

BOARD OF INVESTMENTS AGENDA 9-14-11

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 AUGUST 10, 2011.

III. PUBLIC COMMENT

IV. REPORT ON CLOSED SESSION ITEMS

V. ACTION ITEMS

- A. Recommendation as submitted by John Nogales, Director Human Resources, LACERA, that your Board:
1. Approve establishment of the following unclassified (at-will) classifications:
Chief Investment Officer, LACERA (UC)
Principal Investment Officer, LACERA (UC)
Assistant Executive Officer, LACERA (UC)
 2. Amend the County Personnel Code to determine the Chief Investment Officer, LACERA (UC) salary in a similar manner currently used by the Board of Retirement and Board of Investments in determining the Chief Executive Officer salary. (Memo dated September 8, 2011.)
- B. Recommendation as submitted by Beulah S. Auten, Chief Financial Officer: That your Board direct staff to respond to the Governmental Accounting Standards Board's Exposure Drafts, prior to September 30, 2011, regarding LACERA's concerns in substantially the form as discussed in this memo. (Memo dated August 29, 2011.)
- C. Recommendation as submitted by Trina Sanders, Investment Officer, Real Estate, and Amit Aggarwal, Investment Officer, Real Estate: That your Board authorize an investment of up to \$100 million in City View Bay Area Fund. (Memo dated September 6, 2011.)
- D. Recommendation as submitted by Gregg Rademacher, Chief Executive Officer: Approve attendance of Board members, and staff as designated by the Chief Executive Officer to attend the Geopolitical Risk Macroeconomic Insight Alternative Investment (GMA) Conference, October 11 and 12, 2011, Sentry Centers, New York City and, and approve reimbursement of all travel costs incurred in accordance with LACERA's Education and Travel Policy. (Memo dated September 8, 2011.) (Placed on the Agenda at the request of Chair Barger.)
- E. Recommendation as submitted by Gregg Rademacher, Chief Executive Officer: Approve attendance of Board members, and staff as designated by the Chief Executive Officer to attend the New America Alliance (NAA) 11th Annual Wall Street Summit on October 26-28, 2011, at the Waldorf Astoria in New York City, and approve reimbursement of all travel costs incurred in accordance with LACERA's Education and Travel Policy. (Memo dated September 8, 2011.) (Placed on the Agenda at the request of Mr. Santos.)
- F. Recommendation as submitted by June Kim, Senior Investment Officer, Equities: Approve attendance of Board members and staff, as designated by the Chief Executive Officer to attend the BlackRock 2011 Institutional Client Conference on October 18 and 19, 2011, in New York City; approve payment to BlackRock for the actual cost of providing meals for LACERA representatives attending the conference; and approve reimbursement of all travel costs incurred in accordance with LACERA's Education and Travel Policy. (Memo dated August 30, 2011.)
- G. Recommendation as submitted by June Kim, Senior Investment Officer, Equities: Approve attendance of Board members and staff, as designated by the Chief Executive Officer to attend the FIS Group's 15th Anniversary Client Conference to be held September 21 and 22, 2011, at the Loews Hotel in Philadelphia, Pennsylvania; approve payment to FIS Group for the actual cost of providing meals for LACERA representatives attending the conference, and approve reimbursement of all other costs incurred in accordance with LACERA's Education and Travel Policy. (Memo dated August 18, 2011.)
- H. Recommendation as submitted by John D. McClelland, Interim Chief Investment Officer: Approve attendance of Board members and staff as designated by the Chief Executive Officer at the World Pension Forum conference, "Does Retirement Have A Future?" on October 23 – 25, 2011 at the Regency Hotel located in New York City and approve reimbursement of all travel costs incurred in accordance with LACERA's Education and Travel Policy. (Memo dated

September 1, 2011.)

