

BOARD OF INVESTMENTS MINUTES 2-10-10

PRESENT

- Herman Santos, Chair
- John M. Barger, Vice Chair
- Simon S. Russin
- Mark J. Saladino
- Leonard Unger

ABSENT

- Diane Sandoval, Secretary
- William Pryor
- Michael Schneider
- Estevan Valenzuela

STAFF, ADVISORS, PARTICIPANTS

- Gregg Rademacher, Chief Executive Officer
- Robert Hill, Assistant Executive Officer
- Janice Golden, Assistant Executive Officer
- Lisa Mazzocco, Chief Investment Officer
- John McClelland, CRE, Principal Investment Officer, Real Estate
- Vache Mahseredjian, CFA, Principal Investment Officer
- Christopher J. Wagner, Senior Investment Officer, Private Equity
- June H. Kim, Senior Investment Officer, Equities
- Robert Z. Santos, Investment Officer, Fixed Income
- Gerald P. Flintoft, CAIA, Investment Officer, Private Equity
- Esmeralda Vita del Bosque, Senior Investment Analyst, Equities
- Dale Johnson, Senior Investment Analyst
- Robb Van Der Volgen, Chief Counsel
- Earl W. Buehner, Senior Staff Counsel
- Michael D. Herrera, Senior Staff Counsel

1. APPROVAL OF THE MINUTES

1. APPROVAL OF THE MINUTES OF THE REGULAR MEETING OF THE BOARD OF INVESTMENTS OF JANUARY 13, 2010.

A motion to was made by Mr. Russin, seconded by Mr. Saladino to approve the Minutes of the regular meeting of January 13, 2010.

The motion carried by unanimous vote.

2. PUBLIC COMMENT

None.

3. REPORT ON CLOSED SESSION ITEMS

None.

4. ACTION ITEMS

1. Recommendation as submitted by Gregg Rademacher, Chief Executive Officer: Ratify attendance by Board member John Barger at the Turnaround Management Association Conference, held January 27-29, 2010, and approve reimbursement of all conference fees and travel costs associated with conference attendance according to LACERA's Education and Travel Policy. (Memo dated January 19, 2010.) (Placed on the Agenda at the request of Mr. Barger.)

A motion to approve the recommendation was made by Mr. Saladino, seconded by Mr. Russin.

The motion carried by unanimous vote.

2. Recommendation as submitted by Gregg Rademacher, Chief Executive Officer: Approve attendance of Board members, and staff as designated by the Chief Executive Officer to attend Klausner and Kaufman's 12th Annual Client Conference on March 21-24, 2010, and approve reimbursement of all travel costs incurred in accordance with LACERA's Education and Travel Policy. (Memo dated February 2, 2010.) (Placed on the Agenda at the request of Mr. Pryor.)

A motion to approve the recommendation was made by Mr. Saladino, seconded by Mr. Russin.

The motion carried by unanimous vote.

3. Recommendation as submitted by John D. McClelland, Principal Investment Officer, Real Estate:

Approve attendance of Board Members, and staff as designated by the Chief Executive Officer, at the NCREIF 2010 Annual Winter Conference to be held on February 23-26, 2010, and approve reimbursement of all travel costs incurred in accordance with LACERA's Education and Travel Policy. (Memo dated January 12, 2010.)

A motion to approve the recommendation was made by Mr. Saladino, seconded by Mr. Russin.

The motion carried by unanimous vote.

4. Recommendation as submitted by John D. McClelland, Principal Investment Officer, Real Estate:

Approve attendance of Board members at the RREEF Americas Real Estate Fund Conference on March 17 and 18, 2010, and approve reimbursement of all costs incurred in accordance with LACERA's Education and Travel Policy. (Memo dated February 2, 2010. (Placed on the agenda at the request of Ms. Sandoval and Mr. Schneider.)

A motion to approve the recommendation was made by Mr. Saladino, seconded by Mr. Russin.

The motion carried by unanimous vote.

5. Recommendation as submitted by Lisa Mazzocco, Chief Investment Officer:

(1) Reschedule the April 14, 2010, Board of Investments meeting to April 28, 2010; and (2) Reschedule the May 12, 2010, Board of Investments meeting to May 26, 2010. (Memo dated February 1, 2010.)

An amendment to the recommendation was made by Mr. Saladino, seconded by Mr. Russin to hold the April Investment Board meeting on Thursday, April 29, 2010.

The amendment to the recommendation carried by unanimous vote.

A motion was made by Mr. Saladino, seconded by Mr. Russin to approve the recommendation as amended that the April Investment Board meeting be held on April 29, 2010 and that the May

meeting be held on May 26, 2010.

The motion carried by unanimous vote.

6. Recommendation as submitted by the Corporate Governance Committee:

Adopt LACERA's Non-U.S. Proxy Voting Guidelines. (Memo dated January 21, 2010.)

Dale Johnson provided a brief overview on the proposed non-U.S. Proxy Voting Guidelines and a brief discussion followed.

A motion to approve the recommendation was made by Mr. Barger, seconded by Mr. Russin.

The motion carried by unanimous vote.

