

AGENDA

MEETING OF THE BOARD OF INVESTMENTS

LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION

300 NORTH LAKE AVENUE, SUITE 810, PASADENA, CALIFORNIA 91101

WEDNESDAY, DECEMBER 12, 2012, 9:00 A.M.

- I. PLEDGE OF ALLEGIANCE
- II. APPROVAL OF THE MINUTES
  - A. APPROVAL OF THE MINUTES OF THE MEETING OF THE BOARD OF INVESTMENTS OF NOVEMBER 13, 2012.
- III. PUBLIC COMMENT
- IV. REPORT ON CLOSED SESSION ITEMS
- V. ACTION ITEMS
  - A. Recommendation as submitted by Christopher J. Wagner, Principal Investment Officer, Private Equity and Shelly P. Tilaye, CAIA, Senior Investment Analyst, Private Equity: That the Board approve a commitment of up to \$100 million to Riverside Capital Appreciation Fund VI, L.P. (Memo dated December 5, 2012.)
  - B. Recommendation as submitted by Gregg Rademacher, Chief Executive Officer, that the Board:
    - 1. Accept the November 27, 2012, Analysis of Assembly Bill 340 (PEPRA) Valuation prepared by the plan's consulting actuary, Milliman.
    - 2. Adopt recommended employer and employee contribution rates.
    - 3. Direct the Chief Executive Officer to communicate the results of the PEPRA Valuation to the Board of Supervisors.

Milliman  
Nick Collier, ASA, MAAA, EA  
Principal and Consulting Actuary

V. ACTION ITEMS (Continued)

- C. Recommendation as submitted by June Kim, Principal Investment Officer, Equities: That the Board approve a target allocation range for opportunistic strategies within the U.S. equity composite of 0%-5%. (Memo dated December 3, 2012.)
- D. Recommendation as submitted by Jun Kim, Principal Investment Officer, Equities: That the Board approve the exceptions, as outlined, to the investment guidelines for the Lazard Asset Management Emerging Markets Discounted Assets Strategy. (Memo dated December 4, 2012.)
- E. Recommendation as submitted by James Rice, CFA, Senior Investment Officer: That the Board approve Staff's plan for future investments in hedge funds to reach the 3% allocation target: (1) the addition of another mandate for a new hedge fund of funds manager; and (2) expanding into a direct hedge fund program. (Memo dated December 3, 2012).
- F. Recommendation as submitted by Sarah Marks, Principal Internal Auditor: That the Board:
  - 1. Retain Brown Armstrong Paulden McCown Starbuck & Keeter Accountancy Corporation (Brown Armstrong), LACERA's current external financial auditor for the Pension Trust, to provide the financial audit services necessary to the OPEB Trust for fiscal years ending 2013 and 2014, with a two year extension available at the option of LACERA's Board(s).
  - 2. Authorize LACERA's Chief Executive Officer to sign all necessary legal documents to execute the contract with Brown Armstrong, subject to review and approval by LACERA's legal Office.
  - 3. Request that the Board of Retirement accept a delegation of authority for contract administration and hiring processes for future financial audit service needs of the OPEB Trust, to be performed in conjunction with the contracting processes for all financial audit services necessary to the LACERA Pension Trust, commencing with audit services for fiscal year ending 2015. (Memo dated November 29, 2012.)
- G. Recommendation as submitted by David Kushner, Chief Investment Officer: That the Board review and approve the OPEB Investment Trust Custody and Investment Options. (Memo to be mailed under separate cover.)

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V. ACTION ITEMS (Continued)

- H. Recommendation as submitted by Gregg Rademacher, Chief Executive Officer: That the Board approve attendance of Board Members, and staff as designated by the Chief Executive Officer, at the CALAPRS Advanced Principles In Governance Program to be held in Los Angeles, California from January 29-31, 2013; and approve reimbursement of all travel costs incurred in accordance with LACERA's Education and Travel Policy. (Memo dated December 5, 2012.)

VI. REPORTS

- A. 2012 Third Quarter Hedge Fund Performance Report  
James Rice, CFA, Senior Investment Officer  
(Memo dated December 3, 2012.)

Grosvenor Capital Management

Andy Preda, Vice President and Portfolio Manager

Sean Conroy, Vice President and Client Service Officer

- B. Single Family Housing Program Update  
John D. McClelland, Principal Investment Officer, Real Estate  
(Memo dated November 26, 2012.) (For information only.)
- C. INTECH Investment Management LLC  
June Kim, Principal Investment Officer, Equities  
(Memo dated December 4, 2012.) (For information only.)
- D. Corporate Governance Quarterly Review  
Volume 8, Issue #3: July 1, 2012 – September 30, 2012  
Dale Johnson, Investment Officer  
(Memo dated December 4, 2012.) (For information only.)
- E. Board Member Educational Requirements Reporting  
JJ Popowich, Assistant Executive Officer  
(Memo dated December 4, 2012.) (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.

