

# BOARD OF INVESTMENTS AGENDA 11-9-11

## 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 OCTOBER 12, 2011.

### III. PUBLIC COMMENT

### IV. REPORT ON CLOSED SESSION ITEMS

### V. ACTION ITEMS

- A. Recommendation as submitted by June Kim, Senior Investment Officer, Equities, and Dale Johnson, Senior Investment Analyst, Equities: Authorize staff to withdraw as a limited partner of the Stinson Capital Partners L, L.P. fund, and redeem LACERA's interest in the fund. (Memo dated October 31, 2011.)
- B. Recommendation as submitted by John D. McClelland, Interim Chief Investment Officer: Delegate staff authority to select and retain a Housing Consultant. (Memo dated November 1, 2011.)
- C. Recommendation as submitted by Vache Mahseredjian, Principal Investment Officer, and Earl W. Buehner, Senior Staff Counsel: Consent to the assignment of the Securities Lending Agency and Collateral Management Agreement from ClearLend Securities to CitiBank, N.A., or its affiliate, subject to negotiation of terms and conditions acceptable to the Investment and Legal Offices; and (2) If negotiations with CitiBank prove unsuccessful, authorize staff to amend the Agreement for Securities Lending Services with BNY Mellon Global Securities Lending to permit BNY Mellon to lend the securities ClearLend currently lends. (Memo dated November 3, 2011.)
- D. Recommendation as submitted by Earl W. Buehner, Senior Staff Counsel: Approve the revised Placement Agent Policy, in substantially the form attached, effective retroactively to October 9, 2011. (Memo dated November 3, 2011.)
- E. Recommendation as submitted by Michael D. Herrera, Senior Staff Counsel: That your Board adopt the changes to its Securities Litigation Policy. (Memo dated November 2, 2011.)
- F. Recommendation as submitted by the John D. McClelland, Interim Investment Officer, Real Estate: Approve attendance of Board members, and staff as designated by the Chief Executive Officer, at the IREI 2012 VIP Conference to be held January 30 — February 1, 2012, at the JW Marriott Camelback Inn, Scottsdale, Arizona, and approve reimbursement of all travel costs incurred in accordance with LACERA's Education and Travel Policy. (Memo dated October 21, 2011.)

### VI. REPORTS

- A. Private Equity Co-Investment Program  
Morgan Stanley Alternative Investment Partners  
Christopher J. Wagner, Senior Investment Officer, Private Equity (Memo dated November 2, 2011.)
  - 1. Morgan Stanley Alternative Investment Partners (MS-AIP)  
James Sperans, Portfolio Manager
- B. Private Equity Program Review  
Christopher J. Wagner, Senior Investment Officer, Private Equity (Memo dated November 2, 2011.)
- C. Real Estate Performance Measurement Report — 2nd Quarter 2011  
Trina Sanders, Investment Officer, Real Estate (Memo dated October 31, 2011.)
  - 1. The Townsend Group Micolyn Magee, Principal
- D. Single Family Housing Program Review and Discussion  
John D. McClelland, Interim Chief Investment Officer (Memo dated November 1, 2011)
- E. Working Agenda Discussion Board of Investments Off-Site Meeting  
John D. McClelland, Interim Chief Investment Officer (Memo dated November 1, 2011.)
- F. Private Equity Performance Report 2011 2nd Quarter Report  
Christopher J. Wagner, Senior Investment Officer, Private Equity (Memo dated November 2, 2011.)  
(For information only.)
- G. Performance Review as of September 30, 2011  
Wilshire Performance Analysis John D. McClelland, Interim Chief Investment Officer

(For information only.)

- H. Cornerstone Hotel Income and Equity Fund II  
Report on Continuing Labor Dispute  
John McClelland, Interim Chief Investment Officer (Memo dated November 1, 2011.)
- I. Staff Report — 2011 Enacted Retirement Legislation  
Cynthia Law, Legislative Affairs Officer (Memo dated November 2, 2011.)  
(For information only.)
- J. Presentation by Custodial Bank for Purpose of Dispute Resolution Pursuant to Paragraph 34 of the Custodial Agreement  
Robb Van Der Volgen, Chief Counsel
  - 1. Bank of New York Mellon Corp.  
Representative of BNY Mellon

## **VII. EXECUTIVE SESSION**

- A. Conference with Legal Counsel — Existing Litigation  
(Subdivision (a) of California Government Code Section 54956.9)
  - 1. *FX Analytics v. Bank of New York Mellon Corp*  
Court Case No. RG 09480749
- B. Conference with Legal Counsel — Existing Litigation  
(Subdivision (a) of California Government Code Section 54956.9)
  - 1. *Public Employees Retirement System of Mississippi, et al., v. Merrill Lynch, et al.*,  
Case No. 08-Civ. 0841 (JSR)
- C. Public Employee Performance Evaluation  
Pursuant to Government Code Section 54957  
Title: Chief Executive Officer

## **VIII. GOOD OF THE ORDER**

(For discussion purposes only.)

