

BOARD OF INVESTMENTS AGENDA 1-12-11

LACERA

300 N. Lake Ave., Suite 810
Pasadena, CA 91101

9:00 AM

I. ELECTION OF OFFICERS

(Election of Chair, Vice Chair, Secretary, and Audit Committee Member)

II. APPROVAL OF THE MINUTES

- A. APPROVAL OF THE MINUTES OF THE MEETING OF THE BOARD OF INVESTMENTS OF OCTOBER 13, 2010.
- B. APPROVAL OF THE MINUTES OF THE MEETING OF THE BOARD OF INVESTMENTS OF NOVEMBER 10, 2010.
- C. APPROVAL OF THE MINUTES OF THE MEETING OF THE BOARD OF INVESTMENTS OF DECEMBER 8, 2010.

III. PUBLIC COMMENT

IV. REPORT ON CLOSED SESSION ITEMS

V. ACTION ITEMS

- A. Recommendation as submitted by Robert Z. Santos, Investment Officer, Fixed Income: (1) Approve attendance of Board members and staff as designated by the Chief Executive Officer, to the Information Management Network's 17th Annual Beneficial Owners' International Securities Lending Summit, to be held at the Hyatt Regency Scottsdale at Gainey Ranch in Scottsdale, Arizona from February 13-16, 2011; and (2) Approve reimbursement of all costs associated with the Conference in accordance with LACERA's Education and Travel Policy. (Memo dated January 4, 2011.)
- B. Recommendation as submitted by Earl W. Buehner, Senior Staff Counsel: (1) Approve the attached revised Placement Agent Policy, effective January 1, 2011; and (2) Determine whether to adopt a policy to inform the County Board of Supervisors periodically of LACERA's existing and prospective investment advisors. (Memo dated January 4, 2011.)
- C. Recommendation as submitted by Lisa Mazzocco, Chief Investment Officer: That your Board adopt the proposed changes in the Investment Policy Statement. (Memo dated January 6, 2011.)
- D. Recommendation as submitted by Vache Mahseredjian, Principal Investment Officer: (1) Authorize staff to modify the Core Plus fixed income mandate managed by Principal Global Investors; and (2) Authorize staff to terminate the investment management agreement with Goldman Sachs Asset Management for a Core Plus fixed income mandate and transition the assets into the Core segment of the Fixed Income Composite. (Memo dated January 6, 2011.)
- E. Recommendation as submitted by Herman Santos, Vice-Chair, Corporate Governance Committee: That your Board select a LACERA representative for staff to submit as a nominee for the Council of Institutional Investors Board of Directors for the April 2011 election. (Memo dated January 4, 2011.)

VI. REPORTS

- A. Actuarial Report Update
Gregg Rademacher, Chief Executive Officer (Memo dated January 6, 2011.) (For information only.)
- B. Providence Town Center, Collegeville, PA-New Investment Report
Amit Aggarwal, Investment Officer, Real Estate (Memo dated January 4, 2011.) (For information only.)

VII. EXECUTIVE SESSION

- A. CONFERENCE WITH LEGAL COUNSEL – (Subdivision (a) of California Government Code Section 54956.9)
 - 1. LACERA v. Motorola, et al., etc.; U.S. Dist. Court, S.D.N.Y., Case No. 04 Civ. 10252; LASC Case No. BC321448

VIII. GOOD OF THE ORDER

(For discussion purposes only.)

