

Report to Investment Committee

Agenda of: **JULY 11, 2017**

From: Thomas Moutes, General Manager

ITEM: **IV**

SUBJECT: ANNUAL REPORT ON LACERS EMERGING INVESTMENT MANAGER PROGRAM

Recommendation:

That the Investment Committee receive and file this report.

Discussion:

Background

LACERS' Emerging Investment Manager Policy (Policy), adopted on February 14, 2012, and revised on September 24, 2013, identifies guidelines and goals in hiring and retaining Emerging Investment Managers in order to add value to the LACERS investment portfolio. The Policy includes Emerging Investment Manager goal metrics and criteria for investment firms that wish to qualify as an Emerging Investment Manager under the Policy definition. This annual report includes information pursuant to the Policy for the year ending December 31, 2016.

The Policy reporting requirements are as follows:

1. Names of Emerging Investment Manager firms hired.
2. Dollar amounts awarded to Emerging Investment Managers.
3. Report of Emerging Investment Manager Goals Metrics.
4. List of all investment manager searches.
5. Staff and consultant efforts to increase the visibility of LACERS investment manager searches and representation of Emerging Investment Managers in the LACERS investment portfolio.
6. Performance data for Emerging Investment Managers.

Reporting Requirements 1 & 2: Names and Dollar Amounts Awarded to Emerging Investment Managers

Manager	Style	Asset Class	Investment/ Commitment
Bain Double Impact Fund, LP	Buyout	Private Equity	\$10 million
Sunstone Partners I, L.P	Buyout	Private Equity	\$7.5 million
Asana Partners Fund I	Value Add	Real Estate	\$20 million

Reporting Requirement 3: Emerging Investment Manager Goal Metrics

Policy metrics are reported along broad asset classes including those that are within the domain of public markets, or those that are within the private markets including private equity and real estate. The policy metric goal for each of the broad asset classes is 10% on an aspirational basis.

For each public market asset class, there are two metrics for measuring Emerging Investment Manager exposure: 1) Asset Class Metric: the total market value of Emerging Investment Managers within a respective asset class divided by the total market value of the respective asset class; and 2) Manager Search Metric: total of all dollars awarded to Emerging Investment Managers in a particular public asset class manager search divided by the total dollars awarded for the respective manager search.

For each private market asset class, there are two metrics for measuring Emerging Investment Manager exposure: 1) Asset Class Metric: the total committed dollars of Emerging Investment Managers within a respective asset class divided by all the dollars within that respective asset class on a market value basis; and 2) Manager Search Metric: the total of all committed capital awarded to Emerging Investment Managers of completed searches within a respective private market asset class divided by all committed capital awarded within the respective private market asset class over a 36-month rolling period ending December 31, 2016.

The following tables provide an overview of Emerging Investment Manager exposure within public markets and private markets, based on the Policy metrics:

Public Markets

Asset Class Metric

Asset Class	Emerging Investment Manager Exposure
U.S. Equity	2.3%
Non-U.S. Equity	2.8%

Note: There are no emerging investment managers under contract within Fixed Income, Credit Opportunities, or Public Real Assets.

Manager Search Metric

- No public market searches were conducted during calendar year 2016.

Private Markets

Asset Class	Asset Class Metric	Manager Search Metric
Private Equity	4.9%	7.9%
Private Real Estate	4.7%	13.8%

On a fund-number basis for the 36-month period ending December 31, 2016, LACERS authorized commitments to a total of eight private equity Emerging Investment Managers out of 53 private equity funds (15%) and two real estate Emerging Investment Managers out of 12 real estate funds (17%).¹

¹ Four of the 12 real estate funds commitments were additional commitments to existing open-ended core funds pursuant to the Real Estate Investments Fiscal Year 2015-2016 Strategic Plan.

Reporting Requirement 4: Searches Conducted in 2016

No public market searches were conducted during the calendar year.

