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LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION INVESTMENT POLICY STATEMENT

INTRODUCTION

This document provides the framework for the management of LACERA's assets (the Plan). The purpose of the Investment Policy is to assist the Board of Investments and Staff in effectively supervising and monitoring the LACERA assets. Specifically, it addresses the following issues:

- The general goals of the investment program.
- Specific asset class allocations, targets, and ranges.
- Performance objectives.
- The investment policies and structures for the management of the assets.
- Responsible parties and duties.

The Board establishes this investment policy in accordance with applicable local, State, and Federal laws. The Board members exercise authority and control over the management of the Plan, by setting policy which the Investment Staff executes either internally or through the use of external prudent experts. The Board oversees and guides the Plan subject to the following basic fiduciary responsibilities:

- Solely in the interest of, and for the exclusive purpose of providing economic benefits to participants and their beneficiaries.
- With the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of a like character with like objectives.
- Diversify the investments of the Plan so as to minimize the risk of loss and to maximize the rate of return, unless under the circumstances, it is clearly prudent not to do so. Diversification is applicable to the deployment of the assets as a whole.

This policy statement is designed to allow for sufficient flexibility in the management oversight process to capture investment opportunities as they may occur, while setting forth reasonable parameters to ensure prudence and care in the execution of the investment program.

Incorporated by reference and attached to this document are the following:

Attachments

- A U.S. Equity Investment Policy
- B Non-U.S. Equity Investment Policy
- C Private Equity Investment Policy
- D Fixed Income Investment Policy
- E Cash and Cash Equivalents Investment Policy
- F Real Estate Investment Policy
- G Commodities Investment Policy
- H Corporate Governance Principles
- I Derivatives Investment Policy
- J Emerging Manager Policy
- K Manager Monitoring and Review Policy
- L Securities Lending Policy

These are concise policy statements, more detailed strategic plans or procedures are developed separately.

Finally, as an adjunct to this policy, LACERA's Board of Investments has also adopted an Investment Risk Management Policy Statement (IRMPS), which identifies financial, business, and operational risks.

INVESTMENT GOALS

The Plan's general investment goals are broad in nature. The objective shall be to efficiently allocate and manage the assets dedicated to the payment of Plan benefits and administrative expenses. The following goals, consistent with the above described purpose, are adopted:

- The overall goal of LACERA's investment program is to provide Association participants with retirement benefits as promised. This will be accomplished through a carefully planned and executed long-term investment program.
- LACERA's assets will be managed on a total return basis. While LACERA recognizes the importance of the preservation of capital, it also adheres to the principle that varying degrees of investment risk are generally rewarded with compensating returns in the long term.
- The total portfolio return over the long term is directed toward achieving and maintaining a fully funded status for the Plan.

LACERA's Investment Policy has been designed to allow the Plan to achieve a long-term total return. Consequently, prudent risk-taking is warranted within the context of overall portfolio diversification to meet this goal. The investment activities are designed and executed in a manner that serves the best interests of the members and beneficiaries of the System.

All transactions undertaken will be for the sole economic benefit of LACERA's members and beneficiaries and for the exclusive purpose of providing benefits to them.

LACERA has a long-term investment horizon, and utilizes an asset allocation which encompasses a strategic, long-run perspective of capital markets. It is generally recognized that a strategic long-term asset allocation plan implemented in a consistent and disciplined manner will be the major determinant of the Plan's investment performance.

Investment recommendations and subsequent actions are expected to comply with "prudent expert" standards.

ASSET ALLOCATION POLICY

The asset allocation policy is predicated on a number of factors, including:

- A projection of actuarial assets, liabilities, benefit payments, contributions, and LACERA's actuarial rate of return.
- Historical behavior and expected long-term capital market risk-and-return forecasts.
- An assessment of future economic conditions, including inflation and interest rate levels.
- The current and projected funded status of the Plan.
- Various risk/return scenarios.
- Liquidity requirements.

