

December 23, 2024

TO: Trustees – Board of Investments

FROM: Jonathan Grabel   
Chief Investment Officer

FOR: January 8, 2025 Board of Investments Meeting

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

### **RECOMMENDATION**

Approve the 2025 Strategic Framework and Initiatives.

### **BACKGROUND**

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

Attachment

## **2025 Strategic Framework and Initiatives:**

### **Towards Best-In-Class Investor**

---

Board of Investments Meeting

January 8, 2025

# 2025 Strategic Framework and Initiatives Recommendation and Overview



## Recommendation

---

Approve the 2025 Strategic Framework and Initiatives

## Overview

---

The 2025 Strategic Framework and Initiatives aim to:

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

A decorative graphic at the bottom of the slide featuring a range of blue mountains. The mountains are layered, with the highest peaks in the background and lower peaks in the foreground. The labels 'Objectives', 'Progress', and 'Aspirations' are placed above the peaks.

Objectives

Progress

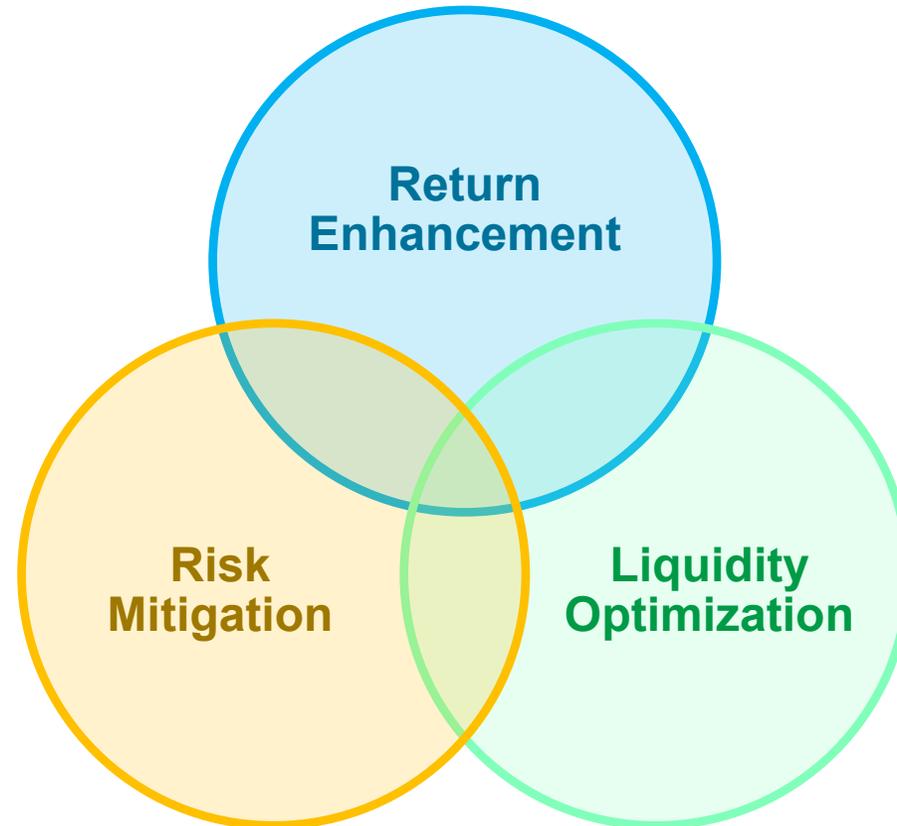
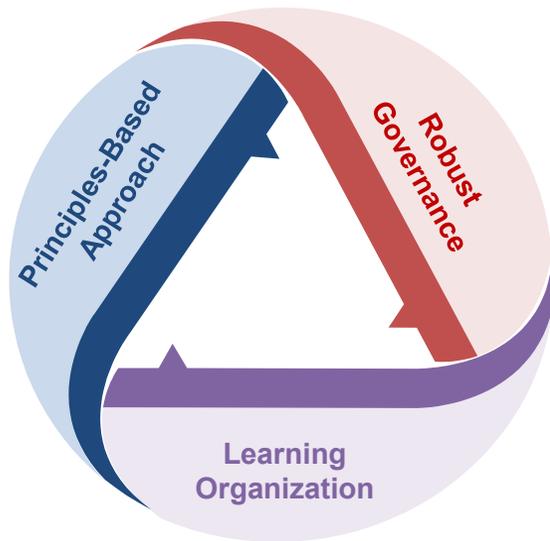
Aspirations

# Strategic Framework and Initiatives Towards Best-In-Class Investor



## Execute Strategic Asset Allocation

### Dynamic Investment Program



### Strategic Initiatives



Optimize Investment Model



Maximize Stewardship and Ownership Rights



Strengthen Influence on Fees and Cost of Capital



TIDE (Towards Inclusion, Diversity, and Equity)