Reporting Requirement 5: Efforts to Increase Visibility and Representation of Emerging Investment Managers

Staff
LACERS actively engages the emerging manager community to help achieve the policy objectives established by the Emerging Investment Manager Policy. During the 2016 calendar year, staff participated in the following emerging manager events:

2016 Emerging Manager Events	
February	Consortium West
March	National Association of Securities Professionals
April	National Association of Investment Companies
May	New America Alliance LOFT Institute Forum/Hispanic Heritage Foundation
June	Association of Asian American Investment Managers
September	GCM Grosvenor Emerging Manager Conference
October	National Association of Investment Companies Conference Green Pearl Women's Real Estate Forum

In addition, staff regularly meets with emerging managers at LACERS' offices. During the 2016 calendar year, staff held a total of 36 emerging manager meetings, which included discussions among the following investment asset classes: Public Markets - 25%; Private Equity - 56%; Real Estate - 19%.

Consultants
LACERS retains three investment consultants. The consultant's respective emerging manager activities for the one-year period ending December 31, 2016, are summarized below.

Consultant	Meetings or Calls	Emerging Manager Conferences	Awarded to Emerging Managers
Wilshire Associates Incorporated (General)	637	5	\$600.0 million/ 26 managers
Portfolio Advisors, LLC (Private Equity)	150	4	\$265.5 million/ 10 managers
The Townsend Group (Real Estate)	56	6	\$1.0 billion/ 9 managers

Note: The definition of "Emerging Manager" for this matrix is based on the emerging investment manager criteria unique to each consultant.

Reporting Requirement 6: Performance Data of LACERS Emerging Investment Managers (as of 12/31/2016)

Public Markets (Net-of-Fees)

	One Year	Two Years	Three Years	Five Years	Since Inception
Oberweis Asset Management, Inc. ²	-4.97	4.87	-	-	0.80
MSCI EAFE Small Cap Index	2.55	6.18	-	-	1.98
<i>Excess Return</i>	<i>-7.52</i>	<i>-1.31</i>	<i>-</i>	<i>-</i>	<i>-1.18</i>
EAM Investors LLC ³	4.65	-	-	-	5.05
Russell 2000 Growth Index	11.32	-	-	-	12.71
<i>Excess Return</i>	<i>-6.67</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-7.66</i>

Private Markets

Emerging Fund Managers	Vintage Year	Net IRR⁴	Return Multiple
<i>Private Equity</i>			
High Road Capital Partners Fund II, LP	2013	11.27%	1.29x
Blue Sea Capital Fund I, LP	2014	-0.03%	1.00x
Oak HC/FT L.P.	2014	13.49%	1.16x
1315 Capital, L.P.	2015	-16.75%	0.82x
New Water Capital Partners, L.P.	2015	-47.26%	0.75x
Angeles Equity Partners I, L.P.	2015	0.99%	1.01x
CenterGate Capital Partners I, L.P.	2015	-9.84%	0.76x
Bain Double Impact Fund, LP	2016	0.00%	0.88x
Sunstone Partners I, L.P	2016	-30.47%	0.79x

Emerging Fund Managers	Vintage Year	Net IRR⁴	Return Multiple
<i>Private Real Estate</i>			
Gerrity Retail Fund 2, L.P.	2015	8.21%	1.07x
Asana Partners Fund I	2017 ⁵	N/A	N/A

Strategic Plan Impact Statement

The objective to hire and retain Emerging Investment Managers in order to add value to the LACERS investment portfolio is consistent with Goal IV (achieve satisfactory long-term risk adjusted investment returns). The presentation and discussion of the policy goals, metrics, manager outreach, and manager performance information is consistent with Goal V (uphold good governance practices which affirm transparency, accountability, and fiduciary duty).

This report was prepared by Barbara Sandoval, Investment Officer II, Investment Division.

RJ:BF:BS:ag

² Account funded on January 15, 2014. Manager no longer meets the LACERS definition of an emerging manager as of the fourth quarter of 2015; firm assets under management exceed \$2 billion.

³ Account funded on October 1, 2015.

⁴ A private market fund typically yields a low or negative IRR during its early life "J Curve" period.

⁵ LACERS committed to fund in calendar year 2016.