IX. ADJOURNMENT

BOARD OF INVESTMENTS MINUTES 1-12-11

PRESENT

John M. Barger, Chair
Simon S. Russin, Vice Chair
Herman B. Santos, Secretary
William Pryor
Mark J. Saladino
Diane Sandoval
Michael Schneider
Leonard Unger

ABSENT

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
Juan Almaguer, Senior Investment Analyst
Shelly P. Tilaye, CAIA, Senior Investment Analyst, Private Equity
Esmeralda Vita del Bosque, Senior Investment Analyst, Equities
Dale Johnson, Senior Investment Analyst
James Rice, Investment Officer
Robb Van Der Volgen, Chief Counsel
Earl W. Buehner, Senior Staff Counsel
Johanna Fontenot, Senior Staff Counsel
Michael D. Herrera, Senior Staff Counsel
Cynthia Lau, Legislative Affairs Officer

I. ELECTION OF OFFICERS

(Election of Chair, Vice Chair, Secretary, and Audit Committee Member)

The election of officers was conducted by Secretary Sandoval:

A. Chair of the Board of Investments

Mr. Barger was nominated to the position of Chair of the Board of Investments by Mr. Schneider. Hearing no other nominations the nominations were closed on a motion by Mr. Saladino, seconded by Mr. Russin. Secretary Sandoval announced that Mr. Barger was elected to position of Chair of the Board of Investments.

B. Vice Chair of the Board of Investments

Mr. Russin was nominated to the position of Vice Chair of the Board of Investments by Mr. Schneider. Hearing no other nominations the nominations were closed on a motion by Mr. Barger, seconded by Mr. Saladino. Secretary Sandoval announced that Mr. Russin was elected to position of Vice Chair of the Board of Investments.

C. Secretary of the Board of Investments

Mr. Barger nominated Mr. Santos to the position of Secretary of the Board of Investments.

Mr. Russin nominated Secretary Sandoval to the position of Secretary of the Board of Investments. Hearing no other nominations the nominations were closed on a motion by Mr. Saladino.

A roll call vote was taken for the position of Secretary of the Board of Investments with the following results:

Votes cast for Secretary Sandoval:

Mr. Russin
Mr. Schneider
Ms. Sandoval
Mr. Barger

Votes cast for Mr. Santos:

Mr. Saladino
Mr. Pryor
Mr. Unger
Mr. Santos

The Roll Call vote taken failed to elect a Secretary (tie vote).

Mr. Russin nominated Secretary Sandoval to the position of Secretary of the Board of Investments.

Mr. Unger nominated Mr. Santos to the position of Secretary of the Board of Investments.

Hearing no other nominations the nominations were closed on a motion by Mr. Russin.

Votes cast for Secretary Sandoval:

Mr. Russin
Ms. Sandoval
Mr. Barger

Votes cast for Mr. Santos:

Mr. Saladino
Mr. Pryor
Mr. Unger
Mr. Santos
Mr. Schneider

Ms. Sandoval announced that Mr. Santos was elected to the position of Secretary of the Board of Investments.

D. Audit Committee Member

Mr. Schneider was nominated to the position of Audit Committee Member by Mr. Barger.

Hearing no other nominations the nominations were closed on a motion by Mr. Saladino. Ms. Sandoval announced that Mr. Schneider was elected to the position of Audit Committee Member.

II. APPROVAL OF THE MINUTES

A. APPROVAL OF THE MINUTES OF THE MEETING OF THE BOARD OF INVESTMENTS OF OCTOBER 13, 2010.

A motion to approve the Minutes of the Board of Investments meeting of October 13, 2010, was made by Mr. Pryor, seconded by Ms. Sandoval. The motion carried by unanimous vote.

B. APPROVAL OF THE MINIUTES OF THE MEETING OF THE BOARD OF INVESTMENTS OF NOVEMBER 10, 2010.

A motion to approve the Minutes of the Board of Investments meeting of November 10, 2010, was made by Mr. Pryor, seconded by Ms. Sandoval. The motion carried with Mr. Unger abstaining.

C. APPROVAL OF THE MINUTES OF THE MEETING OF THE BOARD OF INVESTMENTS OF DECEMBER 8, 2010.

A motion to approve the Minutes of the Board of Investments meeting of December 8, 2010, was made by Mr. Pryor, seconded Ms. Sandoval. The motion carried by unanimous vote.

III. PUBLIC COMMENT

None.