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VII. EXECUTIVE SESSION

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

**Documents subject to public disclosure that relate to an agenda item for an open session of the Board of Investments that are distributed to members of the Board of Investments less than 72 hours prior to the meeting will be available for public inspection at the time they are distributed to a majority of the Board of Investments Members at LACERA's offices at 300 N. Lake Avenue, Suite 820, Pasadena, CA 91101, during normal business hours of 9:00 a.m. to 5:00 p.m. Monday through Friday.**

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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, DECEMBER 12, 2012, 9:00 A.M.

PRESENT: Herman B. Santos, Chair  
Leonard Unger, Vice Chair  
Diane Sandoval, Secretary  
David Green  
Will Pryor  
Mark J. Saladino  
Michael Schneider  
Steve Valenzuela (Left at 11:40 a.m.)  
Carolyn Widener

STAFF, ADVISORS, PARTICIPANTS

Gregg Rademacher, Chief Executive Officer  
Robert Hill, Assistant Executive Officer  
JJ Popovich, Assistant Executive Officer  
David E. Kushner, Chief Investment Officer  
John D. McClelland, Principal Investment Officer, Real Estate  
Vache Mahseredjian, CFA, Principal Investment Officer  
Christopher J. Wagner, Principal Investment Officer, Private Equity  
June H. Kim, Principal Investment Officer, Equities

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STAFF, ADVISORS, PARTICIPANTS (Continued)

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

Johanna Fontenot, Senior Staff Counsel

Michael Herrera, Senior Staff Counsel

Christine Roseland, Staff Counsel

Ramon Rubalcava, SEIU Local 721

Alyssa Giachino, Research Analyst, Unite Here Local 11

Rachelle Smith, Unite Here Local 11

David R. Almodovar, Vice President  
Credit Suisse Securities (USA) LLC

The meeting was called to order at 9:00 a.m. in the Board Room of Gateway Plaza.

I. PLEDGE OF ALLEGIANCE

Chair Santos 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 NOVEMBER 13, 2012.

A motion to approve the Minutes of the meeting of the Board of Investments of November 13, 2012, was made by Mr. Unger, and seconded by Mr. Green. The motion carried with Ms. Sandoval abstaining.

III. PUBLIC COMMENT

Mr. Rubalcava on behalf of SEIU, Local 721 commended LACERA staff and Milliman, LACERA's Consulting Actuary, for their work and cooperation with the Union, on analyzing and implementing the California Public Employees Pension Reform Act of 2013.

Rachelle Smith and Alyssa Giachino of Unite Here Local 11 expressed to the Board the Union's concern relating to a labor dispute at a hotel managed by HEI Hotel and Resorts. The hotel 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 help reach an amicable resolution to the dispute.

IV. REPORT ON CLOSED SESSION ITEMS

None.

V. ACTION ITEMS

- A. Recommendation as submitted by Christopher J. Wagner, Principal Investment Officer, Private Equity and Shelly P. Tilaye, CAIA, Senior Investment Analyst, Private Equity: That the Board approve a commitment of up to \$100 million to Riverside Capital Appreciation Fund VI, L.P. (Memo dated December 5, 2012.)

Ms. Tilaye presented an executive summary on the proposed commitment to Riverside Capital Appreciation Fund VI, L.P. (RCAF VI or Fund). She reported that said Fund's buyout investment strategy is a good fit within LACERA's private equity portfolio and has provided its limited partners excellent returns over several market cycles. It was also reported that LACERA'S private equity consultant, Credit Suisse concurs with staff's conclusion. A brief discussion followed on fee concerns.

A motion to approve the recommendation was made by Mr. Pryor, seconded by Mr. Unger to approve the recommendation subject to the appointment by the chair of an ad hoc committee to determine negotiations of the commitment by staff. The motion carried with Mr. Schneider voting no.

- B. Recommendation as submitted by Gregg Rademacher, Chief Executive Officer, that the Board:
1. Accept the November 27, 2012, Analysis of Assembly Bill 340 (PEPRA) Valuation prepared by the plan's consulting actuary, Milliman.
  2. Adopt recommended employer and employee contribution rates.
  3. Direct the Chief Executive Officer to communicate the results of the PEPRA Valuation to the Board of Supervisors.

