



Towards Best-In-Class Investor

2024 Strategic Initiatives and Work Plan

Investments Division

Board of Investments Meeting
January 10, 2024

2024 Work Plan Recommendation and Overview



Recommendation

Approve the 2024 BOI Strategic Initiatives and Work Plan

Overview

The 2024 Strategic Initiatives and Work Plan aims to:

1. Provide **visibility** into current and upcoming initiatives
2. Reflect and **synthesize** Board-approved projects and input, recent Board meetings, and Offsite discussions into a cohesive action plan
3. **Align** resources and priorities to remain resilient and adaptable to unforeseen circumstances

Objectives

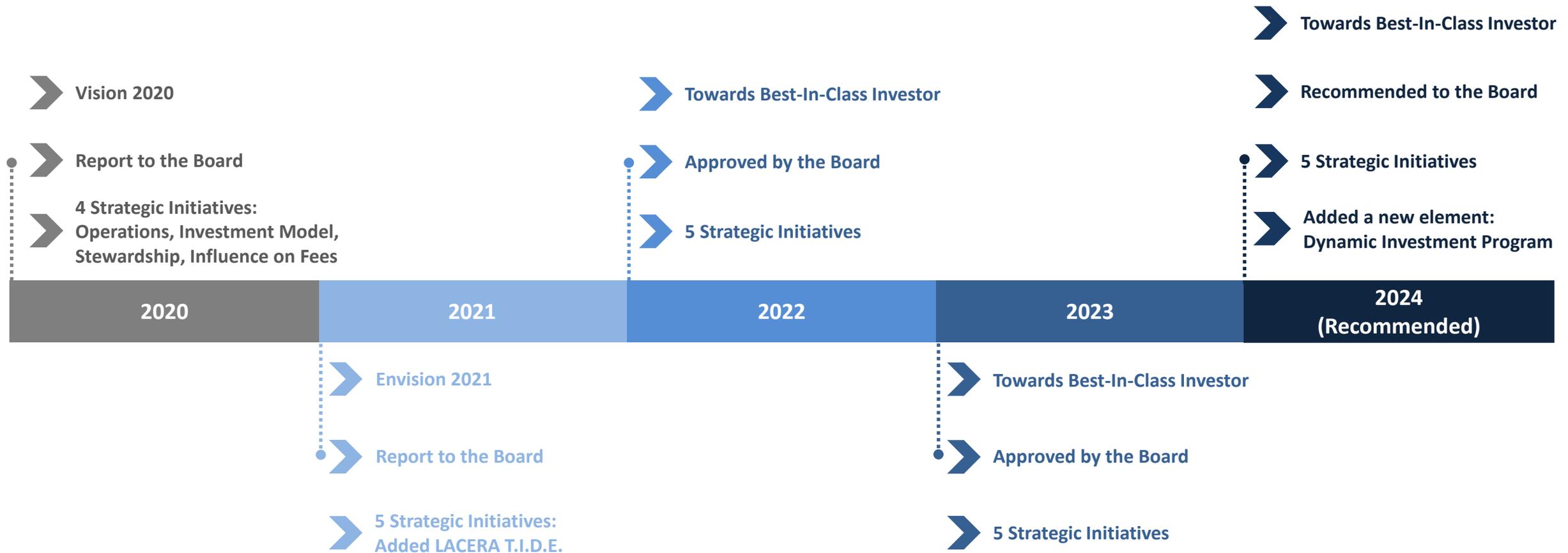
Progress

Aspirations

Strategic Initiatives and Work Plan Timeline



Components of the Strategic Initiatives and Work Plan have been refined over several years with the steady goal of improving portfolio outcomes

