.6%	18.9%	1.6%
CornerCap Fundametrics® Small Cap Equity (net of fees)[1]	-2.8	8.1	28.8	-2.1	5.7	47.9	18.5	1.3
Russell 2000 Index	-0.1	14.7	21.3	-4.4	4.9	38.8	16.4	-4.2
eVestment Small Cap Median	-0.3	14.8	20.6	-2.9	5.1	41.5	16.6	-1.9

YEARS								
	1Q18	2017	2016	2015	2014	2013	2012	2011
Global Alpha International Small Cap (gross of fees)	2.4%	36.9%	5.0%	19.0%	-1.0%	29.6%	23.0%	-15.3%
Global Alpha International Small Cap (net of fees)[1]	2.2	35.7	4.1	18.1	-1.8	28.6	22.0	-16.1
MSCI EAFE Small Cap Index (Net)	0.2	33.0	2.2	9.6	-5.0	29.3	20.0	-15.9
eVestment EAFE Small Cap Median	0.1	35.0	1.7	10.9	-3.1	31.2	23.3	-13.5

YEARS								
	1Q18	2017	2016	2015	2014	2013	2012	2011
Matarin North America Small Cap (gross of fees)	-0.5%	9.7%	26.3%	-1.1%	10.7%	38.5%	19.3%	2.4%
Matarin North America Small Cap (net of fees)[1]	-0.7	8.9	25.4	-1.8	9.9	37.5	18.4	1.6
Russell 2000 Index	-0.1	14.7	21.3	-4.4	4.9	38.8	16.4	-4.2
eVestment Small Cap Median	-0.3	14.8	20.6	-2.9	5.1	41.5	16.6	-1.9

[1] Net of fee returns are actual composite returns and are not representative of the more favorable fee structures offered to LACERA.



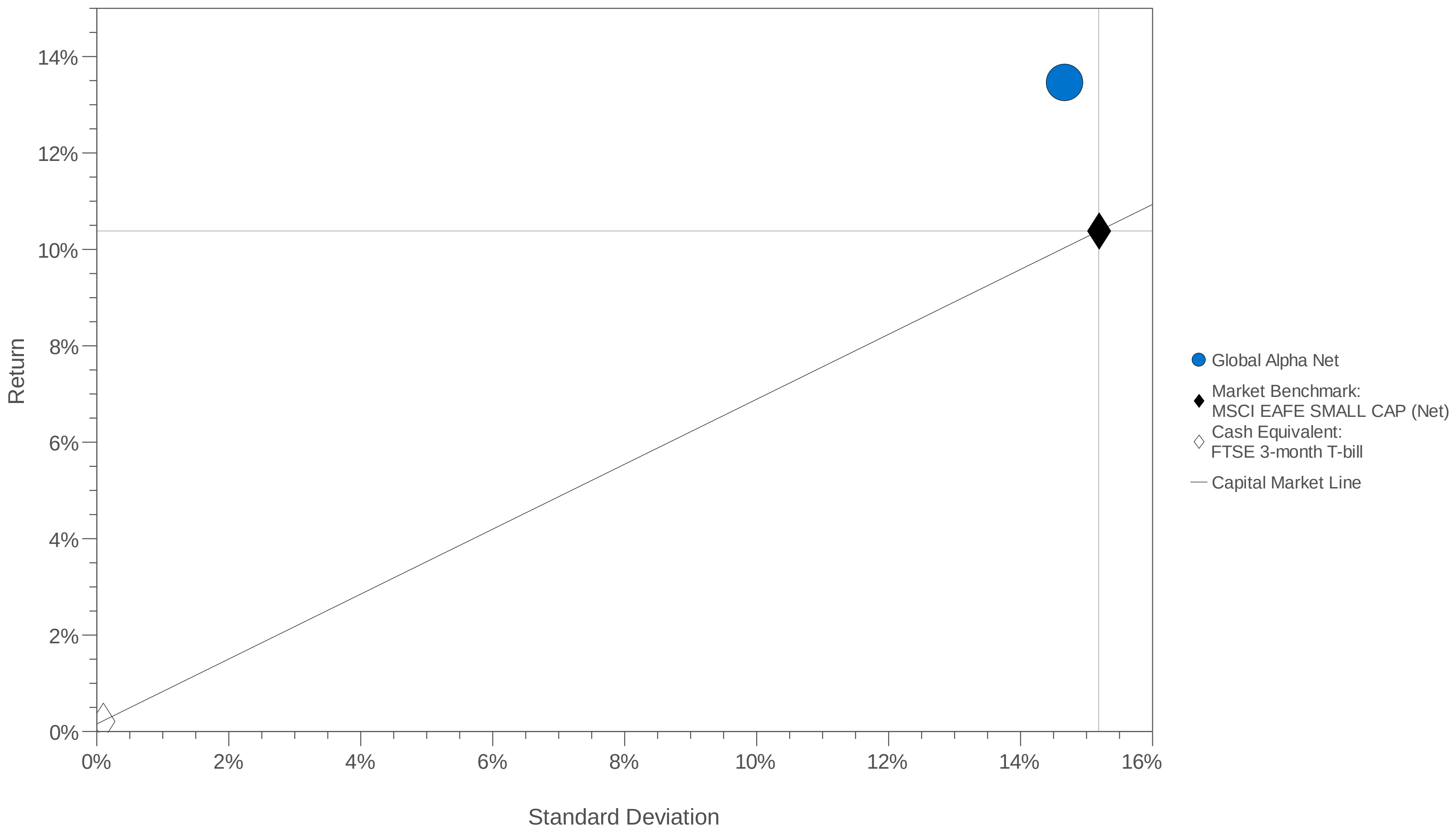
SOURCE: Zephyr StyleADVISOR

Zephyr StyleADVISOR

Zephyr StyleADVISOR: Los Angeles County Employees Retirement

Risk / Return

January 2010 - March 2018 (Single Computation)



SOURCE: Zephyr StyleADVISOR

QUANTITATIVE PERFORMANCE AND RISK METRICS[1]

AS OF JUNE 30, 2017

		Information Ratio[2]	Up Capture[3]	Down Capture[4]	ER Excess Return Correlation[5]
1	Oak Associates LTD All Cap Core Growth	(0.06)	158.5%	152.6%	0.48
2	Oak Associates LTD Large Cap Growth	0.10	140.4%	128.9%	0.37
3	New Amsterdam Partners LLC	0.05	99.9%	98.6%	-0.10
4	Granite Investment Partners	(0.07)	75.8%	72.5%	-0.54
5	Bridge City Capital, LLC	0.41	88.2%	74.8%	-0.49
6	Pacific View Asset Management LLC	0.63	95.5%	74.2%	-0.19
7	Matarin Capital Management	0.25	92.9%	87.7%	-0.35
8	CornerCap Investment Counsel	0.34	98.5%	91.2%	-0.29
9	Summit Global Investments	0.92	82.1%	41.1%	-0.67
10	Isthmus Partners LLC	0.55	95.5%	82.3%	-0.26
11	Pacific Ridge Capital Partners LLC	0.64	107.5%	91.4%	0.08
12	Redwood Investments	0.67	91.2%	70.7%	-0.29
13	Cedar Street Asset Management	did not meet minimum qualifications			
14	Global Alpha Capital Management	0.66	97.6%	83.1%	-0.21

Source: Zephyr StyleADVISOR

[1] For period common to all managers ending June 30, 2017, sorted in order of receipt.
[2] Excess return per unit of excess risk measured by dividing excess return by excess risk
[3] Amount a manager's performance increases relative to the benchmark in an rising equity market
[4] Amount a manager's performance declines relative to the benchmark in a falling equity market
[5] Measure of similarity of a manager's excess returns relative to those of LACERA's U.S. and Non-U.S. composites. A lower number indicates a greater potential diversification benefit.

CORNERCAP INVESTMENT COUNSEL
ORGANIZATIONAL INFORMATION
As of May 31, 2018

ORGANIZATION		
HEADQUARTERS	1355 Peachtree Street, Suite 1700 Atlanta, GA	
YEAR FIRM FOUNDED	1989	
WHERE MONEY IS MANAGED	Atlanta, GA	
OWNERSHIP STRUCTURE	100% Employee Owned S-Corp	
YEAR PROPOSED PRODUCT WAS INTRODUCED	2006	
ASSETS UNDER MANAGEMENT		
TOTAL FIRM ASSETS UNDER MANAGEMENT AS OF 5/31/2018	$1,1170.8 million	
TOTAL PRODUCT ASSETS AS OF 5/31/2018	$168.4 million	
NUMBER OF INSTITUTIONAL CLIENTS IN PRODUCT	3	
LARGEST ACCOUNT IN PRODUCT	$26.98	
PRODUCT ASSETS GAINED IN LAST 4 CALENDAR YEARS:	NUMBER OF NEW CLIENTS	ASSETS GAINED ($MM)
2018 YTD	0	$0
2017	1	$24
2016	1	$1
2015	0	$0
PRODUCT ASSETS LOST IN LAST 4 CALENDAR YEARS:	NUMBER OF LOST CLIENTS	ASSETS LOST ($MM)
2018 YTD	0	$0
2017	0	$0
2016	0	$0
2015	0	$0
PROFESSIONAL STAFF		
PROPOSED LEAD PORTFOLIO MANAGER(S)	Jeffrey Moeller, CFA; Cannon Carr	
AVERAGE YEARS OF PORTFOLIO MANAGEMENT EXPERIENCE	11	
NUMBER OF RESEARCH ANALYSTS IN PRODUCT	1	
AVERAGE YEARS OF RESEARCH ANALYST EXPERIENCE	8	
PRODUCT PROFESSIONAL ADDITIONS FOR THE LAST 4 CALENDAR YEARS	NAME OF PROFESSIONAL	TITLE
2018 YTD	--	--
2017	--	--
2016	--	--
2015	--	--
PRODUCT PROFESSIONAL DEPARTURES FOR THE LAST 4 CALENDAR YEARS	NAME OF PROFESSIONAL	TITLE
2018 YTD	--	--
2017	--	--
2016	--	--
2015	--	--
PROPOSED ANNUAL FEE STRUCTURE		
Proposed Annual Fee Break Points (Separate Account)	Asset based fee: 55 bps on the first $45 million 50 bps on the balance	
Proposed effective fee on $100 million (basis points)	52.25	
Proposed effective fee on $100 million (dollars)	$522,500	
Proposed effective fee on $200 million (basis points)	51.125	
Proposed effective fee on $200 million (dollars)	$1,022,500	

GLOBAL ALPHA CAPITAL MANAGMENT
ORGANIZATIONAL INFORMATION
As of May 31, 2018

ORGANIZATION		
HEADQUARTERS	Montreal, QC	
YEAR FIRM FOUNDED	2008	
WHERE MONEY IS MANAGED	Montreal, QC & Vancouver, BC	
OWNERSHIP STRUCTURE	Partnership	
YEAR PROPOSED PRODUCT WAS INTRODUCED	2009	
ASSETS UNDER MANAGEMENT		
TOTAL FIRM ASSETS UNDER MANAGEMENT AS OF 5/31/2018	$1,262.7	
TOTAL PRODUCT ASSETS AS OF 5/31/2018	$599.9	
NUMBER OF INSTITUTIONAL CLIENTS IN PRODUCT	24	
LARGEST ACCOUNT IN PRODUCT	$322.7	
PRODUCT ASSETS GAINED IN LAST 4 CALENDAR YEARS:	NUMBER OF NEW CLIENTS	ASSETS GAINED ($MM)
2018 YTD	4	$20
2017	11	$187
2016	3	$123
2015	0	$0
PRODUCT ASSETS LOST IN LAST 4 CALENDAR YEARS:	NUMBER OF LOST CLIENTS	ASSETS LOST ($MM)
2018 YTD	0	$0
2017	0	$0
2016	0	$0
2015	0	$0
PROFESSIONAL STAFF		
PROPOSED LEAD PORTFOLIO MANAGER(S)	Robert Beauregard	
AVERAGE YEARS OF PORTFOLIO MANAGEMENT EXPERIENCE	11	
NUMBER OF RESEARCH ANALYSTS IN PRODUCT	2	
AVERAGE YEARS OF RESEARCH ANALYST EXPERIENCE	4	
PRODUCT PROFESSIONAL ADDITIONS FOR THE LAST 4 CALENDAR YEARS	NAME OF PROFESSIONAL	TITLE
2018 YTD	Tracy Li, Anthony Sutton	Analyst, Analyst/Trader
2017	Janine Tran Lam	Manager
2016	-	-
2015	Serge Depatie	Portfolio Manager
PRODUCT PROFESSIONAL DEPARTURES FOR THE LAST 4 CALENDAR YEARS	NAME OF PROFESSIONAL	TITLE
2018 YTD	-	-
2017	-	-
2016	-	-
2015	-	-
PROPOSED ANNUAL FEE STRUCTURE		
Proposed Annual Fee Break Points (Separate Account)	$1 - $100m @ 76bps	$101m and above @ 65bps
Proposed effective fee on $100 million (basis points)	76	
Proposed effective fee on $100 million (dollars)	$760,000.00	
Proposed effective fee on $200 million (basis points)	70.5	
Proposed effective fee on $200 million (dollars)	$1,500,000.00	

