

Los Angeles Fire & Police Pension System

6.0 - EMERGING MANAGERS POLICY

POLICY STATEMENT

- 6.1 It is the policy of the City of Los Angeles to utilize Minority Business Enterprises (MBE), Women Business Enterprises (WBE), and all Other Business Enterprises (OBE) in all aspects of contracting relating to procurement, construction and personal services (Executive Directives 1-B and 1-C). In addition, it has been the experience of the Board of Fire and Police Pension Commissioners that certain minimum requirements of size and experience as a firm have excluded investment managers whose past performance and style of management made them otherwise qualified to manage the Pension System's assets.

To further the City's policy, and to provide the Board with opportunities to contract with managers excluded from past searches, it shall be the policy of the Board that emerging managers be provided opportunities to compete for and participate in investment manager contracts awarded by the Board. This allows the Board to identify potentially talented investment management organizations in their early growth stage, and also recognizes that smaller firms may be more flexible and able to take advantage of opportunities to generate alpha because of their size. The provision of these opportunities is to be consistent with the fiduciary responsibilities of the Board. Staff will conduct outreach to identify firms that have ownership by one or more minorities, women, persons with disabilities, US Military veterans, and/or lesbian, gay, bisexual, transgender and queer (LGBTQ) individuals. (Amended 01/20/22)

PUBLIC EQUITIES AND FIXED INCOME CRITERIA FOR PUBLIC SECURITIES EMERGING MANAGER SEARCHES

- 6.2 For all public security assets, emerging managers retained directly by LAFPP are defined as independent investment management firms that manage less than \$3 billion in firm-wide assets. The Board shall review the definition of emerging manager for each emerging manager search that is conducted.

Prior to a search in any part of its public equity or fixed income portfolio, the Board will determine whether it will conduct an emerging manager search in that same asset category. For each case, the Board shall determine whether it will implement the emerging manager search.

Any search for an emerging manager will be conducted separately from other searches, including a search for an investment manager of the same style to run assets of such an amount as to preclude emerging managers from participating in the search.

As a guide for any direct emerging manager searches by LAFPP, Staff and/or the General Investment Consultant is directed to use the minimum following qualifications in the preliminary screening. (Amended 10/03/19)

QUALIFICATIONS

- 6.3 A. One year of operation as an investment management firm as of the date of the search.
- B. The portfolio manager(s) assigned to the Plan's account must each have a minimum of five years of experience in investment management.
- C. As of the date of the search, the firm must have a minimum of \$30 million in institutional assets under management of which \$10 million must be in the proposed investment style.
- D. The firm must have at least one tax-exempt account under management.

The above qualifications and criteria shall remain in place until such time as they are revised by the Board. The Board may revise any of the above minimum qualification for any specific search if it is deemed appropriate for that specific search.

MONITORING AND CHANGE OF STATUS

- 6.4 Emerging managers and managers of emerging managers shall be subject to the standard Monitoring and Watch Status procedures of LAFPP. Staff will report to the Board annually regarding any change of status of emerging managers in the Program.

When an emerging manager is retained directly by LAFPP, Staff shall automatically notify the Board when that emerging manager's assets under management grow larger than the LAFPP Policy-defined maximum assets under management of \$3 billion.

When an emerging manager is retained by LAFPP through manager of emerging managers, the manager shall automatically notify the LAFPP Board when an emerging manager exits the portfolio due to growth in the emerging manager's assets under management. (Amended 11/18/21)

MANAGER TERMINATION

- 6.5 For any emerging manager retained directly by LAFPP for the management of public securities, notwithstanding the provisions of Section 9.0 – Manager Selection and Retention, the Board delegates to Staff the authority to terminate the investment management contract. (Amended 04/17/14)

GRADUATION POLICY

- 6.6 LAFPP expects that successful emerging investment management firms will grow beyond the maximum \$3 billion in assets under management required to be categorized as an emerging manager. Opportunities for larger mandates may occur for emerging managers when, from time to time, LAFPP evaluates asset class structure or conducts manager replacement searches. Prior to LAFPP

conducting an external search for an active manager, managers participating in LAFPP's emerging manager program that meet the minimum investment criteria will be considered in the search. (Amended 11/18/21)

For the Private Equity Specialized Fund Manager program, the emerging managers have an opportunity to graduate to the core private equity portfolio when they reach their fourth fund. An emerging manager may also graduate to the core portfolio early (typically with their third fund) if the Board approves a commitment to the fund for the core portfolio.