This policy provides for diversification of assets in an effort to maximize the total return of the Plan consistent with market conditions and risk control. An asset liability study should be conducted every three to five years, or after a significant change in the liability structure. The asset allocation modeling process identifies asset classes the Plan will utilize and the percentage that each class represents of the total fund. Due to the fluctuation of market values, positioning within a specified range is acceptable and constitutes compliance with the policy. It is anticipated that an extended period of time may be required to fully implement the asset allocation policy, and that periodic revisions will occur. LACERA's investments in private equity and real estate investments are implemented gradually, recognizing the long-term nature of these investments. LACERA's Investment Staff will monitor and assess the actual asset allocation versus policy and will evaluate any variation deemed significant.

The Board will implement the asset allocation policy through the use of active and passive investment managers as well as internal Staff who will invest the assets of their portfolios subject to investment guidelines incorporated into the Board executed investment management agreements or the policies established by the Board for internal Staff management executed with the Board. The strategic asset allocation targets and ranges for the investments of the Plan's assets are shown below:

ASSET CLASS	BENCHMARK	TARGET ALLOCATION	ALLOCATION RANGE
U.S. Equity	Russell 3000	30%	25%-35%
Non-U.S. Equity	MSCI ACWI ex U.S. IMI	21%	16%-26%
TOTAL PUBLIC EQUITY:		51%	41% - 61%
Private Equity	Russell 3000 + 3 - 5% (rolling 10 year)	7%	4%-10%
U.S. Fixed Income	Barclay's Capital U.S. Universal Bond Index	28%	25% - 31%
Cash	Citi 6-month T-Bills Index	2%	0%-4%
TOTAL FIXED INCOME:		30%	25% - 35%
Real Estate	NCREIF -25 bps	10%	7%-15%
Commodities	DJ-AIG	2%	0%-3%
TOTAL FUND		100%	

The purpose of rebalancing back to asset class targets is to ensure that the Plan's actual asset allocation does not drift from the strategic asset allocation policy. The strategic asset allocation has been developed after a rigorous analysis of the Board's objectives and risk tolerance. Rebalancing ensures that the Plan's desired strategy is maintained consistently over time. It, therefore, ensures that a major policy decision of the Board is implemented effectively.

In the absence of any other considerations, the optimal strategy would be to rebalance continually back to the strategic asset allocation. However, rebalancing involves costs such as brokerage and other trading costs.

It shall be the policy of the Board that:

- Cash flows, into and out of the fund, will be used to rebalance back to asset class targets whenever possible.
- The Fund's actual asset allocation should be reviewed at the end of each month when asset valuations become available. More frequent reviews may be undertaken, if appropriate. Rebalancing may take place if the weight to any asset class fluctuates

from its Board-approved target weight. Rebalancing should be implemented by the most cost-effective means available and without market disruption.

- When rebalancing occurs, the portfolio will be rebalanced back toward the strategic asset allocation policy targets.

At least monthly, the Board shall be notified of any rebalancing that has taken place. Additionally, LACERA's quarterly investment performance report will include a direct comparison of the portfolio's actual asset allocation to the target allocation. The implementation of the rebalancing program will be undertaken by the Chief Investment Officer.

PERFORMANCE OBJECTIVES

The long-term performance objective of LACERA's total fund is to exceed its Policy benchmark by 10 to 15 basis points net of fees with a tracking error of less than two percent. Liquid asset class returns will be reviewed over rolling five-year periods by an amount appropriate to the amount of risk assumed. Illiquid asset class performance evaluation requires a longer time horizon (i.e. five to ten years) due to the nature of the asset class.

INVESTMENT PROGRAM POLICIES

The policies of LACERA's investment program are designed to maximize the likelihood that the investment goals will be achieved. Investment policies will evolve as fund conditions change and as investment conditions warrant. In addition, legislative modifications, as adopted by the Federal or State Government, will be adhered to.

Portfolio Components

LACERA will utilize the following portfolio components to fulfill the asset allocation targets and total fund performance goals established elsewhere in this document.

Public Equities-LACERA anticipates that total returns to equities will be higher than total returns to fixed income securities over the long run, but may be subject to greater volatility. Public equity is allocated between two liquid asset classes: U.S. equities and non-U.S. equities. Policies for these asset classes are contained in Attachments A and B, respectively.