MATARIN CAPITAL MANAGEMENT, LLC
ORGANIZATIONAL INFORMATION
As of May 31, 2018

ORGANIZATION		
HEADQUARTERS	New York, NY	
YEAR FIRM FOUNDED	2010	
WHERE MONEY IS MANAGED	New York, NY	
OWNERSHIP STRUCTURE	LLC; 100% Employee Owned	
YEAR PROPOSED PRODUCT WAS INTRODUCED	2011	
ASSETS UNDER MANAGEMENT		
TOTAL FIRM ASSETS UNDER MANAGEMENT AS OF 5/31/2018	$1.4 Billion	
TOTAL PRODUCT ASSETS AS OF 5/31/2018	$1.16 Billion	
NUMBER OF INSTITUTIONAL CLIENTS IN PRODUCT	21 client accounts	
LARGEST ACCOUNT IN PRODUCT	$215 Million	
PRODUCT ASSETS GAINED IN LAST 4 CALENDAR YEARS:	NUMBER OF NEW CLIENTS	ASSETS GAINED ($MM)
2018 YTD	1	$100 million (M)
2017	7	$341 M
2016	6	$123 M
2015	8	$344 M
PRODUCT ASSETS LOST IN LAST 4 CALENDAR YEARS:	NUMBER OF LOST CLIENTS*	ASSETS LOST ($MM)
*ALL LOST CLIENTS DUE TO MANAGER OF 2018 YTD	1*	$38 M
EMERGING MANAGERS LOSING MANDATE - 2017	3*	$99 M
MATARIN HAS NEVER LOST A DIRECT CLIENT	3*	$57 M
	1*	$12 M
PROFESSIONAL STAFF		
PROPOSED LEAD PORTFOLIO MANAGER(S)	Stuart Kaye, Nili Gilbert, Ralph Coutant	
AVERAGE YEARS OF PORTFOLIO MANAGEMENT EXPERIENCE	20	
NUMBER OF RESEARCH ANALYSTS IN PRODUCT	0	
AVERAGE YEARS OF RESEARCH ANALYST EXPERIENCE	NR	
PRODUCT PROFESSIONAL ADDITIONS FOR THE LAST 4 CALENDAR YEARS	NAME OF PROFESSIONAL	TITLE
2018 YTD	Eli Rietti	Junior Inv Team Member
2017	None	
2016	None	
2015	None	
PRODUCT PROFESSIONAL DEPARTURES FOR THE LAST 4 CALENDAR YEARS	NAME OF PROFESSIONAL	TITLE
2018 YTD	None	
2017	None	
2016	None	
2015	None	
PROPOSED ANNUAL FEE STRUCTURE		
Proposed Annual Fee Break Points (Separate Account)	1st $10 million (M): 100bps; next $50 M: 70bps; next $40 M: 60 bps; above $100 M: 40 bps	*If the account is greater than or equal to $125 million at funding, an overall account relationship discount of 5% will
Proposed effective fee on $100 million (basis points)	69 bps	be applied on all assets
Proposed effective fee on $100 million (dollars)	$690,000	making the effective fee on
Proposed effective fee on $200 million (basis points)	51.8 bps*	$125 M = 60 bps; $150 M =
Proposed effective fee on $200 million (dollars)	$1,036,000*	56.4 bps; $200 M = 51.8 bps

1. Please describe your investment philosophy.

CornerCap believes that markets are inefficient, especially small cap markets. The firm also believes that human emotion and bias creates extremes and further inefficiencies, and therefore opportunity. By minimizing our own emotions and relying on discrete fundamental factors that can be measured objectively to capitalize on the emotions of others, the strategy can produce superior returns. Independent research and a conservative value orientation are at the core of the firm's beliefs.

2. In what market environment would you expect your product to outperform/underperform?

Favorable market environment: CornerCap's investment philosophy is to purchase stocks with attractive fundamentals at below market valuations all while minimizing the effects of human emotion. This strategy works well in many market environments, but in most cases, two primary characteristics need to be present for the Fundametrics® Small Cap Equity strategy to outperform. The first is an environment where value factors show discrimination and are positive or neutral (i.e. valuation matters). Valuation is the primary style that makes up our Fundametrics® Alpha composite. When low valuation stocks outperform or are neutral, this strategy has outperformed its external benchmark. Even in a growth market, if valuation "matters" the strategy can still outperform given the diversified nature of the Alpha Composite with valuation, acceleration and GARP factors. The other characteristic is a rational market or a market that is not experiencing emotional extremes of greed or fear.

Unfavorable market environment: The Fundametrics® Small Cap Equity strategy has the potential to underperform its benchmark in three types of environments. The first is a market where valuation is not positive or at least neutral. The second is in more of an extreme growth market where valuations are less important and investors seem to deemphasize risk elements. Finally, very narrow markets where a few attributes, a market cap range or a very narrow group of stocks lead the market are also environments where the strategy could underperform.

3. Please describe how your portfolio construction process is the most efficient method for implementing your stock selection ideas.

CornerCap's core competency is in identifying statistical fundamental factors and attributes that most likely predict alpha or identify excess risk. We acknowledge that the selection process can be wrong for any one individual or small group of stocks. As a result, portfolios are constructed with a broad, diversified group of equally weighted securities to minimize individual stock risk in favor of a portfolio that reflects the attractive fundamental characteristics utilized in the Alpha Composite. The portfolio is more heavily weighted to the stocks that compose the Internal Benchmark (top 30% of the Alpha Composite). Maximum limits are placed on stocks ranked in the 4^{th} decile to further the weighting to the top 30% ranked stocks.

Source: RFP Respondent

4. What do you consider the greatest risk to your active U.S. small capitalization equity portfolio?

The greatest risk to the Fundametrics Small Cap Equity strategy is risk of underperformance relative to the benchmark. This generally occurs when fundamentals and stock prices disconnect. This happens at rapid market inflection points or in environments where valuation factors are not at least neutral, extreme growth markets where risk elements are de-emphasized or very narrow markets. These types of markets are generally short-term in duration and fundamentals win out through a full market cycle.

5. What is your firm's competitive advantage in the U.S. small capitalization equity space?

CornerCap's competitive advantage derives from three areas: 1) the firm knows what matters in small cap research after 25+ years of experience, which is made manifest in the firm's internal small cap benchmark; 2) the firm knows how to implement that knowledge consistently and objectively, through the alpha composite and the Financial Warnings (risk) overlay; and 3) the firm invests heavily in proprietary software and programming, as embodied in the Fundametrics® research system and the Optimizer portfolio management software.

The internal benchmark is the universe of Fundametrics® BUYS that is created from the top 30% ranked stocks in the Alpha Composite on a weekly basis. This universe of stocks, from which new ideas are added to the portfolio, has demonstrated better long term returns than the Russell 2000 Value index.

The Alpha Composite is a combination of thirteen unique and uncorrelated factors compiled after testing and observation for alpha generation in actual, not back-tested, market environments.

The Financial Warnings overlay provides a systematic and efficient way to identify and avoid stocks with characteristics of excess risk. This overlay supersedes Alpha Composite rankings. Stocks can rank favorably with all the characteristics of potential alpha but failing Financial Warnings will exclude them from contention or cause them to be sold from the portfolio.

Source: RFP Respondent

Portfolio Managers

Jeffrey P. Moeller, CFA, Director of Research and Portfolio Manager
17 years with CornerCap

Jeff is the Director of Research and Portfolio Manager, overseeing the day-to-day execution of Fundametrics® and research of the firm's investment products. He is a member of the investment committee and Portfolio Manager. He co-manages the three CornerCap mutual funds (Small Cap Value, Large/Mid Cap Value, and Balanced). Jeff joined CornerCap in 2000 and served as the firm's trader for three years. He returned in 2004 in his present capacity. Jeff is a Chartered Financial Analyst (CFA) Charterholder and a member of the CFA Institute and the Atlanta Society of Finance and Investment Professionals. He has a BS in Finance from Oklahoma State University.

J. Cannon Carr, Jr., Chief Investment Officer
11 years with CornerCap

Cannon is the Chief Investment Officer of CornerCap. He joined the firm in June 2007, after being a client for over seven years, and leads the weekly investment committee meetings. Prior to joining CornerCap, Cannon was a senior equity analyst at CIBC World Markets (formerly Oppenheimer), covering IT business services (2006-07), wireless services (2001-05), and emerging telecom (1998-05). Cannon has provided commentary on CNBC, CNN, Lou Dobbs MoneyLine, and Bloomberg News. He has also been quoted in the New York Times, Wall Street Journal, Financial Times, and Fortune, among other publications. He was rated a five-star analyst by Zachs Research in 2006. Cannon has an MBA from Columbia Business School and a BA from Princeton University in Political Economy. Cannon heads the investment committee for the Wesleyan College endowment, serves on the Advisory Board for the Center for Ethics at Emory University, is a Board member with the Technical College System of Georgia Foundation, is an officer at the Atlanta Rotary Club, and serves as Chair of the Georgia Tennis Foundation, among other nonprofit endeavors.

Research Analyst

Joshua Tucker, CFA, Research Analyst
4 years with CornerCap

Josh is a Research Analyst and a member of the investment committee. He joined CornerCap in January 2014 after completing a research internship with the firm in 2013. Josh holds an MBA from Scheller College of Business at Georgia Institute of Technology and a BS in Business Administration with a major in Finance from Mississippi State University. Prior to business school, Josh worked as a research associate where he was responsible for individual stock analysis as well as macroeconomic research. He is a Chartered Financial Analyst (CFA) Charterholder and a member of the CFA Institute and the Atlanta Society of Finance and Investment Professionals.

Investment Committee

Thomas E. Quinn, CFA, CPA, CEO
29 years with CornerCap

Tom is CEO of CornerCap Investment Counsel and is a member of the investment committee. He and Gene Hoots co-founded the firm, which was incorporated in 1989. Tom is also President and Treasurer of the CornerCap Group of Funds. His previous positions included being Chief Investment Officer of RJR Investment Management, Inc., the investment advisory subsidiary of RJR Nabisco, and a consultant for Arthur Andersen & Co. He is a Chartered Financial Analyst (CFA) Charterholder and a member of the CFA Institute and the Atlanta Society of Finance and Investment Professionals. He is a certified public accountant (CPA) and a member of the American Institute of Certified Public Accountants (AICPA). Tom serves as Chairman of the Episcopal Diocese of Atlanta Foundation and Chairman of the Episcopal Diocese of Atlanta Long Term Investment Committee for the Diocese's Common Fund. He is also Chairman of the Midtown Atlanta Rotary Foundation and serves on the Board of the Church Investment Group. He has an MS in Industrial and Systems Engineering from Ohio University and an MBA from the University of North Carolina at Greensboro.

Richard T. Bean, CFA, CPA, Senior Vice President and Portfolio Manager
22 years with CornerCap

Richard is a Senior Vice President of CornerCap Investment Counsel and member of the investment committee. He oversees the wealth advisory practice. Prior to joining the firm in 1996 he worked for an employee benefits and actuarial firm. He is a Chartered Financial Analyst (CFA) Charterholder and a member of the CFA Institute and the Atlanta Society of Finance and Investment Professionals. He is also a certified public accountant (CPA) and a member of the American Institute of Certified Public Accountants (AICPA). Richard has a BS in Finance from the University of Southern Mississippi.

Mark H. Tucker, CFA; Vice President and Portfolio Manager
9 years with CornerCap

Mark is a Portfolio Manager and a member of the investment committee. He also oversees CornerCap's proprietary statistical modeling and analysis tools. Prior to joining CornerCap in 2009, Mark served as a portfolio manager and securities analyst at a local Atlanta investment advisory firm. He previously worked in the equity research department of SunTrust Robinson Humphrey. He is a Chartered Financial Analyst (CFA) Charterholder and a member of the CFA Institute and the Atlanta Society of Finance and Investment Professionals. He has a BA in Economics from The University of the South–Sewanee.

Source: RFP Respondent

1. Please describe your investment philosophy.

The Small Cap universe is unique, typically not having the same sell side coverage from analysts and fund managers when comparing to widely-covered large cap universes. This lack of coverage creates informational and pricing inefficiencies. The Global Alpha strategy identifies these "unrecognized growth" companies with accelerating earnings, fortress balance sheets, high insider ownership and a business strategy misinterpreted by investors. The investment team utilizes a bottom-up, research-based approach to identify these inefficiencies combined with embedded global themes to produce a conviction based portfolio with sustainable alpha.

Global Alpha believes its philosophy will be successful in the future because of its focus on global growth themes and trends. In addition to selecting stocks that possess strong fundamental characteristics (strong relative industry growth, low levels of debt, strong management team, etc.); Global Alpha also focuses on companies who have exposure to global trends and growth areas. By selecting strong stocks which the team believes will benefit from these global growth trends, Global Alpha believes its philosophy will continue to generate strong risk adjusted returns for its clients.