VI. REPORTS

- A.** Single Family Housing Program Updated and Report from Independent Consultant John D. McClelland, Interim Chief Investment Officer (Memo dated September 2, 2011.)
 - 1. LDC Advisors**
 - Geoff LePlastrier, AICP-Managing Director
 - Jonathan Civita, AICP, Managing Director
 - Mike Pearson, Senior Vice President
 - Donald J. Fike, Senior Associate
 - Jim Bowman, Senior Associate
- B.** Private Equity Middle-Market Program Pathway Capital Management
Christopher J. Wagner, Senior Investment Officer, Private Equity (Memo dated September 7, 2011.)
Karen J. Jakobi, Senior Managing Director & CIO
Derrek I. Ransford, CFA
- C.** Private Equity Emergnig Manager Program JP Morgan
Christopher J. Wagner, Senior Investment Officer, Private Equity (Memo dated September 7, 2011.)
Laureen Costa, Portfolio Manager
Ashmi Mehrotra, Portfolio Manager
- D.** Private Equity Performance Report 2011 1st Quarter Report
Christopher J. Wagner, Senior Investment Officer, Private Equity (Memo dated September 7, 2011.) (For information only.)
- E.** Proposed Ballot Initiatives
Cynthia Lau, Legislative Affairs Officer (Memo dated August 31, 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.

VIII. GOOD OF THE ORDER

(For discussion purposes only.)

IX. ADJOURNMENT

BOARD OF INVESTMENTS MINUTES 9-14-11

PRESENT

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

ABSENT

William Pryor
Michael Schneider
Leonard Unger

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
Earl W. Buehner, Senior Staff Counsel
Johanna Fontenot, Senior Staff Counsel
Michael D. Herrera, Senior Staff Counsel
Christine Roseland, Staff Counsel

I. PLEDGE OF ALLEGIANCE

Chairman 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 AUGUST 10, 2011.

Mr. Russin pointed out that the Minutes should be corrected to reflect the removal of the following sentence from V. Action Item A. stating: "As such, the Board believes the finding is based on incorrect assumptions and is erroneous."

Mr. Russin reported that he does however agree with the Motion on said item. A motion was made by Mr. Russin, seconded by Ms. Sandoval, to approve the Minutes of the meeting of the Board of Investments of August 10, 2011, as corrected. The motion carried with Mr. Valenzuela abstaining.

III. PUBLIC COMMENT

None.

IV. REPORT ON CLOSED SESSION ITEMS

None.

V. ACTION ITEMS

A. Recommendation as submitted by John Nogales, Director Human Resources, LACERA, that your Board:

1. Approve establishment of the following unclassified (at-will) classifications:

Chief Investment Officer, LACERA (UC)
Principal Investment Officer, LACERA (UC)
Assistant Executive Officer, LACERA (UC)

2. Amend the County Personnel Code to determine the Chief Investment Officer, LACERA (UC) salary in a similar manner currently used by the Board of Retirement and Board of Investments in determining the Chief Executive

Officer salary. (Memo dated September 8, 2011.)

Mr. Nogales provided an executive summary on the proposed recommendation and reported that California Government Code Section 31522.4 permits a county having both Investments and Retirement Boards to appoint assistant administrators, chief investment officers and investment officers next in line of authority to chief investment officers, under Sections 31522.1 and 31522.2 to unclassified positions. Section 31522.4 further provides that these positions not be subject to county charter, civil service, or merit system rules. It also mandates that those persons holding these positions shall be directed by, shall serve at the pleasure of, and may be dismissed at the will of, the appointing board or boards. Creating the unclassified positions readies LACERA for future recruitment in these classifications.

Mr. Nogales also reported that the current procedure in determining the Chief Investment Officer's salary requires the drafting of an ordinance which must be reviewed by LACERA's legal staff, approved by LACERA's Boards, reviewed by County Counsel, and then adopted by the Board of Supervisors. The recommendation to amend the County Personnel Code for determining the salary of the Chief Investment Officer, LACERA (UC) in a similar manner currently used to determine the Chief Executive Officer's salary will minimize this process. He also reported that upon approval of the proposed change to classifications and revised salary authority provisions LACERA's Human Resources staff will prepare and forward to the Board of Supervisors ordinance language to add all approved changes to the County Personnel Code. 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.

- B. Recommendation as submitted by Beulah S. Auten, Chief Financial Officer: That your Board direct staff to respond to the Governmental Accounting Standards Board's Exposure Drafts, prior to September 30, 2011, regarding LACERA's concerns in substantially the form as discussed in this memo. (Memo dated August 29, 2011.)

Ms. Auten provided an executive summary and highlights on the proposed response to the Governmental Accounting Standards Board's (GASB) Exposure Drafts. A brief discussion followed.

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

- C. Recommendation as submitted by Trina Sanders, Investment Officer, Real Estate, and Amit Aggarwal, Investment Officer, Real Estate: That your Board authorize an investment of up to \$100 million in City View Bay Area Fund. (Memo dated September 6, 2011.)

