

BOARD OF INVESTMENTS MINUTES 4-29-10

PRESENT

- Herman Santos, Chair
- John M. Barger, Vice Chair
- Diane Sandoval, Secretary
- Simon S. Russin
- Mark J. Saladino
- Leonard Unger
- 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
- Christine Roseland, Staff Counsel
- Cynthia Lau, Legislative Analyst

1. APPROVAL OF THE MINUTES

1. APPROVAL OF THE MINUTES OF THE REGULAR MEETING OF THE BOARD OF INVESTMENTS OF MARCH 10, 2010.

A motion was made by Mr. Unger, seconded by Mr. Pryor to approve the Minutes of the regular meeting of March 10, 2010. The motion carried by unanimous vote.

2. APPROVAL OF THE MINUTES OF THE SPECIAL MEETING OF THE BOARD OF INVESTMENTS OF APRIL 7, 2010.

A motion was made by Mr. Saladino, seconded by Mr. Russin to approve the Minutes of the Special Meeting of the Board of Investment of April 7, 2010. The motion carried with Ms. Sandoval abstaining.

2. PUBLIC COMMENT

None.

3. REPORT ON CLOSED SESSION ITEMS

Mr. Van Der Volgen reported that during a Special Meeting of the Board of Investments on April 7, 2010, the Board met in Closed Session pursuant to Government Code Section 54956.81 to consider the sale of a specific pension fund investment. The Board directed staff to cause LACERA to withdraw from and redeem LACERA's interest in the Shamrock Activist Value Fund, L.P., under such terms and conditions as deemed appropriate by staff. LACERA received a distribution of securities from SAVF on April 21, 2010.

4. ACTION ITEMS

1. Recommendation as submitted by Gregg Rademacher, Chief Executive Officer, to approve attendance of Board members, and staff as designated by the Chief Executive Officer, at the World Pension Forum Conference, and approve reimbursement of all travel costs incurred in accordance with LACERA's Education and Travel Policy. (Memo dated April 15, 2010.)

A motion to approve the recommendation was made by Mr. Saladino, seconded by Ms. Sandoval. The motion carried by unanimous vote.

2. Recommendation as submitted by Gregg Rademacher, Chief Executive Officer, to approve attendance of Board members, and staff as designated by the Chief Executive Officer, at NASP's 21st Annual Pension and Financial Services Conference, and approve reimbursement of all travel costs incurred in accordance with LACERA's Education and Travel Policy. (Memo dated April 21, 2010.)

A motion to approve the recommendation was made by Ms. Sandoval, seconded by Mr. Saladino. 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 Summer Meeting and Academy, and approve reimbursement of all travel costs incurred in accordance with LACERA's Education and Travel Policy. (Memo dated April 19, 2010.)

A motion to approve the recommendation was made by Mr. Russin, seconded by Ms. Sandoval. The motion carried by unanimous vote.

4. Recommendation as submitted by Vache Mahseredjian, Principal Investment Officer, Robert Z. Santos, Investment Officer, Fixed Income, and Shelly Tilaye, Senior Investment Analyst, Private Equity: (1) Invite the following firms to interview for an Opportunistic Credit Fixed Income mandate: Beach Point Capital Management, Brigade Capital Management, and Harch Capital Management; and (2) Authorize Staff to develop a bench of Managers for potential future opportunistic mandates. (Memo dated April 21, 2010.)

Mr. Mahseredjian reported that this item consists of two separate recommendations. The first recommends the Board to invite the three highest scoring investment managers from the Opportunistic Credit Manager search for an interview at the May 2010 Board meeting. The second is to develop a manager bench for potential future opportunistic mandates.

The Board authorized staff at the October 2009 Board meeting to issue a request for information (RFI) for an opportunistic credit mandate. At that time the Board also approved a list of managers invited to respond to the RFI.

