

AGENDA

MEETING OF THE BOARD OF INVESTMENTS

LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION

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

WEDNESDAY, OCTOBER 9, 2013, 9:00 A.M.

I. PLEDGE OF ALLEGIANCE

II. APPROVAL OF THE MINUTES

- A. Approval of the Minutes of the September 11, 2013, meeting of the Board of Investments.

III. PUBLIC COMMENT

IV. REPORT ON CLOSED SESSION ITEMS

V. ACTION ITEMS

- A. Recommendation as submitted by David E. Kushner, CFA, Chief Investment Officer: That the Board approve an OPEB Trust Asset Allocation from one of nine portfolios based on the following three possible scenarios:
- Scenario 1 – 100% drawdown of the OPEB Trust in any given year. Under this scenario, Staff and Consultant recommend maintaining Portfolio 1 as the investment strategy by keeping the OPEB Trust 100% invested in Enhanced Cash.
 - Scenario 2 – \$100 million (20%) drawdown of the OPEB Trust in any given year. Under this scenario, Staff and Consultant recommend consideration of Portfolio 2, the Five-Year Laddered Treasury Portfolio.

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V. ACTION ITEMS (Continued)

- Scenario 3 – No drawdown and positive cash flows / contributions to the OPEB Trust over time. Under this scenario, Staff and Consultant recommend consideration of Portfolios 3 through 9 as viable investment strategies for implementation. (Memo dated October 2, 2013.)
- B. Recommendation as submitted by June Kim, Principal Investment Officer, Equities, and Dale Johnson, Investment Officer, Equities: That the Board authorize staff to remove AQR Capital, LLC from the bench and retain the firm for an active emerging markets equity mandate. (Memo dated S September 30, 2013.)
- C. Recommendation as submitted by Christopher J. Wagner, Principal Investment Officer, Private Equity and David E. Simpson, CFA, Investment Officer, Private Equity: That the Board approve a commitment of up to \$300 million to LACERA's externally managed separate account co-investment program, GTB Capital Partners II, L.P. ("GTB II"). (Memo dated October 2, 2013.)
- D. Recommendation as submitted by John D. McClelland, Principal Investment Officer, Real Estate, and Trina L. Sanders, Investment Officer, Real Estate: That the Board authorize an investment up to \$100 million in City View Southern California Fund II. (Memo dated September 24, 2013.)
- E. Recommendation as submitted by John D. McClelland, Principal Investment Officer, Real Estate: That the Board authorize a contribution of \$300 million to the Housing Program to retire the line of credit. (Memo dated September 27, 2013.)

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V. ACTION ITEMS (Continued)

- F. Recommendation as submitted by Gregg Rademacher, Chief Executive Officer: That the Board approve attendance of Board members at the USC Corporate Governance Summit to be held on November 14 and 15, 2013 at the USC University Park Campus-Davidson Conference Center and approve reimbursement of all travel costs incurred in accordance with LACERA's Education and Travel Policy. (Memo dated October 1, 2013.) (Placed on the Agenda at the request of Mr. Barger.)
- G. Recommendation as submitted by Gregg Rademacher, Chief Executive Officer: That the Board approve attendance of Board members at the 2013 Invesco Real Estate Client Conference at The Lodge at Torrey Pines, La Jolla, California on November 5-7, 2013, and approve reimbursement of all travel costs incurred in accordance with LACERA's Education and Travel Policy. (Memo dated October 1, 2013.) (Placed on the Agenda at the request of Mr. Green.)

VI. REPORTS

- A. Actuarial Assumption Review
Gregg Rademacher, Chief Executive Officer
(Memo dated October 1, 2013.)
- Milliman
Nick Collier, ASA, EA, MAAA
Mark Olleman, FSA, EA, MAAA
- B. Private Equity Education
Christopher J. Wagner, Principal Investment Officer, Private Equity
(Memo dated October 2, 2013.)
- Credit Suisse Customized Fund Investment Group (CFIG)
David Almodovar, Vice President

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VI. REPORTS (Continued)

- C. Real Estate Performance Measurement Report 2nd Quarter 2013
John McClelland, Principal Investment Officer, Real Estate
(Memo dated October 1, 2013.)

The Townsend Group
Micolyn Magee, Principal

- D. Chief Investment Officer Personnel Evaluation
Gregg Rademacher, Chief Executive Officer
(Memo dated October 1, 2013.)

