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LACERS private equity consultant defends itself before board

The consultant said a board member “threw us under the bus”
Dietrich Knauth | 27 Jul 2017

The **Los Angeles City Employees Retirement System**'s private equity consultant defended itself against accusations that it had skewed its performance numbers, telling the LACERS board that it had done its best to be transparent about all excluded performance data.

Portfolio Advisors was the incumbent and one of two finalists in LACERS' recent search for a private equity consultant, and it expected to have its contract renewed, as LACERS staff recommended, at the July 11 meeting. Instead, the company found itself accused of puffing up its numbers through the exclusion of previous clients, and an especially large client, the **Pennsylvania State Employees Retirement System**. With doubts raised about the integrity of Portfolio Advisors and the thoroughness of the RFP process, the board canceled its RFP and decided to begin anew just as it reached the finish line (**MMR, 7/14/17**).

Portfolio Advisors returned to the board July 25, in what was scheduled to be a routine overview of recent private equity commitments (**MMR, 7/24/17**), and used the opportunity to defend its reputation.

“We left a very good footnote trail so there was no deception, and we followed the same consistent strategy that we used three years ago when we were hired,” said **Brian Murphy**, managing director at Portfolio Advisors. “Nothing changed from the way that we did it before. I was a little disappointed that having worked with you for three years, we got zero benefit of the doubt.”

The board extended Portfolio Advisors’ contract for about six months, giving LACERS a full year to reboot the RFP process after getting more education in private equity and a fresh perspective from **NEPC**, the fund’s recently-hired general investment consultant. But despite assurances from several board members that they would like to put the tension behind them, the renewed relationship seems off to a rocky start. **Nilza Serrano**, the board member who accused Portfolio Advisors of deception, had a testy exchange with Murphy, and neither backed down from previous criticisms of each other.

Serrano said that she was doing the best she could with the information that she had and that she would continue to look out for the interests of LACERS retirees, but Murphy said that she’d thrown his firm under the bus.

“When the press calls me and asks me to comment on the slanderous comments coming out of a board meeting, I think you might have stepped over the line on the context in which you did it,” Murphy said. “You can ask questions, you can say ‘I don’t’ agree, but it’s really not fair, especially when we’re not here to defend ourselves, that you would make very mean-spirited accusations against our firm.”

Board member **Elizabeth Greenwood** criticized Murphy’s response to the accusations.

“I’m a litigator by trade, so when you start talking about slanderous accusations and unfortunate statements, I’m going to turn around and say things like, well, ‘Gee, when you talked to the press, you referred to her,

you referred to one of your clients, one of your partners as ‘That woman who doesn’t read,’” Greenwood said. “That is not in my view consistent with someone who wants to maintain a good relationship.”

The back-and-forth was tense enough that Murphy felt the need to clarify that he wasn’t planning to sue LACERS.

“I do want to comment just to clear the air,” Murphy said. “We have never sued one of our clients and we have no intention of suing LACERS.”

Board member **Annie Chao** said she was “taken off guard” at the last meeting when she heard previously unaired accusations against Portfolio Advisors. Based on the firm’s explanation, and her own prior research, including an audit of Portfolio Advisors by a sister fund, Chao said that she had confidence in Portfolio Advisors’ ability to generate returns. Board member Cynthia Ruiz also thanked Portfolio Advisors for the explanation and hoped that they could reforge a better working relationship.

While LACERS expects to complete its RFP process within a year, there was some disagreement on the board about how quickly it should move. Some board members expressed a preference for a slower process, to allow for more complete education and further discussions on LACERS’ strategy and policy. Others, including Serrano, pushed to expedite the RFP process. Board vice president **Michael Wilkinson** said that the RFP should “make sure that we are not in any way excluding our current incumbent,” while Serrano said that the RFP should emphasize LACERS’ desire to work with more emerging private equity managers.

LACERS has a portfolio worth \$16.53bn, up from \$15.7bn reported at its last meeting. The bulk of the increase came from a recent \$550m contribution from the City of Los Angeles.

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Investor Profile

Los Angeles City Employees Retirement System (LACERS)
