

# BOARD OF INVESTMENTS AGENDA 4-13-11

## 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 MARCH 9, 2011.
- B. APPROVAL OF THE MINUTES OF THE SPECIAL MEETING OF THE BOARD OF INVESTMENTS OF MARCH 23, 2011

### II. PUBLIC COMMENT

### III. REPORT ON CLOSED SESSION ITEMS

### IV. ACTION ITEMS

- A. Delegation of Authority to the Chief Investment Officer John D. McClelland, Interim Investment Officer (Memo dated April 5, 2011.)
- B. Recommendation as submitted by Christopher J. Wagner, Senior Investment Officer, Private Equity and Shelly P. Tilaye, CAIA, Senior Investment Analyst, Private Equity: (1) Approve a commitment of up to \$75 million to Berkshire Fund VII, L.P.; and (2) Authorize LACERA's Interim Chief Investment Officer or designee to sign all necessary partnership legal documents subject to satisfactory negotiation of the partnership terms and conditions by LACERA's Investment and Legal Office. (Memo dated April 6, 2011.)
- C. Recommendation as submitted by Cynthia Lau, Legislative Affairs Officer: Recommend that the Board of Investments adopt a "Watch" position on Assembly Bill 392 which requires online posting of agendas and staff reports. (Memo dated March 23, 2011.)
- D. Recommendation as submitted by Cynthia Lau, Legislative Affairs Officer: Recommend that the Board of Investments adopt a "Watch" position on Senate Bill 46 relating to compensation disclosure. (Memo dated March 24, 2011.)
- E. Recommendation as submitted by Cynthia Lau, Legislative Affairs Officer: Recommend that the Board of Investments adopt a "Watch" position on Senate Bill 203. (Memo dated April 4, 2011.)
- F. Recommendation as submitted by John McClelland, Interim Chief Investment Officer: Reschedule the May 11, 2011, Board of Investments meeting to Monday, May 9, 2011 at 1:00 p.m. (Memo dated March 23, 2011.)
- G. Recommendation as submitted by Gregg Rademacher, Chief Executive Officer: That your Board approve attendance of Board members, and staff as designated by the Chief Executive Officer to the Pension & Investments and Towers Watson's Pension Risk Management in a New Era Conference to be held on June 7, 2011, at the Westin St. Francis in San Francisco, California and approve reimbursement of all travel costs incurred in accordance with LACERA's Education and Travel Policy. (Memo dated April 6, 2011.) (Placed on the Agenda at the Request of Chair Barger.)

### V. REPORTS

- A. Blum Capital Partners, L.P. Review June Kim, Senior Investment Officer, Equities Dale Johnson, Senior Investment Analyst, Equities (Memo dated April 6, 2011) Blum Capital Partners, L.P. Colin Lind, Managing Partner
- B. Relational Investors, LLC Review June Kim, Senior Investment Officer, Equities Dale Johnson, Senior Investment Analyst, Equities (Memo dated March 31, 2011) Relational Investors, LLC Ralph Whitworth, Founder & Investment Committee Member Jay Winship, Managing Director of Research Frank Hurst, Senior Managing Director
- C. Emergency Line of Credit Vache Mahseredjian, CFA, CAIA, ASA, Principal Investment Officer (Memo dated March 21, 2011.) (For information only.)
- D. Securities Lending Program – 2010 Annual Review Robert Z. Santos, Investment Officer, Fixed Income (Memo dated April 1, 2011.) (For information only.)
- E. Corporate Governance Quarterly Review Volume 6, Issue # 4: October 1, 2010 - December 31, 2010 Dale Johnson, Senior Investment Analyst (Memo dated April 6, 2011.) (For information only.)
- F. Acadian Asset Management LLC June Kim, Senior Investment Officer, Equities Dale Johnson, Senior Investment Analyst, Equities (Memo dated March 31, 2011.) (For information only.)
- G. Post Advisory Group Robert Z. Santos, Investment Officer, Fixed Income (Memo dated April 1, 2011.) (For information only.)
- H. Delta Asset Management Update June Kim, Senior Investment Officer, Equities Esmeralda V. del Bosque, Senior Investment Analyst, Equities (Memo dated March 30, 2011.) (For information only.)
- I. Annual Securities Litigation Report Michael D. Herrera, Senior Staff Counsel (Memo dated March 31, 2011.) (For information only.)

