



***Report to Board of Administration***

Agenda of: **JULY 11, 2017**

From: Thomas Moutes, General Manager

ITEM: **VI-B**

**SUBJECT: CONTINUED DISCUSSION OF PRIVATE EQUITY CONSULTANT REQUEST FOR PROPOSAL AND POSSIBLE BOARD ACTION**

Recommendation:

That the Board award a five-year contract to Portfolio Advisors, LLC; and, authorize the General Manager to approve and execute the necessary documents, subject to satisfactory business and legal terms.

Discussion:

*Background*

On June 13, 2017, the Board interviewed the two finalists for the Private Equity Consultant Request for Proposal, Portfolio Advisors, LLC (Portfolio Advisors) and TorreyCove Capital Partners LLC (TorreyCove). Subsequent to the interviews and a discussion with staff regarding the finalists, the Board directed staff to acquire additional performance information from both firms to better assess each finalists' potential to add value to the LACERS portfolio.

*Performance Methodology and Evaluation*

Staff requested information based on each finalists' fund recommendations from the years 2005 to 2013, categorized by buyout, venture capital, and special situations strategies. The information obtained included vintage year performance, commitment sizes and dollar amounts, and quartile rankings based on the Cambridge Associates private equity benchmarks. To determine performance and quartile rankings, the finalists were instructed to equal-weight performance of their fund recommendations in each category (buyout, venture capital, special situations, and total portfolio) by the number of fund recommendations made. The performance evaluation, as attached to this report as Attachment A, reflects stronger relative performance by Portfolio Advisors.

