

BOARD OF INVESTMENTS AGENDA 7-13-11

LACERA

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

9:00 AM

I. PLEDGE OF ALLEGIANCE

II. APPROVAL OF THE MINUTES

- A. APPROVAL OF THE MINUTES OF THE MEETING OF THE BOARD OF INVESTMENTS OF JUNE 8, 2011.

III. PUBLIC COMMENT

IV. REPORT ON CLOSED SESSION ITEMS

V. ACTION ITEMS

- A. Recommendation as submitted by John D. McClelland, Interim Chief Investment Officer: Extend LACERA's Guaranty of unsecured debt for use by TriPacific Residential Investors One, LLC to October 31, 2013 (24 months). (Memo dated July 5, 2011.)
- B. Recommendation as submitted by Christopher J. Wagner, Senior Investment Officer, Private Equity, Shelly P. Tilaye, CAIA, Senior Investment Analyst, Private Equity: Approve a commitment of up to \$75 million to Summit Partners Growth Equity Fund VII. L.P. (Memo dated July 6, 2011.)
- C. Recommendation as submitted by Christopher J. Wagner, Senior Investment Officer, Private Equity, Shelly P. Tilaye, CAIA, Senior Investment Analyst, Private Equity: Approve a commitment of up to \$100 million to Vista Equity Partners Fund IV. L.P. (Memo dated July 6, 2011.)
- D. Recommendation as submitted by June Kim, Senior Investment Officer, Equities, Esmeralda V. del Bosque, Senior Investment Analyst, Equities, and Dale Johnson, Senior Investment Analyst, Equities: Retain Putnam Investments for an active small capitalization developed markets non-U.S. equity mandate. (Memo dated June 27, 2011.)
- Putnam Investments
Walter Donovan, Chief Investment Officer
Investment Management
Joe Joseph, Portfolio Manager
Investment Management
- E. Recommendation as submitted by Cynthia Lau, Legislative Affairs Officer: Recommend that the Board of Investments adopt a "Support if Amended" position on Assembly Bill 1320 which establishes "Taxpayer Adverse Risk Prevention Accounts". (Memo dated June 30, 2011.)
- F. Recommendation as submitted by Cynthia Lau, Legislative Affairs Officer: Recommend that the Board of Investments adopt an "Oppose" position on Assembly Bill 1379 relating to California and emerging domestic market investments. (Memo dated June 29, 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 attend the Credit Suisse Conference to be held on September 21 and 22, 2011 at the Westin Charlotte, North Carolina and approve reimbursement of all travel costs incurred in accordance with LACERA's Education and Travel Policy. (Memo dated July 6, 2011.) (Placed on the Agenda at the request of Mr. Santos.)
- H. Recommendation as submitted by John D. McClelland, Interim Chief Investment Officer: That your Board approve attendance of Board members and staff, as designated by the Chief Executive Officer at the Institute for Fiduciary Education seminar "Real Estate Investing Seminar 2011" to be held September 25-27, 2011, in Laguna Beach, California; and approve reimbursement of all costs associated with seminar attendance in accordance with LACERA's Education and Travel Policy. (Memo dated June 30, 2011.)

VI. REPORTS

- A. Private Equity Program Review
Christopher J. Wagner, Senior Investment Officer, Private Equity
(Memo dated July 6, 2011.)
- B. Manager Review, Oaktree Capital Management
Robert Z. Santos, Investment Officer, Fixed Income
(Memo dated June 28, 2011.)

Oaktree Capital Management
Sheldon Stone, Principal and Portfolio Manager
Alan Adler, CFA, Managing Director
Tony Harrington, Managing Director

- C. Real Estate Performance Measurement Report,
1st Quarter 2011
Trina Sanders, Investment Officer, Real Estate
(Memo dated July 5, 2011.) (For information only.)
- D. Senate Bill 637 – Chaptered
Cynthia Lau, Legislative Affairs Officer
(Memo dated July 6, 2011.) (For information only.)
- E. LACERA Real Estate Debt Program
Earl W. Buehner, Senior Staff Counsel
(Memo dated July 5, 2011.) (For information only.)
- F. Corporate Governance Quarterly Review
Volume 7, Issue #2: April 1, 2011 – June 30, 2011
Dale Johnson, Senior Investment Analyst
(Memo dated July 1, 2011.) (For information only.)

VII. 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.
- B. Pursuant to Government Code Section 54957 Public Employee Performance Evaluation
Title: Chief Executive Officer

VIII. GOOD OF THE ORDER

(For discussion purposes only.)

IX. ADJOURNMENT

BOARD OF INVESTMENTS MINUTES 7-13-11

PRESENT

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

ABSENT

William Pryor

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
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
Johanna Fontenot, Senior Staff Counsel
Christine Roseland, Staff Counsel

I. PLEDGE OF ALLEGIANCE

Chair Barger led the Board Members and staff in reciting the Pledge of Allegiance.

II. APPROVAL OF THE MINUTES

A. APPROVAL OF THE MINUTES OF THE MEETING OF THE BOARD OF INVESTMENTS OF JUNE 8, 2011.

A motion was made by Mr. Russin, seconded by Mr. Schneider to approve the Minutes of the Meeting of the Board of Investments of June 8, 2011. The motion carried with Ms. Sandoval abstaining.