Private Equity-an illiquid equity asset class, provides a significant source of investment return by investing in private equity opportunities. The Private Equity portfolio will include investments in a variety of commingled/partnership and direct investment vehicles including, but not limited to, venture capital, buyout, turnaround, mezzanine, distressed security, and special equity funds. The Private Equity portfolio is recognized to be long-term in nature and highly illiquid. Because of their higher risk, private equity investments are expected to provide substantially higher returns than publicly traded equity securities. Attachment C contains the policy document for Private Equity Investments.

Fixed Income-The primary role of the fixed income portfolio is to provide a stable investment return and to generate income while diversifying LACERA's investment portfolio. U.S. fixed income will be utilized in the strategic asset allocation policy for this asset class (Attachment D).

Cash Equivalents-It is recognized that cash equivalents are part of LACERA's strategic asset allocation. Cash equivalents will be invested in short term investments as described in Attachment E.

Real Estate-LACERA primarily invests in separate accounts covering a broad array of property types diversified throughout the U.S. LACERA may also elect to invest in non-U.S. real estate. The portfolio is designed to provide a stable level of income combined with potential for price appreciation, particularly in periods of unexpected inflation. LACERA recognizes the illiquid, long-term nature of its real estate investment portfolio and its role in diversifying the other asset classes. The real estate policy is included as Attachment F.

Commodities-The primary objective of the commodities allocation is to diversify the total Fund's risk. A secondary objective of commodities is to provide an inflation hedge. Commodities market benchmarks measure the performance of commodity futures – not the underlying physical commodities. Therefore, LACERA's managers will use derivative instruments such as futures and swaps to implement their strategies, and at no time will the managers take physical delivery of commodities. LACERA's commodities policy is included as Attachment G.

SUPPLEMENTAL INVESTMENT POLICIES

Corporate Governance Principles

LACERA acknowledges that the ownership of equities entitles proxies to be voted. The Association commits to managing its proxy voting rights with the same care, skill, diligence and prudence as is exercised in managing its other assets. As responsible fiduciaries, the Board and designated Staff will exercise its proxy voting rights in the sole interest of the System's members and beneficiaries in accordance with all applicable statutes. The Corporate Governance Principles statement is included in Attachment H.

Derivatives Policy

LACERA's Derivatives Policy sets forth the investment policy for the use of Investment Derivatives by external money managers, including the strategic objectives and prescribed risk controls. This policy also provides assurance that there is sufficient flexibility in controlling investment risks and returns associated with the use of derivative instruments. The Derivatives Policy is included as Attachment I.

Emerging Manager Programs

Consistent with LACERA's goal of maximizing the Plan's long-term total return, LACERA has determined that it is prudent to consider the full universe of investment management firms. To

that goal, LACERA has developed an emerging manager policy to establish prudent procedures for identifying and employing high-potential emerging investment managers. (See Attachment J).

Securities Lending

The Board has authorized the execution of a Security Lending Program which will be performed by the Plan custodian, and/or qualified third-party securities lending agent(s), and/or direct borrowers (principals). The program is monitored and reviewed by the Investment Staff and was established by a written agreement authorized by the Board. Attachment L contains the Plan's securities lending investment policy.

INVESTMENT MANAGEMENT POLICIES

LACERA may utilize both internally and externally managed portfolios based on specific mandates and methodologies. The external managers will be expected to acknowledge in writing that they are Plan fiduciaries, they will have discretion and authority to determine investment strategy, security selection and timing within their asset class, subject to the Policy guidelines and any other guidelines specific to their portfolio.

Investment managers, as prudent experts, will be expected to know LACERA's specific investment guidelines for their portfolios, and to comply with those policies and guidelines. It is each manager's responsibility to identify guidelines that may have an adverse impact on performance, and to initiate discussion with Staff toward possible improvement of said policies through Board action.

As outlined in LACERA's Manager Monitoring and Annual Review Policy (Attachment K), Staff, under Board supervision, is responsible for monitoring investment managers' adherence to their investment mandate, and any material changes in the managers' organization. The investment managers retained by LACERA will be responsible for informing Staff of all such material changes on a timely basis. Further, Staff is responsible for monitoring and evaluating manager performance on a regular basis relative to each portfolio's component's benchmark return and relative to a peer group of managers with similar investment mandates.

