

# AGENDA

## MEETING OF THE BOARD OF INVESTMENTS

LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION

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

WEDNESDAY, JULY 9, 2014, 9:00 A.M.

- I. PLEDGE OF ALLEGIANCE
- II. APPROVAL OF THE MINUTES
  - A. Approval of the Minutes of the June 11, 2014 meeting of the Board of Investments.
- III. PUBLIC COMMENT
- IV. REPORT ON CLOSED SESSION ITEMS
- V. ACTION ITEMS
  - A. Recommendation as submitted by Gregg Rademacher, Chief Executive Officer: That the Board provide direction to staff on the appropriate protocols for communicating manager recruitments. (Memo dated June 12, 2014.)
  - B. Recommendation as submitted by David Kushner, Chief Investment Officer: That your Board (1) Cancel the November 12, 2014, meeting and (2) reschedule the November 12, 2014 Board of Investment meeting to November 19, 2014 at 9:00 a.m. (Memo dated June 12, 2014.)
  - C. Recommendation as submitted by Christopher J. Wagner, Principal Investment Officer, Private Equity, and David E. Simpson, CFA, Investment Officer, Private Equity: That your Board approve a commitment of up to \$150 million to ABRY Partners VIII, L.P. (Memo dated July 1, 2014.)

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V. ACTION ITEMS (Continued)

- D. Recommendation as submitted by James Rice, CFA Senior Investment Officer, Hedge Funds, and Ingrid Tang, Senior Investment Analyst, Hedge Funds: That your Board select one hedge fund of funds manager to manage a custom hedge fund portfolio. (Memo dated June 23, 2014.)

VI. REPORTS

- A. 2014 First Quarter Hedge Fund Performance Report  
James Rice, CFA Senior Investment Officer, Hedge Funds  
(Memo dated June 25, 2014.)
- B. Private Equity Performance Review  
Christopher J. Wagner, Principal Investment Officer, Private Equity  
(Memo dated July 1, 2014.)
- C. Private Equity Performance Report  
Christopher J. Wagner, Principal Investment Officer, Private Equity  
(Memo dated July 1, 2014.) (For information only.)

VII. EXECUTIVE SESSION

- A. Conference with Legal Counsel – Existing Litigation  
(Paragraph (1) of Subdivision (d) of California Government  
Code Section 54956.9
  - 1. In re IndyMac MBS Securities Litigation (Master Docket  
No. 09-Civ.-04583 (LAK)).

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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, JULY 9, 2014, 9:00 A.M.

PRESENT: John M. Barger, Chair

David Green, Vice Chair

Shawn Kehoe, Secretary

Mark J. Saladino

Diane Sandoval

Herman B. Santos

Michael Schneider

Leonard Unger

Estevan Valenzuela

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

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STAFF, ADVISORS, PARTICIPANTS (Continued)

Vache Mahseredjian, CFA, Principal Investment Officer

Christopher J. Wagner, Principal Investment Officer, Private Equity

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, Investment Officer, Equities

Michael Herrera, Senior Staff Counsel

Christine Roseland, Senior Staff Counsel

John Harrington, Staff Counsel

GCM Customized Fund Investment Group

David Almodovar, Vice President

STAFF, ADVISORS, PARTICIPANTS (Continued)

I. PLEDGE OF ALLEGIANCE

Mr. Valenzuela led the Board members and staff in reciting the Pledge of Allegiance.

## II. APPROVAL OF THE MINUTES

- A. Approval of the Minutes of the June 11, 2014 meeting of the Board of Investments.

A motion to approve the Minutes of June 11, 2014 was made by Mr. Green, seconded by Mr. Schneider. The motion carried with Ms. Sandoval abstaining.

## III. PUBLIC COMMENT

None.

## IV. REPORT ON CLOSED SESSION ITEMS

None.

## V. ACTION ITEMS

- A. Recommendation as submitted by Gregg Rademacher, Chief Executive Officer: That the Board provide direction to staff on the appropriate protocols for communicating manager recruitments. (Memo dated June 12, 2014.)