III. PUBLIC COMMENT

None.

IV. REPORT ON CLOSED SESSION ITEMS

None.

V. ACTION ITEMS

A. Recommendation as submitted by John D. McClelland, Interim Chief Investment Officer: Extend LACERA's Guaranty of unsecured debt for use by TriPacific Residential Investors One, LLC to October 31, 2013 (24 months). (Memo dated July 5, 2011.)

Mr. McClelland provided an executive summary on the proposal to extend LACERA's guaranty of unsecured debt for use by TriPacific Residential Investors One, LLC to October 31, 2013. A brief discussion followed.

A motion to approve the recommendation was made by Mr. Saladino, seconded by Mr. Unger. The motion carried with Messrs. Santos and Valenzuela voting no.

B. Recommendation as submitted by Christopher J. Wagner, Senior Investment Officer, Private Equity, Shelly P. Tilaye, CAIA, Senior Investment Analyst, Private Equity: Approve a commitment of up to \$75 million to Summit Partners Growth Equity Fund VIII, L.P. (Memo dated July 6, 2011.)

Mr. Wagner gave a presentation on the proposed commitment to Summit Partners Growth Equity Fund VIII, L.P. and

reported that Summit is one of the most experienced and capable growth equity firms in the private equity industry. It has have proven through a series of offerings, that it can source, invest in, and exit deals in a timely fashion while maximizing investor value, complementing the existing private equity portfolio. A brief discussion followed.

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

- C.** Recommendation as submitted by Christopher J. Wagner, Senior Investment Officer, Private Equity, Shelly P. Tilaye, CAIA, Senior Investment Analyst, Private Equity: Approve a commitment of up to \$100 million to Vista Equity Partners Fund IV, L.P. (Memo dated July 6, 2011.)

Mr. Wagner gave a brief overview on the proposed commitment to Vista Equity Partners Fund IV, L.P. and reported that Vista Equity Partners is well-regarded and has an experienced investment team. It has a high quality performance record and is a good fit within LACERA's portfolio. A brief discussion followed on allocation concerns.

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

- D.** Recommendation as submitted by June Kim, Senior Investment Officer, Equities, Esmeralda V. del Bosque, Senior Investment Analyst, Equities, and Dale Johnson, Senior Investment Analyst, Equities: Retain Putnam Investments for an active small capitalization developed markets non-U.S. equity mandate. (Memo dated June 27, 2011.)

Putnam Investments

Walter Donovan, Chief Investment Officer, Investment Management
Joe Joseph, Portfolio Manager, Investment Management

Ms. Kim provided an executive summary on the proposed recommendation and introduced the principals of Putnam Investments. Putnam Investments (?Putnam?) provided a brief overview of Putnam's historical background, investment strategy and philosophy. Putnam launched its International Small Cap Core product in 1995 and has been a dedicated money manager since 1937. In 2007 it was acquired by Canada's Power Financial Corporation. Its investment approach combines rigorous financial statement analysis with fundamental research to evaluate a company's intrinsic value. It applies a strict valuation discipline in order to eliminate behavioral biases in investing. Putnam's investment process has worked well through various market cycles. They are a top-tier small cap non-U.S. equity manager that would be a positive addition to LACERA's non-U.S. equity composite and their new leadership has improved the firm's culture and emphasizes a clear focus on clients and fiduciary duty. A brief discussion followed.

A motion to approve the recommendation was made by Mr. Saladino, seconded by Mr. Schneider. The motion carried with Mr. Russin voting no.

- E.** Recommendation as submitted by Cynthia Lau, Legislative Affairs Officer: Recommend that your Board of Investments adopt a "Support if Amended" position on Assembly Bill 1320 which establishes "Taxpayer Adverse Risk Prevention Accounts." (Memo dated June 30, 2011.)

Ms. Lau provided a brief summary on AB 1320 and a brief discussion followed.

A motion to adopt a "Support if Amended" position on Assembly Bill 1320 was made by Mr. Saladino, seconded by Ms. Sandoval. The motion carried by unanimous vote.

- F.** Recommendation as submitted by Cynthia Lau, Legislative Affairs Officer: Recommend that the Board of Investments adopt an "Oppose" position on Assembly Bill 1379 relating to California and emerging domestic market investments. (Memo dated June 29, 2011.)

A motion was made by Mr. Barger, seconded by Ms. Sandoval to adopt an "oppose" position on Assembly Bill 1379. 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 attend the Credit Suisse Conference to be held on September 21 and 22, 2011 at the Westin Charlotte, North Carolina and approve reimbursement of all travel costs incurred in accordance with LACERA's Education and Travel Policy. (Memo dated July 6, 2011.) (Placed on the Agenda at the request of Mr. Santos.)

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

- H.** Recommendation as submitted by John D. McClelland, Interim Chief Investment Officer: That your Board approve attendance of Board members and staff, as designated by the Chief Executive Officer at the Institute for Fiduciary Education seminar "Real Estate Investing Seminar 2011" to be held September 25-27, 2011, in Laguna Beach, California; and approve reimbursement of all costs associated with seminar attendance in accordance with LACERA's Education and Travel Policy. (Memo dated June 30, 2011.)