Ms. Sanders gave a brief overview on the proposed authorization of the City View Bay investment. A brief discussion followed on investment return concerns.

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

Chair Barger indicated that item **III. Public Comment** would be handled at this time.

Chair Barger pointed out that the Board would return to the regular order of business.

- D. Recommendation as submitted by Gregg Rademacher, Chief Executive Officer: Approve attendance of Board members, and staff as designated by the Chief Executive Officer to attend the Geopolitical Risk Macroeconomic Insight Alternative Investment (GMA) Conference, October 11 and 12, 2011, Sentry Centers, New York City and, and approve reimbursement of all travel costs incurred in accordance with LACERA's Education and Travel Policy. (Memo dated September 8, 2011.)

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

- E. Recommendation as submitted by Gregg Rademacher, Chief Executive Officer: Approve attendance of Board members, and staff as designated by the Chief Executive Officer to attend the New America Alliance (NAA) 11th Annual Wall Street Summit on October 26-28, 2011, at the Waldorf Astoria in New York City, and approve reimbursement of all travel costs incurred in accordance with LACERA's Education and Travel Policy. (Memo dated September 8, 2011.)

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

- F. Recommendation as submitted by June Kim, Senior Investment Officer, Equities: Approve attendance of Board members and staff, as designated by the Chief Executive Officer to attend the BlackRock 2011 Institutional Client Conference on October 18 and 19, 2011, in New York City; approve payment to BlackRock for the actual cost of providing meals for LACERA representatives attending the conference; and approve reimbursement of all travel costs incurred in accordance with LACERA's Education and Travel Policy. (Memo dated August 30, 2011.)

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

- G.** Recommendation as submitted by June Kim, Senior Investment Officer, Equities: Approve attendance of Board members and staff, as designated by the Chief Executive Officer to attend the FIS Group's 15th Anniversary Client Conference to be held September 21 and 22, 2011, at the Loews Hotel in Philadelphia, Pennsylvania; approve payment to FIS Group for the actual cost of providing meals for LACERA representatives attending the conference, and approve reimbursement of all other costs incurred in accordance with LACERA's Education and Travel Policy. (Memo dated August 18, 2011.) A motion to approve the recommendation was made by Mr. Valenzuela, seconded by Mr. Santos. The motion carried by unanimous vote.
- H.** Recommendation as submitted by John D. McClelland, Interim Chief Investment Officer: Approve attendance of Board members and staff as designated by the Chief Executive Officer at the World Pension Forum conference, "Does Retirement Have A Future?" on October 23–25, 2011 at the Regency Hotel located in New York City and approve reimbursement of all travel costs incurred in accordance with LACERA's Education and Travel Policy. (Memo dated September 1, 2011.) A motion to approve the recommendation was made by Mr. Valenzuela, seconded by Mr. Santos. The motion carried by unanimous vote.

VI. REPORTS

- A.** Single Family Housing Program Updated and Report from Independent Consultant
John D. McClelland, Interim Chief Investment Officer (Memo dated September 2, 2011.)

1. LDC Advisors

Geoff LePlastrier, AICP, President
Jonathan Civita, AICP, Managing Director
Mike Pearson, Senior Vice President
Donald J. Fike, Senior Associate
Jim Bowman, Senior Associate

Mr. McClelland introduced the principals of LDC Advisors who followed with a presentation on their findings, conclusions and recommendations made in response to a request to analyze LACERA's investments in the Single Family Housing Program ("Program").

Mr. LePlastrier reported that LACERA should review the Program's capital structure. LACERA's decision to use Program cash flow to repay equity rather than debt increases the carrying cost. The increase cost is offset by the investment earnings from the returned equity.

LDS recommended TriPacific ("Manager") be retained as investment manager to LACERA's program for existing funds and investments. The recommendation is based on Manager's knowledge of the assets, local market conditions, existing builder and lender relationships, current lender relationships and continuity purposes. It is also an acknowledgment of the timing and financial risks associated with selecting and entering into a new agreement with a replacement manager. It is LDC's experience that replacing managers during a wind down period can be detrimental to the overall health and financial performance of the program.