Investment managers under contract to LACERA shall have discretion to establish and execute transactions with any securities broker/dealers as needed. However, LACERA reserves the right to preclude investment managers from directing trades through brokerage subsidiaries of LACERA contractors. The investment managers must obtain the best available prices and most favorable executions with respect to all of the portfolio transactions as market conditions permit.

Prohibited Transactions

The following transactions will be prohibited unless stated otherwise in the investment manager guidelines:

- Short sales.
- Selling or buying on margin.
- "Prohibited transactions" as defined under the Employee Retirement Income Security Act of 1974 (ERISA).
- Transactions that involve a broker acting as a "principal", where such broker is also the investment manager who is making the transaction.
- Any or all investment activities forbidden by SEC or other applicable governing bodies.
- With the exception of real estate and private equity, no investment manager or trustee may leverage the LACERA portfolio by investing more than 100% of the total market value. This measure must reflect the effective exposure associated with derivative securities. The exposure for options, when permitted by contract, must be based on an appropriate options pricing model.

Selection Criteria for Investment Managers

Criteria will be established for each manager search undertaken by LACERA and will be tailored to LACERA's needs in such a search. In general, eligible managers will possess attributes including, but not limited to, the following:

- The firm must be experienced in managing investments for institutional clients in the asset class/product category/investment style specified by LACERA.
- The firm must display a record of stability in retaining and attracting qualified investment professionals, as well as a record of managing asset growth effectively, both in gaining and retaining clients.
- The firm must have an asset base sufficient to accommodate LACERA's portfolio. In general, LACERA's portfolio should make up no more than 25% of the firm's total asset base. Exceptions may be made on a case-by-case basis.
- The firm must demonstrate adherence to the investment mandate sought by LACERA, and adherence to the firm's stated investment discipline.
- The firm's fees should be competitive with industry standards for the product category.
- The firm must comply with the "Duties of the Investment Managers" outlined herein.
- The firm must conform to Global Investment Performance Standards (GIPS) for performance reporting.

The following minimum qualifications will be used for public market investment manager searches and will not require Board approval:

- LACERA's expected allocation to the mandate must be limited to 25% of the manager's assets in the proposed product.
- Manager's proposed product must have at least a seven-year track record.¹
- At least 60%, or more, of the quarterly rolling one-year excess returns for the last seven years² (15 of 25 observations) must exceed the appropriate benchmark by at least the net of fees excess return expectations for LACERA's managers in the same mandate.

In the event that these minimum qualifications need to be modified to meet the particular needs of a manager search, Staff will submit the appropriate search criteria to the Board of Investments for approval.

Termination Criteria for Investment Managers

LACERA reserves the right to terminate an investment manager for any reason. Grounds for investment manager termination may include, but are not limited to, the following:

- Failure to comply with the guidelines agreed upon for management of LACERA's portfolio, including holding restricted issues.
- Failure to achieve performance objectives specified in the manager's guidelines.
- Significant deviation from the manager's stated investment philosophy and/or process.
- Loss of key personnel.
- Evidence of illegal or unethical behavior by the investment management firm.
- Lack of willingness to cooperate with reasonable requests by LACERA for information, meetings or other material related to its portfolios.
- Loss of confidence by Staff and the Board in the investment manager.
- A change in the Fund's asset allocation program which necessitates a shift of assets to another sector.

The presence of any one of these factors will be carefully reviewed by LACERA Staff, but will not necessarily result in an automatic termination.

DUTIES OF RESPONSIBLE PARTIES

Duties of LACERA 's Board of Investments

¹ With the exception of U.S. and international small cap managers: at least a three year track record.

