Investment Policy Statement

Restated November 8, 2018

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About LACERA

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

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

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

LACERA MISSION STATEMENT

We Produce, Protect, and Provide the Promised Benefits

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

Statement of Purpose

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

Legal Authority

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

A. Fiduciary Duty

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

- *Duty of Loyalty*. Under the duty of loyalty, Board members have the sole and exclusive responsibility to administer the Fund to ensure prompt delivery of benefits to members and their beneficiaries. In making every decision, the Board must act according to a three-pronged legal formula that balances the interests of the Fund's stakeholders: (1) solely in the interest of providing benefits to members and beneficiaries, (2) to minimize employer contributions, and (3) to defray the expenses of administering the Fund. The Board's duty to members and their beneficiaries takes precedence over any other duty.

- *Duty of Prudence.* Board members must discharge their duties with the care, skill, prudence, and diligence that a prudent fiduciary familiar with the matters and the circumstances of each particular decision would use in the conduct of a similar enterprise with like aims. The Board must diversify fund investments so as to minimize risk of loss and maximize the rate of return, unless under the circumstances it is clearly prudent not to do so. The Board may invest or delegate the authority to invest Fund assets through the purchase, holding, or sale of any form or type of investment, financial instrument, or financial transaction when prudent in the informed opinion of the Board.

B. Ethics and Code of Conflicts

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

C. Process

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

Investment Policy

I. Investment Philosophy and Strategy

A. Objectives of the Investment Program

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

i. **Produce** the promised benefits for LACERA members and beneficiaries by achieving the Fund's assumed rate of return on a total return basis over the long-term, consistent with LACERA's mission;

ii. **Protect** the promised benefits on behalf of LACERA members and beneficiaries by mitigating investment risks through Fund diversification and other means, consistent with LACERA's mission; and

iii. **Provide** the promised benefits for LACERA members and beneficiaries, in part by ensuring adequate liquidity, consistent with LACERA's mission.

B. Investment Beliefs

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

i. Strategic Asset Allocation

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

a. It is important that LACERA be forward looking, as its investment horizon spans decades, if not indefinitely into the future.

b. Asset allocation has a greater effect on return variability than asset class investment structure or manager selection. It is essential to account for LACERA's liabilities in setting long-term investment strategy.

c. Rebalancing the portfolio is a key aspect of prudent long-term asset allocation policy.

ii. Market Efficiency

Markets are largely efficient over the long term (10–20 years); however, during certain economic and financial environments markets may not be efficient in setting prices.

a. Consequently, LACERA will allow for modest tactical asset allocation adjustments during times of disruption.

iii. Active Versus Passive Management

As markets are largely efficient, passive management, when available, is the preferred structure for investment management; however, the Board recognizes that some asset classes may justify the higher fees and/or expected enhanced returns associated with active management.

a. Consequently, active strategies will be used only when there is strong conviction that they can be expected to add value net of their higher fees and are adjusted for risk.

iv. Private Markets and Liquidity

Private market assets can add value to a portfolio, providing opportunities for returns that exceed those expected from public markets.

a. The total capital allocated to illiquid strategies must be kept at a prudent level.

b. The high return potential of these assets needs to be balanced with LACERA's need for liquidity.

c. Liquid assets serve a critical role to fund benefit payments and rebalance the portfolio.

v. Risk

Risk is a broad term used to capture the concept of uncertainty. Since no single metric adequately conveys risk, LACERA will evaluate risk holistically, incorporating quantitative measures and qualitative assessments in managing its portfolio.

a. LACERA operates in a global financial marketplace, and as such, LACERA believes that in order to diversify its risk broadly, it is vital that LACERA possess a global perspective.

b. Diversification across different risk factors is necessary for risk reduction.

c. Markets are cyclical; risk premia, volatility, and correlations vary over time.

d. The pattern of returns matters because volatility levels and the sequence of gains and losses can impact funded status and contribution rates.

e. Risk that is not expected to be rewarded over the long-term, or mitigated through diversification, will be minimized.

f. For LACERA, not taking enough risk is risky; therefore, LACERA will accept a prudent amount of risk to achieve its long-term target returns.

g. LACERA considers the risks of environmental, social, and governance ("ESG") factors as relevant to its investment process.

h. LACERA believes that conflicts of interest may pose risk; therefore, any perceived conflicts should be identified and explored as a material factor in risk analysis.

vi. Costs and Fees

Investment outcomes are determined by risk, returns, and costs. All three must be managed, and cost is the most certain.

a. Consideration of net-of-fees returns is an integral part of a successful long-term investment strategy.

b. Costs and fees should be actively monitored and negotiated to the greatest extent possible.

vii. Education

In an increasingly complex and dynamic investment universe, continued education on investment concepts and investment strategies within that universe is essential for long-term success.

C. Strategic Asset Allocation

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

LACERA's strategic asset allocation categorizes capital outlays into four groups, defined by the function each allocation is intended to serve in the portfolio: (1) Growth, (2) Credit, (3) Real Assets and Inflation Hedges, and (4) Risk Reduction and Mitigation. The functional categories include various asset classes that represent the risk/return characteristics of each area. LACERA expects the four functional categories to diversify the Fund and optimize upside growth while mitigating downside risk. The asset allocation determines what proportion of the Fund is allocated to each functional category and underlying asset class, including target weights and allowable ranges as a percentage of the Fund.

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

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

LACERA's approved asset allocation, benchmark table, annualized return and volatility expectations, and correlation estimates are detailed in the tables of the Appendix.

D. Overview of Strategic Asset Allocation

LACERA groups asset classes into the following functional categories:

i. Growth

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

b. Asset Classes: Global Equity, Private Equity, and Opportunistic Real Estate.

c. Investment Approach: Growth assets generally represent equity or equity-like interests in current and future income streams. Growth assets include public and private market strategies that include both liquid and illiquid investments. LACERA utilizes passive strategies in relatively efficient segments of the market for global equity. LACERA employs active strategies in relatively less efficient market segments of global equities, as well as in private equity and opportunistic real estate.

d. Risk Factors: Growth assets are primarily equity ownership positions that tend to perform well in times of positive economic growth. They are highly sensitive to economic conditions and are subject to potential loss in value based on a number of factors. For example, growth assets may be sensitive to inflation and generally perform poorly in times of high and unexpected inflation. To a lesser extent, growth assets may be sensitive to interest rates due to the use of leverage in certain strategies as well as the relationship between interest rates and the discount rates used to price securities.

ii. Credit

a. Role in the portfolio: LACERA expects assets categorized as Credit to produce current income and moderate long-term total returns. Credit has more moderate levels of risk than assets categorized as Growth, and, accordingly, provides incremental diversification to the total Fund.

b. Asset Classes: High Yield, Bank Loans, Emerging Market Debt, and Illiquid Credit

c. Investment Approach: Credit assets are generally fixed claims on assets or income streams of an issuer (e.g., government, corporation, asset-backed securities). The category is composed of certain fixed income, hedge funds, real estate, and private debt investments. Investment strategies within this category may have a specific mandate (e.g., high yield or emerging market debt) or be multi-strategy. The investment strategies may be liquid, illiquid, or a combination of both, depending on the nature and terms of the specific investment vehicle. LACERA employs active strategies across all asset classes within the Credit category, but may employ passive strategies in certain segments that are relatively more efficient.

d. Risk Factors: The primary risk for owners of Credit assets is the failure of the borrower to make timely payments of interest and principal. There are three elements of credit risk: the risk of default, the risk of a credit downgrade, and spread risk, which is the risk that investors may demand greater compensation for bearing the first two types of risk. Bonds with credit risk offer a yield premium over government bonds to compensate investors for the additional risk. Bonds with greater credit risk (i.e., bonds with lower credit ratings) are typically less liquid than higher quality bonds.

iii. Real Assets and Inflation Hedges

a. Role in the portfolio: LACERA expects assets in this category to provide income as well as a hedge against inflation, while diversifying the Fund due to the assumed low correlation of returns between these assets and other asset classes.

b. Asset classes: Core and Value-Added Real Estate, Natural Resources/Commodities, Infrastructure, and Treasury Inflation Protected Securities ("TIPS")

c. Investment Approach: Real Assets generally include physical assets, such as real estate and infrastructure, or securities whose value is derived from a physical asset, such as commodities or natural resources. Assets in this category may be invested in both public and private investments and may be liquid or illiquid, as well as passively or actively managed.

d. Risk Factors: Real Assets and Inflation Hedges are sensitive to inflation. The primary risk for owners of real assets/inflation hedges is that they fail to provide a hedge against long-term changes in inflation. A secondary risk is loss of principal. The value of real estate and natural resources assets may fall, particularly during an economic downturn, but also due to idiosyncratic aspects of each asset. Diversification may offset asset-specific risk. Foreign assets are also subject to currency movements against the U.S. dollar. TIPS are exposed to liquidity risk, as they tend to be less liquid than nominal U.S. Treasuries, particularly during a market environment in which there is a flight to safety.

iv. Risk Reduction and Mitigation

a. Role in the portfolio: LACERA expects assets in this category to provide moderate amounts of current income by generating a modest level of return while also reducing total Fund risks, in part by preserving capital in the event of a downturn in equity markets. LACERA anticipates that assets in this category will have a low level of volatility and a low correlation to Growth assets, thereby providing downside protection. In the event of a market correction, these assets could also provide a source of liquidity for benefit payments.

b. Asset classes: Investment Grade Bonds, Diversified Hedge Fund Portfolio, and Cash

c. Investment Approach: The category is composed of investment grade bonds, diversified hedge funds, and cash. Cash is the least volatile asset class, as well as the most liquid; the flexibility it provides during periods of market decline helps to mitigate risk. Investment grade bonds comprise a mix of U.S. Treasuries, corporate debt, and other bonds of high quality, typically rated “BBB” or above by rating agencies. High quality bonds would be expected to protect the total Fund by retaining or increasing their value during a market correction. Diversified hedge funds comprise a variety of hedged investments, such as relative value, arbitrage, and long/short strategies within a diversified portfolio. They would be expected to produce returns at or above high grade bond portfolios, with equal or lower volatility, and be largely uncorrelated with other portfolio assets.

d. Risk Factors: The primary risk factor for Risk Reduction and Mitigation Assets is that they will fail to provide the anticipated level of protection during market downturns. Assets in this category are also subject to additional risks. For example, investment grade bonds are sensitive to fluctuations in interest rates and have some risk of default. Specific hedge fund investments are subject to a variety of risk factors, including equity risk, credit risk, interest rate risk, and leverage risk. Cash can include short-term instruments and vehicles where there is a low probability of loss of principal.

