

AGENDA

MEETING OF THE BOARD OF INVESTMENTS

LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION

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

WEDNESDAY, MAY 8, 2013, 9:00 A.M.

- I. PLEDGE OF ALLEGIANCE
- II. APPROVAL OF THE MINUTES
 - A. APPROVAL OF THE MINUTES OF THE APRIL 10, 2013 MEETING OF THE BOARD OF INVESTMENTS.
- III. PUBLIC COMMENT
- IV. REPORT ON CLOSED SESSION ITEMS
- V. ACTION ITEMS
 - A. Recommendation as submitted by John McClelland, Principal Investment Officer, Real Estate; Amit Aggarwal, Investment Officer, Real Estate and Trina Sanders, Investment Officer, Real Estate: That your Board (1) Authorize Staff to retain Heitman, Clarion Partners (Clarion), and Stockbridge for a real estate equity manager mandate; and (2) Allocate \$200 million to each new manager for investment in real estate equity. (Memo dated April 26,2013.)
 - B. Recommendation as submitted by John D. McClelland, Principal Investment Officer, Real Estate: That your Board adopt the revised Real Estate Objectives, Policies & Procedures as presented. (Memo dated April 26, 2013.)

V. ACTION ITEMS (Continued)

- C. Recommendation as submitted by Christopher J. Wagner, Principal Investment Officer, Private Equity; Shelly P. Tilaye, CAIA, Senior Investment Analyst, Private Equity: That your Board approve a commitment of up to \$100 million to Sterling Investment Partners III, L.P. (Memo dated May 1, 2013.)
- D. Recommendation as submitted by Cynthia Lau, Legislative Affairs Officer: That your Board continue its “Support” position on amended Assembly Bill 382 relating to the Ralph M. Brown Act. (Memo dated April 22, 2013.)
- E. 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 2013 Private Equity and Real Estate Investment World Latin America 2013 on June 17-18, 2013 in Miami, Florida, and approve reimbursement of all travel costs incurred in accordance with LACERA’s Education and Travel Policy. (Memo dated May 1, 2013.) (Placed on the Agenda at the request of Chair Santos.)

VI. REPORTS

- A. Real Estate Performance Measurement Report 4th Quarter 2012
John McClelland, Principal Investment Officer, Real Estate (Memo dated May 1, 2013.)
- B. Retirement Trust Performance Review as of March 31, 2013
David Kushner, Chief Investment Officer
- C. OPEB Trust Fund Inaugural Report
Vache Mahseredjian, CFA, CAIA, FRM, ASA, Principal Investment Officer. (Memo dated April 24, 2013.) (For information only.)

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VI. REPORTS (Continued)

- D. Assembly Bill 721 – Firearms and Ammunition Divestment
Cynthia Lau, Legislative Affairs Officer (Memo dated April 22,
2013.) (For information only.)

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

VIII. 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 MEETING OF THE BOARD OF INVESTMENTS

LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION

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

WEDNESDAY, MAY 8, 2013, 9:00 A.M.

PRESENT: Herman B. Santos, Chair

Leonard Unger, Vice Chair

Diane Sandoval, Secretary

John M. Barger

David Green

Will Pryor

Mark J. Saladino

Michael Schneider

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

STAFF, ADVISORS, PARTICIPANTS (Continued)

Vache Mahseredjian, CFA, Principal Investment Officer

Christopher J. Wagner, Principal Investment Officer, Private Equity

June H. Kim, Principal Investment Officer, Equities

Juan Almaguer, Senior Investment Analyst, Fixed Income

Esmeralda V. del Bosque, Senior Investment Analyst, Equities

Dale Johnson, Senior Investment Analyst, Equities

James Rice, CFA, Senior Investment Officer, Hedge Funds

Robert Z. Santos, Investment Officer, Fixed Income

Ron Senkandwa, Senior Investment Analyst, Equities

David Simpson, Investment Officer, Private Equities

Shelly P. Tilaye, CAIA, Senior Investment Analyst, Private Equity

Robb Van Der Volgen, Chief Counsel

Michael Herrera, Senior Staff Counsel

Christine Roseland, Senior Staff Counsel

Cynthia Lau, Legislative Affairs Officer

Wilshire Associates

William (Bill) Bensur, Jr., Managing Director

STAFF, ADVISORS, PARTICIPANTS (Continued)

The Townsend Group
Micolyn Magee, Principal

Alyssa Giachino, Unite Here Local 11

Mark Klein, Representative, SEIU, Local 721

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 MARCH 13, 2013
MEETING OF THE BOARD OF INVESTMENTS.

A motion was made by Ms. Sandoval, seconded by Mr. Green to approve the April 10, 2013, Minutes of the meeting Board of Investments. The motion carried by unanimous vote.

III. PUBLIC COMMENT

Mark Klein, Representative, SEIU, Local 721 expressed his concerns relating to the possible sale of the Tribune Company to the Koch Brothers and that

III. PUBLIC COMMENT (Continued)

LACERA contact Oaktree Capital asking that they reject the sale to the Koch Brothers.