IV. REPORT ON CLOSED SESSION ITEMS

Mr. Van Der Volgen indicated there was nothing to report at this time.

V. ACTION ITEMS

A. Recommendation as submitted by Robert Z. Santos, Investment Officer, Fixed Income: (1) Approve attendance of Board members and staff as designated by the Chief Executive Officer, to the Information Management Network's 17th Annual Beneficial Owners' International Securities Lending Summit, to be held at the Hyatt Regency Scottsdale at Gainey Ranch in Scottsdale, Arizona from February 13-16, 2011; and (2) Approve reimbursement of all costs associated with the Conference in accordance with LACERA's Education and Travel Policy. (Memo dated January 4, 2011.)

Mr. Buehner reported that after the conference was placed on the agenda for approval, its sponsor offered free attendance to all LACERA attendees. Free attendance is not a gift issue; however, meals and anything non-educational related will have to be reported as a gift by the attendee(s) unless LACERA reimburses the donor(s) in accordance with LACERA's Education and Travel Policy. Staff will find out the cost of the meals and LACERA will reimburse the donors in accordance with the Travel Policy.

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

- B.** Recommendation as submitted by Earl W. Buehner, Senior Staff Counsel: (1) Approve the attached revised Placement Agent Policy, effective January 1, 2011; and (2) Determine whether to adopt a policy to inform the County Board of Supervisors periodically of LACERA's existing and prospective investment advisors. (Memo dated January 4, 2011.) Mr. Buehner provided a brief overview on the revised Placement Agent Policy ("Policy"). He reported that your Board had revised its Placement Agent Policy last year to comply with state law that became effective January 1, 2010.

On January 1, 2011, a new law became effective that changed the definitions of certain terms (e.g., "placement agents" and "external manager") used in LACERA's Policy. As a result, LACERA's Policy does not comply with the new law. The Board now has to decide whether it is consistent with their fiduciary duties to adopt the new definitions.

Staff's recommendation is to adopt the new definitions. At your Board's meeting last month, public comment was made to the effect that many county pension plans were not adopting the new law. Staff polled the 37 Act counties and received nine responses: five counties had adopted the new definitions, and legal counsel for the other four were recommending adoption to their boards. Chair Barger indicated that items (1) and (2) would be voted on separately.

A motion was made by Mr. Saladino, seconded by Mr. Russin to adopt revised Placement Agent Policy, effective January 1, 2011. The motion carried unanimously.

Mr. Buehner continued with a brief overview on whether the Board should adopt a policy to inform the County Board of Supervisors periodically of LACERA's existing and prospective investment advisors. He reported that the SEC had adopted a rule addressing "pay to play" practices. The SEC is attempting to prevent the hiring of mediocre managers at higher than market prices and also trying to keep the playing field level for advisors of all sizes. Under the new SEC rule an investment advisor cannot receive compensation from a government entity like LACERA for providing investment advisor services for two years after it or one of its covered associates makes a contribution to an official of the government entity. Mr. Buehner also reported that staff agendized this matter so the Board could consider a policy to proactively inform the County of the Board's current and prospective investment advisors. The Board discussed whether LACERA should report prospective investment advisors to the County or only existing advisors.

A motion was made by Mr. Saladino, seconded by Mr. Schneider to adopt a policy to inform the County Board of Supervisors periodically of LACERA's existing investment advisors. The motion carried by unanimous vote.

- C.** Recommendation as submitted by Lisa Mazzocco, Chief Investment Officer: That your Board adopt the proposed changes in the Investment Policy Statement. (Memo dated January 6, 2011.)

Ms. Mazzocco provided an executive summary on the minor modifications to the Investment Policy Statement, outlining the Fund's objectives. A brief discussion followed.

A motion was made by Mr. Santos, seconded by Ms. Sandoval to adopt the proposed changes in the Investment Policy Statement. The motion carried by unanimous vote.