Mr. Rademacher presented an executive summary on the proposed protocols for communicating manager recruitments.

A motion was made by Mr. Kehoe seconded by Mr. Unger that Investment staff will provide the Board

V. ACTION ITEMS (Continued)

with their recommendation on the three top scoring finalists, with management fees as part of the scoring process. All three finalists will be required to present before the Board, unless the Board directs Staff to do otherwise. Staff is to report to the Board their intent to present the finalists at the meeting prior to the finalist interviews. The motion carried by unanimous vote.

- B. Recommendation as submitted by David Kushner, Chief Investment Officer: That your Board (1) Cancel the November 12, 2014, meeting and (2) reschedule the November 12, 2014 Board of Investment meeting to November 19, 2014 at 9:00 a.m. (Memo dated June 12, 2014.)

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

- C. Recommendation as submitted by Christopher J. Wagner, Principal Investment Officer, Private Equity, and David E. Simpson, CFA, Investment Officer, Private Equity: That your Board approve a commitment of up to \$150 million to ABRY Partners VIII, L.P. (Memo dated July 1, 2014.)

Mr. Simpson provided a brief overview on the proposed ABRY Partners VIII, L.P. (“ABRY”) commitment. He informed the Board on ABRY’s

V. ACTION ITEMS (Continued)

historical background, its investment strategy and performance. Mr. Simpson reported that ABRY maintains a deep established investment team focused on the media space and the firm has consistently generated a strong performance. Their proven strategy and processes have translated into sustainable competitive advantages in the marketplace that have propelled superior performance.

LACERA's private equity consultant, CFGI, concurs with Staff's conclusion that ABRY is a high quality investment opportunity. A brief discussion followed.

A motion to approve the recommendation was made by Mr. Santos, seconded by Mr. Barger. The motion carried with Ms. Sandoval and Messrs. Kehoe, Schneider, and Unger voting no.

- D. Recommendation as submitted by James Rice, CFA Senior Investment Officer, Hedge Funds, and Ingrid Tang, Senior Investment Analyst, Hedge Funds: That your Board select one hedge fund of funds manager to manage a custom hedge fund portfolio. (Memo dated June 23, 2014.)

Mr. Rice provided an executive summary on the Board-authorized search for a second hedge fund of funds manager, with a brief report on the three finalists.

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V. ACTION ITEMS (Continued)

Mr. Rice also pointed out the reason staff did not recommend Rock Creek was that Rock Creek lacked the same level of resources able to provide “knowledge transfer” services to LACERA. Additionally, staff was concerned that Rock Creek had only one person dedicated to doing on-site due diligence compared to Blackstone’s 8 to 10 persons and Goldman Sachs’ 4 to 6 persons. A discussion followed on the fee differential of \$1½ mm Blackstone was charging.

A motion was made by Mr. Kehoe, seconded by Ms. Sandoval, to hire Goldman Sachs to manage a custom hedge fund portfolio. The motion carried with Messrs. Green and Santos voting no.

VI. REPORTS

- A. 2014 First Quarter Hedge Fund Performance Report  
James Rice, CFA Senior Investment Officer, Hedge Funds  
(Memo dated June 25, 2014.)

Mr. Rice provided an executive summary on the 2014 First Quarter Hedge Fund Performance and reported that the total portfolio exhibited better than

## VI. REPORTS (Continued)

benchmark performance in the first quarter of 2014, returning 2.3%. The total portfolio exceeded by 110 basis points (“bps”) the 1.2% return of LACERA primary hedge fund benchmark, the 90-Day U.S. T-Bills Index, plus 500 bps (“Primary benchmark”). LACERA’s secondary benchmark is the HFRX Global Hedge Fund Index (“secondary benchmark”), which is comprised of open hedge funds that are representative of the overall composition of the industry.