## **IX. ADJOURNMENT**

MINUTES OF THE MEETING OF THE BOARD OF INVESTMENTS  
LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION  
300 NORTH LAKE AVENUE, SUITE 810, PASADENA, CALIFORNIA 91101  
WEDNESDAY, NOVEMBER 9, 2011, 9:00 A.M.

PRESENT: John M. Barger, Chair

Simon S. Russin, Vice Chair

Herman B. Santos, Secretary

Will Pryor

Mark J. Saladino

Diane Sandoval

Michael Schneider

Estevan Valenzuela

ABSENT: 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

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STAFF, ADVISORS, PARTICIPANTS (Continued)

Vache Mahseredjian, CFA, Principal Investment Officer

Christopher J. Wagner, Senior Investment Officer, Private Equity

June H. Kim, Senior Investment Officer, Equities

James Rice, CFA, Senior 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, Equities

Robb Van Der Volgen, Chief Counsel

Earl Buehner, Senior Staff Counsel

Johanna Fontenot, Senior Staff Counsel

Michael 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.

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II. APPROVAL OF THE MINUTES

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

A motion was made by  
Mr. Santos, seconded by  
Ms. Sandoval, to approve  
Minutes of the meeting of the  
Board of Investments of  
October 12, 2011. The motion  
carried by unanimous vote.

III. PUBLIC COMMENT

None.

IV. REPORT ON CLOSED SESSION ITEMS

None.

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## V. ACTION ITEMS

- A. Recommendation as submitted by June Kim, Senior Investment Officer, Equities, and Dale Johnson, Senior Investment Analyst, Equities: Authorize staff to withdraw as a limited partner of the Stinson Capital Partners L, L.P. fund, and redeem LACERA's interest in the fund. (Memo dated October 31, 2011.)

Mr. Johnson provided a brief overview on the proposed recommendation regarding the Stinson Capital Partners L, L.P. fund. A brief discussion followed.

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

- B. Recommendation as submitted by John D. McClelland, Interim Chief Investment Officer: Delegate staff authority to select and retain a Housing Consultant. (Memo dated November 1, 2011.)

Mr. McClelland provided an executive summary on the proposed selection and retention of a Housing Consultant. He reported that staff had completed a review of the Housing Program with the primary goal of determining how best LACERA can exit this investment. The Program entered its wind-down period on November 1, 2011. Unless LACERA elects to make a change, the Program

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V. ACTION ITEMS (Continued)

documents provide that TriPacific will remain as the manager of the Program and will become what is referred to in the documents as the liquidator. Both LaPlastier Development Consultants (LDC), another consultant LACERA brought in with regard to the program, and staff believe that leaving TriPacific in place would maximize the capital recovery effort. TriPacific knows these assets well, and the markets where the properties are located, including important relationships with the builders, and the lenders financing this effort.

Mr. McClelland reported that staff would like to retain a housing consultant to immediately assist in directing the portfolio valuation effort in reviewing TriPacific's liquidation plans, review the organization and financial health of TriPacific and negotiate the new fee schedule. Staff also recommends retaining the housing consultant to assist on an ongoing review and monitoring of the liquidation effort, once these initial tasks are completed. Mr. McClelland reported that the housing consultant could be engaged in 45 to 60 days. The initial assignment for the housing consultant should take 90 to 120 days and staff proposes not to allow total compensation for the housing consultant, including

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V. ACTION ITEMS (Continued)

the initial assignment and the ongoing monitoring, to exceed the amount of \$400,000 without first returning to the Board to discuss same.

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

- C. Recommendation as submitted by Vache Mahseredjian, Principal Investment Officer, and Earl W. Buehner, Senior Staff Counsel: Consent to the assignment of the Securities Lending Agency and Collateral Management Agreement from ClearLend Securities to CitiBank, N.A., or its affiliate, subject to negotiation of terms and conditions acceptable to the Investment and Legal Offices; and (2) If negotiations with CitiBank prove unsuccessful, authorize staff to amend the Agreement for Securities Lending Services with BNY Mellon Global Securities Lending to permit BNY Mellon to lend the securities ClearLend currently lends. (Memo dated November 3, 2011.)