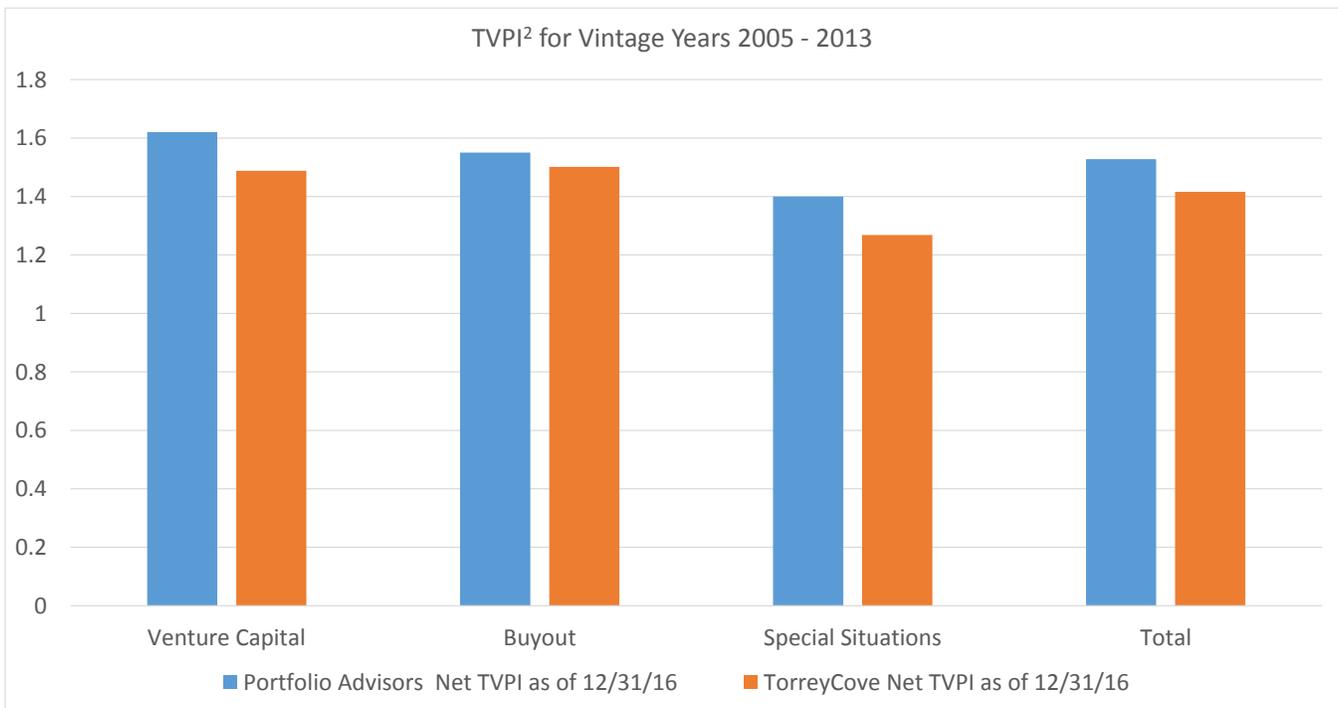
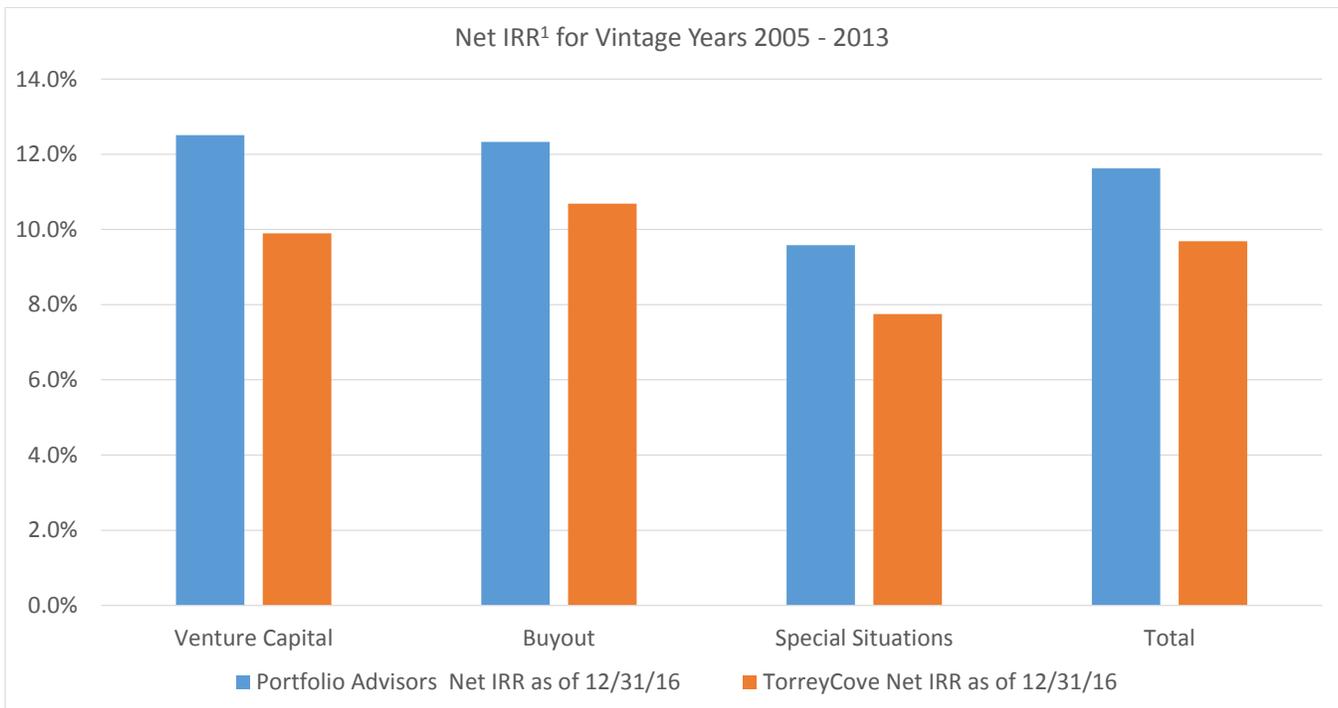
*Strategic Plan Impact Statement*

The Private Equity Consultant assists LACERS in building a diversified portfolio to help the fund achieve a satisfactory long-term risk adjusted return (Goal IV). Implementing a competitive bidding process by issuing a Request for Proposal (RFP) is consistent with Goal V (uphold good governance practices which affirm transparency, accountability, and fiduciary duty).

This report was prepared by Jimmy Wang, Investment Officer I, Investment Division.