J. Selection of Securities Litigation Monitoring and Approved Counsel Michael D. Herrera, Senior Staff Counsel (Memo dated April 2, 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 4-13-11

### 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  
Estevan Valenzuela

### STAFF, ADVISORS, PARTICIPANTS

Gregg Rademacher, Chief Executive Officer  
Robert Hill, Assistant Executive Officer  
Janice Golden, Assistant Executive Officer  
John D. McClelland, Interim Chief Investment Officer  
Vache Mahseredjian, CFA, Principal Investment Officer  
Christopher J. Wagner, Senior Investment Officer, Private Equity  
June H. Kim, Senior Investment Officer, Equities  
James Rice, Investment Officer  
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  
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  
Ivana Krajcinovic, Unite Here

### I. APPROVAL OF THE MINUTES

#### A. APPROVAL OF THE MINUTES OF THE MEETING OF THE BOARD OF INVESTMENTS OF MARCH 9, 2011.

A motion to approve the Minutes of the Board of Investments meeting of March 9, 2011, was made by Mr. Saladino, seconded by Ms. Sandoval. The motion carried by unanimous vote.

#### B. APPROVAL OF THE MINUTES OF THE SPECIAL MEETING OF THE BOARD OF INVESTMENTS OF MARCH 23, 2011

A motion to approve the Minutes of the Special Meeting of the Board of Investments of March 23, 2011, as corrected was made by Mr. Saladino, seconded by Mr. Santos. The motion carried with Ms. Sandoval abstaining.

### II. PUBLIC COMMENT

Ms. Ivana Krajcinovic, of UNITE HERE provided the Board with an update on the labor dispute with a hotel currently managed by HEI Hotel & Resorts and owned by Cornerstone Hotel Income and Equity Fund II (Chief II), in which LACERA participates as a Limited Partner.

### III. REPORT ON CLOSED SESSION ITEMS

None.

### IV. ACTION ITEMS

#### A. Delegation of Authority to the Chief Investment Officer

John D. McClelland, Interim Chief Investment Officer (Memo dated April 5, 2011.)

Mr. McClelland provided a brief summary and reported on how the Interim Chief Investment Officer and staff will be exercising the delegation of authority. This includes the day-to-day operations, implementation of policies, the decisions approved by the Board and any new investment commitments. A brief discussion followed.

A motion was made by Mr. Valenzuela, seconded by Mr. Pryor to approve the use of the delegated authority in the

manner as outlined by staff and receive and file the Report. The motion carried by unanimous vote.

- B.** Recommendation as submitted by Christopher J. Wagner, Senior Investment Officer, Private Equity and Shelly P. Tilaye, CAIA, Senior Investment Analyst, Private Equity: (1) Approve a commitment of up to \$75 million to Berkshire Fund VIII, L.P.; and (2) Authorize LACERA's Interim Chief Investment Officer or designee to sign all necessary partnership legal documents subject to satisfactory negotiation of the partnership terms and conditions by LACERA's Investment and Legal Office. (Memo dated April 6, 2011.)

Mr. Wagner commented on the proposed commitment to Berkshire Fund VIII, L.P. and reported that the rationale for committing capital to new funds is to counterbalance the reduction in the allocation to private equity resulting from anticipated distributions from previous investments. Berkshire Fund VIII is a follow-on investment, with LACERA having invested in prior Berkshire funds. After a thorough evaluation of the firm and an on-site due diligence meeting, Staff determined that the Fund is an outstanding investment opportunity. A brief discussion followed.

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

- C.** Recommendation as submitted by Cynthia Lau, Legislative Affairs Officer: Recommend that the Board of Investments adopt a "Watch" position on Assembly Bill 392 which requires online posting of agendas and staff reports. (Memo dated March 23, 2011.)

Ms. Lau briefly summarized on the proposed Bill. She reported that Assembly Bill 392 is sponsored by the California Association of Realtors who seek to further public transparency and accountability by incorporating the internet into public affairs. If this bill is passed it would require that LACERA post staff reports in addition to the agenda on its website at least 72 hours prior to its board and standing committee meetings. A brief discussion followed on deadline and transparency concerns.

A motion was made by Mr. Russin, seconded by Mr. Schneider to adopt a support position on the bill.

A second motion made by Mr. Saladino, seconded by Mr. Unger to adopt a support position on the bill in its current form and if it is amended in a material way, staff is to report back to the Board so it may reconsider its position. The motion carried by unanimous vote.

- D.** Recommendation as submitted by Cynthia Lau, Legislative Affairs Officer: Recommend that the Board of Investments adopt a "Watch" position on Senate Bill 46 relating to compensation disclosure. (Memo dated March 24, 2011.)