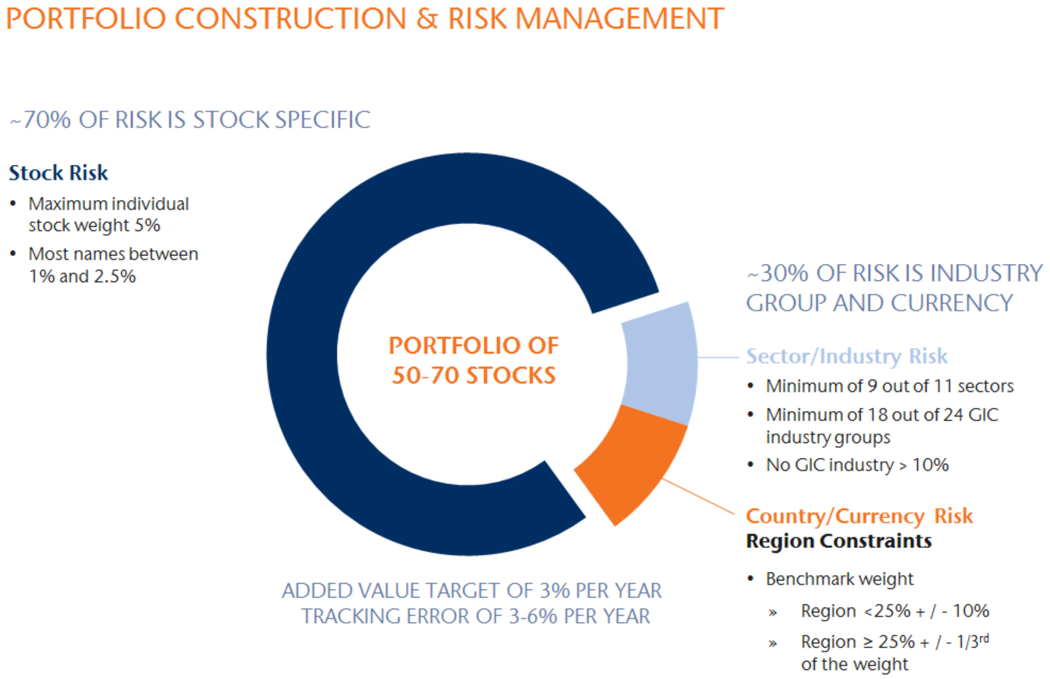
2. In what market environment would you expect your product to outperform/underperform?

The Global Alpha process tends to outperform when markets reward quality, growth companies. An example of a period when Global Alpha would experience outperformance would be a market environment that rewards these high quality, high growth companies which have sound fundamentals.

Conversely, Global Alpha tends to underperform during periods when deep value, cyclical stocks have short-term momentum. An example is a market environment where equity valuations are stretched and momentum-driven stocks outperform those with sound fundamentals.

Source: RFP Respondent

3. Please describe how your portfolio construction process is the most efficient method for implementing your stock selection ideas.



The Small Cap universe is unique, typically not having the same sell side coverage from analysts and fund managers when comparing to widely-covered large cap universes. This lack of coverage creates informational and pricing inefficiencies. The Global Alpha International Small Cap strategy identifies these "unrecognized growth" companies with accelerating earnings, fortress balance sheets, high insider ownership and a business strategy misinterpreted by investors. The investment team utilizes a bottom-up, research-based approach to identify these inefficiencies combined with embedded global themes to produce a conviction based portfolio with sustainable alpha. Stock selection is then the primary driver of performance attribution and Global Alpha's bottom-up stock selection process is guided by key international themes that drive growth potential.

Currently, the team tends to favor companies that benefit from the following investment themes: R&D innovation, consumer products, environment, demographics and outsourcing. The portfolio construction process starts with the selection of the portfolio managers' highest conviction stocks leaning into the investment themes that will drive significant long-term growth. The team favors stocks with the largest gap between the unrecognized growth and current price. Next, the portfolio managers weave into the portfolio names that are attractive, but also benefit from shorter-term cyclical or secular trends. The team then balances out the attributes of the individual stocks to ensure that most of the portfolio risk is stock specific, not industry or currency risk.

The firm is conscious that its investment in a company finances its emission of greenhouse gases. ISS-Ethix assesses Global Alpha's portfolios and Global Alpha is pleased to report that as of June

Source: RFP Respondent

30, 2017 the carbon intensities of the International Small Cap portfolio is well below their benchmarks and peer groups.

The overall annual carbon footprint of the International Small Cap portfolio (Scopes 1 & 2) is 75.6 tonnes of CO2e per USD million invested (7,561 tonnes are for USD 100 million invested), which is 65% less carbon intense than an equivalent investment in its benchmark, the MSCI EAFE Small Cap Index.

What are Scopes 1 & 2 & 3?

Scope 1 is defined as emissions from sources that are owned or controlled by the organization; for example, from burning fossil fuels or emissions released during the production process.

Scope 2 is defined as emissions from the consumption of purchased electricity, heat, steam or other sources of energy (e.g. chilled water) generated upstream from the organization.

Scope 3 is defined as emissions that are a consequence of the operations of an organization but are not directly owned or controlled by the organization; for example, emissions generated by business travel.

Looking at figures made available by asset managers in the global investment universe, ISS-Ethix believes the average carbon intensity of a portfolio is between 240 and 326 tonnes of CO2e. The carbon intensity of our portfolios is well below average, with our International Small Cap portfolio at 76 tonnes.

By selecting strong stocks which Global Alpha believes will benefit from these global growth trends, the firm believes its philosophy will continue to generate strong risk adjusted returns for its clients.

The maximum stock weight is 5%. Most names have weights between 1% and 2.5%. A position is usually initiated between 0.75% and 1.5%.

4. What do you consider the greatest risk to your active International Small Capitalization equity portfolio?

Stock specific risk is considered the greatest risk in Global Alpha’s portfolio. With a high non-factor risk ratio, the portfolio typically has over 70% of its’ expected tracking error risk stemming from idiosyncratic, stock-specific sources. In this aspect, risk can be measured by a single security’s capacity to grow earnings and keep or improve its earnings multiple. As stock pickers, the firm aims to ensure that alpha is added from stock picking while neutralizing risks associated with country and currency selection.

As of Q1 2018, 85% of the portfolio risk derives from non-factor risk. The balance comes from factor risk (Country 6.5%; Industry risk 4.4%; Style risk 2.5%; Currency risk 2.2%).

Source: RFP Respondent

5. What is your firm's competitive advantage in the International Small Capitalization equity space?

Global Alpha believes that the key to generating consistent added value for clients over time is by creating portfolios from the bottom-up using a global thematic perspective and a risk-controlled, high-conviction approach.

The team focuses on adding value through careful stock selection. This bottom-up fundamental approach is combined with management interviews to identify companies with features that include a sustainable competitive advantage, clearly defined growth strategies, and a strong balance sheet. Detailed financial analysis is conducted to determine whether a good company also offers an attractive investment opportunity. Discounted cash flow analysis is used to identify stocks that are trading at a significant discount to intrinsic value along with the catalysts expected to drive realization to their true value.

Global Alpha believes a distinguishing factor in their methodology is the "one stock, one view" approach across the team. This creates a cohesive team of global research specialists that are able to translate regional stock views into a low turnover, focused portfolio of approximately 60 companies.

The team believes that the following qualities of their philosophy and process, in conjunction with the aforementioned core philosophical tenets, distinguish them from peers and have enabled their successful investment track record to date:

- Focus on small caps where many peers have research responsibility for stocks of all capitalizations and potentially a broader suite of product offerings.
- Integration of ESG and sustainability criteria into the investment process and company models as a means of both mitigating exogenous business risk for portfolio companies but also as a driver of returns for businesses with competitive advantages in these areas.
- Global Alpha team experience in business management and entrepreneurial ventures prior to joining the investment management industry. The team has a philosophical belief that this enables a better understanding and evaluation of management teams in small cap companies as well as the viability of a company's primary strategy for earnings growth.

The Global Alpha team additionally manages a Global Small Cap strategy, so team members are intimately familiar with the U.S. small cap market industries and many of the companies and securities in the universe. The US market remains a predominant economy impacting international markets; knowledge of the US market is well served during its investment process for international funds both on what can be explained as transferrable business plans (comparing 2 similar companies in different jurisdictions) and competitive landscapes. The team believes their global research purview offers a competitive advantage to the country or regional specialist model when scouring for ideas in the small cap universe.

Source: RFP Respondent

Portfolio Management

Robert Beauregard, CFA, CMA, CPA, Chief Investment Officer, Portfolio Manager
10 years at Global Alpha

Robert is Chief Investment Officer for Global Alpha and is lead portfolio manager for its global small cap equity strategies. Robert is also responsible for global coverage of the energy and utilities sectors.

Robert brings over 20 years of financial and investment industry experience to the firm. Prior to founding Global Alpha, Robert was Senior Vice President and portfolio manager at Natcan Investment Management where he managed over $1.5 billion in Canadian and global small cap equities. Before joining Natcan, Robert managed a global high tech portfolio and co-managed the Canadian Small Cap Equity Fund for Caisse de Dépôt du Québec. He has held senior operational, financial and risk management roles with various multi-nationals, including Alcan, IBM and Grant Thornton.

Robert received a B.Admin. from the Royal Military College and an MBA from McGill University. He holds the CFA designation and is Chartered Professional Accountant (CPA) and a Certified Management Accountant (CMA). Robert is fluent in English and French.

Qing Ji, CFA, Portfolio Manager
10 years at Global Alpha

Qing is a Portfolio Manager responsible for the Asia-Pacific region, as well as global coverage of the Consumer Discretionary and Consumer Staples sectors.

In the eight years before joining Global Alpha, Qing worked in the financial industry in Canada, Singapore and Switzerland. Most recently, she was Senior Analyst – Financial Markets for the Bank of Canada. Prior to that, Qing held various analyst and wealth management positions with Laurentian Bank Securities, ING Private Bank Asia (Singapore), Credit Lyonnais (Singapore) and Temenos Systems SA (Switzerland).

Qing has a Bachelor of Economics from Xiamen University (China), a Master of Economics from Shanghai University of Finance and Economics (China), an MBA from McGill University and is a CFA charterholder. She is fluent in English, French and Mandarin.

David Savignac, CFA, Portfolio Manager
10 years at Global Alpha

David is a Portfolio Manager responsible for Europe and global coverage of the Technology and Industrials sectors.

Prior to joining Global Alpha, David spent four years at Natcan Investment Management where he held a variety of senior analyst positions, including Risk & Performance and Small Caps and was co-manager of Natcan's Global Small Cap Fund. David also spent time at TAL Global Asset Management and Desjardins Securities.

David received a BSc from HEC Montreal and is a CFA charterholder. He is fluent in English, French and Spanish.

Serge Depatie, P.Eng., Portfolio Manager
3 years at Global Alpha

Serge is a Portfolio Manager responsible for the North American region, as well as global coverage of the Materials and Health Care sectors.

Joining Global Alpha in 2015, Serge brings with him over 15 years of financial services experience holding positions such as Chief Investment Officer of NCP Investment Management, Portfolio Manager and Analyst of Global Equities at Natcan Investment Management as well as sell-side equity analyst positions with Canadian-based broker dealers. Before entering the financial industry, Serge worked in a variety of capacities in the environmental and biotechnology industry.

Serge has a B.Eng in Civil, Environmental Engineering from McGill University and an MBA from Concordia University. He is fluent in English and French.

Sain Godil, Associate Portfolio Manager
8 years at Global Alpha

Sain is an Associate Portfolio Manager for the North American region, as well as global coverage of the Financials and Telecom sectors as well as stock screening.

Born in India, Sain graduated with great distinction from Goa University in 1999. Prior to immigrating to Canada, he was an Asset Manager for ICICI, India's second largest bank. Before taking the position with ICICI, Sain worked at 3Global services (a division of Hutchison Whampoa Group) and previously at Vinray Education where he was a manager.

Sain earned a Master’s in Administration (Finance) in 2013 and a Bachelor of Commerce degree (Finance) in 2011 from the John Molson School of Business (JMSB) at Concordia University. He also received the Calvin Potter Fellowship from Concordia's Kenneth Woods Portfolio Management Program.

During his studies at JMSB, Sain worked as a Junior Analyst at Global Alpha. In 2010, before joining Global Alpha, he was with Industrial Alliance Securities as a Research Associate and in

2009 with Abitibi Bowater as a Logistics Analyst. Prior to continuing his education at Concordia he had short-term contracts with CareFusion Corporation a spin off from Cardinal Health Inc. and Nordia, Inc. in Quebec. Sain is fluent in English, French and Hindi.

Research Analyst and Trading

Tracy Li, Analyst
<1 year at Global Alpha

Tracy is an equity analyst responsible for the Asia-Pacific region as well as coverage of the Consumer Discretionary and Staples sectors on a global basis.

Beginning her full-time investment career as a co-op student with Global Alpha in 2017, Tracy also brings experience as an equity analyst of the SIAS Fund and research assistant with Simon Fraser University. As well, she was a management trainee with the Harbin Bank in China and an administrative intern with the National Development and Reform Commission in Beijing.

Tracy earned a BA in Japanese Languages and Literature and an MA in Japanese Literature from the China Foreign Affairs University and an MSc, Finance from the Beedie School of Business at Simon Fraser University. She is a 2018 Level III candidate in the CFA Program. Tracy is fluent in English, Chinese and Japanese.

Anthony Sutton, Analyst, Trader
<1 year at Global Alpha

Anthony is an analyst and trader responsible for covering Europe and the Industrial and Materials sectors.

Prior to joining Global Alpha, Anthony was a research associate with Eight Capital and a junior analyst with Jarislowsky Fraser. He began his financial career as a research/analyst intern with Dundee Capital Markets and Goodman & Company Investment Counsel. Prior to entering the financial services industry, Anthony worked for NCJ Pressings Ltd., a manufacturer of air reservoirs and compressor assembly, fuel tank protectors, gas meters and sunshade assembly products for the automotive, agricultural and gas industries throughout the UK and Europe. At NCJ he worked as a welder and team leader of six individuals while ensuring all products and systems met the appropriate ISO System Certification.

Anthony received his BComm from Concordia University and has passed Level I of the CFA exam. He is fluent in English and French.