Alyssa Giachino of Unite Here Local 11, reported on the Union's view relating to Cornerstone's portfolio performance and the 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 John McClelland, Principal Investment Officer, Real Estate; Amit Aggarwal, Investment Officer, Real Estate and Trina Sanders, Investment Officer, Real Estate: That your Board (1) Authorize Staff to retain Heitman, Clarion Partners (Clarion), and Stockbridge for a real estate equity manager mandate; and (2) Allocate \$200 million to each new manager for investment in real estate equity. (Memo dated April 26,2013.)

Mr. McClelland and Mr. Aggarwal presented a brief overview on the results of RFP (Request for Proposal) for LACERA's real estate equity mandate, which

V. ACTION ITEMS (Continued)

resulted in 18 responses. Staff evaluated all 18 responses and based on the evaluation, staff's recommendation is that the Board authorize retention of the three highest ranked managers for the real estate equity separate account mandates, Heitman, Clarion, and Stockbridge. These three firms will add capacity, increase management flexibility, and add new investment strategies.

A motion was made by Mr. Unger, seconded by Mr. Schneider authorizing staff to retain Heitman, Clarion Partners (Clarion), and Stockbridge for the real estate equity manager mandate; and to allocate \$200 million to each new manager for investment in real estate equity, with an amendment to said motion that Heitman, Clarion Partners, and Stockbridge return at a later date to present to the Board their investment strategy and outlook on the real estate market. The motion carried by unanimous vote.

V. ACTION ITEMS (Continued)

- B. Recommendation as submitted by John D. McClelland, Principal Investment Officer, Real Estate: That your Board adopt the revised Real Estate Objectives, Policies & Procedures as presented. (Memo dated April 26, 2013.)

Mr. McClelland presented the proposed revisions to the Real Estate Objectives, Policies & Procedures (OP&P). He pointed out key changes to the OP&P and conveyed that a new benchmark was being proposed for core, value-add, and high-return investments. Investment level minimum return objectives have been deleted from the OP&P given that they are more appropriately included within the Manager Investment Plans. He also reported that the limit for the amount of capital that may be managed by any single Emerging Manager has been changed from a fixed dollar amount to a percent of the real estate allocation. The effect of this change would be to increase the limit to approximately \$417 million based on the Fund's estimated market value as of the end of March 2013. Another key change to the OP&P is the proposed Watch List and the process for managing it, which would allow the Board or Staff to place Managers on the Watch List.

V. ACTION ITEMS (Continued)

Micolyn Magee of The Townsend Group, LACERA's Real Estate Consultant concurred with Staff on the proposed modifications.

A motion was made by Ms. Sandoval, seconded by Mr. Unger to adopt the modifications to the Real Estate Objectives, Policies & Procedures as presented. The motion carried by unanimous vote.

Chair Santos pointed out that VI. Reports, Item A. would be handled at this time.

VI. REPORTS

- A. Real Estate Performance Measurement Report 4th Quarter 2012
John McClelland, Principal Investment Officer, Real Estate (Memo dated May 1, 2013).

The Townsend Group
Micolyn Magee, Principal

Ms. Magee reported that the fund continued to reflect the global financial crisis. The total five-year portfolio return of -2.8% net of fees remains below the benchmark return of 1.9%. It was also reported that the five-year total

VI. REPORTS (Continued)

return figure will not significantly improve until value declines experienced in the second quarter 2009 cease to be part of the calculation which will happen the period ending June 2014. The income component of return from the core portfolio continues to generate attractive returns. The income return from the core portfolio for the one, three, and five-year periods was 6.3%, 6.6%, and 6.5% respectively. Ms. Magee pointed out that during the Global Financial crisis, values declined 31% and 44% for the de-levered NCREIF Property Index (NPI) and the levered NCREIF Open-End Diversified Core Equity Index (NFI-ODCE), respectively. Since the market decline in 2010, both indices have recovered 21% and 27% respectively. Real estate values continue to rise with average transaction cap rates declining. The sovereign debt crisis in Europe and a potential exit of Greece from the EU, coupled with slowdown in Asia continue to overshadow the economy in the US as well. The Townsend Group continues to support an overweight to the United States as these issues abroad mature. A brief discussion followed and the Report was received and filed.

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

V. ACTION ITEMS

- C. Recommendation as submitted by Christopher J. Wagner, Principal Investment Officer, Private Equity; Shelly P. Tilaye, CAIA, Senior Investment Analyst, Private Equity: That your Board approve a commitment of up to \$100 million to Sterling Investment Partners III, L.P. (Memo dated May 1, 2013.)

Ms. Tilaye reported on the proposed commitment to Sterling Investment Partners III, L.P. Staff completed a thorough due diligence on the general partner and determined that Sterling III is an attractive investment opportunity. Credit Suisse Customized Fund Investment Group (CFIG) LACERA's Private Equity Consultant, conducted an independent due diligence on the general partner and provided its assessment of the opportunity and concur with said commitment.

