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April 20, 2022

The Honorable Members of the Budget and Finance Committee
c/o Office of the City Clerk
City Hall, Room 395
Los Angeles, CA 90012

LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM (LACERS) – FISCAL YEAR 2022-23 PROPOSED BUDGET

Dear Honorable Members:

Over the past two years, LACERS has overcome numerous challenges brought on by the pandemic while striving to help the City mitigate financial challenges, budgeting tightly and only as necessary to meet the immediate needs of remote working and processing of the City's Separation Incentive Program (SIP).

Throughout Fiscal Year 2020-21 (FY21) and into Fiscal Year 2021-22 (FY22), LACERS has maintained focus on processing the SIP (completing the Harbor's program this year), and on those efforts essential to the continued strength and stability of the organization and service to our Members throughout the pandemic and beyond, including build-out of LACERS' new headquarters building located in Chinatown.

Restoring and Investing

As LACERS moves forward, the Fiscal Year 2022-23 (FY23) Budget proposes to restore and right-size the department as we begin transitioning to a new facility, back to working in the office, and restoring in-person Member services. Another important lesson of the pandemic is the need to improve efforts across society to achieve greater diversity, equity, and inclusion. LACERS is committed to doing its part for our staff and our Members.

Hybrid Workforce

LACERS workforce of the future is a hybrid, able to work both remotely and from LACERS new headquarters office purpose-built for a mobile workforce. Investments in technology-enabled LACERS' employees to successfully work from home and the benefits of these technologies merit continuation as we have realized efficiencies, established business continuity, and provided more channels for Member engagement. LACERS is committed to providing resources that connect and support staff as we transition into a hybrid onsite/remote work experience where we can bring what we've learned over the last two years to bear to better serve Members, and to promote a modern and connected workforce. Completion of the new LACERS headquarters building is slated for this Fall, with an expected Winter occupancy. This transition results in some temporary expenses but situates LACERS well into the future, foregoing rent in exchange for the benefits of property investment and ownership.

Diversity, Equity and Inclusion

The LACERS workforce is the backbone of our organization and drives the quality of service our Members receive and the benefits delivered. To ensure all staff are given equal opportunity for advancement and representation, we are first engaging in a variety of initiatives to ensure that organizationally we remedy any blind spots. Since 2018, LACERS has accepted four female college interns from the Girls Who Invest Program, a non-profit organization focused on increasing gender diversity in the investment industry. These interns have each contributed to LACERS and its Members in meaningful ways.

As part of LACERS' continuing efforts, we are embarking on an audit of our operations, in partnership with Cal State LA's MBA program to assess employee sentiment of our operations. Following this audit, we will be launching an innovative experience-based employee engagement model called the LACERS Fellowship to help employees identify their professional goals, assess their current skill levels, and identify methods the organization can assist in nurturing their development. Additionally, as workforce development is a cornerstone of our approach to DEI, we are launching a Learning Management System that will provide skill-based training, and career advancement learning pathways relative to job class throughout the City of LA. Altogether, we are building a model of mutual responsibility between the employee and the organization in professional growth and opportunity for advancement.

Investment Initiatives

As a leader in public pensions, LACERS takes pride in crafting investing policies that are both good for Members as well as for our community and the world in which we live. In 2019, LACERS became a Principles for Responsible Investment (PRI) Signatory and has prioritized good corporate citizenship with the incorporation of the six PRI principles into our management philosophy. Moreover, in 2021, the Board approved LACERS' PRI Action Plan for the third year in a row, resulting in various actions including assessing LACERS' fund for environmental, social, and governance (ESG) risks, issuing statements

of support for various climate-related activities, appointing an ESG Risk Officer, and implementing ESG risk management software to assess risks within the portfolio. Because LACERS is invested in democratizing investments, in 2021, LACERS enhanced its Emerging Manager efforts to ensure that all qualified investment management firms have a fair and equal opportunity to compete for LACERS investment capital. The Emerging Investment Manager Policy sets a goal of funding smaller investment management firms with no less than 10% of LACERS' capital and provides minimum criteria for firms to qualify as an Emerging Manager. This policy allows LACERS to hire and retain Emerging Managers that would otherwise not be identified in the standard LACERS investment manager search process. LACERS also conducts an Emerging Manager Symposium every six months to build relationships with the community, to share opportunities, and to expand awareness. By demonstrating responsible investment practices for the health and betterment of our world, LACERS is helping pave the way for a sustainable future and globally sound investment returns.