Risk, Compliance, and Operations

Janine Tran Lam, CFA, Manager, Client Relationships, Risk, Compliance and Operations
1 year at Global Alpha

Janine is responsible for the management of client relationships, operations and risk and compliance.

Bringing over 20 years of experience in the banking & financial industry to her role at Global Alpha, she has previously worked as an Investment Counsellor at HSBC Private Wealth Services and a Manager and Senior Analyst with National Bank of Canada as well as holding various positions with RBC Dominion Securities and TAL Global Asset Management.

Janine has a Bachelor of Arts degree in Political Science from the University of Montreal and is a CFA charterholder. She is fluent in English, French and Vietnamese.

1. Please describe your investment philosophy.

Matarin believes it can add value as an active manager because the stock market tends to be inefficient in the intermediate term. Philosophically, we believe human emotions (like fear and greed) create intermediate-term inefficiencies in markets. Opportunities can be exploited through the implementation of a disciplined approach which combines fundamental insights and quantitative rigor. This combination of art and science can result in superior risk-adjusted returns to our clients.

Matarin's North America Small Cap strategy takes advantage of proprietary models, which while quantitatively constructed, are based on fundamental insights with sustainable future investment merit. They are designed to capture our best investment thinking regarding the critical sources of risk and return in the market. We are highly aware that stock picking is not a "one size fits all" game, and we therefore customize our models to emphasize what matters most when forecasting returns for each type of stock. Because we recognize that these sources of risk and return change over time, the process by which we identify and rigorously test factors is also dynamic. Our models, like our insights, evolve and we are constantly striving to improve our methodology. Matarin's investment research and the consistent implementation of our models in portfolio construction seek to eliminate the emotional and behavioral biases which are natural to most human decision making but detrimental to investment results.

2. In what market environment would you expect your product to outperform/underperform?

Matarin would expect to outperform the Russell 2000 benchmark during periods when stocks are being rewarded in the market for delivering on the fundamental concepts strongly represented in our investment models, such as those stocks with high quality businesses, exhibiting strong free cash flow generation, inexpensive valuations, and capable management (those making appropriate asset allocation decisions).

In addition, Matarin would expect to outperform its peers when small cap stocks are outperforming large cap stocks, as many small cap managers move up the market cap spectrum as their AUM has grown. Because Matarin stays true to its benchmark in terms of relative size and intends to close the strategy to avoid having to move up the market cap spectrum in search of liquidity, we tend to be smaller in weighted average market cap and so perform better than many when small cap is outperforming. A recent example of this is May 2018, which was a month in which large cap stocks significantly underperformed small cap stocks.

Matarin would expect to underperform in environments which become excessively speculative but have not yet peaked (like 1999). Also, 2017 is a good example of this type of environment, as the stocks we define as "rocket stocks" (expensive, high growth, volatile) outperformed by close to 30%, while historically underperforming by 10% per year. While these periods of short term speculative activity will always occur through time, in the long run, we believe stock returns and company fundamentals are highly correlated. We also believe that our diversified model and opportunistic and contrarian weight shifting into value and momentum factors can help mitigate portfolio drawdowns.

3. Please describe how your portfolio construction process is the most efficient method for implementing your stock selection ideas.

In our portfolio construction process, our goal is to produce a core, well diversified, risk controlled portfolio that maximizes exposure to those stock characteristics which we believe lead to outperformance through time.

We believe that our quantitative tools are extremely important in enabling us to robustly express all the complexity of our fundamental thinking. For example, there are several drivers of return that we seek to emphasize in the portfolio, and also many sources of risk which we seek to avoid or control. Given that we want to take all of these factors into consideration for over 1800 small cap stocks, this is a volume of information and calculation intensity that even math-loving people like ourselves could not manage to do in our heads. Therefore, we use the Northfield Portfolio Optimizer to create from our proprietary return forecasts, risk forecasts, and in-house produced transaction cost forecasts, in combination with other constraints and penalties, an optimized portfolio that maximizes total expected return for a given range of risk.

The optimizer is run on a daily basis with return forecasts automatically adjusting as new, relevant information is reported. Portfolios are typically traded 1-2 times per month, or more frequently as market circumstances warrant. The decision to trade, based on optimizer output, is largely determined by the expected impact on the portfolio's information ratio, taking into consideration all possible transaction costs. Trades will not be executed unless the anticipated benefit exceeds the anticipated cost of transacting.

We believe that this optimization methodology allows us to get our best ideas into the portfolio at all times while closely monitoring and controlling multiple sources of portfolio risk. We are also simultaneously able to easily monitor and comply with client portfolio constraints and guidelines as well as minimize transaction costs.

4. What do you consider the greatest risk to your active U.S. small capitalization equity portfolio?

At Matarin, we think about risk in terms of longer-term active risk versus the small cap benchmark. We prefer to think broadly about portfolio risk and how to manage it using a concept we refer to as "risk budgeting". Our objective in risk management is to spend our risk budget where we think we have the most information, and where our risk taking will be most rewarded. Given our high degree of confidence in our stock selection capability, we closely monitor and control for the many other sources of portfolio risks where we have less or no information. For example, we tightly control for industry and sector risks, beta, size, macro factors, and other common risks amongst stocks and we stay fully invested at all times. Since the inception of our North America

Small Cap strategy, by design, 85-90% of active portfolio risk has been attributable to stock picking.

Given that we have chosen to spend our risk budget on stock selection, we will be at risk to underperform in periods where our stock selection concepts are not being rewarded (or are acting in an “abnormal” manner). This will typically occur in periods where stock prices become detached from the fundamental metrics we utilize. We will tend to underperform in periods of high speculative activity where lower quality, cash burning, richly valued stocks are leading the market.

5. What is your firm’s competitive advantage in the U.S. small capitalization equity space?

Matarin's "edge" is its unique ability to bring together the “Best of Both Worlds” - thoughtful fundamental approaches to investing with unbiased, repeatable quantitative methods of investing. In terms of specific aspects of the investment program which are unique to Matarin:

First, Matarin recognizes that a “one size fits all” approach to stock picking is suboptimal. Each stock in the market behaves in its own way and responds to different factors and data points. So our process attempts to paint a unique picture for each of the stocks in the universe depending upon its unique characteristics. For example, highly speculative momentum stocks are treated differently than lower growth, more stable stocks, such as utilities, are treated. We have a separate set of indicators for biotech stocks, utilities and REITS, each of which exhibit their own pattern of behavior. Highly leveraged stocks are treated differently than stable cash generating companies, and on and on.

Second, because the stock selection criteria are quantified, our stock selection process is not constrained by “breadth” or research bandwidth. Return forecasts are generated on a daily basis for roughly 1800 small cap stocks and these forecasts automatically adjust as new information is released. In addition, a systematic portfolio construction process is utilized to insure portfolios are not subject to the greed and fear so often displayed in the marketplace. Therefore, Matarin client portfolios tend to take contrarian positions and hold differentiated and often underfollowed names relative to other investors in the same style box.

Earnings are not used at all in the valuation work. Matarin believes earnings are too easy to manipulate so the use of cash flows and sales measures are preferred.

Finally, we do not buy factors from outside sources. All of our factors are developed and researched internally.

Most importantly, Matarin believes it can consistently generate alpha for clients by rigorously and systematically implementing fundamental investment insights. Other variables which contribute most to Matarin’s success include strict monitoring of transaction costs to ensure portfolio liquidity and to avoid giving investor returns away while trading, the continuity of the firm’s investment team (the team has worked together for over 19 years), the values each member of the team share, the firm's commitment to continuous learning and debate, and the fact that the principals of Matarin are invested right alongside its clients and have tremendous personal 'skin in the game.'

Matarin's investment process was originally developed in the 1980s by a group of quantitative investors at Citibank (which eventually became Invesco). The strategy has been used for over 35 years and has consistently generated alpha for clients over that period of time, including during the seven plus years it has been utilized at Matarin.

Portfolio Management

Stuart Kaye

Stuart Kaye joined Matarin Capital Management as a Co-Founder and Portfolio Manager in 2010. His primary responsibilities include model development, portfolio construction and management of Matarin's suite of investment strategies.

Prior to joining Matarin, Stuart was a partner at Aronson + Johnson + Ortiz responsible for portfolio management and research. Earlier in his career, Stuart worked at Invesco as the U.S. Director of Research for the Global Quantitative Strategies Group and was a member of the Global Management Committee and Invesco Investors' Forum. As Director of Research, Stuart was responsible for the firm's stock selection and asset allocation strategies, the majority of which outperformed their respective benchmarks during his period of oversight. Stuart also worked at AT&T's Defined Benefit Pension Plan where he played a key role in asset allocation decisions and manager selection. Stuart has 27 years of asset management experience.

Stuart holds a BBA from the University of Michigan, graduating with Distinction in Finance and Accounting, and received his MBA with Honors in Finance from The Wharton School. Stuart holds a CFA Charter.

Stuart's passion for investing began at an early age and he has managed investments on behalf of both friends and family since his days at Wharton. He has published numerous articles in Barron's Weekly and is co-author of "How to be a Growth Investor," published by McGraw Hill in 1999. Additionally, Stuart has mentored children and young adults, and has participated in several internationally based volunteer expeditions.

Nili Gilbert

Nili Gilbert joined Matarin Capital Management as a Co-Founder and Portfolio Manager in 2010. Her primary responsibilities include model development, portfolio construction and management of Matarin's suite of investment strategies.

Prior to joining Matarin, Nili was a Senior Director and Research Analyst at Invesco in the Global Quantitative Strategies Group and was responsible for development of the firm's global multi-asset strategies. While attending graduate school Nili worked in Institutional Equities at Morgan Stanley and focused on derivatives trading. Prior to graduate school Nili began her career in development at the Synergos Institute, an organization aimed at reducing poverty globally. Nili has 13 years of asset management experience.

Nili holds an AB from Harvard University, graduating *magna cum laude* in a Special Concentration in Economics and Social Studies, and received her MBA in Finance and Economics from Columbia University. Nili holds CFA and CAIA Charters.

Source: RFP Respondent

Nili chairs the Finance and Investment Committees for and is a member of the Synergos Institute's Board of Directors. She is also a member of The Council on Foreign Relations, and is an alumna of the Toigo Foundation, an organization that promotes diversity within financial services.

Ralph Coutant

Ralph Coutant joined Matarin Capital Management as a Principal and Portfolio Manager in November 2011. His primary responsibilities include model development, portfolio construction and the management of Matarin's suite of investment strategies.

Prior to joining Matarin, Ralph spent 12 years as a senior member of the Equity Research Team within Invesco's Global Quantitative Strategies Group. Ralph was a member of the Global Management Team and the Research Coordination Committee tasked with developing and coordinating the research agenda for a global team of 15 research analysts. Ralph has significant experience in conducting research on stock selection factors, style and industry modeling, factor weighting and timing strategies, and transactions cost modeling. Ralph brings with him expertise in providing a forward-looking, intuitive, fundamental, "real world" perspective to quantitative research, and a passion for investing. Ralph has 17 years of asset management experience.

Ralph holds a BS degree with honors from the Whittemore School of Business and Economics at The University of New Hampshire. Ralph holds a CFA Charter and is a Chartered Market Technician (CMT).

Eli Rietti

Eli Rietti joined Matarin in April 2018 as an investment team member. His primary responsibilities include oversight of all aspects of the trade execution process, as well as supporting the investment team in model development, portfolio construction and management of Matarin's suite of investment strategies.

Prior to joining Matarin, Eli was an analyst at Milton Berg Advisors, a technical analysis research firm. While there, he was responsible for tracking the performance of three theoretical long/short portfolios, managing a database of 30k market timing signals, and writing research reports. Prior to that, he was an accounts payable manager for six Skilled Nursing Facilities in Pennsylvania at Apex Healthcare Partners. Eli is a veteran of the Israel Defense Forces, where he served as an infantryman and a desert-navigation instructor.

Eli holds a BA degree with honors in Liberal Arts and Judaic Studies from Thomas Edison State University. He is currently registered for the June 2018 CFA program Level II exam.

MEMORANDUM

To: LACERA Board of Investments

From: Stephen McCourt, Leandro Festino, Tim Filla, Mitch Dynan
Meketa Investment Group

Date: June 15, 2018

Re: Public Equities Active Emerging Managers Search

BACKGROUND

Last year, the Board of Investments ("BOI" or the "Board") approved the termination of the externally managed equity emerging manager programs, bringing them in-house. Since then, Staff, in consultation with Meketa Investment Group ("Meketa" or "We"), has lead a search for one or more equity emerging managers, primarily focused in small cap and non-U.S. products. An RFP was issued during the fourth quarter of 2017, and responses were evaluated during the following six months.

Meketa collaborated with Staff providing feedback and insights with respect to the language in the RFP. In particular, we offered insights with respect to the Minimum Qualifications ("MQs") managers must pass in order to be considered for the search. We note that setting up appropriate MQs is very important, as only those firms and products that pass the MQs are considered by LACERA. To illustrate, the choice of performance measurement period in the MQs can have a great impact. Looking at rolling periods of performance over long time horizons can help alleviate some of these challenges.

With the submission of RFP responses, Staff began the review of the products, focusing only on those that passed the MQs. After due diligence, Staff arrived at a shortlist of managers to invite for interviews to LACERA's offices. We reviewed Staff's shortlist and provided insights and feedback. Subsequently, Staff met with these managers, which lead to a further narrowing of the universe. Once again, Meketa and Staff discussed this universe of remaining managers. Next, Staff conducted onsite visits with the finalist group. In the same way, Meketa independently conducted its assessment of these products. Finally, Staff and Meketa conferred to discuss which products should be brought to the attention of the BOI for potential funding. After much deliberation weighing the pros and cons of each strategy, we agreed on three products, which are detailed next.