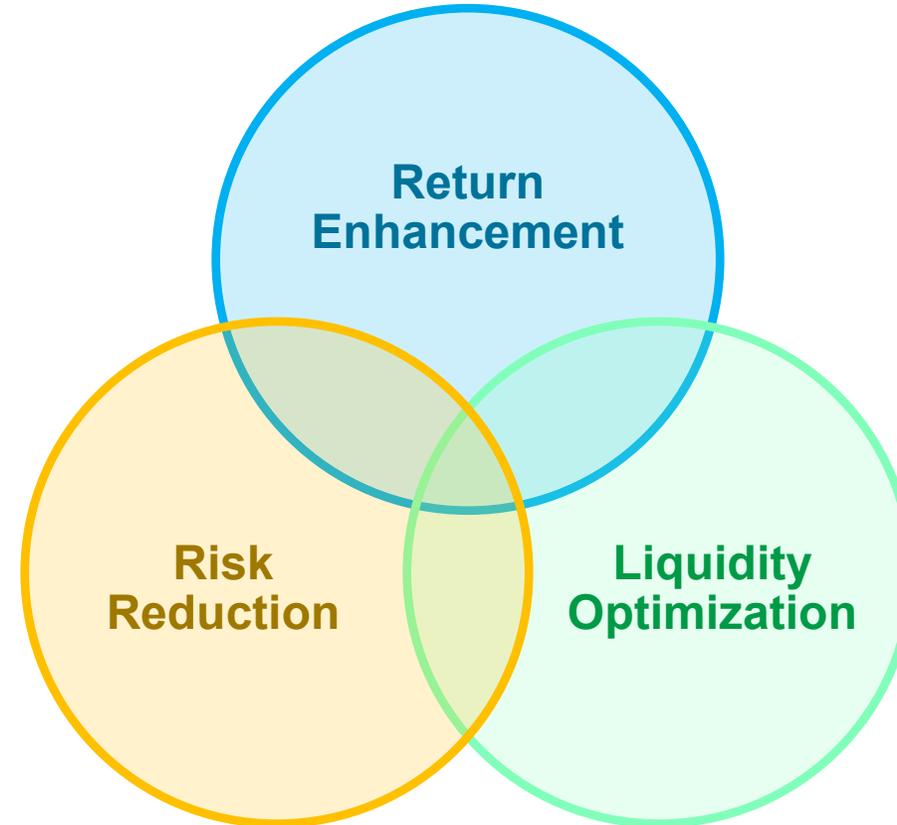
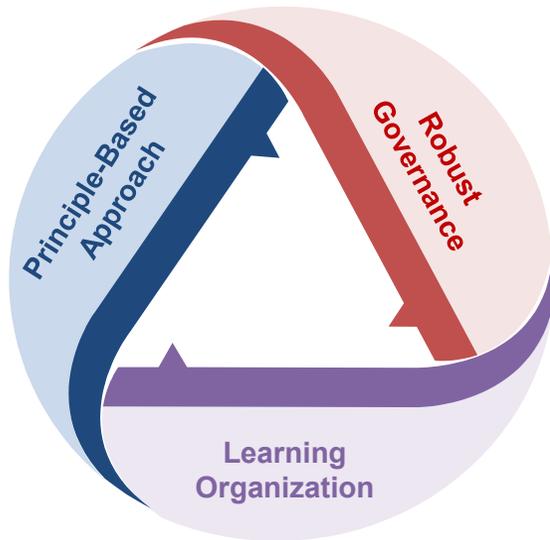


2024 Work Plan: Execute Strategic Asset Allocation Towards Best-In-Class Investor



Execute Strategic Asset Allocation

Dynamic Investment Program



Strategic Initiatives



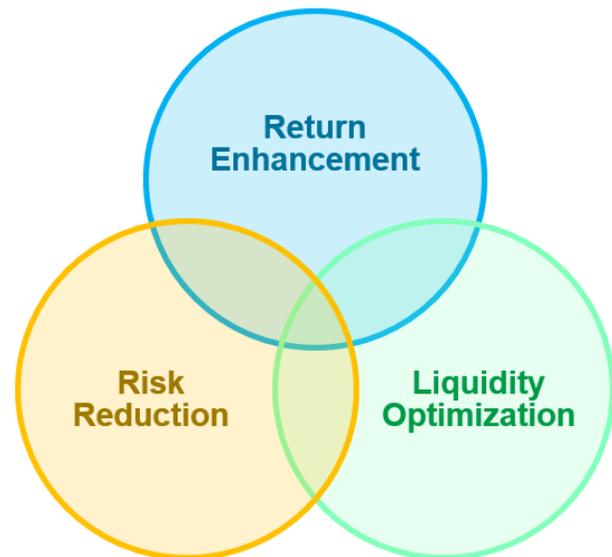
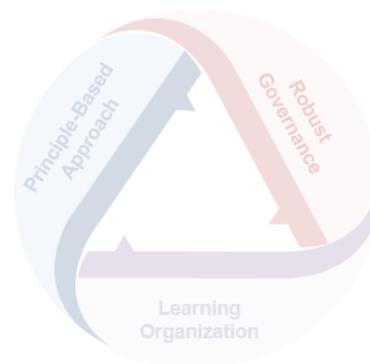
Mission: To produce, protect and provide the promised benefits to our members