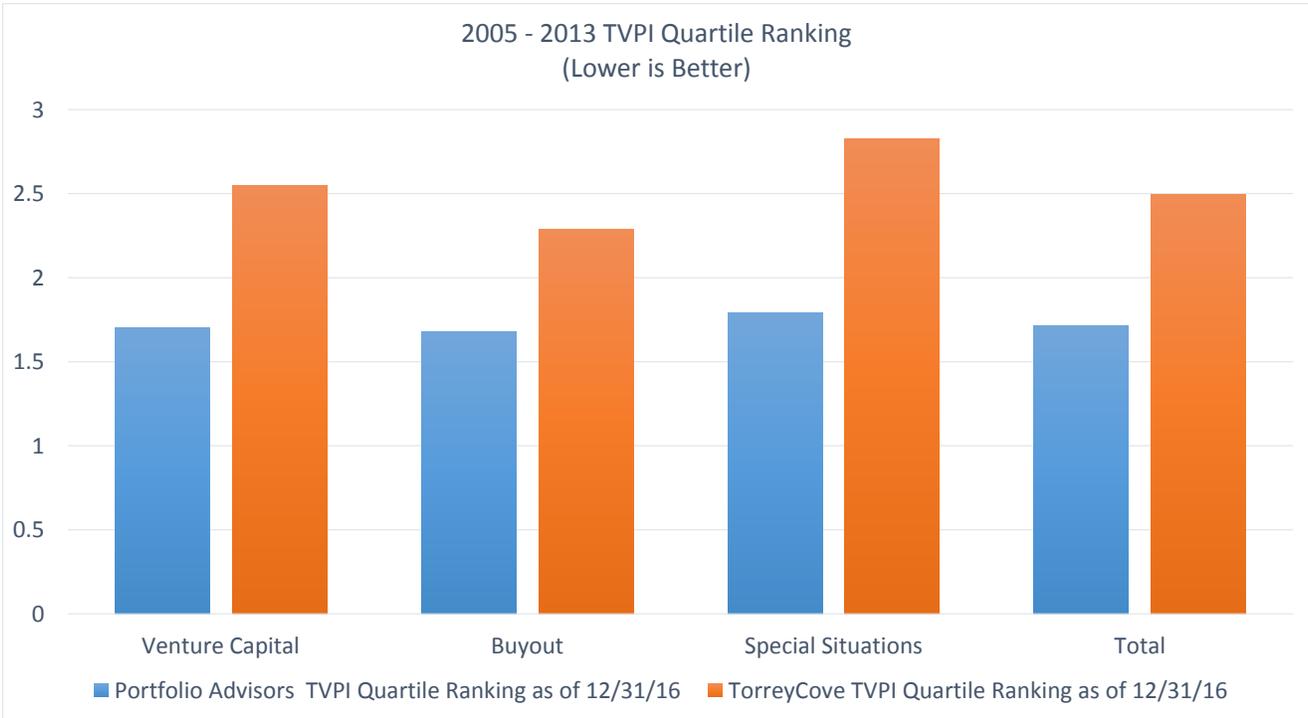
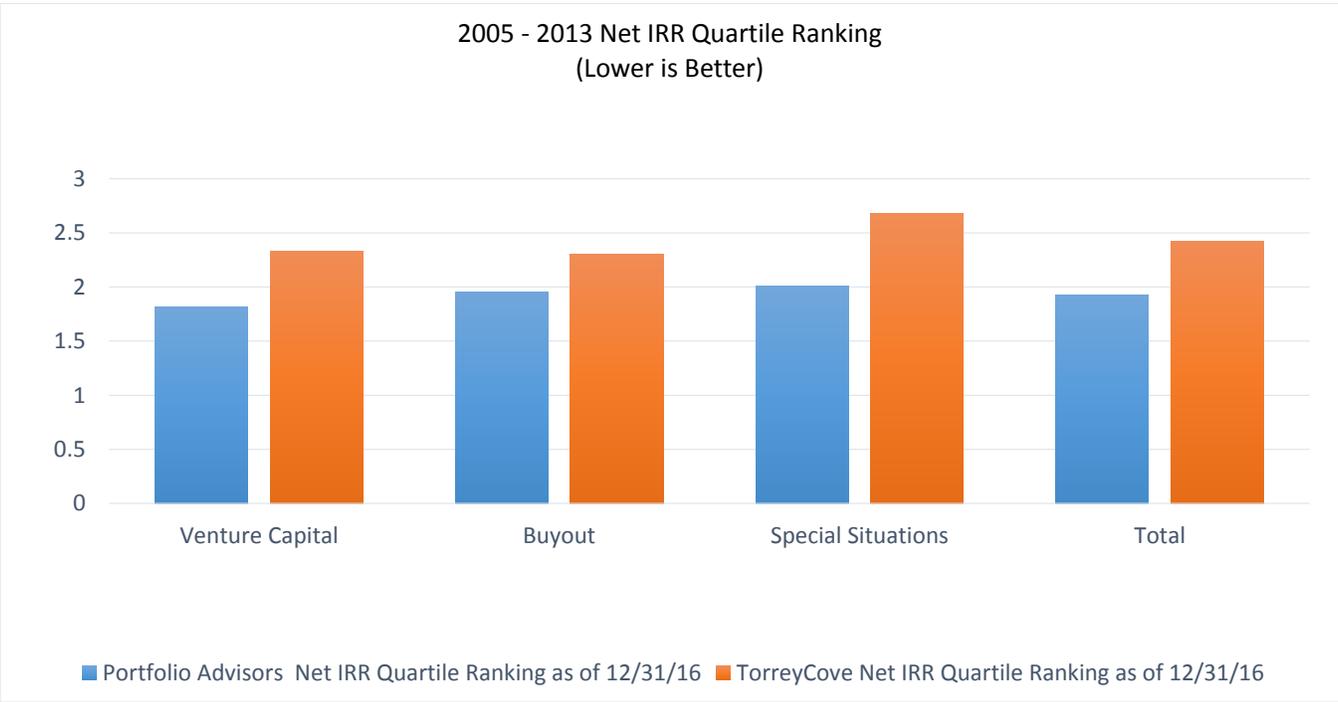
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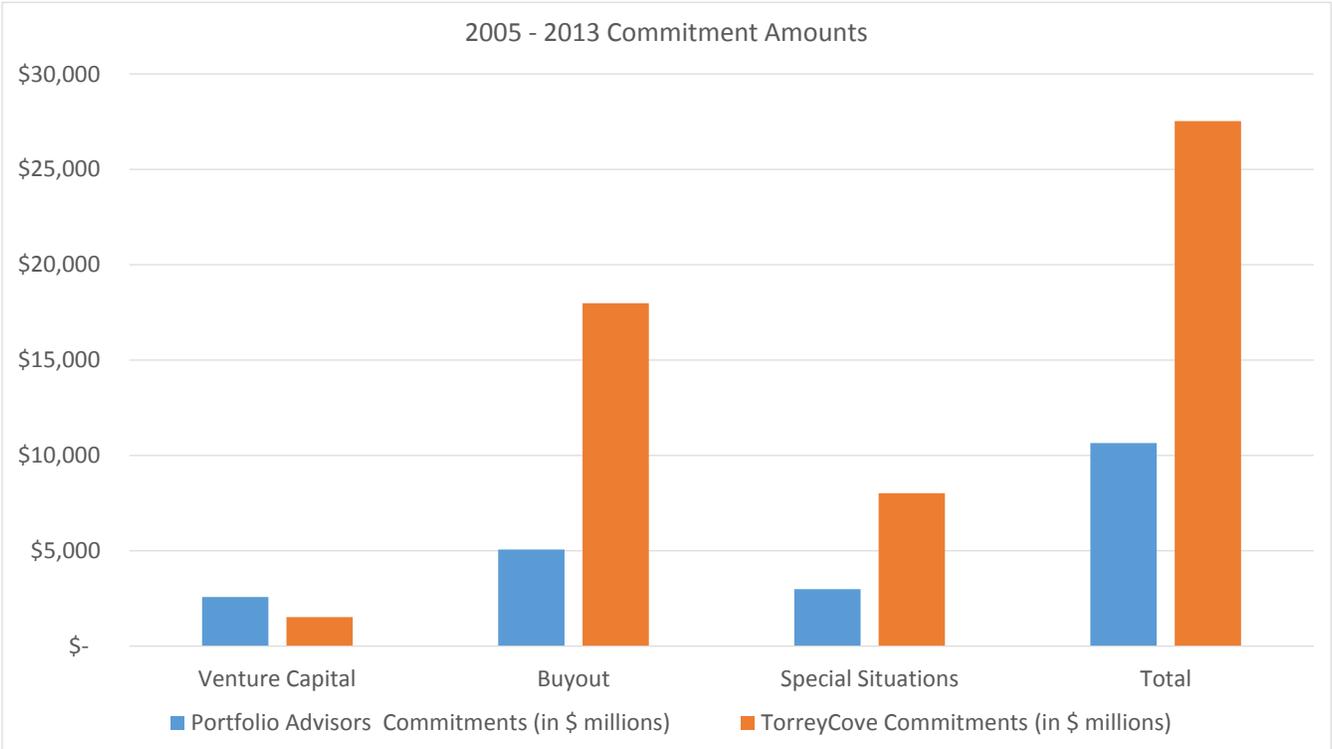