RECOMMENDED EMERGING MANAGER PRODUCTS

Our research suggests that these managers would be positive additions to the LACERA portfolio.

CornerCap Fundametrics Small Cap

Recommendation & Summary:

- CornerCap Fundametrics Small Cap is a reasonable quantitative small cap product and an acceptable investment strategy.
- The team has been stable, and the generational transition has been well thought-out.
- The factors that the team uses in their model are rooted in fundamental analysis. The team has shown a willingness to tweak their investment process over time.
- Long-term performance has been strong. The strategy's excess returns rank in the top decile of the small cap value peer universe over the 5, 7, 10-year and since inception periods. Risk-adjusted returns are also strong. The since inception information ratio ranks in the top decile of the peer group. We would caution, however, that while there is a reasonable chance the strategy can outperform in the future, we do not believe the historical magnitude of the strategy's excess returns (400 – 450 bps, gross of fees) are sustainable.

Organization:

Gene Hoots and Tom Quinn founded CornerCap Investment Counsel in 1989. These two men had previously managed RJR Nabisco's Retirement Fund.

CornerCap currently manages $1.2 billion in three quantitative U.S. equity strategies, individual private client bond portfolios, and externally managed private client investments in non-U.S. equity passive strategies. Private clients comprise 80% of CornerCap's asset base. The Fundametrics Small Cap strategy has ~$200 million in AUM.

The firm is 100% owned by 16 employees. Founder and CEO Tom Quinn has 51% of the equity. Other large shareholders include CIO Canon Carr (~16%), portfolio manager Richard Bean (10%), and Director of Research/Fundametrics Small Cap portfolio manager Jeff Moeller (5%).

Investment Team:

CIO Canon Carr leads the investment team. Mr. Carr joined the firm in 2007 and has 22 years of investment experience. Mr. Carr's hire was part of a transition process in which Mr. Quinn, who previously was both CIO and CEO and who is now in his early 70s, transferred leadership of the investment process to Mr. Carr. As CIO, Mr. Carr leads a six-person Investment Committee that manages the equity strategies and conducts quantitative research. Prior to joining CornerCap, Mr. Carr was a senior equity analyst at CIBC World Markets, covering IT business services, wireless services, and emerging telecom. Mr. Carr earned an MBA from Columbia Business School and a BA from Princeton University.

Five other members of the Investment Committee and three programmers comprise the rest of the investment staff. Mr. Moeller, the portfolio manager of Small Cap, is also on the Investment Committee. The investment team has been stable, with no departures in the last five years.

Investment Philosophy:

CornerCap utilizes a quantitative investment approach. The firm's investment approach is predicated on minimizing human emotion and bias, and capitalizing on "regression to the mean." The investment team believes that human judgement detracts from performance and that relying on objective data yields optimal results. The team follows a relative value discipline.

Investment Process:

CornerCap's approach to investing is quantitative, but the factors they incorporate into their model are fundamental in nature. CornerCap's investable universe, after filtering for liquidity and market cap ($100 million to $4.8 billion), comprises approximately 1,500 stocks. Run each week, the multi-factor model ranks these stocks in deciles based on valuation, momentum, and growth factors. Valuation factors comprise ~2/3 of the weighting in the model, while momentum and growth factors make up the remaining 1/3. Each stock's ranking is derived from its broad small cap universe ranking (50%) and sector specific ranking (50%). The model contains 12-13 factors for the universe ranking and ~15 sector-specific factors for the sector ranking.

Ideas for the portfolio are typically sourced from the top two deciles. These stocks are also run through a financial warnings risk overlay tool to determine their quality profile. This tool contains 20 underlying factors, many of which are balance sheet focused. Stocks either pass or fail the financial warnings test. If a potential idea fails this test, it will not be purchased. Once potential buy candidates are identified, CornerCap uses a proprietary optimization tool to evaluate the purchase candidates against existing holdings and the broader Fundametrics buy universe.

The portfolio is diversified with 200-250 equally weighted stocks. Sector allocations are limited to 40% of the portfolio. Industry allocations are limited to the larger of the benchmark weight or 20%.

The team has shown a willingness to tweak their investment process over time. For example, the firm added a financial warnings overlay at the end of 2008. CornerCap believes this addition aided the portfolio's performance in 2009.

Performance (gross of fees):

Description	1Q 2018	1 Yr	3 Yr	5 Yr	7 Yr	10 Yr	SI	Inception Date
CornerCap Fundametrics Small Cap	-2.6	7.1	9.9	14.5	13.3	12.7	11.3	September 2006
Russell 2000 Value	-2.6	5.1	7.9	10.0	9.4	8.6	6.7	
Excess Returns	0.1	2.0	2.0	4.6	3.9	4.1	4.6	

Description	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
CornerCap Fundametrics Small Cap	9.3	30.3	-0.9	7.0	49.6	18.9	1.6	30.5	38.5	-35.7
Russell 2000 Value	7.8	31.7	-7.5	4.2	34.5	18.1	-5.5	24.5	20.6	-28.9
Excess Returns	1.4	-1.5	6.5	2.8	15.1	0.8	7.1	6.0	17.9	-6.8

Meeting Log:

Date	Meeting Type	MIG Attendees	Manager Attendees	Product Discussed
6/11/2018	Conference Call	Mitch Dynan Joshua Brough Matthew Curran	Canon Carr (CIO), Derek Tubbs (IR)	Fundametrics Small Cap
5/18/2018	Conference Call	Mitch Dynan Joshua Brough Matthew Curran	Jeff Moeller (Director of Research / PM), Derek Tubbs (IR)	Fundametrics Small Cap
4/13/2017	Conference Call	Paul Scleparis	Canon Carr (CIO), Jeff Moeller (Director of Research / PM), Derek Tubbs (IR)	Fundametrics Small Cap

Matarin Small Cap Core

Recommendation & Summary:

- Matarin is a reasonable quantitative small cap core product and an acceptable investment strategy.
- The firm is 100% employee-owned. The investment team is small and has been stable.
- The firm's quantitative model is straightforward. It combines fundamentals, valuation, management behavior and price momentum factors.
- Performance has been good since product inception in January of 2011. Excess returns have been in the top quartile of the peer group during the trailing 5-year period.

Organization:

Founded in July 2010, Matarin is 100% employee-owned by five shareholders, three of whom are on the investment team. The firm is majority female-owned.

As of 3/31/18, total firm AUM was $1.4B, with $1.1B in the small cap strategy. The remainder of the assets were in Matarin's Large Cap Core, market neutral, and recently incepted micro cap strategies.

Investment Team:

The investment team has worked together for nearly 20 years. Prior to forming Matarin, they were part of the Quantitative Strategies Group at Invesco. The team consists of Stuart Kaye and Nili Gilbert, both co-founders, and Ralph Coutant, who subsequently joined Matarin from Invesco in 2011.

Investment Philosophy:

Matarin believes that the stock market is inefficient in the intermediate term due to irrational market behavior. The factors driving this inefficiency are emotions (i.e. fear and greed) and behavioral biases (i.e. ego and short-term focus.)

Matarin believes that by identifying future drivers of return and capitalizing on inefficiencies in these drivers, it can generate superior risk-adjusted returns. First, the team identifies long-term, fundamental insights regarding what variables drive stock returns through time. Second, it quantifies these fundamental insights using its "alpha model" to take advantage of the pricing inefficiency.

Investment Process:

Matarin utilizes a quantitative investment approach. The firm's alpha model incorporates four fundamental "concepts". These are "business" (high cash flow generators that are "efficient" and demonstrate steady growth), "price" (stocks that are out of favor and poised to outperform as fundamentals and sentiment mean revert), "people" (insider ownership, strong corporate governance and share buybacks/issuance) and "catalyst" (change in volume or price momentum, short-term analyst forecast changes indicating trends in business momentum).

Matarin forecast 19 factors within these four "concepts" to generate an excess return forecast for each of the 2,700 stocks in its universe. All stocks are scored on each of the factors, and these scores roll up into an overall "alpha" rating. No factor receives more than a 15% weight in the model. The "business" concept is the most heavily weighted concept in the model. Factors that are in the "business" concept include strong free cash flow over 1, 3 and 5 years, above average, stable revenue growth, and efficiency metrics, which can vary by industry. The free cash flow factors are especially important. A governance factor to assess issues such as board diversity and board independence was also added a couple of years ago. The investment team also checks the model recommendations at the back-end of the optimization to ensure that the output is reasonable.

The investment team will tactically tilt portfolio exposure to the price and catalyst concepts based on the environment. For instance, when valuation spreads across stocks are wide, the price concept will be more heavily tilted.

The team uses a customized Northfield U.S. Single Country model to manage portfolio risk exposure. This model enables the team to focus its risk budget where it has the most information.

The portfolio holds approximately 150 stocks. Depending on the sector, constraints are either +/-0.5% or +/-1% compared to the benchmark. Industry constraints are +/-3% versus the Russell 2000. Initial position sizes are capped at +1% relative to the benchmark, but can grow to a maximum of 2% above the benchmark.

Performance (gross of fees):

	1Q2018	1 Yr	3 Yr	5 Yr	7 Yr	SI
Matarin	-0.5	10.3	8.7	13.7	13.5	13.8
Russell 2000	-0.1	11.8	8.4	11.5	10.4	11.2
Excess Returns	-0.4	-1.5	0.4	2.2	3.1	2.6

	2017	2016	2015	2014	2013	2012	2011
Matarin	9.7	26.3	-1.1	10.7	38.5	19.3	2.4
Russell 2000	14.7	21.3	-4.4	4.9	38.8	16.4	-4.2
Excess Returns	-5.0	5.0	3.3	5.8	-0.4	2.9	6.6

Inception: 1/2011

Meeting Log:

Date	Meeting Type	MIG Attendees	Manager Attendees	Product Discussed
5/22/2018	MIG East	Mitch Dynan	Ralph Coutant, Principal, PM Marta Cotton, Principal, Dir. Of Client Development	Small Cap Core
6/13/2017	MIG East	Joshua Brough Lily White	Ralph Coutant, Principal, PM Marta Cotton, Principal, Dir. of Client Development	Small Cap Core
9/10/2014	MIG East	Mitch Dynan Roberto Obregon	Stuart Kaye, Co-Founder, PM, Ralph Coutant, Principal, PM Marta Cotton, Principal, Dir. of Client Development	Small Cap Core

Global Alpha International Small Cap

Recommendation & Summary:

- Global Alpha is an above average small cap manager and the firm's International Small Cap product is an acceptable investment strategy.
- The firm is majority employee-owned and focused on just two, overlapping investment products. These products are Global Small Cap and International Small Cap.
- While the investment team is relatively small, they benefit from the firm's focus on just two strategies. Both products are relatively concentrated and have a high degree of overlap. Portfolio turnover is low.
- Global Alpha's investment approach is intuitive and focuses on high quality growth businesses. These businesses are supported by secular, top-down growth themes.
- Performance has been consistently strong over all trailing periods. Global Alpha has outperformed the index in six of eight calendar years since inception, with since inception returns of 13.4% versus 10.4%, net of fees.

Organization:

Global Alpha Capital Management is a Montreal-based investment manager. Robert Beauregard and David Savignac, who previously worked together at Natcan Investment Management, the investment management arm of the National Bank of Canada, founded the firm in 2008.

Global Alpha employees own 51% of the firm, with the balance held by Connor Clark & Lunn (CC&L), a large, independent financial services firm based in Toronto. CC&L seeded Global Alpha's global and international small cap products and provide marketing support in exchange for a 49% stake in the business. Currently, Mr. Beauregard is the largest employee-owner of the firm with 25% of the stock.

Global Alpha Capital Management has a total of $1.2 billion in AUM. The firm manages two investment products: Global Small Cap ($549mm) and International Small Cap ($618mm). The International Small Cap strategy was incepted in January 2010.

Investment Team:

CIO Robert Beauregard leads the investment team. Mr. Beauregard is the key decision-maker on the firm's two investment products. He is supported by three PMs who have regional coverage responsibilities, two analysts, and one analyst/ trader.

Investment Philosophy:

Global Alpha's core belief is that earnings growth drives stock prices over time. They seek to identify high quality companies that benefit from secular growth trends and have the potential to outperform market expectations over a 3-5 year time horizon. Global Alpha builds relatively concentrated portfolios of 50 to 70 stocks.

Investment Process:

The investment process starts with a series of screens that filter the universe of international small cap companies. The screen is limited to companies with between $100mm and $3B in market capitalization. The team screens the remaining companies based on a variety of growth metrics, including revenue growth, operating margins above industry averages, and debt levels below industry averages. This step of the process further reduces the investable universe further to approximately 500 stocks.

The investment team overlays top-down, secular themes to prioritize their research efforts, as they look for growing, high quality businesses that can benefit from secular growth trends. Examples of themes include R&D innovation, consumer products, environmental innovation, demographics, and outsourcing. The result is a list of roughly 250 stocks for the team to further research.

The investment team's bottom-up research centers on assessing the quality of management, the company's potential earnings power, and the quality of the balance sheet. The investment team is required to meet with company management at least once before investing in any new investment idea. After developing a view of the company's quality and growth potential, Global Alpha uses a 5-Year DCF valuation model to estimate the intrinsic value of the business using a terminal growth assumption of 3%, and a terminal multiple based on both comparable analysis and asset-based valuation multiples.

