

# AGENDA

## MEETING OF THE BOARD OF INVESTMENTS

LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION

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

WEDNESDAY, OCTOBER 8, 2014, 9:00 A.M.

- I. PLEDGE OF ALLEGIANCE
- II. APPROVAL OF THE MINUTES
  - A. Approval of the Minutes of the September 10, 2014 meeting of the Board of Investments.
- III. PUBLIC COMMENT
- IV. REPORT ON CLOSED SESSION ITEMS
- V. CONSENT
  - A. Recommendation as submitted by Gregg Rademacher, Chief Executive Officer: Approve attendance of Board members at the USC Corporate Governance Summit to be held on November 13 and 14, 2014, and approve reimbursement of all travel costs incurred in accordance with LACERA's Education and Travel Policy. (Memo dated September 23, 2014.)
  - B. Recommendation as submitted by Gregg Rademacher, Chief Executive Officer: Approve attendance of Board members at the US Markets Center for Institutional Investors Education is hosting their 2<sup>nd</sup> Annual Pacific States Institutional Investors Forum on December 11, 2014 in San Francisco, California approve reimbursement of all travel costs incurred in accordance with LACERA's Education and Travel Policy. (Memo dated August 28, 2014.)

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## VI. ACTION ITEMS

- A. Recommendation as submitted by the Board of Investments Equity Committee: That your Board authorize Staff to issue a two-phase Request for Information (“RFI”) for U.S. and Non-U.S. activist equity managers. In the first phase, a questionnaire will be sent to a target list of managers created by LACERA with input from Wilshire Associates (“Wilshire”), Grosvenor Capital Management (“Grosvenor”), and Goldman Sachs Asset Management (“GSAM”). In the second phase, a subset of managers from the target list will be requested to respond to a more thorough questionnaire as part of the RFI Process. (Memo dated September 19, 2014.)
- B. Recommendation as submitted by Christopher J. Wagner, Principal Investment Officer-Private Equity, and Shelly P. Tilaye, CAIA, Senior Investment Analyst, Private Equity: That your Board approve a commitment of up to \$100 million to Centerbridge Capital Partners III, L.P. (Memo dated September 29, 2014.)
- C. Discussion and possible action regarding the proposed Agenda for Board Offsite meeting of January 22, 2015.  
David E. Kushner, CFA, Chief Investment Officer

## VII. REPORTS

- A. 2014 Second Quarter Hedge Fund Performance Report  
James Rice, CFA, Senior Investment Officer, Hedge Funds  
(Memo dated September 26, 2014)
- B. Resignation of Bill Gross from PIMCO  
Vache Mahseredjian, CFA, CAIA, FRM, ASA  
Principal Investment Officer  
(Memo dated September 30, 2014.) (For information only.)

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VII. REPORTS (Continued)

- C. Investment Policy Statement  
David E. Kushner, CFA, Chief Investment Officer  
(For information only.) (Memo dated September 27, 2014.)

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

IX. EXECUTIVE SESSION

- A. Conference with Legal Counsel - Pending Litigation (pursuant to paragraph (2) of subdivision (d) of California Government Code Section 54956.9).

- 1. One case

X. ADJOURNMENT

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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, OCTOBER 8, 2014, 9:00 A.M.

PRESENT: John M. Barger, Chair

David Green, Vice Chair

Shawn Kehoe, Secretary

Diane Sandoval

Herman B. Santos

Michael Schneider

Leonard Unger

Estevan Valenzuela

ABSENT: Mark Saladino

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

David Chu, Investment Analyst, Private Equity

Esmeralda Vita del Bosque, Senior Investment Analyst, Equities

Dale Johnson, Investment Officer, Equities

Ron Senkandwa, Senior Investment Analyst, Equities

David Simpson, Investment Officer, Private Equities

Ingrid Tang, Senior Investment Analyst, Hedge Funds

Robert Van Der Volgen, Jr., Chief Counsel

Michael Herrera, Senior Staff Counsel

Christine Roseland, Senior Staff Counsel

John Harrington, Staff Counsel

GCM Customized Fund Investment Group

David Almodovar, Vice President

I. PLEDGE OF ALLEGIANCE

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

II. APPROVAL OF THE MINUTES

- A. Approval of the Minutes of the September 10, 2014 meeting of the Board of Investments.