E. Performance Objectives

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

F. Rebalancing

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

G. Responsible Stewardship and Beneficial Ownership Rights

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

H. Diversity and Inclusion

LACERA values diversity and inclusion, and believes that effectively accessing and managing diverse talent—inclusive of varied backgrounds, age, experience, race, sexual orientation, gender, ethnicity, and culture—leads to improved outcomes. LACERA expects external asset managers and other third party providers to respect and reflect LACERA's value of diversity and inclusion. LACERA's ongoing monitoring of third party service providers incorporates an assessment of vendors' commitment to, adherence with, and track record of accessing and retaining diverse and inclusive workforces.

II. Investment Process

The following sections articulate the general parameters and processes by which LACERA executes its investment strategy, in adherence to established policies and procedures.

A. Structure Review

After an asset allocation study apportions capital across categories, LACERA conducts a structure review to address how to implement each asset category. A structure review establishes the framework for each asset category by addressing its role within a total Fund context. The structure review evaluates the objectives, portfolio composition, related strategic initiatives, and how the portfolio may evolve in the near to medium term. These reviews are presented to the Board no less frequently than the comprehensive asset allocation study conducted for the total Fund, or at the Board's request.

B. Investment Management

i. Investment Agreements

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

ii. Selection and Monitoring

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

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

iii. Costs

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

C. Liquidity Management and Other Investment Functions

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

i. Liquidity and Cash Management

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

ii. Derivatives Management

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

iii. Securities Lending

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

iv. Prohibited Transactions

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

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

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

III. Risk Management

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

A. Philosophy and Objectives

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

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

B. Approach

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

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

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

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

IV. Roles and Responsibilities

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

The overview outlined below is further complemented by the following documents: (*Board of Investments Charter, Board of Investments Powers Reserved Defined, Board of Investments Powers Reserved and Delegated Authorities, and the Board of Investments Regulations (previously referred to as "Bylaws".*)

A. Board of Investments

i. Board

The exclusive fiduciary responsibility of the Board is to ensure prudent investment and management of the Fund so as to provide for the timely payment of benefits to members and their beneficiaries, minimize employer contributions, and defray the reasonable cost of administration, with the duty to members being paramount. It is the responsibility of the Board to ensure that LACERA employees administer Fund investments at reasonable cost, while preserving the quality of investments. The Board exercises oversight of all aspects of the investment program. The Board oversees the management of the Fund in compliance with all aspects of this IPS and all applicable federal and state laws and regulations concerning the administration of a government pension plan. The Board may request staff and investment consultants to inform and make recommendations on matters pertinent to LACERA's investment operations. The Board may also delegate specific authorities to the Chief Investment Officer ("CIO"), as further outlined in the Appendix.

ii. Committees

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

B. Staff

i. Chief Executive Officer

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

ii. Chief Investment Officer and Investment Staff

The CIO and staff assist the Board in performing its fiduciary duty. The internal investment staff reports to the CIO, who in turn reports to the CEO, with the input of the Board. The CIO, with the assistance of staff, has the responsibility and authority to assist the Board in establishing investment and administrative policies. The CIO and staff are responsible for implementing the policies and programs established by the Board. The CIO has primary responsibility for the implementation of the Board's investment decisions.

The CIO and staff manage the portfolio according to the Board's policies, advise and inform the Board about investments, assist with development and review of investment policies and procedures, oversee operational aspects of the Fund, report on the progress of the Fund in meeting its investment objectives, and monitor and report to the Board on the performance of the Fund relative to the appropriate benchmarks. The Board has delegated specific investment authority and responsibility directly to the CIO as described in the Appendix. The CIO is authorized to interact with and communicate directly with the Board regarding all investment-related matters. The CEO does not have any authority over any and all investment decisions that are delegated to the CIO.

iii. Chief Counsel and Legal Staff

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

C. Third Party Service Providers

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

i. Investment Consultants

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

ii. Custodian Bank

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

iii. Investment Managers

Investment managers are selected by the Board and, subject to the terms and conditions of this IPS, serve LACERA through contracts that specify investment guidelines, administrative requirements, responsibilities, investment fees, and performance expectations for management of each mandate. Investment managers provide reporting to LACERA on the performance of specific investment mandates in adherence to established guidelines and agreements. Staff and consultants synthesize investment managers' performance for presentation to the Board in accordance with established performance monitoring and oversight procedures. Investment managers should accept a fiduciary duty to LACERA, must report economic interests and conflicts in accordance with California law and LACERA policy, including the Code of Ethical Conduct and filing of Form 700s, and enforce their own diversity, ethics, and sexual harassment policies.

iv. Other Third Party Service Providers

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

Appendix

A. Investment Tables

Table 1: Approved Asset Allocation

Asset Class	Target Allocation (%)	Allocation Range +/- (%)
Growth	47.0	+/- 7
Global Equity	35.0	+/- 7
Private Equity	10.0	+/- 3
Opportunistic Real Estate	2.0	+1/- 2
Credit-Oriented Fixed Income	12.0	+/- 3
High Yield Bonds	3.0	+/- 3
Bank Loans	4.0	+2/- 4
Emerging Market Debt	2.0	+/- 2
Illiquid Credit	3.0	+2/- 3
Real Assets & Inflation Hedges	17.0	+/- 3
Core & Value-Added Real Estate	7.0	+/- 3
Natural Resources/Commodities	4.0	+/- 2
Infrastructure	3.0	+1/- 3
TIPS	3.0	+2/- 3
Risk Reducing & Mitigating	24.0	+/- 6
Investment Grade Bonds	19.0	+/- 6
Diversified Hedge Fund Portfolio	4.0	+2/- 4
Cash	1.0	+2/- 1
TOTAL FUND	100.0	

Table 2: Benchmark Table

Asset Class	Benchmark
Growth	Custom Blend
Global Equity	80% MSCI ACWI IMI + 20% MSCI World IMI ex U.S. Currency Hedged
Private Equity	MSCI ACWI IMI + 200 bps (3-month lag)
Opportunistic Real Estate	NFI ODCE + 300 bps (3-month lag)
Credit-Oriented Fixed Income	Custom Blend
High Yield Bonds	Bloomberg Barclays U.S. High Yield
Bank Loans	Credit Suisse Leveraged Loans
Emerging Market Debt	50% JP Morgan EMBI GD/25% JP Morgan GBI-EM GD/25% JP Morgan CEMBI BD
Illiquid Credit	Bloomberg Barclays U.S. Aggregate + 250 bps
Real Assets & Inflation Hedges	Custom Blend
Core & Value-Added Real Estate	NFI ODCE + 50 bps (3-month lag)
Natural Resources/Commodities	50% Bloomberg Commodity/50% S&P Global LargeMidCap Commodity and Resources
Infrastructure	Dow Jones Brookfield Global Infrastructure
TIPS	Bloomberg Barclays U.S. TIPS
Risk Reducing & Mitigating	Custom Blend
Investment Grade Bonds	Bloomberg Barclays U.S. Aggregate TR
Diversified Hedge Fund Portfolio	Citigroup 3-Month U.S. Treasury Bill + 250bps
Cash	Citigroup 3-Month U.S. Treasury Bill
TOTAL FUND	Custom Blended Policy Benchmark

Table 3: Ten-Year Annualized Return and Volatility Expectations

Asset Class	Expected Return (%)	Volatility (%)
Growth	7.9	19.5
Global Equity	6.7	19.0
Private Equity	9.3	26.0
Opportunistic Real Estate	7.5	25.0
Credit-Oriented Fixed Income	5.6	10.9
High Yield Bonds	5.0	12.5
Bank Loans	5.1	10.0
Emerging Markets Debt	5.1	13.3
Illiquid Credit	6.1	18.0
Real Assets & Inflation Hedges	5.8	11.5
Core & Value-Added Real Estate	4.0/6.0	12.5/19.0
Natural Resources/Commodities	7.9	23.0
Infrastructure	6.6	17.4
TIPS	3.0	7.5
Risk Reducing & Mitigating	2.8	3.5
Investment Grade Bonds	2.5	4.0
Diversified Hedge Fund Portfolio	4.0	9.9
Cash	1.5	1.0

