

BOARD OF INVESTMENTS MINUTES 9-8-10

PRESENT

- Herman Santos, Chair
- John M. Barger, Vice Chair
- Diane Sandoval, Secretary
- William Pryor
- Simon S. Russin
- Mark J. Saladino
- Michael Schneider
- Leonard Unger
- 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
- Johanna Fontenot, Senior Staff Counsel
- Michael D. Herrera, Senior Staff Counsel
- Christine Roseland, Staff Counsel

1. APPROVAL OF THE MINUTES

1. MINUTES OF THE SPECIAL MEETING OF THE BOARD OF INVESTMENTS OF JULY 28, 2010.

A motion to approve the Minutes of the Special Meeting of the Board of Investments of July 28, 2010 was made by Mr. Pryor, seconded by Mr. Unger. The motion carried by unanimous vote.

2. PUBLIC COMMENT

Chair Santos reported that Public Comment would be handled after Item V. Reports.

3. REPORT ON CLOSED SESSION ITEMS

None.

4. ACTION ITEMS

1. Recommendation as submitted by John D. McClelland, Principal Investment Officer, Real Estate and Earl W. Buehner, Senior Staff Counsel: Approve attendance of Board members, and staff as

designated by the Chief Executive Officer, at INVESCO Real Estate's Client Conference on November 2-4, 2010 at the Lodge at Torrey Pines in La Jolla, California. (Memo dated August 30, 2010.)

A motion to approve the recommendation was made by Ms. Sandoval, seconded by Mr. Pryor. 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, at Terrapin's Real Estate Investment World USA 2010 Conference on December 1-3, 2010, to be held at the New York City Marriott and approve reimbursement of all costs incurred in accordance with LACERA's Education and Travel Policy. (Memo dated August 30, 2010.) (Placed on the Agenda at the request of Mr. Santos.)

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

3. Recommendation as submitted by Gregg Rademacher, Chief Executive Officer: Approve attendance of Board members, and staff as designated by the Chief Executive Officer, at the NACD 2010 Corporate Governance Conference on October 16-19, 2010 at the JW Marriott Hotel in Washington D.C., and approve reimbursement of all costs incurred in accordance with LACERA's Education and Travel Policy. (Memo dated August 30, 2010.) (Placed on the Agenda at the Request of Mr. Barger.)

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

4. Recommendation as submitted by Les Robbins, Chair, Board of Retirement: Approve funding from Contingency not to exceed \$250,000 for the renovation and expansion of the Member Services Call Center located on the 5th Floor. (Memo dated August 19, 2010.)

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

5. Recommendation as submitted by John D. McClelland, CRE, Principal Investment Officer, Real Estate and James Rice, CFA, Investment Officer: Approve the Minimum Qualifications included in staff's memo to be utilized in the Request For Information for Real Estate Debt Managers. (Memo dated August 31, 2010.)

Mr. McClelland reported that staff had identified commercial real estate debt as a potentially attractive investment opportunity for a modest portion of the Fund's real estate allocation and that a Request for Information ("RFI") is recommended to evaluate the viability of executing a debt strategy and achieving the desired returned. The proposed Minimum Qualifications have been developed to help identify firms that are both experienced and able to manage a possible allocation from LACERA. Staff will notify the Board if the RFI generates attractive results and seek authorization to complete the candidate manager assessments and present finalists for the Board's consideration. A brief discussion followed.

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

5. REPORTS

1. Triennial Actuarial Return Assumption Review

Milliman, USA, Consulting Actuary

- Karen I. Steffen, FSA and Nicholas J. Collier,
ASA Members, American Academy of Actuaries

Mr. Rademacher provided an executive summary on the Triennial Actuarial Return Assumption. He reported that every three years LACERA looks at the Plan Assumptions and Methodologies to make sure that the calculation of plan liabilities is appropriate and that LACERA is fairly and accurately estimating the cost of the Fund. As part of this, the actuary looks at the demographic and investment experience and makes recommendations to the Board on those assumptions. In the past, the actuary would present his/her findings at the November meeting for the Board's consideration, before the valuation is conducted. Due to the current financial times, staff determined that it would be helpful to spend more time on reviewing these assumptions and further discuss LACERA's long term investment assumption. Mr. Rademacher introduced Nick Collier, of Milliman, LACERA's Plan Actuary who followed with an update on the Investigation of Experience and Economic Assumptions. He reported that the Board had adopted a 7.75% investment return assumption as part of the 2004 Investigation of Experience. The investment return assumption is reviewed each year, with a more in-depth review every three years. He also reported that at that time the Board had discussed lowering the investment return assumption to 7.50%, as part of the 2007 investigation of experience, but no change was made. This year an expanded analysis was done based on the current economic environment, focusing on two areas: determining the expected return, and selecting a specific return assumption.