² With the exception of U.S. and international small cap managers: quarterly rolling one-year excess returns for the last three years

The Board or its designee(s) will adhere to the following in the management of LACERA's assets:

- Shall develop and approve guidelines for the execution of LACERA's investment program. Only the Board in its sole discretion can delegate its decision-making authority regarding the investment program. Staff will be responsible for the timely implementation and administration of these decisions.
- Shall review LACERA's investment structure, asset allocation and financial performance annually or more frequently as the need arises. The review will include recommended adjustments to the long-term, strategic asset allocation to reflect any changes in applicable regulations, long-term capital market assumptions, actuarial assumptions or LACERA's financial condition.
- Shall review LACERA's investments quarterly³ or as needed to ensure that policy guidelines continue to be met. The Board shall monitor investment returns on both an absolute basis and relative to appropriate benchmarks and peer group comparisons. The source of information for these reviews shall come from Staff, consultants, the custodian and LACERA's investment managers.
- May retain investment consultants to provide such services as conducting performance reviews, asset allocation, manager reviews and investment research. The comments and recommendations of the consultants will be considered in conjunction with other available information to aid the Board in making informed, prudent decisions.
- Shall be responsible for taking appropriate action if investment objectives are not being met or if policies and guidelines are not being followed. Reviews for separate portfolios managed by external managers are defined in LACERA's Manager Monitoring and Annual Review Policy (Attachment K).
- The Board shall expect Staff to administer LACERA's investments in a cost-effective manner subject to Board approval. These costs include, but are not limited to, management, consulting and custodial fees, transaction costs and other administrative costs chargeable to LACERA.
- The Board shall be responsible for selecting a qualified custodian with advice from Staff.
- The Board shall strive to avoid conflicts of interests.

Duties of the Investment Staff

The Investment Staff, as designated by the Board, plays a significant role in the management and oversight of the Fund. Investment Staff shall be responsible for the following:

³Private Equity assets are reviewed annually.

- Manage the strategic asset allocation of the fund in accordance with agreed upon target ranges and rebalancing policies.
- Monitor external managers for adherence to appropriate policies and guidelines. Ensure that investment managers conform to the terms of their contracts.
- Ensure that due diligence and oversight of the Real Estate and Private Equity Investment portfolios is conducted.
- Evaluate and manage the relationships with the consultants to the Fund to ensure that they are providing all the necessary assistance to Staff and the Board as set forth in their service contracts.
- Conduct the manager search process, as set forth in this document, with assistance from consultants as directed by the Board.
- Manage portfolio restructurings resulting from external manager terminations with the assistance of consultants and managers, as needed.
- As directed by the Board, conduct special research required to manage the Fund more effectively.
- Assist the Board in the development and approval of the Investment Plan, implement and monitor the Plan.
- Report on investment activity and matters of significance at least monthly.
- Rebalance the portfolio to maintain asset allocation and/or to provide liquidity for cash needs or benefit payments. This requires delegating authority to the Chief Investment Officer to shift up to 3% of Fund's assets without Board approval.
- Maintain control over all wire transfers or movement of monies to or from all investment accounts.
- Strive to avoid conflict of interest.
- Authorize consent to assignments of Investment Manager Agreements that are technical assignments under the Investment Advisors Act of 1940 with subsequent notification to the Board.

In addition to these core responsibilities, LACERA's Board of Investments has delegated to the Chief Investment Officer the following:

- Authority to approve real estate co-investments according to the Real Estate Co-Investment Policy found in LACERA's Real Estate Strategic Plan.
- Authority to approve capital commitments in private equity re-investments (i.e., follow-on funds) of up to \$75 million per fund, provided (i) LACERA's prior investments in each predecessor fund greater than five years old must exceed the Venture Economics universe median return for the fund's sub-asset class strategy, and (ii) LACERA's private equity advisor concurs with the investment. The Board will receive written notification of all such actions.

- Authority to sign all investment-related, consultant contracts and agreements, subsequent to Board approval. Thereafter, authority to sign all amendments and modifications with respect to such contracts and agreements, and make all decisions with respect to their day-to-day operation and implementation where the investment mandate remains substantially unchanged. The Board will receive written notification of all material actions taken.
- Authority to approve temporary variances from public market investment manager guidelines. The Board will receive written notification of all such actions.
- Authority to approve reductions to investment manager fee schedules. The Board will receive written notification of all such actions.

All investment-related contracts and agreements and all amendments and modifications to them are subject to review and approval by LACERA's Legal Office.