Table 4: Correlation Matrix

Correlation Table

Asset Name	Cash Equivalents	Investment Grade Bonds	TIPS	High Yield Bonds	Bank Loans	Private Debt Composite	Emerging Market Bonds (Local)	Global Equity	Private Equity	Real Estate	Natural Resources (Private)	Commodities	Infrastructure	Diversified Hedge Funds
Cash Equivalents	1.00													
Investment Grade Bonds	0.05	1.00												
TIPS	0.05	0.80	1.00											
High Yield Bonds	0.00	0.20	0.30	1.00										
Bank Loans	0.05	0.00	0.20	0.80	1.00									
Private Debt Composite	0.10	0.20	0.10	0.85	0.80	1.00								
Emerging Market Bonds (Local)	0.00	0.35	0.40	0.65	0.40	0.65	1.00							
Global Equity	0.00	0.05	0.10	0.70	0.60	0.70	0.70	1.00						
Private Equity	0.10	0.00	0.05	0.72	0.67	0.79	0.52	0.84	1.00					
Real Estate	0.18	0.23	0.09	0.47	0.46	0.37	0.23	0.39	0.41	1.00				
Natural Resources (Private)	0.05	0.10	0.10	0.45	0.40	0.40	0.60	0.60	0.62	0.50	1.00			
Commodities	0.00	0.05	0.35	0.40	0.40	0.35	0.45	0.50	0.32	0.10	0.65	1.00		
Infrastructure	0.20	0.30	0.30	0.61	0.50	0.41	0.61	0.66	0.51	0.61	0.61	0.36	1.00	
Diversified Hedge Funds	0.10	0.05	0.21	0.64	0.60	0.56	0.52	0.68	0.51	0.36	0.52	0.54	0.49	1.00

Asset Name	Growth	Credit	Real Assets	Risk Mitigating
Growth	1.00	0.65	0.41	0.14
Credit	0.65	1.00	0.39	0.23
Real Assets	0.41	0.39	1.00	0.32
Risk Mitigating	0.14	0.23	0.32	1.00

B. Chief Investment Officer Delegated Authorities

The Board has delegated to the CIO the following authorities:

- Authority to approve real estate co-investments according to the Real Estate Co-Investment Policy found in LACERA's Real Estate Objectives, Policies, and Procedures.
- Authority to approve the purchase or sale of any existing fund investment within the Private Equity portfolio in accordance with LACERA's Private Equity Objectives, Policies and Procedures.
- Authority to sign, or delegate authority to sign, all investment-related contracts and agreements necessary to implement Board-approved action. Thereafter, during the original term, authority to sign all amendments and modifications with respect to such contracts and agreements, and make all decisions with respect to their day-to-day operation and implementation where the investment mandate remains substantially unchanged. Upon expiration of a contract or agreement, it may be extended or modified only with Board approval.
- Authority to approve temporary variances from public market investment manager guidelines.
- Authority to approve reductions to investment manager fee schedules and service provider costs.
- Authority to approve variances from LACERA's Fund of Funds sub-manager selection and compliance criteria on a case-by-case basis.
- Authority to limit or freeze manager trading activity pending discussion and action by the Board. Such actions shall be reported as an informational item as reasonably practicable to the Board, and no later than the next scheduled meeting of the Board.
- Authority to take actions not otherwise specifically delegated, in concurrence with the CEO and the Chair of the Board, when deemed necessary in the best interest of the Fund and when there is not enough time to take the action to the full Board. Such actions shall be reported as an informational item as soon as reasonably practicable to the full Board, and no later than the next scheduled meeting of the Board.
- Authority to rebalance the Fund, approve secondary PE transactions, PE re-ups, Title Holding Companies, and advisory board seats.
- Authority to add capital to, or reduce amounts invested in the already approved hedge fund managers or terminate a hedge fund manager according to established procedures in the hedge funds policies and procedures.
- Authority to negotiate and execute investment agreements that, in the judgment of the CIO and Chief Counsel, provide adequate protection for LACERA's interests, including an appropriate standard of care on the part of each manager.

In the event the CIO is not available, and time is of the essence in making a decision, the CEO shall have the authorities identified above. In the event neither the CIO nor CEO is available at the time that a decision must be reasonably made under contract or law or to further the best interest of the Fund, a committee composed of all available Principal and Senior Investment Officers and Assistant Executive Officers shall have these powers, provided that the committee is composed of at least one Principal or Senior Investment Officer and one Assistant Executive Officer. The Board will receive written notification of all such actions.

List of Attachments

Corporate Governance Principles
Corporate Governance Policy
Responsible Contractor Policy
Emerging Manager Policy
Placement Agent Policy

LACERA

Corporate Governance Principles

MARCH 2019

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About LACERA

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

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

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

LACERA MISSION STATEMENT

We Produce, Protect, and Provide the Promised Benefits

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

Statement of Purpose

The fundamental objective of LACERA's Corporate Governance Principles is to safeguard and promote the economic interests of the trust. LACERA believes that strong corporate governance practices and policies at the firms in which it invests help generate long-term economic performance.

The Corporate Governance Principles identify LACERA's fundamental principles of corporate governance. They are intended to advance LACERA's Investment Beliefs by articulating LACERA's view on sound governance and guiding LACERA's proxy votes at public companies. In advocating practices in line with these Corporate Governance Principles, LACERA aims to maximize the long-term value of plan holdings.

The Corporate Governance Principles are organized into five sections. Each section addresses common corporate governance and proxy voting issues. The five sections address issues pertaining to boards of directors, investor rights and capital structure, executive compensation and incentives, performance reporting, and environmental and social factors.

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

> **Accountability:** Governance structures and practices should be designed to promote the accountability of a firm's board of directors to the investors who provide the firm with capital. Accountability helps to ensure that a firm is managed in the best interests of its investors.
>
> **Integrity:** Integrity and trust are the cornerstone of financial markets and essential for economic stability. Core investor rights and protections are crucial to promoting integrity in financial markets.
>
> **Aligned Interests:** Compensation and incentive practices should align the interests of senior executives with those of investors.
>
> **Transparency:** Firms should provide investors with clear, comprehensive, and timely disclosures about fundamental elements of the firm's business and financial activities.
>
> **Prudence:** Firms should prudently identify, assess, and manage environmental and social factors that may impact the firm's ability to generate sustainable economic value.

Fiduciary duty guides LACERA's Corporate Governance Principles and their application. LACERA evaluates the financial impact of each issue presented on corporate proxies and votes proxies for the exclusive benefit of plan participants and beneficiaries in all instances.

LACERA recognizes that sound governance balances the rights of investors providing a firm with capital with the role and responsibility of corporate boards to direct and manage the firm. LACERA may oppose overly prescriptive or unduly burdensome measures proposed on corporate proxies, or resolutions that may otherwise restrict a firm's board of directors from acting in the best economic interests of investors.

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

The procedures by which LACERA applies and promotes the Corporate Governance Principles, including executing proxy votes, engaging policymakers and portfolio companies, and collaborating with other institutional investors when it shares common objectives (such as actively participating in investor associations), are described in LACERA's Corporate Governance Policy.

Principles

I. Directors

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

A. Independent Oversight

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

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

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

2. **Board Leadership:** The board should be chaired by an independent director.

3. **Board Committees:** Each board should establish an audit committee, a nominating and governance committee, and a compensation committee, each composed exclusively of independent directors.

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

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

B. Board Quality and Composition

1. **Composition:** The board should be composed of highly talented individuals who are best positioned to oversee the company's strategy for creating and sustaining value. Boards should give consideration to ensuring that directors collectively possess a diverse set of relevant skills, competencies, and attributes to exercise oversight on investors' behalf, including expertise, geographic familiarity, and professional backgrounds relevant to the company's strategic objectives. The board should strive for a suitable mix of tenures to ensure both institutional familiarity and fresh perspectives on the board, as a firm's market environment and business strategies evolve.

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

Firms should disclose how the board defines and reflects a relevant and diverse mix of skills and backgrounds in its composition. In assessing board composition, LACERA generally expects to see a compelling link between requisite skill sets and a firm's corporate strategy and a credible track record of inclusivity, including, but not limited to, gender diversity.

2. **Board Size:** The board should define and disclose in governance documents an appropriate size or range of directors that ensures the board is composed of adequately diverse viewpoints and experience to effectively oversee the firm's business strategy, while not being so large as to diminish the board's operational effectiveness. Modifications to governing documents defining board size and structure should be submitted for investor approval and not be proposed for the purpose of impeding a change in firm control.
3. **Excessive Commitments:** Directors should have adequate time to dedicate to their board service, fulfill their responsibilities, and represent investors' interests. Accordingly, directors should not serve on more than four public company boards. Currently serving chief executive officers should not serve on more than three public boards (including their own).
4. **Tenure and Age Restrictions:** LACERA does not support arbitrary restrictions on director qualifications, such as tenure limits or mandatory retirement ages. Such limitations may impede a firm from benefiting from the expertise of an otherwise highly qualified director.

C. Director Selection and Elections

1. **Annual Elections:** Each director should be elected annually. Directors should not be elected by classes, or to "staggered" terms.
2. **Vote Standard for Director Elections:** Director nominees in uncontested elections should be elected by a majority of votes cast. In contested director elections, a plurality of votes should determine the election.
3. **Universal Proxy Card:** In the event of a contested director election, investors should have the right to select and vote for individual director nominees on a consolidated, or "universal," proxy ballot, regardless of whether the director nominee is put forward by management or a dissident investor.
4. **Cumulative Voting:** LACERA supports cumulative voting in director elections, in compliance with California Government Code Section 6900.[1]
5. **Proxy Access:** Long-term investors who have held a significant ownership interest for a reasonable amount of time should have the right to nominate alternative directors for consideration on a firm's proxy, otherwise known as "proxy access." Proxy access procedures should have sound safeguards in place to ensure an orderly nominating process and prevent proxy access from being used to effectuate a change in control.
6. **Ability to Remove Directors:** Investors should have the right to remove directors with or without cause, in order to allow investors to take action when a director is not serving investors' best interests.