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

- D. Recommendation as submitted by Cynthia Lau, Legislative Affairs Officer: That your Board continue its "Support" position on amended Assembly Bill 382 relating to the Ralph M. Brown Act. (Memo dated April 22, 2013.)

Ms. Lau presented a brief overview on Assembly Bill 382, which relates to the Ralph M. Brown Act.

V. ACTION ITEMS (Continued)

A motion was made by Ms. Sandoval, seconded by Ms. Widener to continue a "Support" position on amended Assembly Bill 382 which relates to the Ralph M. Brown Act. The motion carried by unanimous vote.

- E. 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 2013 Private Equity and Real Estate Investment World Latin America 2013 on June 17-18, 2013 in Miami, Florida, and approve reimbursement of all travel costs incurred in accordance with LACERA's Education and Travel Policy. (Memo dated May 1, 2013.) (Placed on the Agenda at the request of Chair Santos.)

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

VI. REPORTS (Continued)

B. Performance Review as of March 31, 2013
David Kushner, Chief Investment Officer

Wilshire Associates
William (Bill) Bensusan, Jr., CFA, Managing Director

LACERA Staff and Mr. Bensusan of Wilshire Associates, LACERA's Portfolio Consultant presented an executive summary on the Fund's performance and analysis as of March 31, 2012. LACERA's total fund had a gain of 4.8% in the first quarter of 2013, and exceeded its Policy Benchmark return of 4.5% by 30 basis points (bps). Nearly all asset classes outperformed their respective benchmarks. LACERA's U.S. Equity composite returned 11.2%, which was the strongest absolute return for all asset classes. The composite also managed to surpass its benchmark by 20 bps, as outperformance from the majority of active managers contributed positively to the result. The non-U.S. Equity composite rose 5.2% and also outperformed its benchmark by 10 bps, which is attributable to solid outperformance from the active EAFE managers and most of the active emerging markets managers. The Fixed Income Composite outperformed its benchmark for the quarter. All four components, Core, Core Plus, High Yield, and

VI. REPORTS (Continued)

Opportunistic, contributed to the outperformance. LACERA's Real Estate portfolio gained 2.4% and slightly trailed its benchmark return of 2.5% by 10 bps. LACERA's Private Equity portfolio returned 3.2, which was 10 bps better than the 3.1% rise of its benchmark. The Hedge Fund portfolio rose 4.6% compared to the 1.3% return of its index, resulting in 330 bps of outperformance. A brief discussion followed and the Report was received and filed.

- C. OPEB Trust Fund Inaugural Report
Vache Mahseredjian, CFA, CAIA, FRM, ASA, Principal Investment Officer. (Memo dated April 24, 2013.) (For information only.)

The OPEB Trust Fund Inaugural Report is for information only and was received and filed.

- D. Assembly Bill 721 – Firearms and Ammunition Divestment
Cynthia Lau, Legislative Affairs Officer (Memo dated April 22, 2013.) (For information only.)

The Report on Assembly Bill 721 is for information only and was received and filed.

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

Mr. Rademacher provided an update on the Electronic Investment Board Package project. He also reported the County asked LACERA, as the OPEB Trust Trustee, to file for an IRS Tax Determination Letter. LACERA staff and tax counsel are assisting the County with this effort.

Mr. Rademacher reported the actuary will be reviewing the economic and noneconomic actuarial assumptions this coming fall as part of the triennial investigation of experience. The actuary will provide the Board with a multi-month educational curriculum beginning with our October 2013 meeting. Our hope is to present the triennial investigation of experience report in December 2013 with the valuation presented the following February.

Mr. Rademacher also reported that he was invited by CRCEA to join their annual conference to give a presentation on collaborating with pension stakeholder groups and Mr. Saladino followed with a presentation on financial management after retirement and was informed that both presentations were well received.

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

Ms. Sandoval and Mr. Schneider reported that the Goldman Sachs 2013 Growth Summit was very informative and they encourage trustees to attend the 2014 Summit, which will be held in April.

Mr. Unger reported that he attended the Milken 2013 Global Conference, which was extremely informative, including the session on alternative investments.

Ms. Widener congratulated Mr. Rademacher for a Los Angeles Times Editorial commendation of the County of Los Angeles and LACERA on their defined benefit plan.

Green Folder Items

1. Chief Executive Officer's Report dated May 1, 2013.
2. Memo dated May 6, 2013, from David E. Kushner, CFA, Chief Investment Officer regarding Orange County Employee Retirement System (OCERS) Public Pension Portfolio Procurement Platform (P5) Initiative.
3. Memo dated March 25, 2013 from the Corporate Governance Committee regarding LACERA's Corporate Governance Policy and Corporate Governance Principles.

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

Chair Santos commended David Simpson, LACERA Investment Staff, who gave an impressive presentation on emerging markets at Harvard Law School's 11th Annual Pension & Capital Stewardship Conference.

VIII. ADJOURNMENT

There being no further business, the meeting adjourned at 12:35 p.m.

Diane Sandoval, Secretary

Herman B. Santos, Chair