A motion to approve the Minutes of the September 10, 2014 meeting of the Board of Investments was made by Mr. Kehoe, seconded by Mr. Green. The motion carried, with Ms. Sandoval abstaining.

III. PUBLIC COMMENT

None.

IV. REPORT ON CLOSED SESSION ITEMS

None.

V. CONSENT

- A. Recommendation as submitted by Gregg Rademacher, Chief Executive Officer: Approve attendance of Board members at the USC Corporate Governance Summit to be held on November 13 and 14, 2014, and approve reimbursement of all travel costs incurred in accordance with LACERA's Education and Travel Policy. (Memo dated September 23, 2014.)

VI. CONSENT (Continued)

- B. Recommendation as submitted by Gregg Rademacher, Chief Executive Officer: Approve attendance of Board members at the US Markets Center for Institutional Investors Education is hosting their 2<sup>nd</sup> Annual Pacific States Institutional Investors Forum on December 11, 2014 in San Francisco, California approve reimbursement of all travel costs incurred in accordance with LACERA's Education and Travel Policy. (Memo dated August 28, 2014.)
- C. Recommendation as submitted by Gregg Rademacher, Chief Executive Officer: That your Board approve attendance of Board members to attend ICBI's 14<sup>th</sup> Annual SuperInvestor 2014 Conference on November 18-21, 2014, and approve reimbursement of all travel costs incurred in accordance with LACERA's Education and Travel Policy. (Memo dated October 3, 2014.)

A motion to approve the Consent agenda was made by Ms. Sandoval, seconded by Mr. Valenzuela. The motion carried by unanimous vote.

VI. ACTION ITEMS

- A. Recommendation as submitted by the Board of Investments Equity Committee: That your Board authorize Staff to issue a two-phase Request for Information ("RFI") for U.S. and Non-U.S. activist equity managers. In the first phase, a questionnaire will be sent to a target list of managers created by LACERA with input from Wilshire Associates ("Wilshire"), Grosvenor Capital Management ("Grosvenor"), and Goldman Sachs Asset Management ("GSAM"). In the second phase, a subset of managers from the target list will be requested to respond to a more thorough questionnaire as part of the RFI Process. (Memo dated September 19, 2014.)

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## VI. ACTION ITEMS (Continued)

Mr. Johnson gave a brief presentation on the proposed recommendation to issue a two-phase Request for Information (“RFI”) for U.S. and Non-U.S activist equity managers. In the first phase, a questionnaire is sent to a target list of managers created by LACERA, with input from Wilshire Associates (“Wilshire”), Grosvenor Capital Management (“Grosvenor”), and Goldman Sachs Asset Management (“GSAM”). In the second phase, a subset of managers from the target list will be requested to respond to a more thorough questionnaire as part of the RFI process. Mr. Johnson pointed out that the activist equity managers provide an important function in equity markets by undertaking change at underperforming companies. As LACERA is broadly exposed to U.S. and Non-U.S. stock markets through its holdings in index funds, LACERA benefits directly from successful activism. These managers can directly benefit its public equity asset class as their excess returns are generally uncorrelated to traditional active equity managers and they have the potential to generate higher excess returns, than traditional active equity managers. A brief discussion followed on investment strategy and fee concerns.

VI. ACTION ITEMS (Continued)

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

- B. Recommendation as submitted by Christopher J. Wagner, Principal Investment Officer-Private Equity, and Shelly P. Tilaye, CAIA, Senior Investment Analyst, Private Equity: That your Board approve a commitment of up to \$100 million to Centerbridge Capital Partners III, L.P. (Memo dated September 29, 2014.)

Ms. Tilaye presented a brief overview on the proposed commitment to Centerbridge Capital Partners III, L.P. (“CCP III”) and reported that staff had completed a thorough due diligence on the general partner and determined that CCP III, was an attractive investment opportunity. Ms. Tilaye also reported that the general partner would pursue a combined investment strategy of private equity investing and distressed debt securities, investing with intent to control or influence the restructuring of a company. Centerbridge has an experienced and well-regarded investment team and an attractive investment strategy. It is a good fit, as it increases exposure to high-performing special situations/mid-sized buyout funds, within LACERA’s private equity portfolio. A commitment to the Fund would be an attractive investment for the private equity portfolio. The Grosvenor

VI. ACTION ITEMS (Continued)

Private Equity Market (“GCM”) team conducted independent due diligence on the general partner and concurs with Staff’s conclusion.