Benchmark relative guidelines are the basis for portfolio construction. Regional and sector exposures are limited to +/-10% versus the index. Position sizes are limited to an absolute weight of 5%. Portfolios are relatively concentrated at 50 to 70 stocks. Annual portfolio turnover is relatively low and typically ranges between 25%-30%. Tracking error is modest at between 4% and 6%.

Performance (gross of fees):

Performance Analysis as of March 31, 2018						
	1Q2018	**1 Yr**	**3 Yr**	**5 Yr**	**7 Yr**	**SI**
Global Alpha International Small Cap	2.4%	26.3%	16.7%	16.3%	12.4%	14.4%
MSCI EAFE Small Cap	0.2%	23.5%	12.3%	11.1%	8.7%	10.4%
Excess Returns	2.2%	2.8%	4.5%	5.1%	3.6%	4.0%

	2017	**2016**	**2015**	**2014**	**2013**	**2012**	**2011**	**2010**
Global Alpha International Small Cap	36.8%	5.0%	19.0%	(1.0%)	29.6%	23.0%	(15.3%)	29.6%
MSCI EAFE Small Cap	33.0%	2.2%	9.6%	(5.0%)	29.3%	20.0%	(15.9%)	22.0%
Excess Returns	3.8%	2.8%	9.4%	4.0%	0.3%	3.0%	0.6%	7.6%

Inception: 1/2010

Meeting Log:

Date	**Meeting Type**	**MIG Attendees**	**Manager Attendees**	**Product Discussed**
11/2/2017	MIG West	David Smith	Robert Beauregard (CIO), Stephen Reynolds (CC&L, Sales)	International Small Cap
12/2/2014	MIG West	David Hetzer	Robert Beauregard (CIO), Eric Hasenauer (CC&L, Sales)	International Small Cap

SUMMARY AND RECOMMENDATION

Staff has proposed that CornerCap, Matarin, and Global Alpha be invited by the Board to present their emerging manager equity products. We concur with the recommendation from Staff. We followed the search from its beginning, and can attest that Staff followed LACERA's existing process. Furthermore, we concur that these managers are sound options for the Board to consider, both independently and in relationship to LACERA's existing U.S. equity assets.

We look forward to discussing this matter with you at the next BOI meeting.

SM/TF/LF/MD/srt

ACTIVE U.S. AND NON-U.S. EMERGING MANAGER RESPONDENTS

	Investment Manager	Passed Initial Screen	Reason Screen Not Passed
1	Blackcrane Capital LLC	N	Did not meet Excess Return MQ
2	Monarch Partners	N	Did not meet Excess Return MQ
3	Bowling Portfolio Management Small Cap Value	N	Did not meet Excess Return MQ
4	Bowling Portfolio Management Small Cap Equity	N	Did not meet Excess Return MQ
5	Matarin Capital Management	Y	
6	Applied Research Investments	N	Did not meet Minimum Strategy AUM or Excess Return MQs
7	Business Technology Associates	N	Did not meet Minimum Strategy AUM or Minimum Strategy Number of Clients MQs
8	Cedar Street Asset Management	Y	
9	Global Alpha Capital Management	Y	
10	Mark Asset Management	N	Did not meet Excess Return MQ
11	CornerCap Investment Counsel	Y	
12	Redwood Investments	Y	
13	361 Capital	N	Did not meet Excess Return MQ
14	Ativo Capital Management	N	Did not meet Excess Return MQ
15	Seamans Capital Management	N	Did not meet "US" or "Non-US" RFP requirement; did not meet Minimum Strategy AUM MQ
16	Eastern Shore Capital Management	N	Did not meet Excess Return MQ
17	Hillcrest Asset Management	N	Did not meet Excess Return MQ
18	AltraVue Capital	N	Did not meet Excess Return MQ
19	Denali Advisors	N	Did not meet Excess Return MQ
20	Decatur Capital Management	N	Did not meet Excess Return MQ
21	Granite Investment Partners	Y	
22	Maryland Capital Management	N	Did not meet Excess Return MQ
23	Summit Global Investments	Y	
24	Sustainable Insight Capital Management	N	Did not meet Excess Return MQ

25	Arabesque Asset Management	N	Did not meet Excess Return MQ
26	Dundas Global Investors	N	Did not meet Excess Return MQ
27	Oak Associates LTD Large Cap Growth	Y	
28	Oak Associates LTD All Cap Core Growth	Y	
29	Semper Augustus Investments Group LLC	N	Did not meet Excess Return MQ
30	Pacific Ridge Capital Partners LLC	Y	
31	High Pointe Capital Management LLC	N	Did not meet Excess Return MQ
32	Martin Investment Management LLC Best Ideas	N	Did not meet Excess Return MQ
33	Martin Investment Management LLC Int'l Equity	N	Did not meet Excess Return MQ
34	Bridge City Capital LLC	Y	
35	Summit Global Investments (Global)	N	Did not meet "US" or "Non-US" RFP requirement
36	Isthmus Partners LLC	Y	
37	AMP Wealth Management	N	Did not meet Excess Return MQ
38	New Amsterdam Partners LLC	Y	
39	Compass Group LLC	N	Did not meet Less than 2 Billion in AUM MQ
40	Union Square Park Capital Management LLC	N	Did not meet Registered Investment Advisor or Excess Return MQs
41	OakBrook Investments LLC	N	Did not meet Minimum Strategy AUM MQ
42	RVX Asset Management LLC	N	Did not meet Minimum Strategy AUM, Minimum Strategy Number of Clients, or Excess Return MQs
43	Spyglass Capital Management LLC	N	Did not meet Minimum Strategy AUM, Minimum Strategy Number of Clients, or Excess Return MQs
44	Pacific View Asset Management LLC	Y	
45	Empiric Institutional LLC	N	Did not meet Excess Return MQ
46	Granahan Investment Management	N	Did not meet Excess Return MQ
47	Osmosis Investment Management US LLC	N	Did not meet Minimum Strategy AUM, Minimum Strategy Number of Clients, or Excess Return MQs
48	Goelzer Investment Management Inc	N	Did not meet Excess Return MQ
49	Marietta Investment Partners	N	Did not meet Minimum Strategy AUM or Excess Return MQs
50	Metis Global Partners Int'l Small Cap	N	Did not meet Excess Return MQ
51	Metis Global Partners Emerging Markets	N	Did not meet Excess Return MQ

Public Equities Active Emerging Manager Search
Minimum Qualifications
(October 2017 RFP)

1. The emerging manager is a registered investment advisor under the Investment Advisers Act of 1940.
2. No one person or entity, other than the principals or employees of the emerging manager, shall own more than a forty-nine percent (49%) interest in the emerging manager.
3. LACERA prefers emerging managers who currently comply with the performance presentation standards set forth in Global Investment Performance Standards (GIPS) of the CFA Institute. If the emerging manager does not currently follow the GIPS standards, then the emerging manager must make a good faith effort to comply with such standards within one (1) year of hire.
4. The portfolio managers that are assigned to manage the LACERA portfolio must have an average of at least five (5) years of verifiable investment experience managing portfolios containing a similar investment style as the mandate for which the emerging manager is being hired by LACERA.
5. The emerging manager must have at least $25 million of assets under management in the same investment style as the assets to be managed for LACERA before any allocation of LACERA assets to the emerging manager.
6. Each emerging manager must have no more than $2 billion of total assets under direct management before selection.
7. The emerging manager must have direct responsibility for managing assets of the same investment style it will manage for LACERA for at least three (3) other clients besides LACERA.
8. The assets for any single client (other than LACERA) must comprise no more than fifty percent (50%) of the total assets managed by the emerging manager.
9. At least sixty percent (60%) of the proposed product's quarterly rolling one-year excess returns over the last three years ended June 30, 2017 (6 of 9 observations) must exceed the strategy's respective benchmark on a **net of fee** basis by the levels identified in the following schedule:

U.S. Equity all capitalization ranges	50 bps
Non-U.S. Developed Markets Small Cap Equity	75 bps
Non-U.S. Developed Markets Equity all other cap ranges	50 bps
Non-U.S. Emerging Markets Equity all cap ranges	75 bps

FOR INFORMATION ONLY

June 18, 2018

TO: Each Member
Board of Investments

FROM: Scott Zdrazil
Senior Investment Officer – Corporate Governance

FOR: July 10, 2018 Board of Investments Meeting

SUBJECT: **PRINCIPLES FOR RESPONSIBLE INVESTMENT (PRI) ASSOCIATION BOARD ELECTION CANDIDATE NOMINATIONS**

The Principles for Responsible Investment (PRI), to which LACERA is a signatory, has announced that 2018 PRI Board elections will take place later this year to elect two asset owner positions and one investment manager position. The deadline for nominations is July 27, 2018.

The PRI board is comprised of eleven directors, seven of whom are directors from asset owners who have been elected asset owner PRI signatories. Directors serve full three-year terms and are eligible for re-election to two additional consecutive terms.

Please find attached the announcement regarding PRI board elections (**ATTACHMENT 1**), which includes information regarding the eligibility requirements, expectations and duties, and election timetable. Also attached are the PRI Association's Board Election Rules (**ATTACHMENT 2**) which include in Article 10 information regarding requirements for nomination and seconding by another asset owner.

Staff does not have a recommendation regarding a nomination from LACERA at this point. Should the Board wish to consider a nomination, LACERA's *Corporate Governance Policy* provides that the Corporate Governance Committee recommend a nomination to the Board, time-permitting, absent which the Committee Chair may recommend for the full Board a nomination from LACERA (Policy at §V.B.[vii.]; p. 3). The Corporate Governance Committee did not convene its meeting of June 13, 2018. In recognition of the upcoming deadline and in adherence to LACERA's policy, this item is being reported to the Board.

Attachments

Noted and Reviewed:

Jonathan Grabel

https://www.unpri.org/pri/pri-governance/board-elections

Board elections

2018 PRI Board election

The 2018 PRI Board election is for two asset owner positions and one investment manager position.

The board is encouraging:

- Candidates with leadership and governance experience; and
- Female candidates.

Candidates will also be asked in their candidate statement to elaborate on their demonstrated leadership within responsible investment, ESG expertise and other experience relevant to the long-term success of the PRI.

Nomination deadline: 27 July 2018

Signatory rights and the PRI Board

Nominating candidates for the annual elections and electing PRI Board directors are important signatory rights and responsibilities. The PRI encourages signatories to participate in our annual board nomination and election process to maintain a vibrant and representative PRI Board.

The board is collectively responsible for the long-term success of the PRI and in particular for: establishing the PRI's mission, vision and values; setting the strategy, risk appetite and structure; delegating the implementation of the strategy to the PRI Association Executive (the Executive); monitoring the Executive's performance against the strategy; exercising accountability to signatories and being responsible to relevant stakeholders.

The board is composed of: one independent chair (confirmed by a signatory vote) and ten directors (seven elected by asset owner signatories, two by investment manager signatories and one by service provider signatories). The chair and all elected directors are the Statutory Members of the Company. There are two permanent UN advisors to the board, representatives from the PRI's founding UN partners: UN Global Compact and UNEP Finance Initiative.

Current board directors are all CEOs, CIOs, board members, or 'relevant officers' of signatory organisations. Part of the role of the board is to be ambassadors for the PRI and for responsible investment. The PRI considers it important to have high-level C-suite engagement and champions to help bring responsible investment into the mainstream. For information on the current board directors, including directors at the end of their three-year terms (in bold) see below.

Current board directors

Role / elected by	Director	Signatory	Signatory HQ country	Term
Chair	Martin Skancke	Independent	N/A	2018-2020
Directors elected by asset owner signatories	*Angela Emslie*	*HESTA*	*Australia*	*2016-2018*
	Eva Halvarsson	Second Swedish National Pension Fund (AP2)	Sweden	2017-2019
	Marcus Madureira	PREVI	Brazil	2018-2020
	Priya Mathur	CalPERS	US	2018-2020
	Hiro Mizuno	Government Pension Investment Fund (GPIF)	Japan	2017-2019
	Renosi Mokate	Government Employees Pension Fund (GEPF)	South Africa	2018-2020
	Xander den Uyl	*ABP*	*Netherlands*	*2016-2018*
Directors elected by investment manager signatories	*Sandra Carlisle*	*HSBC Asset Management*	*UK*	*2016-2018*
	Tycho Sneyers	LGT Capital Partners	Switzerland	2018-2020
Director elected by service provider signatories	Peter Webster	Vigeo Eiris	France	2017-2019

2018 election open positions

The 2018 PRI Board election is for:

- two asset owner positions; and
- one investment manager position.

Asset owner signatories vote for asset owner candidates. Each asset owner signatory will have two votes. The two candidates who receive the highest number of votes are elected.

Investment manager signatories vote for investment manager candidates. Each investment manager signatory will have one vote. The candidate who receives the highest number of votes is elected.

Skills, experience and diversity

As part of its commitment to strengthen the rigour and accountability of the election process, the PRI is providing more guidance and information to candidates and signatories in advance of their votes.

The board should have the appropriate balance of skills, diversity, experience, independence and knowledge of the organisation to enable it to discharge its duties and responsibilities effectively. This necessary diversity encompasses a sufficient mix of relevant skills, competence, and diversity of perspectives. It may include but is not limited to: geographical diversity of signatory representation to bring regional knowledge and perspectives to the board; diversity of geographical origin, ethnicity, language and culture, and also gender diversity.