Milliman recommends an investment return assumption in the range of 7.25% to 7.50% due to lower expected return and to maintain some level of conservatism. Mr. Collier reported on the estimated financial impact and contribution rates of adopting such an investment return rate. A brief discussion followed and Chair Santos indicated that Item II. Public Comment would be handled at this time.

II. PUBLIC COMMENT

Ramon Rubalcava addressed the Board on behalf of Local SEIU 721 and conveyed the Union's desire that the Board take no action to lower the investment rate assumption.

Chair Santos indicated the Board would return to the regular order of business.

2. Home Building Program Update

- John D. McClelland, CRE, Principal Investment Officer, Real Estate

(Memo dated August 31, 2010.)

Tripacific Capital Advisors

- Geoffrey S. Fearn, President, Chief Executive Officer
- Lisa C. Albanez, Executive Vice President

Mr. McClelland gave a brief update on the Home Building Program ("Program") and introduced the principals of Tripacific Capital Advisors who followed with their presentation on the build-out effort and leverage being employed, including the line of credit guaranteed by LACERA. The Program is currently capitalized with \$185 million of equity and \$320 million of debt. LACERA's equity investment reached \$249 million in July 2009 and has since been reduced to approximately \$183 million as of June 2010. TriPacific anticipates that the Program equity will be reduced by an additional \$70 to \$80 million, as a result of home and lot sales during the current fiscal year. The build-out program is well underway, with homes under construction at 17 projects. Tripacific estimates that the benefit from this has increased from \$25-\$30 million to \$85 million and they are

focusing 100% of their efforts on managing the existing investments. A brief discussion followed and the Report was received and filed.

3. Capital Guardian — Non-U.S. Equity Mandate

- June Kim, Senior Investment Officer, Equities
- Dale Johnson, Senior Investment Analyst, Equities

(Memo dated August 30, 2010.)

Capital Guardian Trust Company

- Paula Pretlow, Senior Vice President, Relationship Manager
- Gerald Du Manoir, Senior Vice President, Portfolio Manager

Dale Johnson gave a brief summary on Capital Guardian Trust Company's ("Capital") non-U.S. Equity mandate. He then introduced Ms. Pretlow and Mr. Du Manoir, Capital's principals who gave a presentation on the Fund's performance, historical background, investment process and current market outlook. Capital is based in Los Angeles and was founded in 1931. They began managing active non-U.S. equities for U.S. tax exempt clients in 1978.

Ms. Pretlow reported that while Capital outperformed over the one-year period and since inception, they lagged for the five-through ten-year periods. Their strong outperformance in the second quarter of 2010 improved their short-term returns and reinforces the turnaround in performance. A brief discussion followed and the Report was received and filed.

4. Managing Risk: Lessons from the Credit Crisis

- Lisa Mazzocco, Chief Investment Officer
- John D. McClelland, CRE, Principal Investment Officer, Real Estate
- Christopher Wagner, Senior Investment Officer, Private Equity

(Presentation only.)

Ms. Mazzocco gave a presentation entitled: Managing Risk: Lessons from the Credit Crisis, reporting on managing risks. Mr. McClelland followed with his presentation on real estate trends, and Mr. Wagner gave a presentation on private equity risks. A brief discussion followed and the Report was received and filed.

5. Private Equity 2010 1st Quarter Performance Report

- Christopher Wagner, Senior Investment Officer, Private Equity

(Memo dated September 1, 2010.) (For information only.)

The Private Equity 2010 1st Quarter Performance Report is for information only and was received and filed.

6. Corporate Governance Quarterly Review

Volume 6, Issue #2: April 1, 2010 — June 30, 2010

- Dale Johnson, Senior Investment Analyst

(Memo dated August 20, 2010.) (For information only.)

The Corporate Governance Quarterly Review is for information only and was received and filed.

6. GOOD OF THE ORDER

(For discussion purposes only.)

The Board congratulated Mr. Pryor on his re-election to both the Board of Retirement and Board of Investments and it commended Staff on their reports and presentations.

Green Folder Items

1. Chief Executive Officer's Report.
 2. Memo dated September 2, 2010, from Michael D. Herrera, Senior Staff Counsel regarding Review and Evaluation of Securities Counsel.
7. ADJOURNMENT

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

4/29/10