FUNDING

- 6.7 When an emerging manager is selected by the Board, the size of funding will be determined based on the needs of the Systems and the capacity and experience of the manager. In no case shall the Board's funding exceed fifty percent of the total assets managed in a similar product or style of portfolio by the manager, including the Board's allocation. (Funding language added 3/14/91)

As part of any Staff and or General Investment Consultant analysis and recommendations regarding the asset manager structure, Staff is directed to address the System's Emerging Manager Policy.

NUMBER OF EMERGING MANAGERS

- 6.8 The number of emerging managers in each major asset class shall not exceed the number of non-emerging managers.

REAL ESTATE

CRITERIA FOR REAL ESTATE EMERGING FUND MANAGER SEARCHES

- 6.9 The Emerging Fund Manager Real Estate firms shall be evaluated based on the following criteria:
- A. Emerging Fund Managers will be defined as those with less than \$3 billion in assets under management, fewer than five (5) years as an institutional manager and/or those offering an initial institutionally focused commingled fund vehicle.
 - B. The firm should currently manage no less than \$100 million in the selected strategy. In the absence of current assets under management, a realized track record reflecting implementation of the strategy to the same degree is acceptable. A preference for other public fund experience will be given.
 - C. The capital to be allocated may not exceed 35% of the firm's total assets under management after the allocation and no more than 20% of capital raised for a specific commingled vehicle.
 - D. No client can represent more than 50% of the management firm's total assets under management.
 - E. Any firm with less than a five-year track record may utilize track records

established at prior firms when performance can be clearly attributed to the emerging firm's key individuals and/or the specific team associated with the opportunity.

**PRIVATE EQUITY SPECIALIZED FUND MANAGERS
CRITERIA FOR SELECTION OF PRIVATE EQUITY SPECIALIZED FUND
MANAGERS**

- 6.10 Barriers to entry for new firms launching established or new product strategies often provide opportunity to capitalize on niche management firms and/or strategies. Therefore, the Private Equity Specialized Fund Manager program includes private equity commitments to funds that may have one or more of the following characteristics:
- A. First-, second-, or third-time institutional funds that are new to the program (the Plan has not previously committed with the manager) and,
 - B. With a stated target size of approximately \$500 million or less, and that may have,
 - Funds with managers that include one or more minorities, women, LGBTQ, persons with disabilities, and/or US Military veterans at the General Partner level, and/or
 - Funds that serve or invest in underserved communities, and/or
 - Funds that invest in companies located in Los Angeles or California.

For commitments to second- or third-time institutional funds with existing managers in the program (follow-on fund commitments or 're-ups'), the stated target size of the fund shall be \$1 billion or less.

See Section 2.0 – Private Equity Investments Policy for more detailed information.

HISTORY

6.11 Consolidated Policy Adopted: April 18, 2013

Revised:

10/06/2016	10/03/2019	11/18/2021	11/02/2023
09/06/2018	10/01/2020	01/20/2022	12/21/2023

Public Equities and Fixed Income Policy Adopted: February 21, 1991

Revised:

05/20/1993	07/09/2009	09/18/2014	10/03/2019	11/18/2021
03/19/1997	04/17/2014	09/06/2018	10/01/2020	

Real Estate Policy Adopted: August 3, 2006

Revised:
04/17/2008 09/18/2014 09/06/2018 11/18/2021
07/10/2008 10/06/2016 10/03/2019