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V. ACTION ITEMS (Continued)

Milliman  
Nick Collier, ASA, MAAA, EA  
Principal and Consulting Actuary

Mr. Rademacher provided a brief overview on the proposed recommendation and he introduced Nick Collier of Milliman, LACERA's Consulting Actuary, who followed with an executive summary on Milliman's analysis of Assembly Bill 340 (PEPRA), including the valuation results, benefit formula options, and the recommended employer and employee contribution rates. A brief discussion followed.

A motion was made by Mr. Valenzuela, seconded by Mr. Green to: 1) Accept the November 27, 2012, Analysis of Assembly Bill 340 (PEPRA) Valuation prepared by the plan's consulting actuary, Milliman; 2) Adopt recommended employer and employee contribution rates; and 3) Direct the Chief Executive Officer to communicate the results of the PEPRA Valuation to the Board of Supervisors. The motion carried by unanimous vote.

- C. Recommendation as submitted by June Kim, Principal Investment Officer, Equities: That the Board approve a target allocation range for opportunistic strategies within the U.S. equity composite of 0%-5%. (Memo dated December 3, 2012.)

Ms. Kim presented a brief overview on the proposed target allocation range for opportunistic strategies within the U.S. Equity composite. A brief discussion followed on strategy and risk concerns.

V. ACTION ITEMS (Continued)

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

- D. Recommendation as submitted by Jun Kim, Principal Investment Officer, Equities: That the Board approve the exceptions, as outlined, to the investment guidelines for the Lazard Asset Management Emerging Markets Discounted Assets Strategy. (Memo dated December 4, 2012.)

Ms. Kim provided an executive summary on the proposed investment guidelines for the Lazard Asset Management Emerging Markets Discounted Assets Strategy.

A motion to approve the recommendation was made by Mr. Unger, seconded by Mr. Pryor. The motion carried with Ms. Widener abstaining.

- E. Recommendation as submitted by James Rice, CFA, Senior Investment Officer: That the Board approve Staff's plan for future investments in hedge funds to reach the 3% allocation target: (1) the addition of another mandate for a new hedge fund of funds manager; and (2) expanding into a direct hedge fund program. (Memo dated December 3, 2012).

Mr. Rice gave a presentation on the proposed plan for future investments in hedge funds to reach the 3% allocation target. He also provided an outline on the proposed implementation of the hedge fund allocation and the investment strategy. Mr. Rice also reported that the hedge fund asset category represents a viable investment for LACERA to reduce total fund volatility without materially changing return expectations. Staff is seeking direction from the Board going forward

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V. ACTION ITEMS (Continued)

on said allocation and seeks to expand the search to a full search and not a limited search. A brief discussion followed.

A motion was made by Mr. Valenzuela, seconded by Mr. Pryor to authorize staff to proceed with the addition of another hedge fund of fund manager through an expanded search.

Mr. Pryor withdrew his support of the motion made by Mr. Valenzuela and expressed his support of the original motion.

A motion was made by Mr. Santos, seconded by Mr. Pryor to approve the recommendation to include the search be an expanded search, and not a limited search. The motion carried with Messrs. Saladino, Green, Valenzuela, and Ms. Sandoval voting no.

- F. Recommendation as submitted by Sarah Marks, Principal Internal Auditor: That the Board:
1. Retain Brown Armstrong Paulden McCown Starbuck & Keeter Accountancy Corporation (Brown Armstrong), LACERA's current external financial auditor for the Pension Trust, to provide the financial audit services necessary to the OPEP Trust for fiscal years ending 2013 and 2014, with a two year extension available at the option of LACERA's Board(s).

V. ACTION ITEMS (Continued)

2. Authorize LACERA's Chief Executive Officer to sign all necessary legal documents to execute the contract with Brown Armstrong, subject to review and approval by LACERA's legal Office.
3. Request that the Board of Retirement accept a delegation of authority for contract administration and hiring processes for future financial audit service needs of the OPEB Trust, to be performed in conjunction with the contracting processes for all financial audit services necessary to the LACERA Pension Trust, commencing with audit services for fiscal year ending 2015. (Memo dated November 29, 2012.)

Ms. Marks presented a brief overview on the proposed recommendation of retaining Brown Armstrong to provide the necessary financial audit services to the OPEB Trust for fiscal years ending 2013 and 2014, with a potential two year extension at the option of LACERA's Board of Retirement.