D. Board Roles and Responsibilities

1. **Governance Guidance:** The board should develop, adopt, disclose, and periodically review clearly defined governance guidelines that govern the board's operations.

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

2. **Resources:** The board should have adequate resources and access to information to enable it to execute its responsibilities and duties. Directors should be provided information in advance of meetings. Directors should have full access to senior management and information concerning the firm's operations. Directors should be familiar with a firm's operations independent of the chief executive officer and senior management. Directors should have the authority and adequate budget to hire outside experts, if necessary.

3. **Independent Proceedings:** Directors should work with the chief executive officer to establish board agendas. Independent directors should meet at least annually without management or non-independent directors' participation.

4. **Board Communication and Engagement:** Firms should establish reasonable policies that permit effective communication between investors and directors regarding business strategy and corporate governance matters.

5. **Management Succession Planning:** The board should conduct a regular evaluation of the chief executive officer and plan for business continuity, including establishing and disclosing a succession plan for the chief executive officer and key senior executives.

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

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

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

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

E. Board Performance and Effectiveness

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

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

1.2 **Effective Oversight of Management:** Directors should conduct effective oversight of management, including avoiding any failure to replace management as appropriate.

1.3 **Attendance:** Each director should attend at least 75 percent of scheduled board meetings each year, including attendance at assigned committees, absent a compelling, clearly disclosed justification.

1.4 **Board Service:** Directors' track records and performance on other boards may be considered in evaluating director nominees. In particular, a director's failure to effectively exercise oversight on other boards or any egregious actions that raise substantial doubt about the director's ability to fulfill a director's obligations and serve the best interests of investors may prompt opposition to the director's nomination.

1.5 **Ethics:** Directors should demonstrate the utmost integrity and be free of any criminal wrongdoing, breaches of fiduciary responsibilities, or questionable transactions with conflicts of interest.

1.6 **Transparency in Reporting:** Financial reports and material disclosures should be published in a satisfactorily diligent and timely manner.

1.7 **Investor Responsiveness:** Directors should demonstrate accountability and responsiveness to investors. Directors should not unilaterally amend a firm's governing documents in a manner that materially diminishes investor rights or otherwise adversely impacts investors without seeking investor approval. Directors should not adopt a poison pill or make a material change to an existing poison pill without submitting the plan for investor approval within the following 12 months. Directors should take reasonable steps to implement resolutions approved within the previous 12 months by a majority of investors, within the confines of legal and regulatory constraints. Directors should respond to tender offers where a majority of shares have been tendered. There should be no record of abuse against minority investor interests.

2. **Committee Performance:** Each committee should demonstrably fulfill its core duties and the specific responsibilities outlined in its committee charter. LACERA may oppose the committee chair or incumbent directors who have served on committees that have failed to perform their duties in investors' best interests. In cases where governance provisions, such as staggered board elections, impede LACERA from holding designated directors accountable, LACERA may oppose board leadership or other incumbent directors.

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

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

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

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

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

II. Investor Rights and Capital Structure

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

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

A. Investor Rights

1. **Rights Proportionate to Economic Interest:** Investors should have voting rights proportionate to their economic interests. Multiclass ownership structures may entrench certain investors and management, insulating them from acting in the interests of all investors. LACERA therefore supports the principle of "one share, one vote."

2. **Voting Requirements and Procedures:** Investors should have the right to act on fundamental corporate matters by a simple majority of votes cast. Fundamental matters may include, but are not limited to, amending a firm's governing documents (such as its charter or bylaws) and effecting corporate transactions, such as a merger or acquisition.

   2.1 **Simple Majority Voting:** Companies should not adopt supermajority voting requirements except when such provisions may protect outside or minority investors from unilateral action being taken by an entity (or entities) with controlling interest or significant insider ownership.

   2.2 **Voting Procedures:** Voting and tabulation of matters put before investors by proxy or otherwise should be guided by transparent procedures, consistent application of rules, and fairness for all eligible voters. Votes should be counted by an independent tabulator and kept confidential. Voting results should be promptly disclosed once tabulation has been finalized.

   2.3 **Bundled Voting:** Investors should be able to review and cast votes on unrelated matters as separate and distinct ballot items. Disparate matters should not be presented for investor consideration as a "bundled" voting item. LACERA may oppose bundled proposals that combine supportable voting items with matters that LACERA opposes.

   2.4 **Broker Non-Votes:** Uninstructed broker votes and abstentions should be counted for quorum purposes only.

3. **Annual Meetings**

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

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

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

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

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

4. **Special Meetings:** Investors should be able to call a special meeting to take action on certain matters that may occur between regularly scheduled annual meetings. The right to call a special meeting should require aggregating a minimum of 10 percent ownership interest and be subject to reasonable terms and conditions.
5. **Action by Written Consent:** Investors should have the right to act by written consent on key governance matters under reasonable terms and conditions.
6. **Access to Research:** Investors should have access to competitive, timely, and independent market, investment, and proxy research services of their choosing. Market regulation should support and not impede a competitive market of service providers.
7. **Ownership Disclosure:** Significant ownership interests above 5 percent should be disclosed.
8. **Incorporation:** A firm's country or state of incorporation may significantly impact the firm's financial health, competitive position, governance profile, and the legal rights afforded to investors, as defined by the jurisdiction of incorporation. When selecting a jurisdiction for incorporation (such as in relation to a merger or acquisition or a proposed reincorporation), firms should give due consideration to competitively positioning the firm for financial success while also ensuring sound governance practices and strong legal rights and protections for investors. LACERA may oppose proposals for reincorporation where the business and financial rationale for reincorporation do not outweigh the detrimental impact of a reincorporation on investor rights and governance provisions.
9. **Litigation Rights:** Robust and viable litigation rights enable investors to protect firm value, deter misconduct, and seek recourse in the event of egregious corporate malfeasance or fraud. Corporations should not curtail or otherwise diminish investors' prospective legal recourse through governance provisions, such as exclusive forum designations for legal disputes, mandatory arbitration clauses, or "fee-shifting" provisions by which an investor who unsuccessfully brings legal action must bear the entirety of the corporation's legal costs.

B. Capital Structure

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

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

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

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

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

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

1.4 Blank Check Preferred Shares: Firms generally should not create classes of shares providing the board with broad discretion to define voting, conversion, dividend distribution, and other rights, absent a compelling rationale and clearly stated restrictions in line with investors' interests. The voting rights of unissued shares should be presented for investor approval and not be subject to board discretion.

1.5 Blank Check Preferred Share Placements: Investor approval should be required for the placement of preferred shares with any person or group for other than general corporate purposes, to enable investor review of the business purpose, prospective impact on dilution and voting positions, and any adverse impact on existing investors.

1.6 Reverse Stock Split: Reverse stock splits, by which multiple shares are exchanged for a lesser amount to increase share price, generally should be accompanied by a proportionate reduction in authorized shares.

2. **Debt Issuance and Borrowing Powers:** Debt issuances and restructuring, amendments to a firm's aggregate limit on the board's ability to borrow money, and other debt-related items should serve a compelling and clearly articulated business purpose, be in line with and supportive of generating sustainable and viable financial returns, and take into reasonable consideration any detrimental impact on existing investors. LACERA evaluates debt-related proposals upon careful consideration of the individual terms and merits of the request.

3. **Capital Allocation and Income Distributions:** A firm should allocate capital, including distribution of income through dividends or share repurchases, in a disciplined and balanced manner that supports the generation of long-term value.

3.1 Allocation of Income: Firms should provide adequate justification when seeking investor approval for the allocation of income when the payout ratio appears unbalanced or unsustainable (either inordinately low, such as below 30 percent, or excessive, given the firm's financial position).

3.2 Stock (Scrip) Dividend Policy: Firms may provide investors the option to receive dividend payments in the form of common equity in lieu of cash. Such provisions enable a firm to retain cash and may strengthen the position and commitment of long-term investors. In all circumstances, firms should provide a cash option, absent a compelling justification that such an option may be harmful to investors.

3.3 Share Repurchase Programs: Open market share repurchase plans should enable investors to participate on equal terms and support balanced and disciplined capital allocation. Requests to authorize share repurchases should have a defined and limited duration, incorporate clear and reasonable terms and conditions, and generally not exceed 10 percent for market repurchases within any single authority, absent a compelling rationale in line with investors' interests and market practice.

4. **Mergers, Acquisitions, and Other Corporate Restructuring:** Mergers and corporate restructuring (including spin-offs, leveraged buyouts, and reorganizations) have major financial implications for investors.

4.1 **Evaluation:** LACERA carefully examines all relevant facts and circumstances of each proposal to determine whether the proposal, in its entirety, is in LACERA's best interests. Assessment of each proposed transaction takes into account multiple factors. The valuation should be reasonable. Market reaction may be considered. The strategic rationale and expected benefits should be sensible, with any projected synergies or financial impact reasonably achievable. Management should have a favorable track record of successful integration of acquisitions or business combinations. The negotiation and deal process should be fair and equitable. There should be no conflicts of interest, such as factors enabling insiders to disproportionately benefit from the proposed transaction. The resulting entity should observe sound corporate governance practices. The risks of not completing the transaction or corporate restructuring may be considered. Sufficient information should be provided to enable investors to make an informed decision.