Staff then conducted a search using LACERA's customary two-phased process. Phase one consisted of the evaluation of RFI responses and phase two consisted of the interviews. Staff worked closely with Wilshire Associates during the search and staff recommends, with Wilshire Associates concurring, that the following candidates be invited to interview with your Board at its May 2010

meeting: Brigade Capital Management; Beach Point Capital Management; and Harch Capital Management.

The objective of the opportunistic segment of the Fixed Income Composite is to enhance return and provide diversification by investing tactically in non-traditional segments of the fixed income market. These segments are typically underutilized because they are not included in the broad bond indices. This segment seeks strategies with higher risk, higher return potential, but with low correlations to the Core and Core Plus segments of the composite. As a reminder, given the tactical nature of these investments, a streamlined manager search process was recommended in order to take advantage of potentially short-lived opportunities.

A motion to limit debate was made by Mr. Valenzuela. The motion failed with Messrs. Saladino, Russin, Barger, Schneider, Ms. Sandoval and Chair Santos voting no and Messrs. Unger, Pryor, and Valenzuela voting yes.

A brief discussion followed on performance and fee concerns.

A motion to approve the recommendation was made by Mr. Pryor, seconded by Mr. Valenzuela. The motion carried with Messrs. Russin, Schneider, Ms. Sandoval and Chair Santos voting No.

5. Recommendation as submitted by Vache Mahseredjian, Principal Investment Officer: Provide Staff direction on the emergency line of credit. (Memo dated April 21, 2010.)

Mr. Mahseredjian reported that staff is seeking the Board's direction on the proposed changes regarding an emergency line of credit (ELOC) issued by BNY Mellon ("Mellon"). In 2005 the Board authorized an ELOC that would enable LACERA to continue paying benefits even in the rare event that financial markets are closed. The Board selected Mellon, LACERA's custodian, as the ELOC provider. Mellon charges LACERA an annual fee for providing the ELOC; in return, Mellon promises to lend LACERA up to a specified amount if an emergency arises. The amount is set at the highest monthly benefit LACERA is projected to pay over the following year. The ELOC is renewed annually, with contract terms subject to negotiation each year. The various costs associated with the ELOC have increased over time. A brief discussion followed on pricing, liquidity, and collateral concerns.

A motion was made by Mr. Saladino, seconded by Mr. Russin to reject Mellon Banks ELOC terms and issue a Request for Proposal for an ELOC. The motion carried by unanimous vote.

6. Recommendation as submitted by June Kim, Senior Investment Officer, Equities and James Rice, CFA, Investment Officer: Retain BlackRock Institutional Trust Company, N.A. to manage a passive 50% currency hedge mandate for the developed markets portion of LACERA's non-U.S. equities composite. (Memo dated April 8, 2010.)

Ms. Kim and Mr. Rice provided a brief summary on the proposed recommendation reporting that the passive currency hedge manager search was the result of a change to the Board's Asset Allocation Policy approved on June 13, 2009. This change combined LACERA's U.S. and non-U.S. public equities into a global equities structure, which increased the Total Fund's target allocation to non-U.S. equities from 21% to 30%. Additionally, the Policy change established a 50% passive currency hedge to reduce the currency return volatility resulting from the Fund's larger non-U.S. equity allocation. Upon receiving approval from the Board, staff issued a Request for Information (RFI) for a currency hedging mandate to two firms: Barclays Global Investors (BGI) and Pareto Investment Management Ltd. Subsequent to issuing the RFI, BGI merged with BlackRock. BlackRock Institutional Trust Company, N.A., (BlackRock) is the successor to BGI. A passive currency hedge involves no investment strategy. The implementation of a passive hedge is a straightforward process, which entails matching the underlying portfolio's country weights with a currency hedge of 50% of each country's currency exposure.

BlackRock has managed currency hedge strategies since 1993 through its predecessor organization, Barclays Global Investors, which it acquired in December 2009. Currency hedging is a sizable business for BlackRock and they employ a formal, rigorous, and extremely robust counterparty risk evaluation process, which staff views as a key competitive advantage.