LACERA’s total portfolio outperformed by 120 bps the 1.1% return of the secondary benchmark. In the ten quarters since the inception of LACERA’s program, the 8.6% annualized return outperformed both of its benchmarks; it exceeded the primary benchmark by 350 bps and the secondary benchmark by 430 bps.

On a one year basis, LACERA’s results exceeded that of the HFR Global Hedge Fund Index, due to good absolute and relative performance in the largest strategy categories of credit, equities, multi-strategy, and relative value. In the 30 months since program inception of the diversified portfolio, strong absolute and benchmark-relative performance has been realized by managers in three categories: credit, multi-strategy, and relative value, which have annualized

## VI. REPORTS

returns of 14.0%, 13.0%, and 12.7% respectively. A brief discussion followed on strategy concerns and the Report was received and filed.

B. Private Equity Performance Review  
Christopher J. Wagner, Principal Investment Officer, Private Equity  
(Memo dated July 1, 2014.)

Mr. Wagner gave a presentation on LACERA's Private Equity Portfolio, with a brief overview on the Portfolio's structure. As of December 31, 2013, the IRR for the Core Portfolio was 16.4%, with the Co-Investment Program totaling an IRR of 12.1%. The Middle-Market program totaled an IRR of 1.0%, and the Emerging Manager Program reporting an IRR of 15.6%. The Private Equity Portfolio is well diversified and the performance continues to exceed its benchmark with another strong year of distributions. The Report was received and filed.

C. Private Equity Performance Report  
Christopher J. Wagner, Principal Investment Officer, Private Equity  
(Memo dated July 1, 2014.) (For information only.)

The Private Equity Performance Report is for information only and was received and filed.

Chair Barger pointed out that the Executive Session would not be handled today per Chief Counsel and would proceed with Good of the Order at this time.

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### VIII. GOOD OF THE ORDER

(For discussion purposes only.)

Mr. Unger provided an update on global warming and pointed out that countries are looking at risks on businesses that produce carbon. They are in the process of making a decision on whether to eliminate such funds, either on a current basis or phasing them out. He suggested that LACERA's Portfolio Risk Committee should take a look at whether this should be evaluated. He is not suggesting that LACERA should get out of the energy business or get into every kind of alternative energy, as he does not feel they make economic sense today. He does however feel there is a serious risk facing humanity and the planet in a lot of ways. As investors, if people start dumping stocks the way they dumped tobacco early on, and other stocks when they come out of favor, LACERA should be aware of that and try to quantify the best it can.

The Board commended Van Bonifacio for the excellent services he provides at all Board meetings, as LACERA's Audio Visual expert. Mr. Rademacher extended an invitation to the Board to attend LACERA's Summer Event which will be held on July 19, 2014. Mr. Rademacher also recognized Mr. Unger on behalf of the State Association of County Retirement Systems for his dedicated

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

Board Services and presented him with a pin for his 10 years of service on the Board of Investments.

Mr. Kushner provided an update on the current status of the private equity recruitment and the replacement of June Kim. He also reported that LACERA's fund closed the fiscal year at approximately \$47 billion with a net of fee return of 15%, outperforming the actuarial rate of return as well. The Board commended staff on the fund's outperformance.

Green Folder Items

1. Chief Investment Officer's report dated July 1, 2014.
2. Memo dated July 7, 2014 from James Rice, CFA, Senior Investment Officer regarding an update on the Hedge Fund of Fund search.
3. Memo dated July 1, 2014 from Christopher J. Wagner, Principal Investment Officer, Private Equity and David E. Simpson, CFA, Investment Officer, Private Equity regarding the Patria-Brazilian Private Equity Fund V, L.P.
4. Memo dated July 8, 2014 from Michael D. Herrera, Senior Staff Counsel regarding the U.S. Supreme Court Ruling in Halliburton Securities Litigation

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IX. ADJOURNMENT

There being no further business the meeting adjourned at 11:40 am.

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Shawn Kehoe, Secretary

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John M. Barger, Chair

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