4.2 **Appraisal Rights:** Investors should be afforded appraisal rights by which they may seek a judicial review of the terms of certain corporate transactions in order to determine fair market value.

5. **Anti-Takeover Measures:** Investors should be afforded the reasonable opportunity to deliberate and decide on the merits of takeover bids and acquisitions. Practices and provisions, including corporate bylaws, charters, laws, and statutes, that may impede or deter a corporate transaction that is otherwise in investors' interests, may take a variety of forms and generally should be submitted for investor review and approval.

5.1 **Poison Pills:** The board should not enact or amend a poison pill without investor approval. LACERA generally supports the redemption of existing poison pills, except in unique circumstances where a carefully designed, short-term plan may enable a firm to negotiate more favorable terms with a potential bidder. Such plans should require a minimum 20 percent ownership threshold to trigger, provide for limited and reasonable duration, exclude provisions by which only continuing directors may remove the pill, and otherwise provide adequate investor protections so that the plan will not unduly impede a bid that is otherwise in investors' interests.

5.2 **Net Operating Loss (NOL) Protective Amendments:** Protective amendments with the stated purpose of preserving a company's net operating losses for a tax benefit, such as under the terms of Section 382 of the Internal Revenue Code, should balance the anticipated benefit to investors of preserving the tax value and the risk of potential abuse of such provisions as an anti-takeover measure. Because NOL protective amendments may serve as a poison pill, the board should submit related items for investor review and approval. Such provisions should only be used under limited, clearly justified circumstances and include adequate protections, such as an appropriate ownership threshold and clearly defined and reasonable duration limits.

5.3 **Greenmail:** Greenmail, by which a firm repurchases shares of a potential acquirer at an above-market price to deter a takeover, should be prohibited.

5.4 **Other Anti-Takeover Measures:** LACERA generally opposes provisions that impose onerous restrictions or impediments on prospectively beneficial takeover bids, taking into account the specific terms and circumstances of such provisions to determine the provision's alignment with LACERA's economic interests. LACERA supports firms opting out of related anti-takeover laws and statutes, where legally permitted.

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

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

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

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

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

III. Compensation and Incentives

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

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

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

A. Advisory Vote on Executive Compensation

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

B. Compensation Plan Design

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

1. **Performance Criteria:** Incentive compensation should incorporate clearly defined, rigorous, and disclosed performance criteria upon which incentive pay is contingent. Performance metrics, targets, and hurdles should be consistent with and promote the firm's strategy for generating sustainable value, including key financial and operating objectives, and effective management of relevant business risks.
2. **Peer Benchmarking:** Peer groups used to benchmark compensation should be clearly disclosed and relevant to the firm's business profile and size.
3. **Compensation Consultants:** Compensation consultants providing strategy, design, and implementation services related to executive compensation to the board's compensation committees should be at the exclusive hire and service of the committee, unquestionably independent, and clearly disclosed.
4. **Equity Ownership, Retention, and Holding Requirements:** Equity ownership among senior executives may strengthen the alignment of interests between executives and investors and promote prudent risk mitigation, and should be encouraged. Equity ownership guidelines providing that executives should maintain reasonable equity in the firm, requirements for executives to retain a meaningful portion of equity acquired through compensation plans, and equity grant holding requirements should strike an appropriate balance to promote equity ownership while avoiding overly restrictive or onerous provisions that may undermine talent motivation and retention to the detriment of investors' interests.

5. **Prearranged Trading Plans:** Prearranged trading plans, as provided under Securities and Exchange Commission Rule 10b5-1, define parameters for executives' predetermined securities transactions in advance of an executive becoming aware of material non-public information regarding the firm's securities and are intended to mitigate the risks of insider trading. The adoption, amendment, or termination of prearranged trading plans for senior executives should be governed by the board, promptly disclosed, and provide for timely disclosure of transactions made pursuant to the plan's provisions.
6. **Hedging and Speculative Transactions:** Senior executives should be prohibited from engaging in derivative or speculative transactions involving equity of the firm, including hedging, holding equity in a margin account, or pledging equity as collateral for a loan.
7. **Internal Pay Disparity:** Executive compensation should be considered in the context of how a firm compensates its employees, including in relation to industry peers. Firms should disclose the ratio of the chief executive officer's total pay to that of the average firm employee.
8. **Restrictions:** Executive pay should not be subject to arbitrary restrictions or limitations on the magnitude or form of compensation, such as linking executive pay to average employee compensation. Arbitrary limits and restrictions may undermine a firm's ability to attract and retain competent talent, and create a competitive disadvantage for the firm.
9. **Recoupment Policies:** Firms should adopt and disclose rigorous policies defining the terms and conditions by which incentive compensation may be recouped, in order to align pay with performance, promote accurate financial reporting, and deter misconduct. Robust clawback policies should enable the board to review and recoup senior executive incentive compensation in the event that compensation was calculated using inaccurate financial reports, or in the event of fraud or misconduct. Application of the recoupment policy should be reasonably disclosed.
10. **Perquisites:** Firms should refrain from providing executives with extraordinary or excessive perquisites that are not linked to firm performance, incongruent with prevailing best practices, and unjustified to adequately attract and retain executive talent. Corporate assets should not be unduly expended on personal expenses that are unrelated to an executive's employment and that extend beyond those widely offered to a firm's employees. Firms should avoid, or otherwise adequately and cogently justify, paying an executive's personal income tax obligations (including excise tax gross-up's), personal use of corporate aircraft, and extensive personal and home security payments.

C. Equity Plans

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

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

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

to reprice underwater options should clearly define and compellingly justify the rationale and intent, timing, defined participants, and terms, such as a value-for-value exchange, exercise price, and vesting requirements.

D. Employee Equity Programs

1. **Employee Stock Purchase Plans:** Employee stock purchase plans encourage firm employees to acquire an ownership stake in the firms for which they work by providing employees the right to purchase the firm's equity at a set price within a certain period of time. Employee stock purchase plans should define reasonable terms, such as designating exercise prices at no lower than 85 percent of fair market value, fixing a justifiable offering period, and limiting voting power dilution to less than 10 percent.

2. **Employee Stock Ownership Plans:** Employee stock ownership plans (ESOPs) enable employees to accumulate firm equity. ESOPs should balance encouraging employee equity ownership while avoiding harm to existing investors. Shares allocated to ESOPs should not be excessive (generally no more than 5 percent of outstanding shares).

E. Severance and Retirement Arrangements

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

1. **Golden Parachutes:** Firms should submit for investor approval arrangements to provide executives with extraordinary severance payments in certain circumstances, such as a change in firm control. Extraordinary payments may be assessed in relation to market and peer practice and should not exceed payments greater than three times base salary and bonus. Severance payments should not be so attractive as to influence merger agreements that may not be in the best interests of investors, and should have triggering mechanisms beyond the control of senior executives. Any payments in the event of a change in control should be "double triggered," i.e., contingent upon both an actual change in control and an employment separation related to the change-in-control event. Unvested equity should not accelerate upon the change in control. Payments should not trigger, and firms should not commit to paying, executives' excise taxes ("gross ups"). A change in control should not be contingent upon investor approval of executives' severance payments.

2. **Supplemental Executive Retirement Plans:** Retirement plans that provide extraordinary retirement benefits exclusive to executives should be presented for investor approval and avoid excessive payouts, such as excluding all incentive or bonus pay from covered compensation calculations.

3. **Golden Coffins:** Firms should refrain from providing extraordinary compensation upon an executive's death. Firms should submit for investor approval agreements and policies that oblige the firm to make payments or awards following the death of a senior executive, including unearned salary or bonuses, accelerated vesting or continuation in force of unvested equity grants, and other extraordinary payments or awards.

F. Director Compensation

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

1. **Structure and Design of Director Compensation:** Directors may be compensated in both cash and equity. Fees and compensation paid to directors should be appropriate relevant to market norms, the firm's industry, and its financial performance. Equity should not constitute the entirety of director compensation, as this may undermine directors' incentive to monitor and exercise oversight of long-term risks to firm value.

2. **Equity Ownership:** Equity ownership by directors promotes the alignment of directors' interests with those of investors. Firms should adopt and disclose equity ownership guidelines to encourage directors to acquire and

hold a meaningful amount of equity in the firm. Equity ownership should not, however, be a qualification for board service, as such restrictions may impede otherwise highly qualified individuals from serving as directors.

3. **Retirement Benefits:** Retirement benefits for director service are improper, as such benefits may impede objectivity and sever the alignment of interest between directors and investors.

IV. Performance Reporting

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

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

A. Financial Reports

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

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

B. Fiscal Term

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

C. Auditors

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

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

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

   1.2 **Quality:** There should be no question as to the accuracy of the external auditor's opinion, the financial report's indication of the company's financial position, and the accurate application of established accounting standards. There should be no aggressive accounting practices or significant audit-related issues at the company, such as a history of restated financial results or material weaknesses in internal controls.

   1.3 **Timeliness:** There should be no unjustified delays in the publication of audited financial statements.

2. **Rotation:** Requests to rotate auditors should be evaluated in consideration of the audit firm's tenure, any proposed length of rotation, the presence of significant audit-related issues at the company, the extent to which the company periodically assesses audit pricing and quality, and the robustness of the audit committee's functions, such as the presence of financial experts and how often the committee meets.

3. **Indemnification:** To avoid any impairment of the external auditor's objectivity and independence, companies should not enter into engagement letters that indemnify or otherwise limit the external auditor's liability.