Mr. Buehner provided a brief overview on the proposed recommendation and reported that ClearLend lends securities for LACERA, which is done on an agency basis. ClearLend is trying to get out of the business and would like to

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V. ACTION ITEMS (Continued)

assign the contract with LACERA to CitiBank. CitiBank is trying to make material changes to the contract, including a change to the extent they will act as a fiduciary, which is a major concern to staff. If LACERA is not able to reach an agreement with CitiBank, staff would like authority to amend the existing Securities Lending Agreement with a BNYMellon affiliate. They currently lend LACERA's international securities. LACERA would like to amend that Agreement to allow them to lend the securities that ClearLend can lend and also invest the collateral received in exchange. A brief discussion followed.

A motion to approve the recommendation was made by Ms. Sandoval, seconded by Mr. Pryor. The motion carried by unanimous vote. (Mr. Schneider was not present for the vote.)

- D. Recommendation as submitted by Earl W. Buehner, Senior Staff Counsel: Approve the revised Placement Agent Policy, in substantially the form attached, effective retroactively to October 9, 2011. (Memo dated November 3, 2011.)

Mr. Buehner summarized the need for the proposed changes to the Placement Agent Policy (Policy). LACERA's Policy uses definitions contained in

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V. ACTION ITEMS (Continued)

the state law on placement agents, and when those definitions change LACERA must update its Policy.

Just last month the Legislature again amended laws pertaining to placement agents, necessitating the proposed changes to the Policy. 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. (Mr. Schneider was not present for the vote.)

- E. Recommendation as submitted by Michael D. Herrera, Senior Staff Counsel: That your Board adopt the changes to its Securities Litigation Policy. (Memo dated November 2, 2011.)

Mr. Herrera provided an executive summary on the proposed changes to LACERA's Securities Litigation Policy. A brief discussion followed and the Board commended Mr. Herrera on his report.

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

V. ACTION ITEMS (Continued)

- F. Recommendation as submitted by the John D. McClelland, Interim Investment Officer, Real Estate: Approve attendance of Board members, and staff as designated by the Chief Executive Officer, at the IREI 2012 VIP Conference to be held January 30 – February 1, 2012, at the JW Marriott Camelback Inn, Scottsdale, Arizona, and approve reimbursement of all travel costs incurred in accordance with LACERA's Education and Travel Policy. (Memo dated October 21, 2011.)

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

VI. REPORTS

- A. Private Equity Co-Investment Program  
Morgan Stanley Alternative Investment Partners  
Christopher J. Wagner, Senior Investment Officer, Private Equity  
(Memo dated November 2, 2011.)
1. Morgan Stanley Alternative Investment Partners (MS-AIP)  
James Sperans, Portfolio Manager

Mr. Wagner introduced the representatives of Morgan Stanley

Alternative Investments Partners (AIP), Mr. Sperans, the Sr. Portfolio Manager

## VI. REPORTS (Continued)

and Mr. Towsen, Executive Director, who gave a report on the Fund's performance, investment philosophy and process.

AIP institutional origins are from the Weyerhaeuser Alternative Investments Pension Group dating back to the middle 1980s. AIP was formed in 2000 which is essentially the fund-of-fund business of Morgan Stanley. Currently they have over \$21 billion in assets under management and advisement across hedge fund-of-funds, private equity, and real estate strategies. Specifically, within the private equity group, they have \$8.5 billion of assets under management. Their core program is a global portfolio that focuses on specialized managers, with offices in Philadelphia, New York, London and Hong Kong. API's objective is to build a very high performance risk adjusted portfolio of co-investments, primarily alongside managers with whom LACERA has an existing relationship. API tries to leverage the dollars LACERA has committed across many years across many fund cycles and extract value for LACERA by co-investing in deals where managers required additional equity. The AIP portfolio mandate to date has invested \$231 million in 16 companies, a total of 88% of LACERA's portfolio. The goal at a

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## VI. REPORTS (Continued)

high level is to generate very attractive risk adjusted returns. The fund has performed quite well, \$230.9 million capital was invested with a current net asset value of \$302.4 million, a 10.9% net internal rate of return, net of all fees and expenses. A brief discussion followed on methodology evaluation issues and the Report was received and filed.

