

BOARD OF INVESTMENTS AGENDA 2-9-11

LACERA

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

9:00 AM

I. APPROVAL OF THE MINUTES

- A. APPROVAL OF THE MINUTES OF THE MEETING OF THE BOARD OF INVESTMENTS OF JANUARY 12, 2011.

II. PUBLIC COMMENT

III. REPORT ON CLOSED SESSION ITEMS

IV. ACTION ITEMS

- A. Discussion and possible action regarding the proposed SEC Rule on Registration of Municipal Advisors and direction to staff on submitting comments. (Placed on the Agenda at the request of Mr. Barger.)
- B. Recommendation as submitted by John McClelland, CRE, Principal Investment Officer, Real Estate, James Rice CFA Investment Officer, and Gerald Flintoft, CAIA Investment Officer, Private Equity: To invite Cornerstone Real Estate Advisors, Pacific Coast Capital Partners, and Quadrant Real Estate Advisors to interview with your Board for a commercial real estate debt mandate. (Memo dated February 1, 2011.)

V. REPORTS

- A. Performance Review as of December 31, 2010 Lisa Mazzocco, Chief Investment Officer
- B. Investment Staff's Goals Lisa Mazzocco, Chief Investment Officer (Memo dated February 3, 2011.)
- C. Real Estate Performance Measurement report 3rd Quarter 2010 John McClelland, Principal Investment Officer, Real Estate (Memo dated January 18, 2011.) (For information only.)

VI. EXECUTIVE SESSION

- A. CONFERENCE WITH LEGAL COUNSEL — ANTICIPATED LITIGATION (Subdivision (c) of California Government Code Section 54956.9)
 - 1. Initiation of litigation pursuant to subdivision (c) of California Government Code Section 54956.9: One potential case.

VII. GOOD OF THE ORDER

(For discussion purposes only.)

VIII. ADJOURNMENT

BOARD OF INVESTMENTS MINUTES 2-9-11

PRESENT

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

ABSENT

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
Vache Mahseredjian, CFA, Principal Investment Officer
John McClelland, CRE, Principal Investment Officer, Real Estate
Christopher J. Wagner, Senior Investment Officer, Private Equity
June H. Kim, Senior Investment Officer, Equities
Juan Almaguer, Senior Investment Analyst
Robert Z. Santos, Investment Officer, Fixed Income
Gerald P. Flintoft, CAIA, Investment Officer, Private Equity
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

I. APPROVAL OF THE MINUTES

A. APPROVAL OF THE MINUTES OF THE MEETING OF THE BOARD OF INVESTMENTS OF JANUARY 12, 2011.

A motion to approve the Minutes of the Board of Investments meeting of January 12, 2011, was made by Mr. Pryor, seconded by Mr. Russin. The motion carried by unanimous vote.

II. PUBLIC COMMENT

Ivana Krajcizovic, David Williamson, Rachele Smith, and Thomas Walsh, of Unite Here- Local 11, and Maria Elena Durazo of the Los Angeles County Federation Labor (AFL-CIO) expressed to the Board their concerns relating to a labor dispute with a hotel currently managed by HEI Hotel & Resorts which is owned by Cornerstone Hotel Income and Equity Fund II (Chief II), in which LACERA participates as a Limited Partner. They asked that the Board follow-up and provide an amicable resolution.

III. REPORT ON CLOSED SESSION ITEMS

Robb Van Der Volgen, LACERA's Chief Counsel, reported out that Legal Staff had conferred with the Board on January 12, 2011, pursuant to (Subdivision (a) (3) of the California Government Code Section 54957.1, and pointed out that LACERA had reached and executed a settlement with all defendants in the Motorola case.

IV. ACTION ITEMS

A. Discussion and possible action regarding the proposed SEC Rule on Registration of Municipal Advisors and direction to staff on submitting comments. (Placed on the Agenda at the request of Mr. Barger.)

Mr. Van Der Volgen summarized the proposed SEC rules intended to regulate Municipal Advisors which was issued on behalf of the Securities Exchange Commission ("SEC"), under the Dodd-Frank Wall Street Reform and Consumer Protection Act. He pointed out that this rule-making began on December 20, 2010, which is in response to said Act. Under Dodd-Frank, the appointed members of public pension funds will be required to register as Municipal Advisors.

The proposed rule has caused some concern among both the municipal law community and the public pension community, and is somewhat confusing as to its application and necessity. LACERA's Boards already operate with transparency under the Brown Act open meeting requirements, the State Public Records Act, and the Fair Political Practices Act. It is not clear what additional transparency would be added by having appointed, but non-elected members of public pension funds register with the SEC and the Municipal Securities Rule-making Board.

It was also reported that elected ex officio members are excluded from the definition "municipal advisor." The deadline for submitting comments to the SEC is February 22, 2011, and Mr. Van Der Volgen is requesting direction from the Board, and any comments they may have on the proposed rule by said deadline.

A brief discussion followed regarding the letter from NCPERS wherein certain provisions were pointed out that may not work as intended and some of which are duplicative or may need clarification.

It is appropriate for LACERA to write a letter stating that LACERA is California specific and may refer to California specific laws, pointing out that NCPERS is a national organization. This should provide some comfort in that LACERA is accountable and transparent by citing to the FPPC and all the other things that are unique to California. There are enough differences between LACERA as opposed to NCPERS, which by its very nature has to be much broader in its scope.

A motion was made by Mr. Pryor, seconded by Mr. Russin, provide staff the authority to either (a) write a separate letter or (b) sign on to the NCPERS letter whichever they feel is appropriate. The motion carried by unanimous vote.