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

- C. Discussion and possible action regarding the proposed Agenda for Board Offsite meeting of January 22, 2015.  
David E. Kushner, CFA, Chief Investment Officer

Mr. Kushner presented a brief overview on the proposed Agenda for the upcoming Board Off-Site to be held in January 2015, focusing on a broad fund overview, with emphasis on hedge funds, private equity, and risk. He also pointed out that he would invite individual speakers who could provide input on changes in the investment industry looking forward. A brief discussion followed.

Chair Barger indicated at this time Item B of VII Reports would be handled.

## VII. REPORTS

- B. Resignation of Bill Gross from PIMCO  
Vache Mahseredjian, CFA, CAIA, FRM, ASA  
Principal Investment Officer

(Memo dated September 30, 2014.) (For information only.)

Mr. Mahseredjian presented a brief overview on the resignation of Bill Gross, the CIO and co-founder of Pacific Investment Management Company (PIMCO). He emphasized that PIMCO had a large team of very capable investment professionals with a disciplined and rigorous investment process and that Mr. Gross' departure would not be detrimental to the fund. A brief discussion followed with Mr. Valenzuela asking that staff report back to the Board on the transition, within three to six months.

- A. 2014 Second Quarter Hedge Fund Performance Report  
James Rice, CFA, Senior Investment Officer, Hedge Funds  
(Memo dated September 26, 2014)

Mr. Rice presented a brief overview on 2014 Second Quarter Hedge Fund Performance and reported that the total portfolio exhibited better than benchmark performance in the second quarter of 2014, returning 1.8%. The total portfolio exceeded by 60 basis points ("bps") the 1.2% return of LACERA's primary hedge fund benchmark, the 90 day U.S. T-bills Index plus 500 bps (Primary benchmark")

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## VII. REPORTS (Continued)

LACERA's total portfolio outperformed by 120 bps the 0.6% return of the secondary benchmark. In the eleven quarters since the inception of LACERA's program, the 8.4% annualized return outperformed both of its benchmarks; it exceeded the primary benchmark by 330 bps and the secondary benchmark by 420 bps. Mr. Rice also reported that the key objective for the hedge fund program is to reduce volatility of the Total Fund without materially decreasing returns. The total portfolio meets its objective for volatility and diversification and experienced low levels of realized volatility since inception. A brief discussion followed and the Report was received and filed.

- C. Investment Policy Statement  
David E. Kushner, CFA, Chief Investment Officer  
(For information only.) (Memo dated September 27, 2014.)

Mr. Kushner invited the Board to review the Investment Policy Statement, which includes staff's proposed changes, and forward comments, questions, and concerns. A revised Investment Policy will be included on the Board's December 2014 agenda as an action item for the Board's consideration.

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

The Board recognized and congratulated Mark Saladino on his appointment by the Board of Supervisors to the position of Chief County Counsel for the County of Los Angeles. In his capacity as Treasurer Tax Collector, he served on both Retirement and Investment Boards continually since May 1998. His contribution is greatly appreciated and he will be missed. Today's meeting will adjourn in his honor.

The Board also recognized and congratulated Mike Herrera, LACERA's Senior Staff Counsel, for being elected to the Executive Board of the National Association of Public Pension Plan attorneys (NAPPA).

Mr. Kushner provided an update on the recruitment efforts for the Investment Office and introduced David Chu, who joined the Private Equity Group. He reported that Mr. Chu spent 10 years in the Private Equity, Venture Capital Markets in China and has an excellent and extensive background. He also reported that a second candidate for Private Equity was hired and will start in November. Mr. Kushner reported that an executive recruitment firm had been retained to assist in the national search for the Principal Investment Officer position.

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

The Board commended Mr. Kushner for his award on behalf of the Association of Asian American Investment Managers for his support of greater diversity within the investment community.

IX. EXECUTIVE SESSION

A. Conference with Legal Counsel - Pending Litigation (pursuant to paragraph (2) of subdivision (d) of California Government Code Section 54956.9).

1. One case

At the request of Chief Counsel Robb Van Der Volgen, Chair Barger pointed out that the Executive Session item would not be handled at this time

Green Folder Items

1. Attachment E to the Corporate Governance Policy.
2. Copy of proposed Offsite Agenda.

X. ADJOURNMENT

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

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Shawn Kehoe, Secretary

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John M. Barger, Chair