Execute Strategic Asset Allocation



Execute Strategic Asset Allocation

Dynamic Investment Program



Strategic Initiatives

- Enhance Operational Effectiveness
- Optimize Investment Model
- Maximize Stewardship and Ownership Rights
- Strengthen Influence on Fees and Cost of Capital
- T.I.D.E. Towards Inclusion, Diversity, and Equity

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

2024 Work Plan: Objectives of the Investment Program



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



Objectives of the Investment Program

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

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



Execute Strategic Asset Allocation



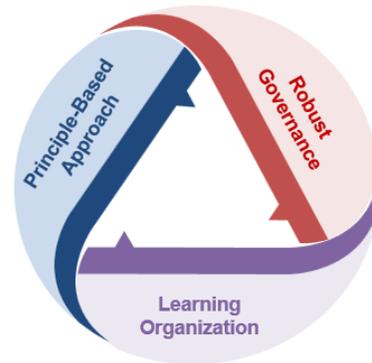
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Dynamic Investment Program



Execute Strategic Asset Allocation

Dynamic Investment Program



Strategic Initiatives



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

Dynamic Investment Program: Robust Governance



Board-requested governance review in Spring of 2023 led to a comprehensive, multi-stage assessment of LACERA's policies, procedures, and investment decision-making processes and documents

Given LACERA's total Fund size, its leadership, and market position, the Board voted unanimously to elevate governance via delegated authority while simultaneously enhancing its oversight and monitoring capabilities

Delegated Authority Framework¹

1. Investment Policy Statement
2. Strategic Asset Allocation
3. Asset Class Structure Reviews
4. Staff-Led Sourcing and Due Diligence
5. Internal Committee Approval and Consultant Concurrence
6. CIO Approval
7. Continuous Board Oversight and Monitoring



Strategic Initiative Alignment



Nimble and efficient execution of BOI-approved work plan and SAA



Elevates Board resources to focus on long-term strategic goals



Continued exercise of ownership rights over investments



Timelier negotiations of costs, fees, and terms



Elevates the role of LACERA T.I.D.E through programmatic BOI updates

¹ As further articulated in the "Proposed Delegated Authority Framework" Board of Investments presentation meeting report November 8th 2023

Dynamic Investment Program: Learning Organization



LACERA's dedication to being a learning organization inspires an ongoing pursuit of self-improvement, adaptation, and evolution

**Continuous Board
Education Elevates
Investment Division**

**Updated Investment
Beliefs**

Improved Board Reports

**Formalized BOI
Oversight and
Processes of Delegated
Authority**

**Standardized Structure
Review Guidelines**

**Commenced Harmonizing
Governing Policies**

**Bolstered Internal
Investment Committees**

**Enhanced Operational Due
Diligence Capabilities**

**Derived Insights from
Investment Experiences**

**Expanded Templated
Investment Analyses**

Dynamic Investment Program: Principle-Based Approach



LACERA evolved from a rules-based investment approach to a principle-based structure, providing a robust and flexible framework to adapt and evolve to changing macro environment, technological advancements, and workforce composition

Comprehensive Due Diligence

Encompasses ESG, DEI, investment and operational considerations

Portfolio Insights

Increased total Fund risk monitoring, performance reporting, and exposure awareness

Ownership Rights

Ownership rooted in corporate governance and stewardship principles

Functional Asset Categories

Define the role of investments by return, risk, and liquidity considerations

Portfolio and Structure

Principle-based structure reviews guide portfolio objectives, framework, and guidelines