Ms. Lau offered a brief overview of the recommendation and reported that Senate Bill 46 is a reintroduction of Senate Bill 501 that was introduced at the end of last year's legislative session in response to the City of Bell scandal. It requires specified state and local public officials to file a compensation disclosure form annually. A brief discussion followed.

A motion was made by Mr. Sandoval, seconded by Mr. Saladino to adopt a Watch position on Senate Bill 46 relating to compensation disclosure. The motion carried by unanimous vote.

- E.** Recommendation as submitted by Cynthia Lau, Legislative Affairs Officer: Recommend that the Board of Investments adopt a "Watch" position on Senate Bill 203. (Memo dated April 4, 2011.)

Ms. Lau reported that Senate Bill 203 is similar to Senate Bill 414 from the 2009–2010 legislative session and AB 2526 from the 2007–2008 legislative sessions. Last Year's SB 414 was vetoed by the Governor. The earlier bill passed the assembly, but failed to get out of the Senate Committee on Public Employees and Retirement. As this relates to the Board of Investments, it would require that the Board of Investments cause an election to be held at the earliest possible date in the case of an elected member vacancy. Additionally, when filling a vacancy of an elected member position, if the remaining portion of the current term is six (6) months or less on the date of the election, concurrent elections may be held to fill the vacancy for the remainder of the current term to fill the position for the succeeding term. A brief discussion followed.

A motion was made by Ms. Sandoval, seconded by Mr. Valenzuela to adopt a watch position on Senate Bill 203. The motion carried by unanimous vote.

- F.** Recommendation as submitted by John McClelland, Interim Chief Investment Officer: Reschedule the May 11, 2011, Board of Investments meeting to Monday, May 9, 2011 at 1:00 p.m. (Memo dated March 23, 2011.)

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

- G.** Recommendation as submitted by Gregg Rademacher, Chief Executive Officer: That your Board approve attendance of Board members, and staff as designated by the Chief Executive Officer to the Pension & Investments and Towers Watson's Pension Risk Management in a New Era Conference to be held on June 7, 2011, at the Westin St. Francis in San Francisco, California and approve reimbursement of all travel costs incurred in accordance with LACERA's Education and Travel Policy. (Memo dated April 6, 2011.) (Placed on the Agenda at the Request of Chair Barger.)

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

## **V. REPORTS**

### **A. Blum Capital Partners, L.P. Review**

June Kim, Senior Investment Officer, Equities

Dale Johnson, Senior Investment Analyst, Equities (Memo dated April 6, 2011)

Blum Capital Partners, L.P.

Colin Lind, Managing Partner

Dale Johnson reported a representative of Blum Capital Partners, L.P. (Blum) would give a presentation as required by LACERA's Manager Monitoring and Review Policy. He introduced Mr. Lind, Managing Partner who followed with a presentation on the Fund's performance, their investment philosophy and process.

Mr. Lind reported that Blum's activist strategy centers on the quality of a company's business, the intrinsic value, and whether there is an opportunity to add value. They accumulate positions in companies ranging from 5-15% of the shares outstanding. They must be a large shareholder, if not the largest, in order to effectively implement their strategy. They invest in small and mid capitalization companies as represented by their benchmark, the Russell 2500 Index, with a holding period of approximately 36 months and with the portfolio between 10 and 20 companies. Blum's investment process begins with identifying high quality businesses that experience a stock price decline, greater than the broad market or the company's peers. The event could center on a bad acquisition, poor capital allocation decision, or a change in management. The resulting opportunity set is evaluated through due diligence on the industry, financials, company, board/executive compensation, board structure and management. Blum next attempts to identify value-add opportunities and whether they can effect change to unlock shareholder value.

When the opportunity is selected, Blum continues to engage with the company to ensure that its proposed strategies are executed efficiently and effectively, in addition to developing a liquidation strategy. The realization of the value-add and extraction of realized gains through its liquidation process is as important as the execution of the engagement strategy. Blum also reported that the portfolio's underperformance is due to the credit crisis, recession, and the two positions in the for-profit education industry taking a hit by legislative and regulatory developments. Blum however remains optimistic it will recover and deliver positive excess returns to LACERA's U.S. Equity composite. A brief discussion followed and the Report was received and filed.

### **B. Relational Investors, LLC Review**

June Kim, Senior Investment Officer, Equities

Dale Johnson, Senior Investment Analyst, Equities (Memo dated March 31, 2011)

Relational Investors, LLC

Ralph Whitworth, Founder & Investment Committee Member

Jay Winship, Managing Director of Research

Frank Hurst, Senior Managing Director

Dale Johnson reported that representatives of Relational Investors (Relational) was presenting on the fund's performance as authorized by LACERA's Manager Monitoring and Review Policy. He introduced the principals of Relational who followed with a presentation on the Fund's performance, their investment strategy, philosophy and process.