VII. EXECUTIVE SESSION

- A. CONFERENCE WITH LABOR NEGOTIATORS
(Government Code Section 54957.6)

1. Agency designated representatives:
John Nogales, Director, Human Resources

VIII. GOOD OF THE ORDER
(For informational 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.

Persons requiring an alternative format of this agenda pursuant to Section 202 of the Americans with Disabilities Act of 1990 may request one by calling Cynthia Guider at (626) 564-6000, from 8:30 a.m. to 5:00 p.m. Monday through Friday, but no later than 48 hours prior to the time the meeting is to commence. Assistive Listening Devices are available upon request. American Sign Language (ASL) Interpreters are available with at least three (3) business days notice before the meeting date.

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, OCTOBER 9, 2013, 9:00 A.M.

PRESENT: Herman B. Santos, Chair

Leonard Unger, Vice Chair

Diane Sandoval, Secretary

John M. Barger

David Green

Mark J. Saladino

Michael Schneider

Carolyn Widener

ABSENT: Will Pryor

STAFF, ADVISORS, PARTICIPANTS

Gregg Rademacher, Chief Executive Officer

Robert Hill, Assistant Executive Officer

JJ Popovich, Assistant Executive Officer

David E. Kushner, Chief Investment Officer

Vache Mahseredjian, CFA, Principal Investment Officer

Christopher J. Wagner, Principal Investment Officer, Private Equity

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STAFF, ADVISORS, PARTICIPANTS (Continued)

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

Cynthia Lau, Legislative Affairs Officer

Milliman

Nick Collier, ASA, EA, MAAA

Mark Olleman, FSA, EA, MAAA

Wilshire Associates

William (Bill) Benzur, CFA, Managing Director

Marlin Pease, CFA, Managing Director

STAFF, ADVISORS, PARTICIPANTS (Continued)

Credit Suisse Customized Fund Investment Group (CFIG)
David Almodovar, Vice President

The Townsend Group
Micolyn Magee, Principal

I. PLEDGE OF ALLEGIANCE

Mr. 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 September 11, 2013 meeting of the Board of Investments.

A motion to approve the September 11, 2013 Minutes of the meeting of the Board of Investments was made by Ms. Sandoval, seconded by Mr. Green. The motion carried by unanimous vote.

III. PUBLIC COMMENT

Alyssa Giachino; Albertina Solorio; Argelia Rico; Ana Maria Trevino of Unite Here, Local 11, expressed their concerns relating to a labor dispute at a hotel

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III. PUBLIC COMMENT (Continued)

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.

IV. REPORT ON CLOSED SESSION ITEMS

None.

V. ACTION ITEMS

- A. Recommendation as submitted by David E. Kushner, CFA, Chief Investment Officer: That the Board approve an OPEB Trust Asset Allocation from one of nine portfolios based on the following three possible scenarios:
- Scenario 1 – 100% drawdown of the OPEB Trust in any given year. Under this scenario, Staff and Consultant recommend maintaining Portfolio 1 as the investment strategy by keeping the OPEB Trust 100% invested in Enhanced Cash.
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 - Scenario 3 – No drawdown and positive cash flows / contributions to the OPEB Trust over time. Under this scenario, Staff and Consultant recommend consideration of Portfolios 3 through 9 as viable investment strategies for implementation. (Memo dated October 2, 2013.)

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V. ACTION ITEMS (Continued)

Mr. Kushner provided an executive summary on the proposed asset allocation for the Los Angeles County Other Post Employment Benefit (“OPEB”) Trust. As Trustees and Fiduciaries for the OPEB Trust, staff recommended to the Board last November that they approve investing 100% in enhanced cash.

Mr. Kushner believes it’s time to revisit the asset allocation and provided three possible scenarios: The first is the County may need all of the funds immediately; the second is the County may need some of the funds, and assume 20% at some point over the next five years; or the third is the County will not need the funds and in fact may make contributions to this Trust over the next five years. A discussion followed wherein the Board directed Staff to request the County provide information regarding how the County anticipates using the Trust, and recognition that investment in longer lived assets may incur losses if draw-downs become necessary in the near term.

A motion was made by Mr. Saladino, seconded by Ms. Sandoval to continue this item until LACERA receives word in writing from the County on their intent for Trust usage and acknowledgement that early withdrawals are subject to loss. The motion carried by unanimous vote.