Investment Beliefs

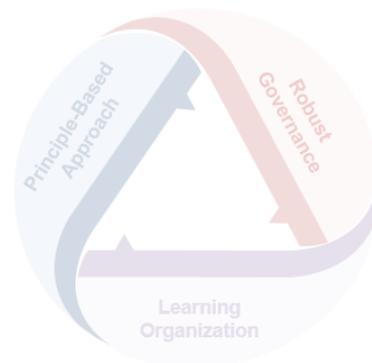
Guiding beliefs set the direction and goals of the investment department

Strategic Initiatives



Execute Strategic Asset Allocation

Dynamic Investment Program

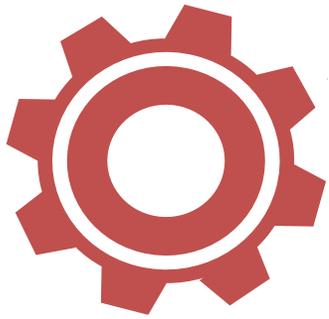


Strategic Initiatives



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

2024 Work Plan Strategic Initiatives



Enhance
Operational
Effectiveness

Objective:

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

Progress:

- Evolved LACERA's policies, governance, and investment making decision structure
- Completed hire of deputy chief investment officer
- Implemented a digital platform to evaluate questionnaires and other diligence materials
- Completed operational due diligence review covering investment processes and controls
- Increased influence and reduced operational risk via single-investor vehicles
- Established annual private markets valuation reconciliation process

Aspirations:

- Optimize presentation and quality of information available to the Board
- Consider OPEB structure evolutions
- Search for a consolidated public and private markets investment analytics platform
- Explore technological opportunities and maximize value from adoption
- Elevate operational due diligence function, including hiring a dedicated professional

2024 Work Plan Strategic Initiatives



Optimize Investment Model

Objective:

To leverage our competitive advantages through deliberate investment models and structures that harness technology, cost effectiveness, and human capital to maximize risk-adjusted returns

Progress:

- BOI increased delegated authority improving LACERA's investment competitiveness
- Advanced OPEB Trust strategic asset allocation: approved investment beliefs and public markets passive investment manager search, completed first private markets investment
- Documented investment processes, increasing department-wide consistency and accountability
- Deployed co-investment and secondary capital across several asset categories
- Hedging and overlays implemented to dynamically balanced asset category targets
- Active monitoring and quarterly portfolio-wide discussion of risk management
- Launched new manager intake portal

Aspirations:

- Continue cultivating a dynamic investment program
- Further optimize internal staff investment committees and due diligence practices
- Continue to refine rebalancing practices
- Adopt complexity where well-rewarded and limit unrewarded complexity
- Organize effective educational sessions and orientations

2024 Work Plan Strategic Initiatives



Maximize Stewardship and Ownership Rights

Objective:

To steward our investments – including legal rights associated with them – in a manner that promotes and safeguards our economic interests and durable financial value, including through proxy voting, engagement, and policy advocacy

Progress:

- Updated Corporate Governance and Stewardship Principles
- Increased proxy voting authority to about 96% of equity portfolio by value in past five years
- Expanded ESG in real assets with restated Responsible Contractor Policy (RCP) and Global Real Estate Sustainability Benchmark (GRESB) affiliations
- Incorporated analytics to model financial impacts from climate change and energy transition for climate-aware strategic asset allocation modeling
- Expanded engagements on board diversity, climate, investor voting rights, public policy

Aspirations:

- Update climate modeling to inform Board's 2024 strategic asset allocation decision
- Expand ESG and climate reporting and data coverage in private asset classes
- Integrate GRESB and RCP in entire Real Assets
- Assume voting rights in OPEB separate account structure
- Amplify progress and leadership in governance and ESG initiatives

2024 Work Plan Strategic Initiatives



Strengthen
Influence on
Fees
and Cost of
Capital

Objective:

To strengthen our influence on fees and cost of capital with the goal of maximizing returns by minimizing cost across all investment strategies and structures in a manner that promotes durable investment returns

Progress:

- Re-negotiated terms for several legacy mandates improving future outcomes
- Made co-investments across asset categories to drive fee savings
- Established dedicated managed accounts to enable broad term negotiations
- Instituted annual total Fund fee analysis and review, including BOI reporting
- Invested with early-stage emerging managers while achieving future capacity rights and revenue sharing agreements where possible

Aspirations:

- Continue being “term-makers” as opposed to “term-takers” on fee, legal, and other terms
- Foster creativity when designing terms and account structures to both limit risks and enhance expected return outcomes
- Communicate progress towards optimizing implementation costs through improved expense and fee analytics and reporting

2024 Work Plan Strategic Initiatives



LACERA T.I.D.E.
Towards Inclusion,
Diversity, and
Equity.

