

News and Analysis

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LACERS remains indecisive on private equity

The board debated delaying private equity consultant interviews while working to implement a new asset allocation policy that boosts private equity from 12% to 14%.

Dietrich Knauth | 04 May 2018

The **Los Angeles City Employees' Retirement System** (LACERS) remains indecisive about how best to proceed with its 14% allocation to private equity, with one member of the investment committee suggesting looking for a wider pool of consultants before proceeding with interviews of the three finalists identified after a recent search.

The \$17bn fund's private equity program has been unsettled since July of 2017, when the board blew up an ongoing RFP process and started from scratch. At that time, a board member accused the incumbent consultant - and investment staff's preferred option for a new contract - of fudging the performance numbers for private equity programs managed on behalf of other pension funds. Other pension fund clients stepped to the consultant's defense, and the consultant explained its methodology in a later meeting, but the bad blood caused by the incident caused the consultant, **Portfolio Advisors**, to withdraw from consideration during a

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rebooted RFP process. Now, LACERS is once again on the verge of making a selection during the rebooted consultant search, and once again, some board members seem dissatisfied with the process.

LACERS' investment staff has identified three finalists, **Cambridge Associates**, **Cliffwater**, and **TorreyCove Capital Partners**, and planned to interview those three at the May 8 investment committee meeting. But investment committee member **Annie Chao** asked for a possible delay for those interviews, in light of the \$17.1bn fund's recent decision to increase its private equity allocation target from 12% to 14% and its ongoing asset allocation review. The increased allocation to private equity might cause LACERS to be more receptive to hiring one or more private equity consultants, and in that case, the committee would like to see a deeper pool of finalists, Chao said.

"14% is a huge chunk of our portfolio to give to one consultant, so could we maybe look at how different funds do such a big piece of allocation, whether its maybe splitting it up into two consultants to handle the lot, or breaking it apart so that there's a core and a specialized manager piece?" Chao asked. "I'm not sure how we want to look at it, but since we're going to talk about implementation, can we hold that off until we can look at how we can implement it?"

Chao added that she would "rather put a stop to what we're doing now" than continue on the current schedule, and didn't "want to be pressured to hire a consultant without knowing how they would fit into the bigger picture."

Investment staff and other board members pushed back against a suggested delay, noting that LACERS' contract with Portfolio Advisors is due to expire in July, and it wouldn't make sense to extend them again after the blowup last year. CIO **Rodney June** also said that the kinds of strategic decisions Chao was talking about are usually made with the input of a consultant that planned to stick around for the long term. June said that investment staff is considering the possibility of bringing on two different consultants in the private equity area, but would prefer to choose from among the three finalists already identified.

"We're in a unique position because the current consultant is on their way out," June said. "In my mind, it might make better sense to wait until the new consultant is on board and have them develop that strategic plan because they will be in place for a number of years, versus having the current provider, who is on their way out, develop the strategic plan."

Chao said that she wanted to keep the option to hire two consultants as a possibility, and to be comfortable with that, she would rather choose out of a pool of five or six firms. LACERS received six offers in total during its RFP process.

At the meeting, the outgoing consultant, Portfolio Advisors, also reviewed four recent private equity commitments with a total value of \$70m. LACERS committed \$10m to the **Thoma Bravo Discover Fund II**, \$10m to **Mill Point Capital Partners Fund I**, \$10m to **1315 Capital Fund II**, and \$40m to **American Securities Partners Fund VIII**.

1315 and Millpoint are both emerging managers, according to LACERS. The 1315 fund will focus on health care growth investments in commercial-stage specialty pharma, medical technologies and healthcare services companies, and will continue a relationship that began with LACERS' investment in 1315's first fund. The Mill Point investment is a new relationship with a newly formed manager, and is a value oriented lower mid market buyout fund with a \$325m target size. Thoma Bravo and American Securities are both follow on commitments to managers already in LACERS' private equity portfolio. The Thoma Bravo fund is focused on technology software buyouts, with a target fund size of \$2.3bn, while the American Securities fund is a value-oriented buyout fund focused on industrials and business services, with a \$7bn fund size.

At the meeting, the board also elected a new president, **Cynthia Ruiz**, to replace outgoing president **Jamie Lee**, who left LACERS after being nominated to the board of the Port of Los Angeles. Ruiz was the only nominee for the position, and will be up for re-election in July 2018. Board member Chao is also running for re-election to a new five-year term as the Los Angeles City employees' representative to the LACERS board. Chao's current term expires on June 30. During an initial election, Chao received

44.83% of the vote, with another candidate, Elizabeth Lee, receiving 45.72% of the vote. Because neither reached the 50% threshold, there will be a runoff election between the two finalists on May 18.

The board also expressed its interest in learning more about environmental, social, and governance factors in investing, and June promised to come back to the board on that topic after getting training for his staff.

"I think we all at the staff level need to be better educated on the ESG approach, and after we receive that education, we will be in a better position to advise the board on ESG matters and we recommend to the board that we go down that path a little bit more," June said.

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Investor Profile

Los Angeles City Employees Retirement System (LACERS)

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