The board needs to be appropriately representative of the diversity of PRI signatories in order to generate effective debate and discussion around the key issues that the Board considers, and to deliver the broadly-founded leadership that the initiative requires. The PRI is a global organisation, and aims for global representation on its board, particularly within the asset owner positions.

The board is encouraging candidates with leadership and governance experience. Candidates will also be asked to elaborate in their statements on their demonstrated leadership within responsible investment, ESG expertise and other experience relevant to the long-term success of the PRI. This information – as well as information on the nominating signatory, the candidate biography and statement – will enable the signatory electorate to more easily compare the skills, experience and diversity of the respective candidates.

The current gender balance amongst the elected directors is fairly evenly balanced (six males; five females). However two female directors are coming to the end of their terms in 2018. The board is therefore also encouraging female candidates.

Eligibility

To be eligible to stand for the election, candidates must be a ‘relevant officer’, a person who is employed or otherwise serving as:

- the CEO of a signatory;
- the CIO of a signatory;
- in the case of a signatory that does not have the offices of CEO or CIO, the most senior investment professional of that signatory;
- a director serving on the main governing board (and not merely any subsidiary boards, subordinate boards or committees) of a signatory;
- a trustee of a signatory;
- an executive employee of a signatory in a role where his or her immediate line manager is a relevant officer; or
- a former relevant officer.

Candidates must be nominated by their signatory organisation and seconded by another signatory within the same signatory category. An asset owner candidate for example needs to be nominated by their signatory organisation and seconded by another asset owner.

The signatory putting a candidate forward must have contributed the invoiced financial contribution in the current financial year, and must have participated in the PRI reporting and assessment process.

2018 election timetable

Week	Date	Event
1	21 May	Formal publication of the election notice and invitation for signatories to nominate candidates
10	27 July	Final day for nominations
15	12 September	Announcement of the election candidates at the Signatory General Meeting, PRI in Person, San Francisco
18	w/c 1 October	Election voting opens
25	w/c 19 November	Election voting closes
26	w/c 26 November	Board announcement of the election results

Expectations

Directors are nominated by a signatory organisation and elected by signatories, from a signatory category, but have a responsibility to fulfil their duties as an individual and in the best interests of the PRI as a whole.

Term

The directors elected in this election will commence their terms on 1 January 2019. Each director who is elected in an annual election is elected for a term of three calendar years.

Time allocation

The board has three planned in-person two day meetings per year and one conference call, typically:

- One meeting in London (February/March);
- One meeting in a location decided by the Board (June/July).
- One meeting immediately before the annual PRI in Person conference (September); and
- One conference call (December).

The expectation is that directors will participate in every in-person meeting and planned conference calls. Signatory events are usually organised around board meetings as they are an opportunity for directors to meet signatories in the local markets and share expertise.

Board members are typically appointed to one or two board committees. The committees (Ethics; Finance, Audit and Risk; Human Resources and Remuneration; Policy; Signatory and Stakeholder Engagement; and Skills, Diversity and Elections) facilitate the discussions and workings of the board and are critical to the effectiveness of the board. The workload of each committee is varied, but on average a committee will have three one hour conference call meetings per year. The expectation is that each committee member will participate in every respective committee meeting, with a requirement to participate in a majority of meetings of that board committee in a calendar year.

The time commitment for board and committee meetings together with PRI in Person conference and allied signatory events is typically 10-12 days per year excluding travel. Directors are also expected to dedicate additional reading and preparation time leading up to meetings.

Attendance at planned and ad hoc board meetings and conference calls, and committee meetings and conference calls will be recorded in the annual Signatory General Meeting papers and on the PRI website.

Expenses

The PRI will offer to make a contribution towards the travel expenses of directors that attend in person meetings.

For more information on the role and responsibilities of directors see the Directors' Terms of Reference (https://www.unpri.org/Uploads/i/j/m/2016-09-22-PRI-Association-Board-Directors-Terms-of-Reference.pdf).

Further information

For more information on the role of the board, expectations of directors and the application process:

Email Christopher Sperling to arrange a 1-1 call about the role, organise a call with a current board director in your local market, and/or register your interest

Read the Articles of Association of PRI Association (https://www.unpri.org/Uploads/g/e/r/2016-11-14-Articles-of-Association-of-PRI-Association-.pdf) and the underlying Rules and Policies, on the PRI governance page (https://www.unpri.org/pri/pri-governance), including the election rules (https://www.unpri.org/Uploads/f/q/c/2016-09-22-PRI-Association-Board-Election-Rules-.pdf).

Principles for Responsible Investment

PRI ASSOCIATION BOARD ELECTION RULES

Approved by the PRI Board in September 2016.

INTRODUCTION

All directors of the PRI Association Board (the Board) are elected by categories of signatories. The election of Board directors is an important PRI signatory right and responsibility. The Articles of Association of PRI Association (the **Articles**) require that the Directors must devise and publish on the Company's website certain rules and policies, including the rules regulating the procedures for: the nomination and election of Directors (including an Extraordinary Election); and the confirmation of the appointment of the Chair by Signatories (the **Election Rules**).

The Directors may, from time to time, make such other rules as they may deem necessary or convenient for the proper conduct and management of the Company, including the election process, provided that no rule will be inconsistent with anything contained in the Articles, but in the event of any inconsistency, the Articles will prevail.

RELEVANT ARTICLES

Article 9: Membership of the Board

Composition

9.1 The Board is constituted of:

9.1.1 seven Directors from Asset Owner organisations who have been elected by Asset Owner Signatories in accordance with Article 10;

9.1.2 two Directors from Investment manager organisations who have been elected by non-Asset Owner Signatories in accordance with Article 10;

9.1.3 one Director from a Service Provider organisation who has been elected by non-Asset Owner Signatories; and

9.1.4 one Director, who has been nominated by the Directors to serve as the Chair and has had such nomination confirmed by the Signatories in accordance with Article 10.

Article 10: Election of Directors, appointment of Chair and term of office

Election of Directors

10.1 The Directors will, in each calendar year, organise an election of Directors to fill vacancies on the Board that will arise on the termination of office of one or more Directors at the end of that calendar year (an Annual Election).

10.2 To be eligible to stand for election as a Director by a category of Signatories (a **Relevant Category**), a person must:

10.2.1 be a Relevant Officer or Former Relevant Officer of a Signatory of the Relevant Category; and

10.2.2 be:

10.2.2.1 nominated by a Signatory of the Relevant Category and seconded by another Signatory of the Relevant Category; or

10.2.2.2 in the case of a Mid-Term Election, nominated: (a) by a Signatory of the Relevant Category and seconded by another Signatory of the Relevant Category, OR (b) by the Board; and

10.2.3 satisfy any additional eligibility requirements prescribed by the Board in accordance with Article 10.10 in respect of the vacancy for which he or she is standing; and

10.2.4 be a natural person (not a company or other organisation) who confirms in writing his or her willingness to be a Director and a Statutory Member.

10.3 In any election under this Article 10:

10.3.1 a Signatory may only nominate any one person for election and second any one person for election (and having nominated a person may not also second that person in the same election); and

10.3.2 each nomination or seconding of a person by a Signatory must be in writing.

Term of Office of Elected Directors

10.4 Each Director who is elected in an Annual Election is elected for a term of three (3) calendar years, commencing on 1 January of the year next following the announcement of his or her election.

10.5 Each Director who is elected in a Mid-Term Election is elected for a term commencing on the date of his or her election and ending on 31 December of the second calendar year immediately following the end of the calendar year in which the Director is elected.

10.6 No person elected as a Director may serve more than three (3) consecutive terms as an elected Director. In the case of a person deemed elected as set out in Article 9.5, the number of consecutive terms served by that person as a PRI Advisory Council Representative immediately prior to the date of the adoption of these Articles (as set out in the last column in the table in Article 9.5) will be deemed to be consecutive terms that such person has served as a Director for the purpose of these Articles.

10.7 A Director who has served for three (3) consecutive terms as an elected Director will be eligible to stand for election as a Director (subject to satisfying the other eligibility requirements of these Articles) provided that the office for which he or she seeks election commences no sooner than twelve (12) months after the end of those three (3) consecutive terms.

Mid-Term Elections

10.8 If, during a calendar year, there is a vacancy or there are vacancies on the Board for any of the positions referred to in Articles 9.1.1 to 9.1.3 (inclusive), the Directors may organise an election by Signatories of the Relevant Category or Relevant Categories to fill such vacancy or vacancies (a **Mid-Term Election**).

Diversity

10.9 The Directors will seek to promote diversity of the Board through engagement with Signatories, the UN Global Compact and the UNEP Finance Initiative (or their respective successor agencies within the United Nations) and the Company's executives, by adoption of the Diversity Policy and appropriate Election Rules and by such other means as they deem appropriate.

10.10 In the case of any Annual Election or Mid-Term Election, the Board may, in respect of one or more of the vacancies to be filled, prescribe eligibility requirements for candidates wishing to stand for election as Directors additional to the other eligibility requirements of Article 10.2 with a view to setting high leadership standards and enhancing the collective skills and/or experience and/or diversity of the Board. Such additional eligibility requirements will be prescribed in accordance with the guidelines provided in the Election Rules.

10.11 If, in the case of any Annual Election or Mid-Term Election, the Board prescribes additional eligibility requirements in accordance with Article 10.10, the Board will notify the Signatories of such requirements and the reason(s) for them before the relevant period for nomination opens.

Election Rules

10.12 Only Asset Owner Signatories may vote in an election to fill a vacancy arising on the termination of the office of a Director who was elected by Asset Owner Signatories

10.13 Only Investment Manager Signatories may vote in an election to fill a vacancy arising on the termination of the office of a Director who was elected by Investment Manager Signatories.

10.14 Only Professional Service Partner Signatories may vote in an election to fill a vacancy arising on the termination of the office of a Director who was elected by Professional Service Partner Signatories.

10.15 In each election:

10.15.1 each Signatory will have as many votes as there are vacancies on the Board to be filled by election by its category of Signatories; and

10.15.2 no Signatory may vote more than once for the same candidate.

10.16 In any election by a category of Signatories to fill a vacancy or vacancies on the Board (not being subject to additional eligibility requirements specified by the Board in accordance with Article 10.10), the candidates, equal in number to the number of vacancies to be filled, who receive the highest number of votes from Signatories of the relevant category voting in an Electronic Poll will be deemed to be elected. When determining those candidates who have received the highest number of votes from Signatories of the relevant category for the purpose of this Article, any candidate who is elected under Article 10.17 at that election by the relevant category of Signatories will not be included as part of such determination.

10.17 If, in any election:

10.17.1 a single vacancy is the subject of particular additional eligibility requirements specified by the Board in accordance with Article 10.10, the eligible candidate who: (a) satisfies those additional eligibility requirements, and (b) receives the highest number of votes amongst eligible candidates who also satisfy those particular additional eligibility requirements, from Signatories of the relevant category voting in an Electronic Poll, will be deemed to be elected to fill such vacancy; or

10.17.2 any two or more vacancies are the subject of the same particular additional eligibility requirements specified by the Board in accordance with Article 10.10, the eligible candidates who: (a) satisfy those particular additional eligibility requirements; (b) are equal in number to the number of vacancies to be filled; and (c) receive the highest number of votes amongst eligible candidates who also satisfy those additional eligibility requirements, from Signatories of the relevant category voting in an Electronic Poll, will be deemed to be elected to fill such vacancies.

10.18 If, in any election, there is only one eligible candidate nominated for election to fill a particular vacancy, that candidate will not be deemed automatically appointed as a Director. His or her appointment as a Director will require the approval of a simple majority of those Signatories of the relevant category voting in an Electronic Poll.

10.19 If, in any election, the number of eligible candidates nominated for election to fill particular vacancies is equal to or less than the number of such vacancies, those candidates will not automatically be deemed appointed as Directors. The appointment of any of those candidates as a Director to fill any of those particular vacancies will require the approval of a simple majority of those Signatories of the relevant category voting in an Electronic Poll.

10.20 Except as otherwise provided in these Articles, the procedures for the nomination and election of Directors will be determined by the Election Rules.

Appointment of Chair

10.21 To be eligible to be nominated by the Directors to be the Chair a person must be a natural person (not a company or other organisation) who confirms in writing his or her willingness to be a Director and a Statutory Member.

10.22 A person nominated by the Directors to be the Chair must, before taking office, have his or her appointment as Chair, and term of office (including commencement date), confirmed by the approval of:

10.22.1 a simple majority of Signatories, including

10.22.2 a simple majority of Asset Owner Signatories,

voting in an Electronic Poll.

10.23 Except as otherwise provided in these Articles, the method of the confirmation of the Chair will be determined by the Signatory Rules.

Term of Office of Chair

10.24 The Chair may be appointed for a term of up to three (3) years, following the expiry of which period he or she will cease to serve as the Chair unless re-appointed in accordance with the provisions of these Articles.

10.25 A person who has served as the Chair for three (3) consecutive terms will be eligible for appointment as Chair (subject to satisfying the other eligibility requirements of these Articles) provided that the appointment commences no sooner than twelve (12) months after the end of those three (3) consecutive terms.

Article 11: Termination of Office

11.1 The office of Director (including the Chair) is immediately vacated on the expiry of the Director's term of office or if:

11.1.8 the Director did not satisfy the criteria set out in Article 10.2 at the time of his or her election and the Directors resolve by simple majority of those voting on the resolution that the office be vacated;

Article 18: Signatory Rights

18.10 Signatories may, in accordance with the following provisions, require the Company to arrange an election for all ten (10) elected seats on the Board (an **Extraordinary Election**):

18.10.1 If Signatories representing at least three (3) per cent of all the Signatories serve written notice on the Company requiring the Company to hold an Extraordinary Election, then the Directors must as soon as reasonably practicable arrange an Electronic Poll. The sole resolution on the poll will be "*The Signatories require an Extraordinary Election to be arranged as soon as reasonably practicable*".