Duties of the Investment Managers

The investment managers shall have designated discretion to direct and manage the investment and reinvestment of assets allocated to their accounts in accordance with this document; applicable Local, State and Federal statutes and regulations; and individual management investment plans and executed contracts. The investment managers shall be responsible for the following:

- Execution of a contractual agreement to invest within the guidelines established in the Investment Plan.
- Provide LACERA with proof of liability and fiduciary insurance coverage.
- Be a SEC-Registered Investment Advisor under the 1940 Act, and be recognized as providing demonstrated expertise over a number of years in the management of institutional, tax-exempt assets within a defined investment specialty.
- Adhere to the investment management style and principles for which they were retained, including, but not limited to, developing portfolio strategy, performing research, developing buy, hold and sell lists, and purchasing and selling securities.
- Execute all transactions for the benefit of LACERA with brokers and dealers qualified to execute institutional orders on an ongoing basis at the best net cost to LACERA.
- Reconcile monthly accounting, transaction and asset summary data with custodian valuations, and communicate and resolve any significant discrepancies with the custodian (excludes real estate and private equity).
- Maintain frequent and open communication with Staff on all significant matters pertaining to the Investment Plan, including, but not limited to, the following:

1. Major changes in the Investment Manager's investment outlook, investment strategy and portfolio structure.
2. Significant changes in ownership, organizational structure, financial condition or senior personnel.
3. Any changes in the Portfolio Manager or other key personnel assigned to the Plan.
4. Each significant client which terminates its relationship with the Investment Manager, within 30 days of such termination.
5. All pertinent issues which the Investment Manager deems to be of significant interest or material importance.
6. Meet with the Board or its designee(s) on an as-needed basis.

Duties of the Master Custodian

The Master Custodian shall be responsible for the following:

- Provide complete global custody and depository services for the designated accounts.
- Manage, if directed by the Board, a Short-Term Investment Fund (STIF) for investment of any cash not invested by managers, and ensure that all available cash is invested. If the cash reserves are managed externally, full cooperation must be provided.
- Provide Staff with portfolio performance in a timely manner, and reconcile differences with managers.
- Provide, in a timely and effective manner, a monthly report of the investment activities implemented by the investment managers.
- Calculate all income and principal realized and properly report the results in periodic statements.
- Provide monthly and fiscal year-end accounting statements for the portfolio, including all transactions; these should be based on accurate security values for both cost and market. These reports should be provided within acceptable time frames.
- Report to LACERA situations where accurate security pricing, valuation and accrued income is either not possible or subject to considerable uncertainty.
- Provide assistance to LACERA to complete such activities as the annual audit, transaction verification or unique issues as required by the Board.
- Manage a securities lending program to enhance income if directed by the Board. If the securities lending program is managed externally, full cooperation must be provided.
- Delivery of all U.S. and non-U.S. proxy voting materials to LACERA, including meeting notices, voting instruction forms, proxy statements, quarterly and annual shareholder reports and miscellaneous proxy voting materials.

Duties of Consultants

The Board and Staff will consider the comments and recommendations of consultants in conjunction with other available information to make informed, prudent decisions.

General Investment Consultant

The General Investment Consultant shall be responsible for the following:

- **Conduct an asset-liability study**-work closely with LACERA's actuaries and senior investment Staff to prepare a comprehensive asset-liability study.
- **Assist LACERA's senior Staff with strategic investment decisions**-focus on "big-picture" total fund investment policy and structure issues.
- **Provide independent reviews**-when requested, provide independent reviews via brief (1 to 2 pages) summary reports to the Board on projects that Staff has completed in the following areas:
 1. Investment Policy and Guidelines
 2. Asset Class Structures and Strategies
 3. Investment Manager Searches
- **Calculate performance measurement**-independently from LACERA's custodian and provide quarterly and Fund performance reports. Once a year the Consultant will make a performance presentation to the Board of Investments.
- **Research investment ideas**-provide independent, thorough research on current industry issues.
- **Educate LACERA's Investment Board**-provide educational presentations to the Board on specific issues. Education will range from informational items to critical investment policy issues.

Real Estate Consultant

The Real Estate consultants shall be responsible for the following:

- Assist Staff in making recommendations to the Investment Board regarding investment policy, strategic asset allocation and asset class strategy.
- Assist LACERA in the selection of qualified real estate investment managers.
- Prepare a quarterly performance report including performance attribution on LACERA's managers and total assets.

- Provide topical research and education on investment subjects that are relevant to LACERA.