Should TriPacific be retained by LACERA, LDC recommends improving the alignment of interests by completing a corporate and financial review of the manager to assess the operational and financial health of the organization as it currently exists; and undertake negotiations to amend the existing operating agreement(s) to include, at a minimum, a compensation structure commensurate with the resources needed for a capital recovery program, appropriate incentives, and reduced discretion on the part of the manager. If the Manager is properly staffed and, monitored, and with appropriately modified terms of engagement, it is LDC's opinion that LACERA's capital recovery from the Program can be maximized by retaining TriPacific. LACERA should also undertake a comprehensive evaluation of business plans for all remaining assets in the Program, and, in conjunction with TriPacific, develop, execute and monitor a strategic disposition plan that maximizes future capital recovery. A brief discussion followed and the Report was received and filed.

- B.** Private Equity Middle-Market Program

Christopher J. Wagner, Senior Investment Officer, Private Equity (Memo dated September 7, 2011.)

Pathway Capital Management

Karen J. Jakobi, Senior Managing Director & CIO
Derrek I. Ransford, CFA

Mr. Wagner introduced the principal of Pathway Capital Management and they gave a presentation on LACERA's Gateway Private Equity Fund, LP's Private Equity Middle-Market Program the ("Fund"). Ms. Jacobi reported that the investment objective for the Fund is to create a diversified portfolio of private equity partnerships, targeting capital commitments of less than \$3.0 billion in accordance with the investment guidelines. Through August 15, 2011, Gateway had committed 33% of the total fund size to 9 partnerships, including a pending commitment to Quad-C VII.

Pathway reported that they would continue to add high-quality partnerships to the portfolio over the remaining commitment period. Pathway has invested \$99.6 million of Gateway's capital in accordance with the investment guidelines and expects to meet all aspects of the investment guidelines at the conclusion of the commitment period.

Pathway also reported on the new investment activity and reported they have maintained its focus on selecting only the highest-quality funds in the market which has resulted in Gateway investing in less than 2% of the funds reviewed for potential investment.

The market sentiment has become cautious as a result of recent volatility, but the overall trend in investment activity remains positive. Favorable credit markets in 2010 and the first quarter of 2011 allowed many companies to lower their interest costs and extend maturities.

Ms. Jacobi reported that the investment pace continues to accelerate, driven by relative strength in the credit markets and the still-high number of companies and industries in transition, which are generating attractive investment opportunities for private equity firms. A brief discussion followed and the Report was received and filed.

C. Private Equity Emerging Manager Program

Christopher J. Wagner, Senior Investment Officer, Private Equity (Memo dated September 7, 2011.)

JP Morgan

Laureen Costa, Portfolio Manager

Ashmi Mehrotra, Portfolio Manager

Mr. Wagner introduced the principals of JPMorgan who were hired on May 28, 2008, to manage the \$150 million emerging manager program. JPMorgan made its first commitment early 2010 which is still too early in the investment period to assess performance. Staff is satisfied with JPMorgan's management of the program. JPMorgan provided a brief overview on the emerging manager investment philosophy and investment strategy. A brief discussion followed and the Report was received and filed.

D. Private Equity Performance Report

2011 1st Quarter Report

Christopher J. Wagner, Senior Investment Officer, Private Equity (Memo dated September 7, 2011.) (For information only.)

The Private Equity Performance Report 2011 1st Quarter Report is for information only and was received and filed.

E. Proposed Ballot Initiatives

Cynthia Lau, Legislative Affairs Officer

(Memo dated August 31, 2011.) (For information only.)

The Proposed Ballot Initiatives Report is for information only and was received and filed.

Chair Barger pointed out that item VIII. Good of Order would be handled at the 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 California Government Code Section 54956.9 for the purpose of discussing the potential initiation of litigation. The Board gave direction to staff with regard to the potential litigation and there is nothing further to report.

Green Folder Items

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

2. Wall Street Journal article dated September 14, 2011 entitled BNY Mellon Forex Trades Cost Pensions.

VIII. GOOD OF THE ORDER

(For discussion purposes only.)

Mr. Rademacher reported that Milliman will be attending next month's meeting to review the actuarial rate of return and salary assumption. The Board will also consider whether to include or exclude the STAR COLA reserves.

Mr. Rademacher also provided an update on the CIO search. (For discussion purposes only.)

Mr. McClelland was pleased to announce that the first commercial real estate loan was funded last week and LACERA is now officially in the real estate lending business.

The Board commended staff for the reports and presentation.

IX. ADJOURNMENT