Relational reported that their activist strategy focuses on identifying undervalued, mature companies with strong cash flows, continued or improving profitability, and defensible franchises that have significantly underperformed the market and their peers. Relational builds an equity position in the company and begins engagement with either executives or the board of directors to communicate their analysis of the issues and remedies. This may include restructuring, divestiture or spin-off initiating a stock buy-back, or even acquisitions. Relational might also attempt to institute governance-related measures.

Relational invests in large cap companies as represented by their benchmark, the S&P 500 Index. Relational underperformed during 2007 and 2008, when markets were negatively affected by the financial crisis. The portfolio subsequently outperformed as economic growth turned positive and financial markets stabilized. LACERA's portfolio recently experienced strong relative outperformance and is in a transition period. The positive outperformance was the result of realizing profits from trimming positions of portfolio companies that were successful engagements. A brief discussion followed and the Report was received and filed.

### **C. Emergency Line of Credit**

Vache Mahseredjian, CFA, CAIA, ASA, Principal Investment Officer (Memo dated March 21, 2011.)

The Report on the Emergency Line of Credit is for information only and was received and filed.

### **D. Securities Lending Program — 2010 Annual Review**

Robert Z. Santos, Investment Officer, Fixed Income (Memo dated April 1, 2011.)

The 2010 Annual Review on the Securities Lending Program is for information only and was received and filed.

### **E. Corporate Governance Quarterly Review Volume 6, Issue # 4: October 1, 2010 – December 31, 2010**

Dale Johnson, Senior Investment Analyst (Memo dated April 6, 2011.)

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

**F. Acadian Asset Management LLC**

June Kim, Senior Investment Officer, Equities

Dale Johnson, Senior Investment Analyst, Equities (Memo dated March 31, 2011.)

The Acadian Asset Management memorandum is for information only and was received and filed.

**G. Post Advisory Group**

Robert Z. Santos, Investment Officer, Fixed Income (Memo dated April 1, 2011.)

The Post Advisory Group memorandum is for information only and was received and filed.

**H. Delta Asset Management Update**

June Kim, Senior Investment Officer, Equities

Esmeralda V. del Bosque, Senior Investment Analyst, Equities (Memo dated March 30, 2011.)

The Delta Asset Management Update is for information only and was received and filed.

**I. Annual Securities Litigation Report**

Michael D. Herrera, Senior Staff Counsel (Memo dated March 31, 2011.)

The Annual Securities Litigation Report is for information only and was received and filed.

**J. Selection of Securities Litigation Monitoring and Approved Counsel**

Michael D. Herrera, Senior Staff Counsel (Memo dated April 2, 2011.)

The memorandum on the Selection of Securities Litigation Monitoring and Approved Counsel is for information only and was received and filed.

**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.)

Chair Barger and Ms. Sandoval reported that the Council of Institutional Investor's 2010 Spring Conference in Washington D.C. was excellent and very informative.

Mr. Valenzuela commended LACERA staff on the 1,400 retirements processed in March.

Mr. Rademacher reported that the Board appointed the CIO Ad Hoc Committee members as follows: Messrs. Barger, Schneider, Valenzuela and Saladino. Also assisting the Committee are Ms. Golden, Assistant Chief Executive Officer, Mr. Proctor former Director of Human Resources, the new Director of Human Resources, Mr. John Nogales and Mr. Rademacher, the Chief Executive Officer. The Ad Hoc Committee plans to engage an Executive Search Firm. Staff will provide the Committee with a short list of candidates and the Committee plans to interview the firms by the end of the month. A brief discussion followed on establishing a new classification which would be "at-will" service versus civil service.

Mr. Rademacher also reported that he and Robb Van Der Volgen, John McClelland, and June Kim met with the County Chief Executive Office to discuss the Retiree Health Care Trust Investment Services Agreement. The County is interested in prefunding its Retiree Health Care Program and would like the Board of Investments be responsible for investing any such funds. As reported in the past, the original agreements were not in a condition that could be brought to the Board for consideration, subsequently the Agreement was modified. The County will now take the Agreement to the Unions. Upon completion, the Agreement will be brought before the Board of Investments for their consideration.

**Green Folder Items**

**1. Chief Executive Officer's Report dated April 7, 2011.**

**VIII. ADJOURNMENT**