Recent Achievements

This year has been highlighted by numerous achievements despite the many challenges presented by the pandemic.

Separation Incentive Programs

Under the SIP, LACERS has successfully retired a total of 2,227 participants, with 334 participants attributed to the Los Angeles World Airports Separation Incentive Program (LAWA SIP/LSIP), 1,372 participants of the City Separation Incentive Program (CSIP), and 79 participants of the Harbor Separation Incentive Program (HSIP).

Member Experience

This past year LACERS continued efforts in improving Member engagement by providing a better online experience for our Members, both pre- and post-retirement.

These efforts included:

- The official launch of the retirement application portal in summer 2021 for active Tier 1 Members.
- Produced and posted more than 100 videos on the LACERS YouTube channel with over 1,300 subscribers.

Superior Investments

Through LACERS' investment program, the System has shown remarkable investment returns despite the economic uncertainty during the pandemic and has implemented and expanded several programs and initiatives.

- Achieved a net-of-fee investment returns of 29.09% in FY21, resulting in a \$4.85 Billion increase in the value of LACERS' fund over the previous fiscal year-end.
- Conducted extensive emerging manager outreach in continuing efforts to increase the number of firms participating in LACERS' investment manager searches.

- The Board approved a new Asset Allocation Policy, resulting in increases to U.S. public equity, private equity, and private credit.
- Held the first bi-annual Emerging Investment Manager Symposium in the Fall of 2021 providing an opportunity for emerging managers to meet with Board, staff, and consultants to discuss the LACERS Emerging Manager Program.
- Approved a multi-year PRI Action Plan in July 2021 outlining several ESG initiatives for LACERS investment program based on the six PRI principles for the current and next fiscal years.

Health Plan Cost Management

The costs of retiree health plans continue to be well below assumed medical trend rates. Through rigorous negotiation with health plan carriers on plan premiums, and armed with Members' health plan utilization data, LACERS continues to successfully manage health plan costs.

- LACERS experienced an average decrease of 0.5% over the last three years in comparison to the assumed increase in the medical trend rate of 6.9%.
- In calendar 2022, LACERS transitioned approximately 4,000 retired Members who were on the Anthem Supplement A&B Plan to the Anthem Medicare Advantage Preferred PPO Plan, providing Members additional senior support benefits with no annual deductible and more integrated care. This change is estimated to save more than \$4.5 million in annual premium costs to LACERS.

Funding the Retirement System

The City, as LACERS' Plan Sponsor, is to be recognized for fully funding the actuarially required contribution every year, and for the leading practice of pre-funding retiree health care. These investments have paid great dividends to the financial health and liabilities of the City and the Plan. Over the long run and as previously espoused, LACERS generates an excellent return on investment for the City's money, and any contributions in excess of the actuarially required contribution would significantly accelerate the buydown of liabilities at less cost overall, a concept that LACERS is prepared to discuss with the Committee any time.

While LACERS' year-end investment return is yet to be determined, it should be noted that the current year investment returns have no bearing on the City's contribution rate for Fiscal Year 2022-23 (FY23), as FY23 rates were set based on June 30, 2021 returns.

LACERS successes in navigating the pandemic and increased workloads associated with the City SIP are a testament to LACERS' staff, but it would not be possible without the leadership and support of the LACERS Board of Administration, Mayor's Office, and City Council. As we look forward to next year, LACERS will be ready to continue to assist our Members and the City in meeting the challenges brought on by the pandemic.

Sincerely,



NEIL M. GUGLIELMO, General Manager
Los Angeles City Employees' Retirement System

c: Andre Herndon, Chief of Staff, Mayor's Office
Mary Hodge, Deputy Chief of Staff, Mayor's Office
Jeanne Holm, Deputy Mayor, Mayor's Office
Matthew Szabo, City Administrative Officer
Janelle Irving, Office of the City Administrative Officer