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

VI. REPORTS

A. Private Equity Program Review

Christopher J. Wagner, Senior Investment Officer, Private Equity (Memo dated July 6, 2011.)

Messrs. Wagner and Flintoft provided an executive summary on LACERA's Private Equity Portfolio, its current program structure with an emphasis on diversification, and the returns. A brief status of the current private equity market was also discussed. The Report was received and filed.

B. Manager Review, Oaktree Capital Management

Robert Z. Santos, Investment Officer, Fixed Income (Memo dated June 28, 2011.)

Oaktree Capital Management

Sheldon Stone, Principal and Portfolio Manager

Alan Adler, CFA, Managing Director

Tony Harrington, Managing Director

Robert Santos reported that representatives of Oaktree Capital Management ("Oaktree") would give a presentation as required by LACERA's Manager Monitoring and Review Policy. Representatives of Oaktree followed with an overview on their performance, Oaktree's investment process and philosophy.

Oaktree was founded in 1995 and is based in Los Angeles. Oaktree has successfully managed the LACERA high yield account for the past 14 years by delivering high returns with below average risk. LACERA's portfolio has exceeded the benchmark by 100 basis points per annum, before fees on an annualized basis. This was accomplished with significantly less risk than the benchmark as measured by volatility. Oaktree's focus on limiting/controlling risk and capital preservation leads to a defensive portfolio that is designed to outperform its benchmark during market downturns or bearish high yield markets. In 2008, Oaktree's portfolio outpaced its benchmark by 194 basis points, net-of-fees, in the midst of the worst credit crisis. For the calendar year 2010 and the 1st quarter of 2011, the portfolio underperformed the index by 163 basis points and 35 basis points, net-of-fees, respectively. This underperformance resulted from an underweight to Insurance, Banking, and Finance sectors. Despite its underperformance within the past 2½ years, Oaktree has added value on a risk adjusted basis on a long term basis, as seen in the firm's 7 year risk adjusted return. They remain optimistic and indicated when the market's direction begins to reverse, their performance will outperform over the long term.

Oaktree noted that they filed a registration statement with the SEC intending to take the company public during the fall of this year. They feel that having access to the equity market will provide them with liquidity to continue to retain and attract the highest level of professionals and to facilitate a generational shift in ownership. They are confident that this event would not impact LACERA or the way Oaktree will invest for its clients. A brief discussion followed and the Report was received and filed.

C. Real Estate Performance Measurement Report

1st Quarter 2011

Trina Sanders, Investment Officer, Real Estate (Memo dated July 5, 2011.) (For information only.)

The 1st Quarter 2011 Real Estate Performance Measurement Report is for information only and was received and filed.

D. Senate Bill 637 — Chaptered

Cynthia Lau, Legislative Affairs Officer (Memo dated July 6, 2011.) (For information only.)

Senate Bill 637 — Chaptered memo is for information only and was received and filed.

E. LACERA Real Estate Debt Program

Earl W. Buehner, Senior Staff Counsel (Memo dated July 5, 2011.) (For information only.)

The memo relating to LACERA's Real Estate Debt Program is for information only and was received and filed.

F. Corporate Governance Quarterly Review

Volume 7, Issue #2: April 1, 2011 ? June 30, 2011

Dale Johnson, Senior Investment Analyst (Memo dated July 1, 2011.) (For information only.)

The April 1, 2011 Corporate Governance Quarterly Review is for information only and was received and filed.

Chair Barger pointed out that 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 ? 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 closed session pursuant to subdivision (c) of the California Government Code Section 54956.9, to discuss with legal counsel one potential case. The Board gave direction to legal counsel and there is nothing further to report at this time.

B. Pursuant to Government Code Section 54957 Public Employee Performance Evaluation

Title: Chief Executive Officer

The Board met in Executive Session to discuss the performance evaluation of the Chief Executive Officer pursuant to Government Code Section 54957.

The Board reconvened in open session, at which time it was reported for the record that no further report is required.

Green Folder Items

1. Chief Executive Officer's Report dated July 7, 2011.
2. Memo dated July 7, 2011, from Micolyn Magee of The Townsend Group regarding the TriPacific Residential Investors One Debt Guaranty Extension.

VIII. GOOD OF THE ORDER

(For discussion purposes only.)

The Board commended staff on their reports and presentations. Chair Barger commended the Interim Chief Investment Officer on a job well done. Mr. Rademacher provided few highlights on the Civil Grand Jury Report and pointed out that the Civil Grand Jury recognized LACERA for being a well run organization. They did have one recommendation to the Board of Investments, which has to do with the valuation of the STAR Program. The Report will be brought to the Audit Committee at their next regularly scheduled meeting with a recommendation that the Report be brought back to the Board of Investments for a response on that recommendation and any other findings.

Mr. Rademacher also reported that the CIO Search Committee met in late June. The Research Consultant provided a strong set of internal and external candidates and they are looking to set up mutual agreeable interview dates.

IX. ADJOURNMENT