- D.** Recommendation as submitted by Vache Mahseredjian, Principal Investment Officer: (1) Authorize staff to modify the Core Plus fixed income mandate managed by Principal Global Investors; and (2) Authorize staff to terminate the investment management agreement with Goldman Sachs Asset Management for a Core Plus fixed income mandate and transition the assets into the Core segment of the Fixed Income Composite. (Memo dated January 6, 2011.)

Mr. Mahseredjian gave a brief overview on (i) the proposed modification to the Core Plus fixed income mandate managed by Principal Global Investors, and (ii) the proposed termination of the investment management agreement with Goldman Sachs Asset Management for a Core Plus fixed income mandate, and subsequent transition of the assets into the Core segment of the Fixed Income Composite. He also reported that staff had implemented the new fixed income structure the Board approved in late 2008, consisting of three risk tiers, Core, Core Plus and Opportunistic. Mr. Mahseredjian also stated that the fixed income portfolio has performed extremely well in 2009 and 2010, rebounding from the underperformance in 2008. A brief discussion followed.

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

The motion carried by unanimous vote.

- E.** Recommendation as submitted by Herman Santos, Vice-Chair, Corporate Governance Committee: That your Board select a LACERA representative for staff to submit as a nominee for the Council of Institutional Investors Board of Directors for the April 2011 election. (Memo dated January 4, 2011.)

Herman Santos reported that the Corporate Governance Committee ("Committee") directed staff to prepare a recommendation for the Board's consideration regarding nominating a LACERA representative for the Council of Institutional Investors ("CII") Board of Directors ("Directors"). The CII's annual election coincides with their spring meeting and Directors serve one year terms.

Historically, the LACERA Board has agreed on an individual from LACERA to submit as a nominee for the CII Board elections. A discussion followed.

A motion was made by Mr. Santos, seconded by Mr. Schneider to nominate Chair Barger to the CII Board for the

upcoming election in April with the understanding that he will be required to advance those positions that are consistent with the policies of the Board of Investments. The motion carried by unanimous vote.

VI. REPORTS

- A.** Actuarial Report Update Gregg Rademacher, Chief Executive Officer (Memo dated January 6, 2011.) (For information only.)
Mr. Rademacher provided an update on the upcoming report by LACERA's plan actuaries, Milliman. They are currently completing the June 30, 2010 actuarial valuation and will be presenting their report at the March 9, 2011 Board of Investments' meeting. He reported that the preliminary report does show an overall increase in the employer's contribution rate by approximately 2% of covered payroll, meaning the County will be increasing their contribution to LACERA by approximately \$133 million. A brief discussion followed and the Report was received and filed.
- B.** Providence Town Center, Collegeville, PA-New Investment Report Amit Aggarwal, Investment Officer, Real Estate (Memo dated January 4, 2011.) (For information only.)
The Providence Town Center Investment Report is for information only and was received and filed.

Chair Barger indicated item VIII. Good of the Order would be handled at this time and item VII. Executive Session would follow.

VII. EXECUTIVE SESSION

- A.** CONFERENCE WITH LEGAL COUNSEL – (Subdivision (a) of California Government Code Section 54956.9)
 - 1.** LACERA v. Motorola, et al., etc.; U.S. Dist. Court, S.D.N.Y.,
Case No. 04 Civ. 10252; LASC Case No. BC321448

Mr. Herrera reported that the Board met in closed session under Subdivision (a) of the California Government Code Section 54956.9 wherein the Board voted unanimously on a motion made by Mr. Russin seconded by Mr. Schneider to give authority and direction to counsel with regard to the Motorola matter.

VIII. GOOD OF THE ORDER

(For discussion purposes only.)

The Board congratulated the newly elected officers. Mr. Rademacher also congratulated the newly elected officers and presented a scroll to both Messrs. Unger and Mr. Pryor recognizing their dedicated service on the Board of Investments. The Board commended staff on their presentations and memos.

IX. ADJOURNMENT