Private Equity Consultant

The Private Equity Investment Consultant shall be responsible for the following:

- Assist Staff in making recommendations to the Board regarding the Private Equity Strategic and Investment plans.
- Assist in the preparation of an investment plan for Private Equity Investments.
- Assist LACERA in the implementation of the Private Equity Investment plan.
- Assist Staff in the preparation of a semi-annual performance report including portfolio investments.
- Provide topical research and education on Private Equity Investments relevant to LACERA.

Proxy Voting Consultant

The Proxy Voting Consultant shall be responsible for the following:

- Provide Staff with on-going proxy voting research and analyses consistent with LACERA's investment goals and in accordance with Attachment H of the Investment Policy Statement.
- Assist Staff with the preparation and/or revisions of LACERA's proxy voting guidelines.
- Provide Staff with company-specific corporate governance profiles, pertinent statistical reporting and yearly review of the results of corporate annual meetings.

Revised: March 11, 2009

ATTACHMENT A

U.S. EQUITY POLICY

LACERA seeks to maintain a diversified portfolio of U.S. equity securities in order to obtain the highest total return for the fund at an acceptable level of risk within this asset class:

- The U.S. equity portfolio is expected to earn an annualized net (of fees and expenses) rate of return from dividends and realized and unrealized capital gains that exceeds the Russell 3000 Index over rolling five-year periods.
- Passive management will comprise between 35%-75% of the U.S. equity composite portfolio.
- Active management will have two components. Low active risk (tracking error of less than 300 basis points) will comprise between 0%-25% of the U.S. equity composite portfolio. Moderate/high active risk (tracking error greater than 300 basis points) will comprise between 10%-30% of the U.S. equity composite portfolio.
- The composite portfolio will exhibit fundamental and market capitalization characteristics similar to that of the Russell 3000 Index.
- The composite will be style neutral relative to the Russell 3000 over time.

Passive Policy

A passively managed portfolio shall be an ongoing part of the U.S. equity policy. This passive portion (35% to 75%) of the portfolio will consist of the following:

- Large capitalization core.
- An offset to any investment style biases in the composite portfolio relative to the Russell 3000 Index by utilizing passive style index funds, as appropriate.
- Temporary investment for assets in transition.

The performance of the passive component shall be measured against the appropriate broad market or style benchmark.

Active Management Policy

Active management will be used to enhance the return of the composite portfolio. The active managers will have full discretion, within the context of stated guidelines, in the purchase and sale of individual securities and concentrations within the economic and industry sectors. LACERA's portfolios should be managed in a manner similar to other portfolios within an organization with similar guidelines and performance objectives. If, in the manager's opinion, these guidelines restrict opportunities present in the marketplace, the manager should inform the investment Staff in writing, seeking a waiver from or amending the restriction(s).

The manager will maintain a 95% to 100% investment in US equity securities, unless otherwise stated in the manager's investment guidelines. No non-US equities may be held; however, ADR's will be allowed in the portfolio.

Tobacco Policy

Investment managers should refrain from purchasing tobacco securities when the same investment goals concerning risk, return and diversification can be achieved through the purchase of another security.

Sudan Policy

Investment managers should refrain from purchasing securities where the company has been identified as doing business in Sudan or with the government of Sudan, when the same investment goals concerning risk, return and diversification can be achieved through the purchase of another security.

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ATTACHMENT B

NON-U.S. EQUITY POLICY

LACERA seeks to maintain a diversified portfolio of non-U.S. equity securities in order to obtain the highest total return for the fund at an acceptable level of risk within this asset class:

- The non-U.S. equity portfolio is expected to earn an annualized net (after fees and expenses) rate of return from dividends and realized and unrealized capital gains that exceeds the Morgan Stanley Capital International (MSCI) All Country World Excluding United States Investable Market Index (IMI) over rolling five-year periods by 10 – 20 basis points, with expected tracking error of 1% - 3%.
- Passive management will comprise between 40%-70% of the total non-U.S. equity composite portfolio.
- Active management will have three components. Active regional will comprise between 10%-20% of the total non-U.S. equity composite portfolio. Active non-U.S. will comprise between 0%-40% of the total non-U.S. equity composite portfolio. Active emerging markets will comprise of between 10%-20% of the total non-U.S. equity composite.
- The composite portfolio will exhibit fundamental and market capitalization characteristics similar to that of the MSCI All Country World Excluding United States Investable Market Index.
- The composite will maintain regional and style neutrality to the benchmark.