- B. Private Equity Program Review  
Christopher J. Wagner, Senior Investment Officer, Private Equity  
(Memo dated November 2, 2011.)

Mr. Wagner provided an overview on the Private Equity Program (Program) and reported that the presentation's goal was to respond to questions from the Board, some of which were: Is the Private Equity Program achieving its objectives? How has the Program performed against Public Markets? What is the right Program Structure and Challenges?

Mr. Wagner reported that the Private Equity Program met its objectives by exceeding the 10-year benchmark by 216 basis points as of June 30, 2011, 10.58%

VI. REPORTS (Continued)

versus 8.44%. Distributions have exceeded contributions, \$7.1 billion versus \$6.8 billion, and \$1.2 billion has been returned to LACERA since January 2010, with returns having exceeded public market equivalent.

Mr. Wagner also provided a brief overview on the Program's investment structure alternatives and reported that the Program should stay the current course, investing in public markets, and increase co-investments and manage more of the Program internally, while reducing separate account exposure. A brief discussion followed and the report was received and filed.

C. Real Estate Performance Measurement Report – 2<sup>nd</sup> Quarter 2011  
Trina Sanders, Investment Officer, Real Estate  
(Memo dated October 31, 2011.)

1. The Townsend Group  
Micolyn Magee, Principal

Ms. Magee of the Townsend Group, (LACERA's Real Estate Consultant) provided a brief overview on the Second Quarter 2011 Performance Measurement Reported for the Fund's Real Estate Investment Program. She reported that

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## VI. REPORTS (Continued)

LACERA's properties continue to signal a favorable return. In the second quarter 2011, LACERA's properties recorded net appreciation of 3.4%, its fifth positive return since third quarter 2007.

The portfolio continued to be impacted by the weak economy that is restraining job growth and property market recovery in the United States.

LACERA's Core properties dominate the portfolio, representing 72% of the fund, and have performed well compared to the benchmark. These holdings have delivered a 2.7% net return over a five-year period. The core investments have served the fund well, meeting the goals of diversifying the total portfolio and generating good cash flow.

LACERA's non-core investments have not fared as well during the downturn. The current slow pace of job growth suggests that non-core investments will continue to suffer for some time.

The value-add component underperformed the five-year benchmark. Leverage is a major factor contributing to the underperformance. Notwithstanding

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## VI. REPORTS (Continued)

these disappointing results, future performance will hopefully be positively impacted as several commingled fund vehicles make new investments at the bottom of the market cycle.

The high-return component, under-performed the five-year benchmark. LACERA's single-family homebuilding program is the main source of under-performance; however, the salvage effort continues to show signs of success as the build-out program continues.

Ms. Magee also reported on the outlook for the real estate market and stated that the U.S., as a result of the global financial crisis, value declined and that the National Property Index declined as well; however, since the market trough in 2010, both the NCREIF and NPI indices recovered 12% and 17%, respectively, suggesting a market recovery is underway. The U.S. commercial sales volume has only increased 16% from last year, likely reflecting the turbulent economic conditions. The real estate secure income return is likely to remain attractive to core risk adverse buyers, which will benefit existing portfolios of high-quality

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## VI. REPORTS (Continued)

stabilized assets held in primary markets. Investors who are willing to continue to participate in the distressed sector should benefit both from fewer competitors and potentially more deals to choose from. A brief discussion followed on compliance issues and the report was received and filed.

- D. Single Family Housing Program  
Review and Discussion  
John D. McClelland, Interim Chief Investment Officer  
(Memo dated November 1, 2011)

Mr. McClelland gave a brief presentation on LACERA's Single Family Housing Program and he provided insights on the Fund's experience in its 16-year investment, in single-family housing (the Program), as well as an assessment provided by the specialist consultant, LePlastrier Development Consulting (LDS). Staff outlined the preferred position that LACERA should seek in its negotiations with the Program manager, emphasizing performance fees, and review of alignment of interests as circumstances change. The Program should also consider guaranteed debt as quasi-equity, and use a specialist consultant when investing in unfamiliar sectors. A brief discussion followed and the Report was received and filed.

VI. REPORTS (Continued)

- E. Working Agenda Discussion  
Board of Investments Off-Site Meeting  
John D. McClelland, Interim Chief Investment Officer  
(Memo dated November 1, 2011.)

Mr. McClelland provided a brief overview on the working draft of the 2012 Board Offsite Agenda. A brief discussion followed and the Report was received and filed.