V. Environmental and Social Factors

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

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

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

A. Social Factors

1. **Human Capital Management:** Effective management of human capital — including the development, incentives, and retention of the firm's workforce — is key to accomplishing a firm's strategic objectives. Companies should identify, ensure board oversight, and disclose information about significant human capital value drivers that are related to the firm's ability to create and protect firm value. Central to effective human capital management is the assurance of equal employment opportunity, including non-bias in compensation and employment terms, and a workplace free of harassment in all forms.

2. **Human Rights Risk:** Firms should mitigate the risks of human rights abuses in global operations and supply chains by adopting robust human rights policies and ensuring effective internal controls to monitor compliance with stated human rights standards.

B. Environmental Factors

1. **Natural Resource Stewardship:** Firms should give consideration to efficient, sustainable use and stewardship of natural resources, such as energy and water, to enhance operational efficiency and safeguard firm value from the risks of resource scarcity.

2. **Environmental Risk:** Firms should ensure reasonable oversight mechanisms and mitigation of environmental risks, such as hazardous waste disposal and pollution, to mitigate prospective legal, regulatory, and operational risks to firm value.

3. **Climate Risk:** Climate change may present financial, operational, and regulatory risks to a firm's ability to generate sustainable value, as well as to the broader economy. Firms should assess and disclose material climate-related risks and sufficient, non-proprietary information to enable investors to prudently and adequately evaluate the prospective impact of climate risk on firm value.

Document History

Revised March 13, 2019
Consolidated and restated February 14, 2018
Revised August 9, 2017
Reviewed October 12, 2016
Reviewed November 19, 2014
Revised April 10, 2013
Revised April 22, 2009
Revised April 27, 2005
Revised May 26, 2004
Revised August 13, 2003
Revised June 11, 2003
Original adopted March 12, 2003

LACERA

Corporate Governance Policy

MARCH 2019

Contents

I. Purpose

The Corporate Governance Policy (Policy) outlines the objectives, legal authority, and procedures guiding LACERA's corporate governance program.

II. Strategic Objective

LACERA seeks to responsibly steward its investments in a manner that promotes and safeguards the economic interests of LACERA and its members, consistent with LACERA's mission to "produce, protect, and provide the promised benefits."

Through its corporate governance program, LACERA prudently exercises its rights as an investor to support policies and practices at portfolio companies, as well as public policies governing financial markets, that are consistent with LACERA's economic interests in order to promote sustainable, long-term value on behalf of LACERA's members and enhance LACERA's ability to fulfill its mission.

III. Legal Authority

The LACERA Board of Investments has "the sole and exclusive fiduciary responsibility over the assets of" the system, as provided by the California Constitution (Article XVI, Section 17(a)).

LACERA exercises its legal rights on corporate governance matters in furtherance of its fiduciary duty under Article XVI, Section 17 of the California Constitution, the County Employees Retirement Law of 1937 (CERL), and other governing laws, regulations, and case authority. The Board's fiduciary duty has two components:

A. Duty of Loyalty

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

B. Duty of Prudence

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

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

IV. Program Components

LACERA's corporate governance program may include the following components and responsibilities:

A. Proxy Voting

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

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

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

B. Corporate Engagement

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

C. Public Policy

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

D. Investor Collaboration

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

V. Responsibilities and Delegations

A. The Board of Investments:

i. Approves and promulgates policies addressing environmental, social, and governance issues, such as corporate governance and proxy voting matters and including, but not limited to, *Corporate Governance Principles* and this *Corporate Governance Policy*, as recommended by the Corporate Governance Committee of the Board.

ii. Receives periodic reports concerning the program's progress and priorities from the Corporate Governance Committee.

iii. Approves LACERA representatives for nomination to governing bodies of the corporate governance associations to which LACERA is affiliated, as recommended by the Corporate Governance Committee.

iv. Approves procedures to comply with legislated or other mandated divestment or investment exclusions, such as LACERA's *Procedures for Evaluating ESG-Related Divestments* (Appendix A), as developed and recommended by the Corporate Governance Committee.

B. The Corporate Governance Committee of the Board of Investments

i. Recommends the *Corporate Governance Principles,* the *Corporate Governance Policy*, and other items concerning environmental, social, and governance matters to the Board of Investments for consideration and approval.

ii. Exercises oversight and monitoring of the corporate governance program, including reviewing program priorities and progress.

iii. Reviews reports regarding proxy voting results and trends and develops recommendations for Board approval for any policy recommendations, as appropriate.

iv. Reviews and ensures alignment of strategic initiatives with the *Corporate Governance Principles*.

v. Provides periodic reports on the program to the Board of Investments.

vi. Delegates authority to the Committee Chair to determine LACERA's action on time-sensitive , investment- or financial market-related legislative or regulatory matters that are not adequately addressed in the *Corporate Governance Principles* or joint investor engagements affiliated with investor associations to which LACERA has formally affiliated.

vii. Recommends for Board of Investments approval, LACERA representatives for nomination to governing bodies of the corporate governance associations to which LACERA is affiliated. In event the Committee is not scheduled to meet or lacks adequate time to recommend a nomination to the Board prior to a formal deadline, the Committee delegates authority to the Committee Chair to recommend consideration of the nomination by the Board.

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

C. Staff

i. Develops and recommends *Corporate Governance Principles* and related policies for review and consideration by the Corporate Governance Committee.

ii. Executes proxy votes in adherence to the *Corporate Governance Principles*. Staff consults with and seeks the input of the Chief Investment Officer and Chief Counsel, when applicable, to apply the *Corporate Governance Principles*, and the spirit thereof, to unique or new proxy voting items in their best judgment and interpretation of the *Corporate Governance Principles*. Staff recalls shares of loaned securities when doing so is in LACERA's economic interests, such as at portfolio companies where LACERA has sponsored a shareowner proposal.

iii. Communicates and represents the *Corporate Governance Principles* in dialogue and communication with portfolio companies, other investors and stakeholders, related conferences, and other interested parties.

iv. Presents any strategic plans for engagement to the Corporate Governance Committee, per the Committee's review and oversight, to promote alignment with Board-approved *Corporate Governance Principles*. In the event of time-sensitive strategic initiatives, staff consults with the Chair of the Committee, who determines action or recommends consideration of the matter by the Committee or Board, time permitting.

v. Represents the *Corporate Governance Principles* in written communication to legislators and regulatory agencies, in consultation with the Chief Executive Officer, Chief Investment Officer, and Chief Counsel. Staff may participate in joint investor written communications that are organized as part of formal investor associations to which LACERA has formally affiliated. In event that a time-sensitive, investment- or financial market policy-related legislative or regulatory matter arises that is not adequately considered by the *Corporate Governance Principles* or being addressed by an investor association to which LACERA is affiliated, staff consults with the Chair of the Committee, who determines whether to approve action or recommend consideration of the matter by the Board, time permitting.

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

VI. Regular Review and Reaffirmation

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

Appendix A: Procedures for Evaluating Prospective ESG-Related Divestments

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

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

1. The issue will be directed to Committee for further direction to staff.
2. If the Committee decides to review the issue, staff will assess the potential economic and reputational impact of the issue on LACERA.
    a. Does the issue violate LACERA's *Corporate Governance Principles*?
    b. Determine criteria for identification of investment(s).
    c. Preliminary identification of the investment.
    d. Preliminary estimate on size of the investment.
    e. Seriousness of the issue/violation and whether it impacts the economics of the investment(s).
    f. Consultation with LACERA's CEO, CIO, and legal counsel.
3. Staff will report its findings on the potential economic and reputational impact of the issue on LACERA to the Committee.
4. The Committee may forward the issue and potential economic and reputational impact on LACERA to the Board of Investments (Board) for further direction.
5. If the Board directs staff to continue the analysis, staff will calculate the anticipated resources involved in analyzing the issue, including, but not limited to:
    a. Estimate of staff hours required for research and analysis.
    b. Estimate of the resource impact on current staff initiatives and projects (e.g., the delay in an RFP search).
    c. Estimate of cost to obtain information (e.g., company list) from external service provider.
6. Staff will report back to the Committee with its resource requirements analysis.
7. Committee may make recommendation to the Board to pursue additional analysis.
8. Upon receiving direction from the Board, staff will contract with external data provider to identify investment(s) impacted by the issue.
9. Staff will identify investment exposures within the separate accounts of the public markets asset classes (equities, fixed income and commodities).
10. Staff will contact external investment managers to solicit feedback from portfolio managers on reasoning for the investment and potential return and risk trade-off of economic substitution.
11. Staff will present findings to the Board and any recommendation(s) as necessary. If further action is warranted, such as engagement with companies, staff's report to the Board will include the following:

a. An estimate of additional staff hours needed to execute engagement.

b. An estimate of the impact of diverting resources from current staff initiatives and projects (e.g., the delay in an RFP search).

c. Cost of retaining external resources (third party consultant) to assist in the engagement process.

d. Feedback from portfolio managers on their investment in the company.

e. Discussion of criteria and terms for company engagement.

12. If further action, such as engagement, is recommended and approved by the Board, staff will seek to engage with companies on the issue. Letters will be written to the company's executive management and their boards, requesting responses within 60 days.

13. If company response is determined to be insufficient, staff will assess the need to place the company on an economic substitution list[1] and present recommendation(s) to the Board for approval. Included in the recommendation(s) will be the following:

a. Updated company exposure within separate accounts of public markets asset classes.

b. Annual cost to procure company list.

c. Criteria by which company will be removed from the economic substitution list.

14. Staff will continuously monitor company status relative to criteria for removal from the economic substitution list. Once criteria have been met, staff will recommend removal of the company to the Board.