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V. ACTION ITEMS (Continued)

- B. Recommendation as submitted by June Kim, Principal Investment Officer, Equities, and Dale Johnson, Investment Officer, Equities: That the Board authorize staff to remove AQR Capital, LLC from the bench and retain the firm for an active emerging markets equity mandate. (Memo dated September 30, 2013.)

June Kim and Dale Johnson presented a brief overview on the proposed recommendation to remove AQR Capital, LLC (“AQR”) from the bench and retain the firm for an active emerging markets equity mandate. They reported that AQR was identified as a finalist in the active emerging market equity search conducted in mid-2012 and AQR is considered a top-tier investment manager with an impressive investment research team and robust process. AQR was placed on the bench so staff could monitor their Emerging Equities product for a longer period of time to gain increase familiarity with the firm and its investment strategy.

It was reported that AQR has exceeded its benchmark for all annualized time periods ending July 31, 2013. As of July 31, 2013, AQR had outperformed its benchmark net-of-fees by 580 basis points since inception. Staff is comfortable with the growth in the emerging market product’s assets, the five-year track record, and the efficacy of the currency model component. Funding AQR would allow for reallocation of some of LACERA’s emerging markets equity

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V. ACTION ITEMS (Continued)

assets from passive to active, as well as create more capacity and flexibility to adjust allocations across LACERA's existing active emerging markets managers as needed. It was also reported, should the Board wish to interview the manager, they have been tentatively scheduled to attend the November 20, 2013 Board of Investments meeting.

A motion was made by Mr. Barger, seconded by Mr. Santos to remove AQR Capital, LLC from the bench and retain the firm for an active emerging markets equity mandate and that the Board will interview the manager at the November 20, 2013, meeting of the Board of Investments. The motion carried with Ms. Widener voting no.

- C. Recommendation as submitted by Christopher J. Wagner, Principal Investment Officer, Private Equity and David E. Simpson, CFA, Investment Officer, Private Equity: That the Board approve a commitment of up to \$300 million to LACERA's externally managed separate account co-investment program, GTB Capital Partners II, L.P. ("GTB II"). (Memo dated October 2, 2013.)

Chris Wagner and David Simpson gave a presentation on the proposed commitment to LACERA's externally managed separate account co-investment

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V. ACTION ITEMS (Continued)

program GTB Capital Partners II, L.P. (“GTB II”), of up to \$300 million. This fund is a separate account vehicle formed in 2006 by LACERA and Morgan Stanley (“MS”) to manage the co-investment opportunities primarily sourced from LACERA’s portfolio along with deal flow sourced by MS leveraging their own relationships. Staff has taken an extensive review of the GTB program analyzing performance across several dimensions, assessing the development of the team and their performance against the program’s parameters as stated at inception and finally evaluating the elements of the proposed GTB II program.

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

V. ACTION ITEMS (Continued)

- D. Recommendation as submitted by John D. McClelland, Principal Investment Officer, Real Estate, and Trina L. Sanders, Investment Officer, Real Estate: That the Board authorize an investment up to \$100 million in City View Southern California Fund II. (Memo dated September 24, 2013.)

Trina Sanders presented a brief overview on City View Southern California Fund II (“CVSC II”) background and investment strategy on the proposed \$100 million investment. She reported that CVSC II presents an attractive real estate

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V. ACTION ITEMS (Continued)

investment opportunity and would complement LACERA's existing portfolio.

The fund sponsor, City View, has significant experience investing in the

workforce housing sector. LACERA's real estate consultant, The Townsend

Group, concurs with this assessment.

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

- E. Recommendation as submitted by John D. McClelland, Principal Investment Officer, Real Estate: That the Board authorize a contribution of \$300 million to the Housing Program to retire the line of credit. (Memo dated September 27, 2013.)

Mr. McClelland provided an executive summary on the proposed \$300 million contribution to the Housing Program to retire the line of credit. He reported that should LACERA make the recommended contribution, the fund's total exposure to real estate would increase 0.7%, bringing the allocation to 10.9% based upon the June 30, 2013 Fund asset allocation as well as the elimination of liability for the Loan and would restart incremental time-weighted return calculations for the program. Mr. McClelland also reported that LACERA's real estate consultant, the Townsend Group, concurs with Staff's recommendation.