Pareto was formed in 1991 and is a wholly-owned subsidiary of Bank of New York Mellon (LACERA's custodian bank). Pareto is dedicated to currency management. Given Pareto's singular focus on currency, it has great expertise in currency markets and currency strategies.

Based on staff's evaluation of the two firms, staff recommends retaining BlackRock for this passive 50% hedge mandate based on three main reasons.

First, while both firms have processes in place for evaluating and monitoring counter-party risks, staff found BlackRock's process to be more formal and overall stronger than that of Pareto. Second, BlackRock already has a sizable passive hedge business and all indications show that they remain committed to this business. Third, because BlackRock is LACERA's index fund manager, LACERA can use the existing EAFE and Canada index funds to facilitate cash flows for settlement of the currency contracts. This will streamline the settlement process and further reduce operational risks. A brief discussion followed regarding cost concerns.

A motion to approve the recommendation as presented was made by Mr. Barger, seconded by Mr. Unger.

The motion carried with Messrs. Russin and Sandoval voting no.

7. Recommendation as submitted by June Kim, Senior Investment Officer, Equities and James Rice, CFA, Investment Officer: Provide Staff with direction regarding dynamic currency hedging. (Memo dated April 8, 2010.)

Ms. Kim and Mr. Rice presented the proposed recommendation. They reported that the secondary purpose of the currency hedge Request for Information (RFI) was to gather information on hedge implementation approaches that allow some latitude around a passive 50% hedge ratio. This approach is typically called dynamic currency hedging. The concept of dynamic hedging is to allow the hedge ratio to change as the U.S. dollar (USD) depreciates or appreciates. Currency trades are executed to move the hedge position further in the direction of currency market movements to take advantage of the trending behavior of currencies. In a depreciating USD environment, dynamic hedging reduces the hedge ratio in order to participate in larger currency gains, which can potentially reduce large negative cash flow requirements. When the USD appreciates, dynamic hedging increases the hedge ratio in order to protect from larger currency losses. Ms. Kim and Mr. Price reported that it may be beneficial to implement the passive currency hedge program first and ensure it is operating successfully before a portion of the hedge program is allocated to a dynamic strategy. Staff would recommend allocating only a small portion of the hedge to the dynamic strategy because of its additional risk, transaction costs and higher management fees. The larger portion of the hedge should remain passive.

A passive currency hedge is implemented to eliminate all or a part of an investor's exposure to foreign currencies. The exposure is eliminated whether the impact is positive or negative to the underlying assets. In anticipation of negative cash flows and their impact on LACERA's operations, information on dynamic hedging strategies was collected during the passive hedging evaluation process. A dynamic hedging strategy will allow the hedge ratio to change as the U.S. dollar appreciates or depreciates and would limit the magnitude of negative cash flows. A brief discussion followed.

A motion to approve the recommendation was made by Mr. Saladino, seconded by Mr. Schneider to direct staff to not move forward with the dynamic hedging strategy. The motion carried with Mr.

Unger voting No.

8. Recommendation as submitted by Michael Herrera, Senior Staff Counsel: Adopt the revised Board of Investments Securities Litigation Policy, in the form set forth as Attachment B. (Memo dated April 21, 2010.)

Mr. Herrera provided an executive summary on the proposed recommendation and reported that the proposed changes to the policy were relatively minor and/or technical in nature. The changes are intended to update the language of the Policy to reflect certain procedures, options and actions adopted and/or utilized over time by the Legal Office in order to implement the existing Policy.

Most notably the proposed revised policy would add the following: 1) Expressly provide the retention of “a vendor specializing in identifying and analyzing securities cases” under Review of Class Action Filings; 2) expand the options for active participation to include opting out of an existing class action and commencing a new individual action under Section 3, Active Participation; and set forth formalized claims filing procedures to be included in LACERA’s custodial agreement under Section 4, Asset recovery.