15. Staff will provide an economic substitution list update to the Board annually, which will include the following:

a. All companies currently on the list.

b. Issue for which the company was placed on the list.

c. Investment exposure within separate accounts of public markets asset classes.

d. Current status of mitigating factors.

Document History

Revised March 13, 2019

Revised August 9, 2017

Reviewed October 12, 2016

Revised November 19, 2014

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

LACERA

Responsible Contractor Policy

NOVEMBER 2014

I. Purpose

The Responsible Contractor Policy (the "Policy") of the Los Angeles County Employees Retirement Association ("LACERA" or the "Fund") is designed to guide, in a manner consistent with the Fund's fiduciary duties, the Fund's real estate investment advisers and other participants in the process of selecting contractors to provide building operations services and construction services to the real estate properties owned by the Fund.

The Policy seeks to ensure that such contractors will be selected based upon demonstrated ability to provide high quality services, and thereby enhance the value of LACERA's real estate investments, as evidenced by their experience, reputation, responsiveness, fees, and dependability, and further by their record of compliance with applicable statutes and payment of fair compensation and benefits to employees.

II. Introduction

LACERA supports and encourages fair compensation and fair benefits for workers employed by its contractors, subject always, however, to the Fund's overriding fiduciary duties to LACERA's participants and their beneficiaries, duties which take precedence over any other duty, including any duty or obligation established by this Policy.

The LACERA Board of Investments hereby adopts the Responsible Contractor Policy described herein in order to support and encourage the engagement of contractors who can be expected to provide high quality services to LACERA properties, utilizing properly trained and fairly compensated employees, subject always to LACERA's fiduciary duties, including loyalty, care, skill, prudence, and diligence, which require evaluation of expected investment returns and risk of loss when awarding contracts with respect to LACERA's assets.

Utilization of responsible contractors adds value to the investments by ensuring that essential building operations services and construction services are provided by adequately trained, experienced, and motivated workers. An adequately compensated and trained workforce can be expected to deliver a higher quality product and service. Therefore, LACERA supports a healthy and profitable business environment through market competition, small business development, and control of operating costs.

III. Definition of Responsible Contractor

A Responsible Contractor is a contractor who: (1) has the appropriate experience, reputation, employee relations, responsiveness, fees, and dependability to perform the required work, and (2) provides workers fair compensation and fair benefits for the required work, based on market conditions.

IV. Basic Requirements of the Responsible Contractor Policy

- **Fiduciary Duties Take Precedence:** Notwithstanding any other considerations, LACERA's assets shall be diligently and prudently invested and managed in accordance with the Fund's fiduciary duties in the sole interest of plan participants and their beneficiaries, and for the exclusive purpose of providing benefits to its participants and their beneficiaries. LACERA's duties, and the duties of its advisers, to LACERA's participants and their beneficiaries shall take precedence over any other duty.
- **Competitive Rate of Return:** LACERA seeks to have its real estate investments managed and operated in a manner that is expected to produce a competitive rate of return for its participants and beneficiaries at an acceptable level of risk.

- **Legal Compliance:** LACERA seeks to have all LACERA contractors comply with all applicable federal, state, and local laws, regulations, and ordinances, including (but not limited to) those related to insurance, withholding taxes, minimum wage, health and safety, and environmental matters.
- **Non-discrimination:** LACERA shall give equal consideration to minority-controlled firms, firms owned and controlled by women, and ventures involving those same firms, that meet the selection criteria for contractors and service providers.

V. Preference for Responsible Contractors

Provided the basic requirements in the foregoing section have been satisfied, LACERA expresses a strong preference that Responsible Contractors be hired in accordance with this Policy.

VI. Administration, Monitoring, and Enforcement

- **Applicable Contracts:** This Policy applies to all contractors and subcontractors who provide building operations services and construction services to real estate properties that are wholly owned by LACERA either directly or indirectly through subsidiary entities. The contractors and subcontractors shall use their best efforts to comply with this Policy. This Policy does not apply to real estate properties in LACERA's portfolio that are not wholly owned by LACERA either directly or indirectly.
- **Notification:** All current and prospective real estate advisers shall be provided a copy of this Policy.
- **Contract Solicitation:** All requests for proposals and invitations to bid applicable contracts covered by this Policy shall be made in accordance with the terms of this Policy.
- **Contracts and Contract Renewals:** All contracts and contract renewals entered into after the effective date of this Policy shall include applicable provisions of this Policy.

  Minimum Contract Size: This Policy shall apply to all contracts valued at $25,000 or more. Contract value refers to the total project work to be contracted for, with desegregation by trade or task. Desegregation designed to evade the requirements of this Policy shall not be permitted.
- **Reporting:** All advisers and contractors shall collect and retain adequate data documenting their compliance with this Policy and shall be prepared to produce such data for review upon request. LACERA staff shall produce periodic reports to LACERA's Board of Investments, when non-compliance with this Policy is identified.
- **Definition of Fair Wages and Benefits:** This Policy does not mandate any strict definition of fair wages and benefits. In the determination of fair wages and benefits, this Policy recognizes and considers indicators such as local wage practices, state law and labor market conditions, as well as prevailing wages.
- **Neutrality:** Where there is a legitimate attempt by a labor organization to organize workers employed in the construction, maintenance, operation, and services of a LACERA property, LACERA encourages a position of neutrality.
- **Enforcement:** LACERA shall place any adviser or property manager who fails to comply with this Policy on a probation list. In reviewing adviser and property management contracts for renewal, LACERA shall take into consideration the failure of any LACERA adviser or property manager to comply with this Policy.

VII. Duties of Responsible Parties

Responsibilities of the LACERA staff shall include:

- Review of the real estate advisers' annual reports regarding compliance with this Policy.
- Furnish periodic reports to LACERA's Board of Investments, as requested, on each adviser's compliance with this Policy, and make recommendations as needed for action to correct any pattern of non-compliance.

Responsibilities of the adviser shall include:

- Communicate this Policy to property managers of LACERA properties and to managers of LACERA's real estate investment vehicles and direct them to implement it.
- Maintain a simplified bid summary for each applicable contract. The summary should include identification of the contract's successful bidder and the bidder's status as a Responsible Contractor.
- Provide an annual report to LACERA staff describing actions taken by such adviser to comply with this Policy, including those taken by property managers and their subcontractors.
- Monitor and enforce compliance with this policy, including reasonable investigation of potential violations.

Responsibilities of the property manager shall include:

- Communicate this Policy in all bid documents seeking to secure construction or building service contracts subject to this policy.
- Provide to adviser property level annual reports regarding compliance with this Policy.
- Provide to advisers for each LACERA property under management a list of contracts subject to this Policy.
- Maintain a list of Responsible Contractors utilized at each LACERA Property.

Responsibilities of contractor shall include:

- Provide the property manager with Responsible Contractor documentation.
- File with the property manager reports, certifications, and other forms relating to this Policy, as required by LACERA or the manager.

Document History

Revised November 19, 2014

Reviewed November 20, 2013

Revised November 13, 2012

Adopted December 11, 2002

Emerging Manager Policy

NOVEMBER 2014

Contents

I. Emerging Manager Definition

Emerging investment managers are independent firms that may not have substantial assets under management (generally, less than $2 billion) nor a long-term investment performance record (generally, less than five years). Emerging investment managers can include, but are not limited to, minority-, women- and disabled veteran-owned organizations.

II. Purpose and Objective

The objective of LACERA's Emerging Manager Policy (Policy) is to gain early access to smaller investment management organizations. LACERA recognizes that smaller investment management firms may generate superior performance because of increased market flexibility associated with smaller asset bases. The Policy provides LACERA an opportunity to identify promising investment management organizations in their early development.

The application of this Policy to the various asset classes is discussed below.

III. U.S. Equity

A "manager-of-manager" strategy was selected as the most effective way to implement LACERA's U.S. equity Emerging Manager Policy because of the resources and expertise required to effectively manage this program. The following defines the manager-of-manager's ("Manager") responsibilities:

- Maintaining an extensive emerging manager database that meets the criteria outlined in this Policy, and continuously evaluating prospective managers.
- Retaining and terminating firms at its sole discretion based on standards for performance, assets under management, and other key issues deemed critical by the Manager.
- Monitoring each emerging manager participating in LACERA's manager-of-manager program for adherence to LACERA's investment guidelines.
- The program Manager shall select emerging managers that meet the minimum qualifications listed below. (The Chief Investment Officer is authorized to approve variances from these sub-manager selection criteria on a case-by-case basis. Any waivers must be subsequently reported to the Board of Investments.)

    1. The emerging manager is a registered investment adviser under the Investment Advisers Act of 1940.
    2. No 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 that currently comply with the performance presentation standards set forth in *Global Investment Performance Standards (GIPS),* CFA Institute. If Manager selects any emerging manager that does not currently follow the GIPS of the CFA Institute, then such emerging manager must make a good faith effort to comply with such standards within **one year** of hire.
    4. The portfolio managers which each emerging manager assigns to manage the LACERA portfolio must have an average of at least **five years** of verifiable investment experience managing portfolios containing a similar investment style as that in the Managed Assets to be allocated to such emerging manager.
    5. Each emerging manager must have at least **$25 million** of assets under management in the same investment style to be managed for LACERA before any allocation of Managed Assets to such emerging manager.
    6. Each emerging manager must have no more than **$2 billion** of total assets under direct management before being selected for the Fund.
    7. Manager shall review with LACERA investment staff the rationale for retaining any emerging manager who reaches a level of **$3 billion** of total assets under management, inclusive of its portion of the Managed Assets, at any time during such emerging manager's participation in the Fund.
    8. Each emerging manager must have direct responsibility of assets consisting of the same investment style it will manage for LACERA for at least **three other clients** besides LACERA.
    9. LACERA's Managed Assets must comprise no more than **40 percent** of the total assets managed by any emerging manager.
    10. The assets for any single client (other than LACERA) must comprise no more than **50 percent** of the total assets managed by any emerging manager, including all Managed Assets allocated to such emerging manager.