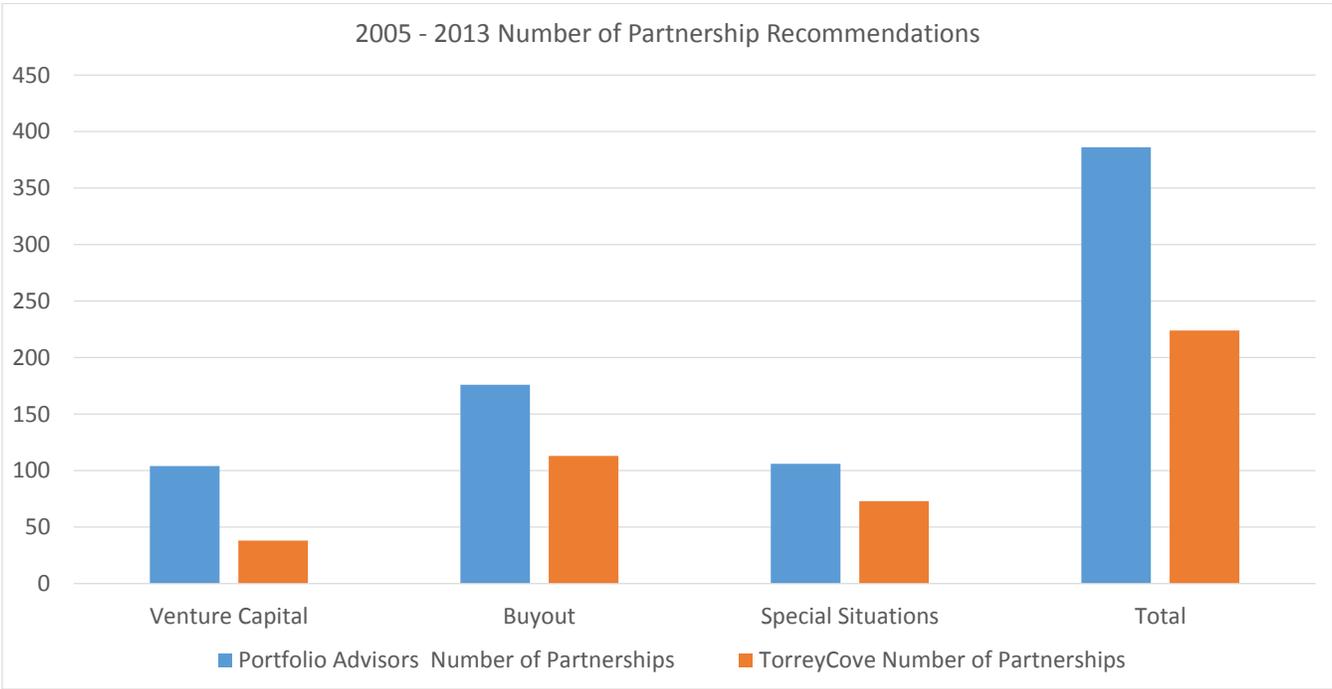
Attachments: A) Private Equity Consultant Performance Information  
B) Proposed Resolution