The proposed revised policy also includes a substantive change involving delegation of authority to LACERA’s Chief Executive Officer to approve active participation by the fund in a pending securities class action (Section 3, Active Participation), and retention of outside counsel (Section 6, Retention of Outside Counsel) in cases “where it is determined that immediate approval is required to preserve LACERA’s rights and/or interests.” Mr. Herrera also reported that consistent with the direction of the Board, the proposed revised policy now explicitly states that delegation is limited to those cases where immediate approval is required in order to preserve LACERA’s rights and/or interests, and where the matter cannot be timely submitted for approval to the Board at either a regularly-scheduled or specially-called meeting. In those circumstances where delegation is authorized, the revised policy provides that the Chief Executive Officer shall consult with Chief Counsel, Chief Investments Officer, and Chair of the Board of Investments in making the decision. The Legal Office believes the proposed changes to the Board’s Securities Litigation Policy are necessary to ensure its continued success and effectiveness in achieving its stated purpose and principles, as well as satisfying LACERA’s fiduciary duties with respect to securities class actions. A brief discussion by the Board followed on cost and fee concerns.

A motion to approve the recommendation was made by Mr. Pryor, seconded by Mr. Unger. The motion carried by unanimous vote.

5. REPORTS

1. BlackRock Update Lisa Mazzocco, Chief Investment Officer June Kim, Senior Investment Officer, Equities James Rice, CFA, Investment Officer (Memo dated April 21, 2010.) (For information only.) The BlackRock Update is for information only and was received and filed.
2. Securities Lending Program – 2009 Annual Review Robert Z. Santos, Investment Officer, Fixed Income (Memo dated April 16, 2010.) (For information only.) The Securities Lending Program 2009 Annual Review is for information only and was received and filed.
3. 2010 Proxy Season Preview Dale Johnson, Senior Investment Analyst (Memo dated April 7, 2010.) (For information only.) The 2010 Proxy Season Preview is for information only and was received and filed.
4. Corporate Governance Quarterly Review Volume 6, Issue #1: January 1, 2010 – March 31, 2010 Dale Johnson, Senior Investment Analyst (Memo dated April 2, 2010.) (For information only.) The Corporate Governance Quarterly Review is for information only and was received and filed.

5. Chief Executive Officer's Report Gregg Rademacher, Chief Executive Officer (Memo dated April 8, 2010.) (For information only.) The Chief Executive Officer's Report is for information only and was received and filed.

Chair Santos reported that Item VII. Good of the Order would be handled at this time and Item VI. Executive Session would follow.

6. EXECUTIVE SESSION

1. CONFERENCE WITH LEGAL COUNSEL – ANTICIPATED LITIGATION (Initiation of litigation pursuant to Subdivision (c) of California Government Code Section 54956.9.)

1. One potential case.

Mr. Herrera reported that the Board met in closed session with the Legal Office pursuant to one potential case of anticipated litigation. The Board gave direction to the Legal Office with respect to joining in as a named plaintiff in the IndyMac Securities litigation pursuant to Government Code Section 56956.9.

7. GOOD OF THE ORDER

(For discussion purposes only.)

Mr. Rademacher reported that a Budget Hearing would follow upon adjournment of the Board of Investments meeting. He also commended Mr. Santos on being recognized on behalf of the National Association of Securities Professional (NAPA) May 7, 2010, as their honored guest at the inaugural of the Los Angeles Chapter of NAPA.

Ms. Mazzocco congratulated Ms. Shelly Tilaye on earning her Chartered Alternative Investment Analyst Designation.

Mr. Russin welcomed Mr. Almaguer on his return to work after being out due to illness. Mr. Pryor asked that staff provide to the Board regular updates on banking regulations due to changes and how they may affect LACERA. The Board congratulated Mr. Santos on being recognized on behalf of NAPA.

Mr. Unger reported that the Milken Institute was extremely informative and highly recommends the conference. The Board commended staff on their excellent reports and presentations.

Green Folder Items

1. Chief Investment Officer's March 2010 Report, dated April 28, 2010.
2. Copy of brochure from the Pacific Pension Institute regarding the 2010 Summer Roundtable to be held on July 14-16, 2010 at Stanford University.

8. ADJOURNMENT

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

4/28/11