V. ACTION ITEMS (Continued)

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

- F. Recommendation as submitted by Gregg Rademacher, Chief Executive Officer: That the Board approve attendance of Board members at the USC Corporate Governance Summit to be held on November 14 and 15, 2013 at the USC University Park Campus-Davidson Conference Center and approve reimbursement of all travel costs incurred in accordance with LACERA's Education and Travel Policy. (Memo dated October 1, 2013.) (Placed on the Agenda at the request of Mr. Barger.)

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

- G. Recommendation as submitted by Gregg Rademacher, Chief Executive Officer: That the Board approve attendance of Board members at the 2013 Invesco Real Estate Client Conference at The Lodge at Torrey Pines, La Jolla, California on November 5-7, 2013, and approve reimbursement of all travel costs incurred in accordance with LACERA's Education and Travel Policy. (Memo dated October 1, 2013.) (Placed on the Agenda at the request of Mr. Green.)

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

VI. REPORTS

- A. Actuarial Assumption Review
Gregg Rademacher, Chief Executive Officer
(Memo dated October 1, 2013.)

Milliman
Nick Collier, ASA, EA, MAAA
Mark Olleman, FSA, EA, MAAA

Mr. Rademacher introduced Nick Collier and Mark Olleman, LACERA's Plan actuaries with the actuarial firm Milliman, who are working on LACERA's Triennial Experience Study. This Study comprises recent experience with our Plan assumptions to determine if adjustments need to be made to the economic and non-economic valuation assumptions. This Study is being conducted in advance of completing the June 30, 2013 actuarial valuation used to set employer and employee contribution rates. The actuaries discussed various assumptions with the Board in preparation for presenting the Study to the Board at its December meeting.

The actuaries followed with their presentation on the Investigation of Experience and review of economic assumptions. The basic equation required for any system is that contributions and investment income must be sufficient to pay benefits and expenses. Milliman's role is to help the system keep things in

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VI. REPORTS (Continued)

balance, recommend contribution rates for employers and employees, and make sure the assets plus future contributions are sufficient to pay the expected benefits.

Capital market assumptions provide the most tangible measure of expected return. The capital market assumptions are slightly lower and this is mainly due to a lower inflation component. Real wage growth has historically exceeded price inflation. LACERA's experience has been 0.4% over 10 years and 0.6% over 50 years. Milliman's recommendation is to maintain 0.5% real wage growth, with a recommended rate of 3.85% to 3.75% combined real wage growth rate and inflation rate. Forecasts have indicated lower expected inflation and investment return less than 7.0% for investment return over 10 years, and the long term outlook is slightly higher. A brief discussion followed and the Report was received and filed.

Chair Santos reported that Items B, C, D, of Reports and Executive Session be tabled to the next regularly scheduled meeting of the Board of Investments.

Good of the Order was handled at this time.

VI. REPORTS (Continued)

- B. Private Equity Education
Christopher J. Wagner, Principal Investment Officer, Private Equity
(Memo dated October 2, 2013.)

Credit Suisse Customized Fund Investment Group (CFIG)
David Almodovar, Vice President

- C. Real Estate Performance Measurement Report 2nd Quarter 2013
John McClelland, Principal Investment Officer, Real Estate
(Memo dated October 1, 2013.)

The Townsend Group
Micolyn Magee, Principal

- D. Chief Investment Officer Personnel Evaluation
Gregg Rademacher, Chief Executive Officer
(Memo dated October 1, 2013.)

VII. EXECUTIVE SESSION

- A. CONFERENCE WITH LABOR NEGOTIATORS
(Government Code Section 54957.6)

1. Agency designated representatives:
John Nogales, Director, Human Resources

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

Mr. Rademacher reminded the Board of the upcoming SACRS Fall Conference to be held on November 12-15, 2013, and that the November 13 Board of Investments meeting was rescheduled to November 20.

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

Mr. Rademacher recognized Shawn Kehoe, (in the audience) as the newly elected Safety representative on the Board of Investments and Board of Retirement. He also reported the Board of Investments and Board of Retirement Agenda packages would be pushed to all Board members beginning in November. Should they wish to opt-out of any of the Agendas they can contact the Board Secretaries.

Green Folder Items

1. Chief Executive Officer's Report dated October 2, 2013.

IX. ADJOURNMENT

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

Diane Sandoval, Secretary

Herman B. Santos, Chair