18.10.2 If Signatories representing a simple majority of all Signatories voting in the Electronic Poll held in accordance with Article 18.10.1, including a simple majority of Asset Owner Signatories voting in the Electronic Poll, vote in favour of the resolution, then the Directors must arrange an Extraordinary Election as soon as reasonably practicable in accordance with the rules for such elections set out in the Election Rules.

18.10.3 In the event of an Extraordinary Election, the Directors, including the Chair, will remain in post until the formal announcement to the Company by the Chair of the results of the Extraordinary Election, whereupon each Director (including the Chair) will automatically vacate his or her office unless he or she has been duly elected as Director in the Extraordinary Election. The election of a Director who was a serving Director immediately prior to such election will be disregarded for the purpose of calculating his or her maximum period of office under Article 10. The Directors elected in an Extraordinary Election must nominate a person to be Chair for confirmation by the Signatories in accordance with Article 10.

Article 19: Rules and Policies

19.1 The Directors must devise and publish on the Company's website:

19.1.2 rules regulating the procedures for: the nomination and election of Directors (including an Extraordinary Election); and the confirmation of the appointment of the Chair by Signatories (the **Election Rules**);

Article 20: Statutory Members

20.3 Statutory Membership is open only to the Directors. In standing for election as a Director, a person will be deemed to have applied for Statutory Membership, and, on his or her election as a Director, such person must be entered by the Directors in the register of Statutory Membership. A person's Statutory Membership will terminate automatically when he or she ceases to be a Director.

ELECTION RULES

Relevant Officer

1. A Relevant Officer means a person who is employed or otherwise serving as:

(i) the Chief Executive Officer of a Signatory; or
(ii) the Chief Investment Officer of a Signatory; or
(iii) in the case of a Signatory that does not have the offices of Chief Executive Officer or Chief Investment Officer: the most senior investment professional of that Signatory; or
(iv) a director serving on the main governing board (and not merely any subsidiary boards, subordinate boards or committees) of a Signatory; or
(v) a trustee of a Signatory; or
(vi) an executive employee of a Signatory in a role where his or her immediate line manager is one of the persons described in sub-paragraphs (i), (ii) or (iii) of this definition of Relevant Officer.

Former Relevant Officer

2. A Former Relevant Officer means a person who is a former Relevant Officer of a Signatory.

Candidates

3. Potential candidates are to read and understand the PRI Association Articles, the PRI Code of Ethics and the Directors Terms of Reference before being nominated by their signatory organisation.
4. Candidates are not eligible if they are aware that their affiliation or role will change in the foreseeable future and they would not be eligible with that forthcoming affiliation or role.
5. Election candidates are required to:
   - 5.1.1 provide a candidate statement, biography and signatory organisation information in accordance with the parameters established by the Board;
   - 5.1.2 and provide other relevant information set by the Board, with the purpose of giving voting signatories enough information to show how candidates compare with regards to specific skills, experience, diversity gaps or any additional eligibility requirements that the Board has identified from time to time;
   - 5.1.3 sign a statement to the effect that:
     - 5.1.3.1 the candidate is eligible to be a UK Company Director;
     - 5.1.3.2 the information provided in the candidate statement is true and correct and the candidate is eligible to stand for the PRI Board;
     - 5.1.3.3 the candidate can an commit the appropriate time and resources to the Director role; and

5.1.3.4 their election to the Board will not bring the Board or the PRI Association into disrepute.

6. Candidates must have the approval of their organisation to nominate, to be confirmed in writing with the signature of the CEO or Board Chair or person of equivalent seniority within the signatory organisation.
7. The signatory putting a candidate forward must have contributed the invoiced financial contribution in the current financial year, and must have participated in the PRI Reporting and Assessment process. The requirement around the Reporting and Assessment process does not apply to signatories that are not required to do the Reporting and Assessment process because it is a 'grace' year.

Appeal process

8. Candidates will be notified as soon as possible if they are deemed ineligible or if clarification is required about any aspect of their candidature. Ineligible candidates have an opportunity to respond to any determinations, and the Board may accept or reject additional arguments put forward. There is a three step appeal process and the Board has the final authority:
   1. *Initial application refused, with specific reasoning included in the feedback.* Applicant given the option to provide more information for consideration by a by a relevant committee of the Board.
   2. *Application refused, with the specific reasoning included in the feedback.* Applicant given the option to represent themselves, with further information, on a specially convened conference call with a relevant committee of the Board.
   3. *Application refused and the applicant disagrees with the decision*. The decision is escalated to the Board for the final ruling.
9. At all points in the appeal process the decisions will be recorded and after the process the Board will consider the need for a review of the election rules and / or process. Signatories' of candidates ruled ineligible have one week to put forward another candidate from their organisation who meets the eligibility criteria.

Costs

10. The PRI will offer to make a contribution towards the travel expenses of Directors that attend in person meetings. The contribution per in person meeting will be agreed by the Board at the start of every financial year and declared in the annual report.
11. Aside from the offered contribution towards travel expenses, the signatory organisation that nominates the candidate is responsible for all of the individual's costs, if elected, associated with PRI Association Board meetings and PRI events.

Skills, experience and diversity

12. The Board (and Board committees) should have the appropriate balance of skills, diversity, experience, independence and knowledge of the organisation to enable it to discharge their respective duties and responsibilities effectively.
13. The Chair is responsible for the leadership of the Board and for ensuring its effectiveness on all aspects of its role. In this role the Chair is responsible for measures to promote a Board with the appropriate skills, experience and diversity to carry out its duties effectively.
14. The Board needs to be appropriately representative of the diversity of PRI signatories in order to generate effective debate and discussion around the key issues that the Board considers, and to deliver the broadly-founded leadership that the initiative deserves. This necessary

diversity encompasses a sufficient mix of relevant skills, competence, and diversity of perspectives; it may include:

a. geographical diversity of signatory representation to bring regional knowledge and perspectives to the Board;
b. diversity of geographical origin, ethnicity, language and culture, and also gender diversity.

This broadly-understood diversity should deliver a breadth of views and vision leading to appropriate challenge and discussion of the issues brought before the Board, and should limit the danger of so-called groupthink.

15. The Directors will seek to promote diversity of the Board through engagement with Signatories, the UN Global Compact and the UNEP Finance Initiative (or their respective successor agencies within the United Nations) and the Company's executives, by adoption of the Diversity Policy and the Election Rules and by other means as they think appropriate, such as additional eligibility requirements for election candidates.
16. It is the responsibility of the Board to communicate the skills, experience and diversity required on the Board, both for the decision making of potential election candidates and the voting signatories.
17. The election ballot will state, if required, how the candidates for the additional eligibility requirement position(s) are eligible for that specific position.
18. Other measures to promote the relevant skills, experience and diversity may include:
    a. Utilising the annual Board assessment results to identify key skills or experience gaps to request for in potential candidates and / or ask signatories to reflect upon the identified key skills or experience gaps when considering the election candidates.
    b. Identifying diversity gaps on the Board and highlighting to signatories at the formal publication of the election process;
    c. Asking signatories to consider diversity when voting for candidates;
    d. Maintaining a 'registry of interest' of potential candidates that have declared an interest to the PRI in serving on the PRI Board;
    e. Proactive outreach to the signatory base, through local and regional networks, to familiarise potential candidates with the Board role and requirements.

Election timetables

19. The Annual Election process will be conducted according to the following timetable within reason:

Week 1:	Formal publication of the election notice and invitation for signatories to nominate candidates;
Week 10:	Final day for nominations;
Week 13:	Finalisation of nominations, confirmation of organisation support; statements, seniority and preparation of election;
Week 15:	Announcement of the election candidates at the Signatory General Meeting;
Week 18:	Launch of the election;
Week 24:	Election closes;
Week 25:	Board announcement of the election results;
Week 26:	Start of the Board induction process before the Director term commences at the start of the next calendar year.

20. The Mid-Term Election process will be conducted according to the following timetable within reason:

Week 1:	Formal publication of the election notice and invitation for signatories to nominate candidates;
Week 4:	Final day for nominations;
Week 5:	Finalisation of nominations, confirmation of organisation support, statements, seniority and preparation of election;
Week 6:	Announcement of the election candidates and launch of the election;
Week 9:	Election closes;
Week 10:	Board announcement of the election results;
Week 11:	Start of the new Director(s).

21. The Extraordinary Election process will be conducted according to the following timetable within reason:

Week 1:	Signatory vote requiring an Extraordinary Election;
Week 2:	Formal publication of the election notice and invitation for signatories to nominate candidates;
Week 5:	Final day for nominations;
Week 6:	Finalisation of nominations, confirmation of organisation support, statements, seniority and preparation of election;
Week 7:	Announcement of the election candidates and launch of the election;
Week 10:	Election closes;
Week 11:	Board announcement of the election results;
Week 12:	Start of the new Board.

Election campaigning

22. Campaigning should be carried out in a respectful manner and in a way which does not bring the PRI Initiative into disrepute. It should avoid commercial considerations of the organisations that nominated candidates. Candidates must comply with any reasonable directions which may be issued by the Executive on behalf of the Board.
23. For data security reasons, candidates are not able to have access to the PRI's database of contacts but are free to contact other signatories to ask for their support.
24. If the Board determines a candidate has acted inappropriately, it may remove the candidate from the process.
25. The Board will oversee the communication of the election process, including signatory awareness and the provision of candidate information to the electorate.

Voting procedures

26. All elections will be conducted through an independent online electoral poll and all votes are anonymous.
27. Candidates will be identified by name and institution on the ballot. Candidates will also have the opportunity to include a biography and a statement in the materials provided to Signatories in advance of the vote in a form defined by the Board. The content of supporting biography and statement is the responsibility of candidates. The Board may request revisions if any content is deemed inappropriate.
28. Signatory voting will be undertaken in accordance with the election rules set out in the Articles.

Board responsibility

29. The Board is responsible for the oversight of the election rules and processes. The Directors may constitute committees to facilitate the workings of the Board; and may, if they choose, delegate any of their powers to those committees. The Directors must devise and publish on the Company's website Committee Terms of Reference for each committee constituted by the Board.
30. The Board has to sign off that the election policies have been followed and the election results are true, before the formal Board announcement of the election results and the new Directors are formally appointed.

Review

31. At least once every two years the Board will review and revise as necessary the PRI Association Board Election rules.

L//CERA

FOR INFORMATION ONLY

July 2, 2018

TO: Each Member
Board of Investments

FROM: Steven P. Rice SPR
Chief Counsel

FOR: July 10, 2018 Board of Investments Meeting

SUBJECT: Monthly Status Report on Board of Investments Legal Projects

Attached is the monthly report on the status of Board-directed investment-related projects handled by the Legal Division as of July 1, 2018.

Attachment

c: Robert Hill
James Brekk
John Popowich
Bernie Buenaflor
Jon Grabel
Vache Mahseredjian
John McClelland
Christopher Wagner
Ted Wright
Jim Rice
Jude Perez
Scott Zdrazil
Christine Roseland
John Harrington
Cheryl Lu
Barry Lew
Margo McCabe
Lisa Garcia

LACERA Legal Division
Board of Investments Projects
Monthly Status Report - Pending as of July 1, 2018

	Project/ Investment	Description	Amount	Board Approval Date	Completion Date	% Complete	Notes
EQUITIES/FIXED INCOME	BlackRock Institutional Trust Company, N.A.	Conversion of Designated Public Equity and Fixed Income Collective Funds to Separate Accounts	$20,800,000,000.00	January 10, 2018	Complete	100%	Investment Management Agreement fully executed and circulated.
	BTC Intermediate Credit Bond Index Fund	Termination	n/a	February 14, 2018	Complete	100%	Termination completed through the execution of the BlackRock Institutional Trust Company Investment Management Agreement referenced in #1 above.
	Quantitative Management Associates, LLC	Investment Management Agreement	$400,000,000.00	May 9, 2018	Complete	100%	Investment Management Agreement fully executed and circulated.
	Systematic Financial Management, LP	Investment Management Agreement	$400,000,000.00	May 9, 2018	Complete	100%	Investment Management Agreement fully executed and circulated.

LACERA Legal Division
Board of Investments Projects
Monthly Status Report - Pending as of July 1, 2018

	Project/ Investment	Description	Amount	Board Approval Date	Completion Date	% Complete	Notes
PRIVATE EQUITY	JP Morgan Investment	Private Equity Emerging Manager Separate Account Investment Management Agreement	$300,000,000.00	December 13, 2017	In Progress	50%	Draft IMA sent to JPM. Comments from JPM expected shortly.
	AE Industrial Partners Fund II, L.P.	Subscription	$100,000,000.00	May 9, 2018	Complete	100%	Documentation completed and executed; subscription accepted by fund.
	Greenhill Capital Advisory	Secondary Advisor Engagement Letter	n/a	May 9, 2018	In Progress	15%	Legal review in progress.
	Storm Ventures Fund VI, L.P.	Subscription	$50,000,000.00	June 13, 2018	In Progress	25%	Legal review and negotiations in progress.

Documents not attached are exempt from disclosure under the California Public Records Act and other legal authority.

For further information, contact:
LACERA
Attention: Public Records Act Requests
300 N. Lake Ave., Suite 620
Pasadena, CA 91101