5. REPORTS

1. Performance Review as of December 31, 2009

Lisa Mazzocco, Chief Investment Officer
Investment Staff

Ms. Mazzocco gave a brief overview on LACERA's total fund performance and reported that the total fund increased 3.8% in the fourth quarter of 2009 and outperformed the Policy Benchmark by 120 basis points (bps), as every asset class either matched or beat its respective benchmark. The biggest contributors to the positive relative results were the private equity, fixed income, and real estate portfolios. Ms. Mazzocco introduced June Kim, Dale Johnson and Esme del Bosque who reported on the Public Equity portfolio, Vache Mahseredjian and Robert Santos who reported on the Fixed Income portfolio.

Mr. Mahseredjian also reported on LACERA's Commodities investments.

LACERA's U.S. equity benchmark, the Russell 3000 Index, climbed 5.9% in the fourth quarter. This was the index's third consecutive quarterly increase. The best performing market cap segment was large cap, with the Russell 1000 Index up 6.1%. Midcap stocks (as measured by the Russell Midcap Index) were close behind with a return of 5.9%, followed by a 3.9% rise in the small cap Russell 2000 Index. For the quarter, growth stocks outperformed value for every market cap segment. LACERA's International Equity benchmark also delivered another positive quarter, rising 3.7%. Emerging Markets rose 9% and was the best performing market segment.

LACERA's Fixed Income composite surpassed its benchmark by 130 bps. This was the result of the relative outperformance of all core and core plus managers. The investment grade fixed income market, as measured by the Barclays Aggregate Index, returned 0.2% compared to high yield bonds that returned a robust 6.2%. The U.S. Universal Index, which combines the Aggregate Index with high yield and emerging market bonds, rose 0.6% for the quarter. Treasury rates moved higher in response to improved economic conditions as the yield on the 2 year note rose 19 bps, the 10 year note yield rose 63 bps, and the 30 year bond yield rose 59 bps. The Commercial Mortgage Backed Securities was the best performer within the investment grade market returning 3.3%. Both Investment Grade Corporates and Asset Backed Securities rose 1.3%.

The Commodity index return of 9.0% for the quarter raised the calendar year return to 18.9%. Every sector of the index generated positive returns. Energy, the largest sector of the index, registered a respectable return of 3.4%, but was the weakest sector on a relative basis. Crude oil, which constitutes about half of the energy sector, was up 6.7%. Industrial metals constitute the second largest sector of the index and for the third quarter in a row were the best performing sector, rising 16.9%. This sector was also the top performer for the year, with a return of 80.0%. This is

attributable to copper (up 130%) and zinc (up 98%). Metals benefited most directly from the improved outlook for global growth, and driven primarily by demand from China. Grains is the third largest sector of the index, and was the third best performing sector, up 13.6%.

Precious metals are the fourth largest sector and generated a return of 6.1%. Gold was up 8.5%, ending the quarter at \$1,096 per ounce, while silver was up just 0.9%. For the year, however, silver was the better performer, returning 47.6% versus 22.9% for gold.

A brief discussion followed and the Report was received and filed.

2. Investment Staff Goals 2010/11

Lisa Mazzocco, Chief Investment Officer (Memo dated February 3, 2010.)

Ms. Mazzocco provided an executive summary on Investment staff's goals for fiscal year 2010/2011. She reported that Investment staff's role is helping LACERA meet its mission statement of producing, protecting and providing the promised benefits. The Investment Staff strives to meet LACERA's 7.75% return assumption, while protecting and monitoring assets and recommending prudent investment strategies to provide the assets to pay member benefits.

Investment Staff's objective and goals are to act at all times as prudent fiduciaries, executing their responsibilities exclusively on behalf of the Fund's members, beneficiaries and participating employers. The goal is to maximize investment returns and minimize long-term costs by employing prudent investment and actuarial policies and practices.

Ms. Mazzocco also reported on some of the major accomplishments for 2009, which included updating the Investment Policy Statement, completion of the asset-liability study; completion of a review of the Private Equity Risk Premium; and recommendation of new fixed income and real estate benchmarks. Staff's goals for the upcoming fiscal year are to continue to implement the new Asset Allocation Policy, research, evaluate and educate the Board on viable new investments opportunities, and conduct a risk-budgeting study.

A brief discussion followed and the report was received and filed.

3. Real Estate Performance Measurement for Quarter Ended September 30, 2009

John McClelland, Principal Investment Officer, Real Estate (Memo dated January 29, 2010.) (For information only.)

The Real Estate Performance Measurement Report is for information only and was received and filed.

4. Third Quarter Private Equity Portfolio Update

Christopher J. Wagner, Senior Investment Officer, Private Equity (Memo dated February 2, 2010.) (For information only.)

The Third Quarter Private Equity Portfolio Update is for information only and was received and filed.

5. Wilshire Consulting Investment Performance Analysis - December 31, 2009 (For Information only.)

Wilshire Consulting's Investment Performance Analysis is for information only and was received and filed.

6. GOOD OF THE ORDER

(For discussion purposes only.)

The Board commended staff on their reports and presentation and also commended Mr. Rademacher and Ms. Mazzocco for a successful 2010 Board Off-Site. The Board felt the topics and presentations were very informative.

Green Folder Items

1. Chief Executive Officer's Reported Dated February 3, 2010.
2. Copy of brochure entitled L.A. Trustees Network 3rd Annual Corporate Governance Round-up to be held on March 1 and 2, 2010 at the Sheraton Gateway Los Angeles.

7. ADJOURNMENT

 PROTECT | We continue to employ solid investment and business strategies designed to serve the best interests of our members and their beneficiaries.

3/16/10