- B.** Recommendation as submitted by John McClelland, CRE, Principal Investment Officer, Real Estate, James Rice CFA Investment Officer, and Gerald Flintoft, CAIA Investment Officer, Private Equity: To invite Cornerstone Real Estate Advisors, Pacific Coast Capital Partners, and Quadrant Real Estate Advisors to interview with your Board for a commercial real estate debt mandate. (Memo dated February 1, 2011.)

Mr. McClelland reported that the Board had authorized staff to issue a request for information (RFI) for commercial real estate investment management services. The responses to the RFI confirmed that managers believe that net returns of 7% or greater can be generated by executing a relatively conservative strategy of originating a portfolio of commercial real estate debt, at a level not exceeding 75% loan-to-value (LTV); and then using portfolio level debt to lever the new loans, effectively creating a subordinated-loan-like position for LACERA. The target return may also be achieved by originating new traditional subordinated debt. LACERA conducted the real estate debt manager search using its two-phase process. Phase one is the written assessment phase, wherein staff assesses the RFI responses of the firms that met the Board approved minimum qualifications (MQs). At the end of Phase One eight firms advanced to Phase Two, the interview phase. Following the in-house interview, staff conducted on-site interviews with five firms and based on the information gathered during the search and the results of the due diligence process, the following candidates are the recommended finalists: Quadrant Real Estate Advisors (Quadrant); Cornerstone Real Estate Advisors (Cornerstone); and Pacific Coast Capital Partner, LLC (PCCP). Staff has tentatively scheduled the finalists to present at the March Board meeting, pending approval. The anticipated funding level for this mandate is up to \$400 million and staff proposes the funding at that level be split between two managers.

The Townsend Group, LACERA's real estate consultant, concurs with Staff's recommendation. A brief discussion followed.

A motion was made by Mr. Saladino to bring in the two top scoring finalists instead of the top three finalists. The motion failed for lack of a second.

A motion was made by Mr. Pryor, seconded by Ms. Sandoval to invite Cornerstone Real Estate Advisors, Pacific Coast Capital Partners, and Quadrant Real Estate Advisors to interview with the Board for the real estate debt mandate. The motion carried by unanimous vote.

V. REPORTS

- A.** Performance Review as of December 31, 2010

Lisa Mazzocco, Chief Investment Officer

Ms. Mazzocco and staff provided an executive summary on LACERA's Total Fund performance. Staff reported that in the fourth quarter of 2010, the Fund increased 6.0% versus a 5.5% rise in the policy Benchmark. The 50 basis points (bps) of outperformance was driven by relative gains from the U.S. Equity, Fixed Income, and Private Equity composites against their respective benchmarks.

LACERA'S U.S. Equity composite rose 12.3%, compared to its benchmark return of 11.6%. The outperformance of 70 bps was attributable to excellent positive results from all small/mid cap managers.

LACERA'S non-U.S. Equity composite gained 7.1%, but slightly trailed its benchmark by 20bps, primarily due to the underperformance of an active emerging markets manager. The Fixed Income Composite outperformed its benchmark by 100 bps for the quarter, as all but one of LACERA's active managers exceeded their respective benchmarks. The Composite's overweight to high yield bonds also contributed to the outperformance. LACERA's Real Estate portfolio returned 1.8% versus its benchmark return of 3.8%. LACERA's Private Equity portfolio increased 6.1% and beat its

benchmark return of 1.3% by 480 bps. As a reminder, short-term results are not that meaningful for both of these assets classes. LACERA's commodities composite returned 16.1% for the quarter, outperforming the index return of 15.8% by 30 bps.

The composite benefited from active management of commodities exposure as well as active management of the underlying fixed income collateral. A brief discussion followed and the Report was received and filed.

B. Investment Staff's Goals

Lisa Mazzocco, Chief Investment Officer (Memo dated February 3, 2011.)

Ms. Mazzocco gave a presentation on Investment staff goals for 2011/12 and provided highlights on the goals and accomplishments met for 2010. She also reported on the current fiscal year's progress and goals. A brief discussion followed and the Report was received and filed.

C. Real Estate Performance Measurement report 3rd Quarter 2010

John McClelland, Principal Investment Officer, Real Estate (Memo dated January 18, 2011.) (For information only.)

The 2010 3rd Quarter Real Estate Performance Measurement Report is for information only and was received and filed.

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

VI. EXECUTIVE SESSION

A. CONFERENCE WITH LEGAL COUNSEL – ANTICIPATED LITIGATION (Subdivision (c) of California Government Code Section 54956.9)

1. Initiation of litigation pursuant to subdivision (c) of California Government Code Section 54956.9: One potential case.

The Board met in executive session to discuss an item of potential litigation and gave direction to Legal Staff.

There is nothing further to report at this time.

VII. GOOD OF THE ORDER

(For discussion purposes only.)

Mr. Russin asked for a report on the labor dispute at the Embassy Suites Hotel owned and managed by Cornerstone Hotel Income and Equity Fund II.

Mr. Pryor asked that we extend a warm welcome to the new Fire Chief for the Los Angeles County, currently Administrative Chief Deputy Osby.

Mr. Pryor has worked closely with Deputy Chief Osby for many years and believes he is a good leader.

The Board commended Investment Staff on the Board Off-Site and pointed out that it was very informative and well done.

Mr. Rademacher commended and thanked Ms. Mazzocco for preparing a great Agenda for the Board Off-Site.

Green Folder Items

1. Chief Executive Officer's Report.
2. Brochure regarding the L.A. Trustees Network 2011 Round Up.

VIII. ADJOURNMENT