

## News and Analysis

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# LACERS scraps PE consultant search, accuses incumbent of fudging numbers

The board's CIO was prepared to recommend the incumbent for the role  
Dietrich Knauth | 14 Jul 2017

The \$15.7bn **Los Angeles City Employees Retirement System** (LACERS) scrapped an ongoing search for a private equity consultant, with a member of the board expressing no confidence in the incumbent consultant and accusing the firm of inflating its recent performance numbers.

The LACERS board intended to choose between incumbent **Portfolio Advisors** over **TorreyCove Capital Partners** in its search for a private equity consultant after a final review of performance information from both firms. But instead of choosing a new consultant, the board canceled its RFP and decided to begin anew after board members expressed a lack of confidence in either finalist or the RFP process. While the investment staff had given the opinion that either finalist would be a good choice, the board plans to issue a new RFP, after receiving further education on private equity and fresh advice from their newly-hired general consultant, **NEPC**.

CIO **Rodney June** was prepared to recommend Portfolio Advisors based on “stronger relative performance” for the years 2005 to 2013, according to the meeting agenda. But board member **Nilza Serrano** expressed no confidence in Portfolio’s numbers, saying that the firm had misled the board by excluding a major client, the **Pennsylvania Public Schools Employees Retirement System**, from its performance results.

“They can’t say, ‘I went to Vegas and I took \$5,000 but let me just tell you about the \$250 that I won.’ They have to say ‘I lost \$4,750 and I came home with \$250,’” Serrano said. “They’re manipulating numbers and it’s not acceptable, at all. I am deeply concerned about the level of integrity about Portfolio Advisors.”

At least one board member agreed that working with Portfolio would not be worth the trouble, given the questions raised.

“I have worked for years with a consultant that I didn’t like and I didn’t trust, and it’s not something that I would wish on anybody in this or any other board, because you end up doing your own due diligence, and I can tell you from my brief foray into private equity, that it’s not something where I’d want to do my own due diligence,” board member **Elizabeth Greenwood** said.

Other board members expressed frustration about the process, saying the board lacked a clear philosophy on private equity investments and that performance data came too late in the RFP process. One member said she considered TorreyCove “a total unknown” and another said she would hate to choose TorreyCove simply because they were the “last firm standing.” The board moved to extend Portfolio’s current contract by about six months, in order to give LACERS one full year to clarify their private equity strategy and conduct a search for a new consultant.

**Brian Murphy**, a managing director of Portfolio Advisors, defended his firm, saying that the exclusion of PSERS and the reasons for it were not misleading, and were spelled out in the firm’s performance report. He initially reacted with anger when asked about Serrano’s remarks, and

indicated that her criticism was a pretext for forcing Portfolio Advisors out for not doing enough to invest with women-owned and minority-owned firms.

"The woman doesn't read," Murphy said. "The woman was grandstanding."

**Tom Lopez**, CIO of the **Los Angeles Fire and Police Pensions**, said that his fund has worked with Portfolio Advisors since 2010, and that the way it reported its investment performance was neither unusual nor a cause for alarm.

"They've done an excellent job for us," Lopez told *MMR*.

While Serrano had said at the board meeting that Portfolio Advisors was fired from the very PSERS account that it excluded from its results, PSERS disputed that. A PSERS spokesman said that Portfolio Advisors was replaced as private equity consultant by **Hamilton Lane** on June 13, but that the decision was not due to performance concerns, but simply because PSERS decided that Hamilton Lane was a better fit after a routine RFP search. Hamilton Lane, as a Pennsylvania company, also fit with PSERS' goal of working more with local firms, the spokesman said.

The search was approved in September 2016 and LACERS received five responses. **Cliffwater** also submitted a proposal and was a semifinalist for the position.

Portfolio Advisors is due to return to the LACERS board in August to provide a private equity portfolio performance review, and will use the occasion to explain its disclosures and defend itself, Murphy said. Murphy said he fully expects that LACERS will choose a different private equity consultant after its next search.

June declined to comment on the meeting. Serrano could not immediately be reached for comment on the meeting.

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## Investor Profile

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Los Angeles City Employees Retirement System (LACERS)

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