1) IRR (internal rate of return) - The discount rate at which the present value of future cash flows of an investment equals to the cost of the investment.

2) TVPI (total value to paid-in) - The ratio of the current value of remaining investments within a fund, plus the total value of all distributions to date, relative to the total amount of capital paid into the fund to date.





TorreyCove Disclosures:

This track record was prepared in accordance with the methodology outlined by LACERS and as such is a composite of our overall track record. The track record only includes investments TorreyCove investment professionals recommended and currently monitor for the vintage years LACERS requested. We do not have cash flows and valuations related to investment recommendations that we do not monitor. For more detail about all investments recommended by TorreyCove and its predecessor, please refer to our Request for Proposal submission.

The Investment performance data presented here is net of all TorreyCove fees and expenses that clients have incurred, and includes income taxes paid by our clients.

As stipulated in the instructions, the Special Situations category includes all non-buyout and venture capital investments we have recommended (and currently monitor), which includes: Agriculture, Co-Investments, Credit, Distressed, Energy, Fund-of-Funds, Separate Accounts, Infrastructure, Metals & Mining, Mezzanine, Opportunistic Real Estate, Real Estate, Secondaries (funds), Special Situations, and Timber which generally have lower investment return and risk profiles than private equity strategies (i.e., buyout and venture), but may offer the potential to diversify an investment portfolio.