Enhance Operational Effectiveness

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

# Execute Strategic Asset Allocation

*Updated in 2024*



## Execute Strategic Asset Allocation

Dynamic Investment Program



Strategic Initiatives



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

# Execute Strategic Asset Allocation Towards Best-In-Class Investor



## Execute Strategic Asset Allocation



### 2025 in Context

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

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

# Execute Strategic Asset Allocation Objectives of the Investment Program



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



## ***Objectives of the Investment Program***

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

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

---

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

# Strategic Initiatives

*Added 2019-2021*



## Execute Strategic Asset Allocation

Dynamic Investment Program



Strategic Initiatives



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



## Optimize Investment Model

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

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



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



## Maximize Stewardship and Ownership Rights

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

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



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



## Strengthen Influence on Fees and Cost of Capital

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

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

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





## LACERA TIDE (Towards Inclusion, Diversity, and Equity)

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

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



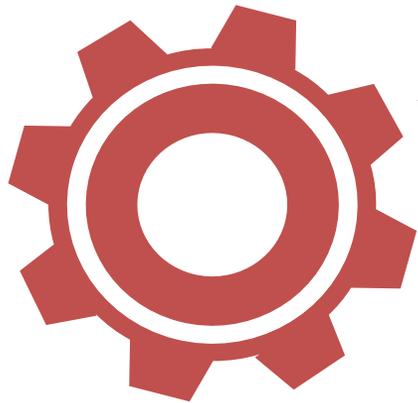
- Aspirations:**
- Continue to focus on better human capital management practices across the asset management industry
  - Be an employer of choice at all levels from internships through management
  - Inspire external asset managers to adopt DEI practices to increase risk-adjusted returns
  - Utilize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



## Enhance Operational Effectiveness

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

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

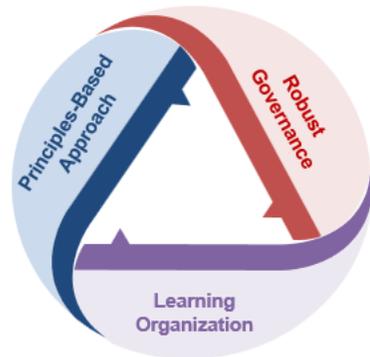


- Aspirations:**
- Optimize presentation and quality of information available to the Board
  - Align resources with Board and organizational priorities
  - Maximize value from adoption of technological innovation and opportunities
  - Improve internal investment committees and due diligence practices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

# Dynamic Investment Program

*Added 2023*

## Dynamic Investment Program



## Execute Strategic Asset Allocation



## Strategic Initiatives



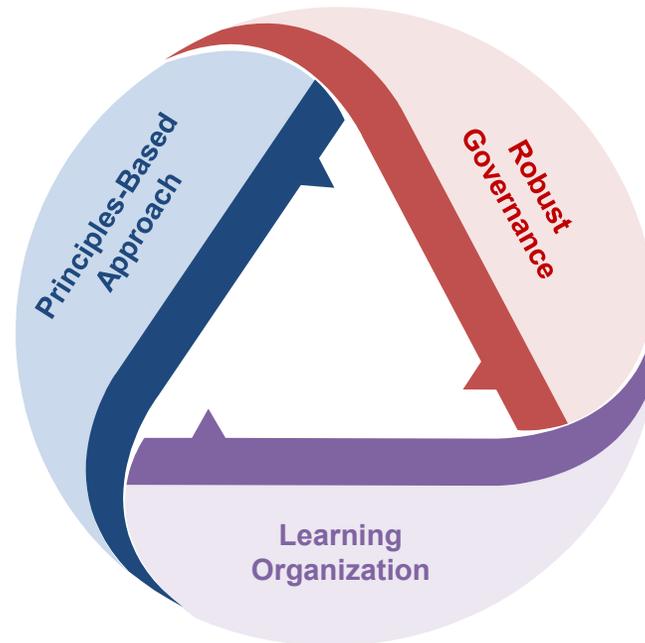
**LACERA Mission: To produce, protect and provide the promised benefits to our members**

# Dynamic Investment Program



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

*Increases adaptability to an everchanging environment*



*Enables prudent decision making while elevating Board oversight*

*Pursuit of continuous improvement, refinement, and evolution*

# Dynamic Investment Program



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

## Robust Governance

*Enables prudent decision making while elevating Board oversight*

Governing Policies

Actuarial Analyses

Strategic Asset Allocation

Structure Reviews and Investment Guidelines

## Learning Organization

*Pursuit of continuous improvement, refinement, and evolution*

Continuous Education

Increased Transparency

Greater Inclusivity

Enhanced Due Diligence

## Principles-Based Investing

*Increases adaptability to an everchanging environment*

Investment Beliefs

Functional Asset Categories

Corporate Governance and Stewardship

Portfolio Analytics and Monitoring

## Next Steps

1. Board of Investments Governance
2. Recommendation

# Board of Investments Governance



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



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

## Policy and Strategy

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

## Oversight

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

## Periodic Updates

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

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



## Approve the 2025 Strategic Framework and Initiatives



### Execute Strategic Asset Allocation



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

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