Objective:

To improve outcomes through comprehensive, total Fund efforts that encourage constructive, inclusive, and equitable talent management at investment partners, industry, and internally

Progress:

- Focused on career development for existing team and onboarding new hires
- Engaged strategic private equity partners on portfolio board recruitment and DEI practices
- Continued increase in manager reporting responsiveness, granularity, and candor
- Reviewed Real Assets managers' responsible contracting provisions, including DEI practices
- Expanded allocation opportunities for emerging managers
- Formally affiliated to CFA Institute DEI Code
- Supported expanding due diligence and standardized templates at industry associations to facilitate DEI reporting availability and reliability in financial services industry

Aspirations:

- Be an employer of choice at all levels from internships through management
- Inspire LACERA's managers to adopt DEI programs to increase risk-adjusted returns
- Utilize wider data sets to inform manager DEI benchmarking and progress
- Integrate takeaways from private equity portfolio company board DEI review into fund underwriting and monitoring
- Continue to enhance insights on firm ownership demographics, where available

Remaining Items

Remaining Presentation Components

1. Tentative 2024 Calendar
2. Board of Investments Reporting
3. 2024 Work Plan Recommendation



Tentative 2024 Calendar

	January 1/10/24	February 2/14/24	March 3/13/24	April 4/10/24	May 5/8/24	June 6/12/24	July 7/10/24	August 8/14/24	September 9/10/24 - 9/11/24	October 10/9/24	November 11/13/24	December 12/11/24
Board of Investments									BOI Offsite			
Corporate Governance Committee												
Credit and Risk Mitigation Committee												
Equity: Public/Private Committee												
Real Assets Committee												

Work Plan Calendar Expectations

- Two Committee Meetings per Calendar Year
- Consultant Request for Proposals
- Funding Policy
- BOI Reporting (See Following Slide)
- Investment Guest Speaker(s)
- Board of Investments Offsite
- Asset Category Structure Reviews

Additional meetings or topics would be added on an as-needed basis



Board of Investments Reporting¹

The Board will receive reporting on total Fund performance, implementation, compliance, and investments decisions executed via delegated authority

Report	Frequency	Report	Frequency
Chief Investment Officer Report	Monthly	Corporate Governance and Stewardship Update	Annually
Chief Investment Officer-Authorized Investments ²	Monthly	Investment Consultant Performance Reviews	Annually
Performance Reporting ³	Monthly and Quarterly	LACERA Towards Inclusion Diversity and Equity (TIDE)	Annually
Risk Reporting ³	Monthly and Quarterly	Overlay and Hedges Report	Annually
Delegated Authority Compliance Monitor	Quarterly	Private Markets Performance Reporting	Annually
General Consultant Performance Report	Quarterly	Proxy Voting Reports and Trendlines	Annually
Manager Scorecards	Quarterly and Annually	Responsible Contractor Compliance Update	Annually
Actuarial Valuation of Retirement Benefits	Annually	Asset Category Structure Reviews	Biennial
Asset Manager (7514.7) Fee Analysis	Annually	Strategic Asset Allocation Review	Three to Five Years
Chief Investment Officer Performance Review	Annually		

¹ Reporting excludes other BOI functions including budgeting, actuarial analyses, and audit reviews

² Investments made under delegated authority reported to Board monthly, except if timing conflicts, reports available following month. Months without such investments may occur

³ The OPEB Master Trust will provide monthly and quarterly reporting

2024 Work Plan Recommendation



Recommendation

Approve the 2024 Strategic Initiatives and Work Plan

Context (If Approved)

Execute Strategic Asset Allocation Towards Best-In-Class Investor

1. The Board of Investments 2024 Work Plan and Strategic Initiatives is a component of LACERA's strategic plan
2. This Work Plan will evolve as circumstances warrant

Objectives

Progress

Aspirations