- F. Private Equity Performance Report 2011 2<sup>nd</sup> Quarter Report  
Christopher J. Wagner, Senior Investment Officer, Private Equity  
(Memo dated November 2, 2011.) (For information only.)

The Private Equity 2011 2<sup>nd</sup> Quarter Performance Report is for information only and was received and filed.

- G. Performance Review as of September 30, 2011  
Wilshire Performance Analysis  
John D. McClelland, Interim Chief Investment Officer  
(For information only.)

The Wilshire Performance Analysis as of September 30, 2011 is for information only and was received and filed.

VI. REPORTS (Continued)

- H. Cornerstone Hotel Income and Equity Fund II  
Report on Continuing Labor Dispute  
John McClelland, Interim Chief Investment Officer  
(Memo dated November 1, 2011.)

Mr. McClelland provided a brief update on the continuing labor dispute which remains ongoing at a hotel acquired by the commingled fund, Cornerstone Hotel Income and Equity Fund II (CHIEF II). LACERA is a limited partner in CHIEF II. The limited partnership is designed to limit LACERA's liability and risk exposure by investing on a passive basis. Staff continues to observe that Cornerstone appears to be prudently managing the investment activity relating to CHIEF II. A brief discussion followed and the Report was received and filed.

- I. Staff Report – 2011 Enacted Retirement Legislation  
Cynthia Law, Legislative Affairs Officer  
(Memo dated November 2, 2011.) (For information only.)

The Report on the 2011 Enacted Retirement Legislation is for information only and was received and filed.

VI. REPORTS (Continued)

J. Presentation by Custodial Bank for Purpose of Dispute Resolution Pursuant to Paragraph 34 of the Custodial Agreement  
Robb Van Der Volgen, Chief Counsel

1. Bank of New York Mellon Corp.  
Representative of BNY Mellon

Mr. Van Der Volgen reported that the representative of Bank of New York Mellon declined to attend and provide a report at today's meeting.

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

VIII. GOOD OF THE ORDER  
(For discussion purposes only.)

Ms. Sandoval reported that the Goldman Sachs Alternative Asset Symposium was extremely informative and enjoyed the conference.

Mr. Rademacher announced the New Chief Investment Officer, David Kushner, will be joining the team November 14, 2011.

Both the Board and Mr. Rademacher commended Mr. McClelland for his great work as the Interim Chief Investment Officer and also commended senior staff in the Investment Office for their support during the transition.

## VII. EXECUTIVE SESSION

A. Conference with Legal Counsel – Existing Litigation  
(Subdivision (a) of California Government Code Section 54956.9)

1. FX Analytics v. Bank of New York Mellon Corp  
Court Case No. RG 09480749

The Board met in Executive Session pursuant to (Subdivision (a) of California Government Code Section 54956.9) for the purpose of discussing existing litigation in the matter of FX Analytics v. Bank of New York Mellon Corp., Court Case No. RG 09480749 and there is nothing to report at this time.

B. Conference with Legal Counsel – Existing Litigation  
(Subdivision (a) of California Government Code Section 54956.9)

1. Public Employees Retirement System of Mississippi, et al., v. Merrill Lynch, et al., Case No. 08-Civ. 0841 (JSR)

The Board met in Executive Session pursuant to (Subdivision (a) of California Government Code Section 54956.9) for the purpose of discussing existing litigation in the matter of Public Employees Retirement System of Mississippi, et al., v. Merrill Lynch, et al., Case No. 08-Civ. 0841 (JSR) and the Board gave direction to counsel with regard to approval of settlement.

VII. EXECUTIVE SESSION (Continued)

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

Title: Chief Executive Officer

The Board met in Executive Session to discuss Public Employee Performance Evaluation Pursuant to Government Code Section 54957 and there is nothing to report at this time.

Green Folder Items

1. Chief Executive Officer's Report dated November 3, 2011.
2. Memo dated November 1, 2011 from Beulah S. Auten, regarding the Semi-Annual Interest Crediting for Reserves as of June 30, 2011 (Audited)
3. Memo from Trina L. Sanders, Investment Officer, Real Estate, dated November 4, 2011 regarding RREEF Personnel Changes.
4. Copy of article dated October 29, 2011, from The Orange County Register entitled *Workers Accuse Embassy Suites of Exploitation*.

IX. ADJOURNMENT

There being no further business, the meeting adjourned at 1:15 p.m.

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Herman B. Santos, Secretary

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John M. Barger, Chair