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

- G. Recommendation as submitted by David Kushner, Chief Investment Officer: That the Board review and approve the OPEB Investment Trust Custody and Investment Options. (Memo dated December 11, 2012.)

Mr. Kushner presented a brief overview on the proposed recommendation and a brief discussion followed on fee concerns.

A motion was made by Mr. Saladino, seconded by Ms. Sandoval to approve the OPEB Investment Trust Custody and Investment Options. The motion carried by unanimous vote.

V. ACTION ITEMS (Continued)

- H. Recommendation as submitted by Gregg Rademacher, Chief Executive Officer: That the Board approve attendance of Board Members, and staff as designated by the Chief Executive Officer, at the CALAPRS Advanced Principles In Governance Program to be held in Los Angeles, California from January 29-31, 2013; and approve reimbursement of all travel costs incurred in accordance with LACERA's Education and Travel Policy. (Memo dated December 5, 2012.)

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

VI. REPORTS

- A. 2012 Third Quarter Hedge Fund Performance Report  
James Rice, CFA, Senior Investment Officer  
(Memo dated December 3, 2012.)

Grosvenor Capital Management  
Andy Preda, Vice President and Portfolio Manager  
Sean Conroy, Vice President and Client Service Officer

Mr. Rice introduced the principals of Grosvenor Capital Management (Grosvenor) who provided an overview of the portfolio's performance.

It was reported that Grosvenor works closely and interacts with LACERA staff, providing enough knowledge transfer in all aspects of the mandate. It was also reported that since inception the hedge fund of funds portfolio exhibited a return of 2.27% in the third quarter. The portfolio exceeded by 102 basis points the 1.25% return of LACERA's primary hedge fund benchmark. LACERA's portfolio outperformed by 82 basis points the 1.45% return of the secondary benchmark.

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VI. REPORTS (Continued)

LACERA's primary benchmark represented the long term performance objective of the program in delivering strong absolute returns. The secondary benchmark is representative of broad market performance of actual hedge funds and could be considered in assessing relative performance of LACERA's program or determining if hedge funds as a group have met their performance objective over a time period. The portfolio's good performance in the third quarter is mainly attributed to strong performance of credit, relative value, and multi-strategy managers, with each category returning over 4%. This was offset by weaker performance from macro, commodities, and portfolio hedge managers, each of which had negative returns. In the four quarters since the inception of the portfolio, strong absolute and benchmark-relative performance has been realized by managers in three categories: credit relative value, and multi-strategy, which have returned 12.3%, 12.0%, and 10.9% over the twelve months, respectively.

Grosvenor also provided a brief overview of their investment strategy and market outlook. A brief discussion followed and the Report was received and filed.

- B. Single Family Housing Program Update  
John D. McClelland, Principal Investment Officer, Real Estate  
(Memo dated November 26, 2012.) (For information only.)

The update on the Single Family Housing Program is for information only and was received and filed.

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VI. REPORTS (Continued)

- C. INTECH Investment Management LLC  
June Kim, Principal Investment Officer, Equities  
(Memo dated December 4, 2012.) (For information only.)

The INTECH Investment Management memorandum is for information only and was received and filed.

- D. Corporate Governance Quarterly Review  
Volume 8, Issue #3: July 1, 2012 – September 30, 2012  
Dale Johnson, Investment Officer  
(Memo dated December 4, 2012.) (For information only.)

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

- E. Board Member Educational Requirements Reporting  
JJ Popowich, Assistant Executive Officer  
(Memo dated December 4, 2012.) (For information only.)

The memorandum on Board Member Educational Requirements Reporting is for information only and was received and filed.

Chair Santos indicated 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.)

Mr. Rademacher and the Board commended and congratulated Mr. Santos for completing his third term on the Board of Investments and on being re-elected to a fourth term, which will commence on January 1, 2013. He also thanked and commended Mr. Valenzuela on completing his term on said Board for his valuable contribution.

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

Mr. Kushner introduced two new Senior Investments Analysts who have joined the Investment Office: Ron Senkandwa, who will be working in the Global Equities Division and David Simpson who will be working in the Private Equities Division. Mr. Green commended and thanked Simon Russin for his years of services and contribution on the Board of Investments and Board of Retirement.

Mr. Valenzuela left at 11:40 a.m.

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 Executive Session pursuant to subdivision (c) of 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.

VII. EXECUTIVE SESSION

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 December 4, 2012.
2. Copy of Power Point Presentation from Milliman dated December 12, 2012.

IX. ADJOURNMENT

There being no further business, the meeting adjourned at 12:10 p.m.

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Diane Sandoval, Secretary

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Herman B. Santos, Chair