LACERA's investment staff is responsible for monitoring and evaluating the performance of the Manager.

IV. Fixed Income

U.S. fixed income emerging manager candidates may arise in two distinctive areas: more traditional fixed income and specialized non-traditional areas. The most feasible method of gaining access to fixed income emerging managers is by identifying those firms with unique investment capabilities that may potentially complement the existing portfolio structure. Examples include, but are not limited to, investment firms that specialize in non-traditional fixed income sectors or that utilize investment styles complementary to those employed by existing managers. Non-traditional fixed income sectors include, but are not limited to, convertible bonds, bank loans, private placements and international high yield securities.

For initial searches, fixed income emerging managers will be required to meet the following minimum investment criteria. Fixed income emerging managers that meet these minimum qualifications shall be considered search candidates.

- Emerging manager is a registered investment adviser under the Investment Advisers Act of 1940, or must provide adequate explanation as to why it is exempt from registration.
- No person or entity, other than the principals or employees of an emerging manager, shall own more than a **49 percent interest** of the organization.
- LACERA prefers emerging managers who currently comply with the performance presentation standards set forth in the *Global Investment Performance Standards (GIPS)* of the CFA Institute. If the emerging manager does not currently follow the GIPS standards, the emerging manager must make a good faith effort to comply with such standards within **one year** of date of hire.
- The firm's portfolio manager(s) must have an average of at least **five years** of verifiable investment experience managing portfolios containing a similar investment style as that in the LACERA Assets to be allocated to the emerging manager.
- The emerging manager must have at least **$100 million** of assets under management in the same investment style to be managed for LACERA.
- The emerging manager must have no more than **$2 billion** of total assets under direct management prior to selection. The emerging manager's total assets under management should not exceed **$3 billion subsequent** to funding.
- The emerging manager must have direct responsibility for managing assets utilizing the same investment style it will manage for LACERA for at least **three other** Institutional clients besides LACERA.
- LACERA's Assets must comprise no more than **33 percent** of the total assets managed by the emerging manager.
- The assets of any single client (other than LACERA) must comprise no more than **50 percent** of the total assets managed by the emerging manager.

V. Real Estate[1]

An emerging manager must meet all the following requirements:

- The emerging manager must be a registered investment adviser under the Investment Advisers Act of 1940, or must provide adequate explanation as to why it is exempt from registration.
- No person or entity, other than the principals or employees of the emerging manager, shall own more than **49 percent** of the firm.
- If the emerging manager does not currently follow the GIPS performance presentation standards, then the emerging manager must make a good faith effort to comply with such standards within **one year** of date of hire.
- The firm's portfolio manager(s) must have at least **five years** of verifiable investment experience managing portfolios in an investment style similar to the LACERA mandate.
- The emerging manager must have at least **$100 million** of assets under management in the same investment style as the LACERA mandate.
- The emerging manager must have no more than **$2 billion** of total assets under direct management prior to selection.
- The emerging manager's total assets under management should not exceed **$4 billion** subsequent to funding.

Staff anticipates that emerging managers will benefit from the investment track record established in partnership with LACERA. As such, emerging managers and their allocations shall be reviewed periodically to determine if sufficient growth and/or track record exist to allow the firm and its investments to be transferred to an appropriate style group within the traditional Real Estate Portfolio. Such movement would be initiated by a recommendation from staff based on one or both of the following events:

- Three-year track record exceeding LACERA's return requirements.
- Total assets managed in excess of $2 billion and two-year track record exceeding LACERA's return requirements.

The timing of capital raises by managers may not coincide with times when LACERA has capital available for the Emerging Manager Program. Therefore, staff will manage the 10 percent allocation (10 percent of the Targeted Real Estate Portfolio) within the range of 0 percent to 20 percent to allow for over or under weighting emerging manager exposure based on market opportunities.

[1] Adopted by the Board of Investments on September 13, 2006.

VI. Private Equity

The objective of the private equity Emerging Manager Program is to diversify the portfolio by partnering with investment managers that are not part of the core program, while generating performance results consistent with LACERA's private equity class return expectation—the Russell 3000 plus 300 to 500 basis points. The Emerging Manager Program will provide LACERA the ability to invest in smaller, lesser-known firms and, in some cases, first time funds.

A "manager-of-manager separate account" strategy was selected as the most effective way to implement LACERA's private equity Emerging Manager Policy because of the resources required to manage this program. The following defines the manager-of-manager's ("Manager") responsibilities:

- Maintain a database of emerging managers that meet the criteria outlined in this policy, and continuously evaluate prospective managers.
- Select managers within the policy investment guidelines.
- Monitor the performance of each manager in the portfolio.
- Provide LACERA quarterly reports that include, but are not limited to, a list of funds selected, performance results of each fund with benchmark comparison, and commentary on the performance of each fund.

The following factors will be considered when selecting an emerging private equity investment:

- To reduce the risk of the emerging manager portfolio, investments will be diversified by vintage year[2] of investment, location of general partner, industry, and investment category. Investment categories include early and late stage venture capital, mezzanine financing, and leveraged buyouts.
- The minimum size of investment made shall be **$5 million**, while the maximum size of investment made shall be **$20 million**.
- LACERA's share in a single partnership, once the partnership has closed to new investments, shall not exceed 10 percent of that partnership's total commitments from all limited partners.
- The performance objective for this program, as measured by IRR (Internal Rate of Return), will be an annualized return of 300 to 500 basis points over the Russell 3000 Index over a 10-year time frame. This objective is net of all partnership fees and expenses.
- The general partner must have demonstrated private equity expertise in sourcing deals, deploying capital, and successfully implementing exit strategies.
- The key persons of the General Partner must have at least **five years** of verifiable private equity expertise in sourcing deals, deploying capital, and successfully implementing exit strategies.
- No person or entity, other than the principals or employees of the emerging manager, shall own more than **49 percent** interest in such emerging manager.
- The fund must be the General Partner's first, second, or third institutional fund.
- The fund cannot exceed **$300 million** in capital commitments if it is a venture fund, or **$750 million** in capital commitments if it is a corporate finance-type or buyout fund.

[2] A pivate equity partnership vintage year is defined as the year of first investment or capital call.

VII. Emerging Manager Qualifications for Promotional Opportunities

Opportunities for larger mandates may occur for emerging managers when, from time to time, LACERA evaluates asset class structure and/or conducts portfolio strategy reviews. Prior to LACERA conducting an external search for an active manager, managers participating in LACERA's Emerging Manager Program that meet the following minimum objective investment criteria will be considered short-list candidates:

- The product under consideration must have a minimum **five-year** performance history at that firm.[3] Exceptions to this may occur if the manager has a clearly established performance record from their previous employment or manages a related, similar investment product with longer performance history.
- For Equity and Fixed Income, the emerging manager's **five-year** net-of-fee[4] performance must exceed LACERA's passive alternative[5]; and, the five-year (gross-of-fees) performance must rank above median in an appropriate peer universe[6] comparison. For Real Estate, the emerging manager's return must exceed LACERA's return objective as outlined in the Equity Real Estate Strategic Plan.
- The manager's three-year rolling return over the most recent five-years must exceed LACERA's passive alternative for 60 percent of the available observations.
- The manager's three-year performance history must be built on an asset base that is equivalent to the proposed size of the assignment.
- LACERA comprises no more than 25 percent of the manager's total assets under management.
- The key individuals responsible for developing the performance history must still be active in the investment management process when the search is conducted.
- A representative portfolio for the product under consideration must have fundamental characteristics generally associated with the style being considered.

[3] All returns must be in compliance with the Global Investment Performance Standards (GIPS) of the CFA Institute. Performance history must be reflective of institutional accounts.

[4] Fees will be calculated using the manager's regular fee schedule.

[5] Passive alternatives for Public Markets (i.e., Equities, International Equities and Fixed Income) are any benchmark authorized by the Board of Investments or any benchmark utilized by an active manager within these asset classes.

[6] Peer universe data will be obtained for both equity and fixed income mandates from industry-recognized manager databases such as Wilshire Associates Trust Universe Comparison Service, Russell/Mellon Analytical Services, or EVestment Alliance.

VIII. Asset Allocations

Table 1

	Minimum	Maximum
U.S. Equities	0%	5%
Fixed Income	0%	4%
Real Estate[7]	0%	20%
Private Equity	0%	3.5%
Total Fund	0%	4%

IX. Manager Due Diligence

The Board recognizes that the objective manager selection criteria listed above, although important, are only a part of the manager evaluation process. Therefore, Staff and Consultant will conduct on-site manager review(s) to evaluate criteria that are not easily quantified and prepare a report to the Board of Investments for each emerging manager.

Document History

Revised November 19, 2014

Revised November 13, 2012

Revised October 31, 2012

Revised July 8, 2009

Revised March 11, 2009

Adopted June 13, 2001

[7] Adopted by the Board of Investments September 13, 2006.

LACERA

Placement Agent Policy

NOVEMBER 2014

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

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

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

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

Document History

Reviewed November 19, 2014

Revised November 9, 2011

Effective retroactively to October 9, 2011

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

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

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

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

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