Finally, each of our clients have different investment objectives that reflect their respective risk/reward profiles, and unique sector and geographic targets. Each investment program is customized and no two clients have the same investment portfolios. As a result, each client will likely have experienced different investment results than what is shown here.

**Portfolio Advisors Disclosures:**

This Report ("Report") is confidential and may not be reproduced or distributed without the prior written consent of Portfolio Advisors, LLC. This Report has been provided to you per your specific request for the information herein. This Report has not been reviewed by any third party for reasonableness and Portfolio Advisors does not undertake any obligation to update the information herein. Past Performance is not indicative of future results. Any performance shown herein is estimated and unaudited unless specifically noted otherwise. This Report has been provided to you on the understanding that, as a sophisticated investor, you will understand and accept the inherent limitations of the information herein, and will not rely on the Report in making any investment decisions, and will use the information contained herein only for the purpose of discussions with Portfolio Advisors, LLC.

**Inclusions & Exclusions.** The information reported in the "All Accounts" category excludes: (i) commitments made by PA's client, Pennsylvania Public School Employees' Retirement System ("PSERS") because PSERS requires the general partners of the funds in which it invests to adhere to special terms that other separate account clients do not require; (ii) the commitments of clients for which Portfolio Advisors no longer provides advisory services; (iii) assets under management where the investments precede or were made by clients outside of Portfolio Advisors' advisory mandate; (iv) co-investments made by an existing separate account client where Portfolio Advisors neither sourced nor recommended the investments; (v) fund investments that were made to address the unique investment objectives of a separate account client; and (vi) certain investments that would otherwise result in double counting. Each of the aforementioned performance categories reflects all of the investments (primaries and secondaries) in portfolio funds that fall within the particular private equity strategy listed.

**IRR Methodology.** "IRR" (the internal rate of return) is defined as the implied discount rate that will make the net present value of a stream of cash flows sum to zero. The IRRs shown are weighted based on drawn capital only. The "Net IRR" is calculated based on all of the cash flows between the underlying portfolio funds and the specified PA-sponsored vehicle and/or PA advisory client. This Net IRR is net of all fees and expenses charged by the underlying fund manager, but is gross of fees and expense charged by Portfolio Advisors.

"Net Multiple" represents Reported Value plus Distributions divided by Contributions at the underlying fund investment level. This figure is net of fees and expenses charged by underlying fund managers, but gross of fees and expenses charged by Portfolio Advisors.

Quartile based on equal weighting (by number of commitments). Excludes secondary commitments.

CONTRACT FOR  
PORTFOLIO ADVISORS, LLC  
PRIVATE EQUITY CONSULTING SERVICES

PROPOSED RESOLUTION

WHEREAS, on September 13, 2016, the Board authorized a Request for Proposal for Private Equity Consulting Services; and,

WHEREAS, on February 14, 2017, the Investment Committee approved Cliffwater LLC; Portfolio Advisors, LLC; and TorreyCove Capital Partners LLC as semi-finalists and instructed staff to recommend two candidates as finalists; and,

WHEREAS, staff conducted due diligence on the three semi-finalist candidates and recommended Portfolio Advisors, LLC and TorreyCove Capital Partners LLC as finalists; and,

WHEREAS, on June 13, 2017, the Board interviewed the proposed finalist candidates to understand the capabilities of each firm and instructed staff to provide a quantitative performance evaluation of each candidate; and,

WHEREAS, on July 11, 2017, the Board reviewed staff's performance evaluation of the finalist candidates and selected Portfolio Advisors, LLC to provide private equity consulting services for a five-year term;

NOW, THEREFORE, BE IT RESOLVED, that the General Manager is hereby authorized to approve and execute a contract subject to satisfactory business and legal terms and consistent with the following services and terms:

<u>Company Name:</u>	Portfolio Advisors, LLC
<u>Service Provided:</u>	Private Equity Consulting Services
<u>Effective Dates:</u>	September 1, 2017 through August 31, 2022
<u>Duration:</u>	Five years
<u>Fee:</u>	Year 1 - \$750,000 Year 2 - \$750,000 Year 3 - \$750,000 Year 4 - \$750,000 Year 5 - \$750,000

July 11, 2017