Passive Policy

A passively managed portfolio shall be an ongoing part of the non-U.S. equity policy. This passive portion (40%-70%) of the portfolio shall provide the following:

- Large capitalization core.
- Regional balancing mechanism to maintain regional neutrality relative to the index.
- Temporary investment for assets in transition.

The performance of the passive component shall be measured against the appropriate broad or regional index.

Active Management Policy

The active component of the non-U.S. equity composite portfolio will use a combination of core, regional, and emerging markets managers. Core managers will have authority to invest internationally with specific country investments defined by the EAFE + Canada benchmark. Regional managers will only have investment authority in either Europe or the Pacific Basin. Emerging markets managers will primarily invest in countries included in the MSCI Emerging Markets benchmark. On an opportunistic basis, emerging markets managers may invest in “frontier” countries.

The active managers will have full discretion, within the context of stated guidelines, in the purchase and sale of individual securities and concentrations within the economic and industry

sectors. LACERA's portfolios should be managed in a manner similar to other portfolios within an organization with similar guidelines and performance objectives.

If, in the manager's opinion, these guidelines restrict opportunities present in the marketplace, the manager should inform the investment Staff in writing, seeking a waiver from or amending the restriction(s).

Currency Policy

LACERA employs a passive currency policy strategy. Specifically, this means LACERA will not employ, either active or passive, currency overlay managers for managing the equity currency risk from a top-down perspective. The reasons for this policy's adoption include: the inconclusive research surrounding currency hedging and the potential lost diversification benefits associated with currency exposure. The non-U.S. equity managers are allowed to hedge defensively, when they deem it appropriate. The risk associated with currency exposure is incorporated in LACERA's asset allocation by using the MSCI EAFE-Unhedged index as a proxy for non-U.S. equities.

Tobacco Policy

Investment managers should refrain from purchasing tobacco securities when the same investment goals concerning risk, return and diversification can be achieved through the purchase of another security.

Sudan Policy

Investment managers should refrain from purchasing securities where the company has been identified as doing business in Sudan or with the government of Sudan, when the same investment goals concerning risk, return and diversification can be achieved through the purchase of another security.

Revised: March 11, 2009

ATTACHMENT C

PRIVATE EQUITY INVESTMENT POLICY

LACERA seeks to maintain a diversified portfolio of private equity investments in order to obtain the highest total return for the Fund at an acceptable level of risk within the equity asset class. The private equity investment sub-asset class is comprised of investment opportunities not included in the traditional asset class definitions for equities, fixed income, and real estate. Consistent with LACERA's policy of producing a long-term total return by way of prudent risk taking within the context of overall portfolio diversification, it is LACERA's policy to evaluate and consider all reasonable investment opportunities, subject to "prudent expert" standards. In comparison to the "traditional" asset classes, private equity investments are characterized by the following:

- Long term, higher expected returns than liquid equities.
- Increased levels and types of risk due to unique aspects of this sub-asset class.

To mitigate the increased risk and unique complexity of these investments, LACERA recognizes that the use of specialized investment resources is required to identify, select, implement, and monitor these investment strategies.

Return Objectives

The target return for this asset class, will be measured by IRR (Internal Rate of Return), with an annualized return of 300 - 500 basis points over a public market index, such as the Russell 3000, over a 10 year time frame. This objective will be net of all partnership and advisor fees.

Additionally, where information is available for the total portfolio and each subclass, LACERA will measure returns against top quartile performance numbers for vintage year funds, as provided by a third party source such as Venture Economics. This will be another measure of the program's success for the asset class, as it will allow LACERA to measure the ability of its advisor(s) to add value relative to its peers.

Risk Management

Counterbalancing the potential for increased returns, private equity investment strategies generally entail a greater level and number of unique risks. It is LACERA's policy that all risks particular to a private equity investment strategy be identified and understood to enable the implementation of appropriate measures to mitigate such risks. In general, the typical types of risks and LACERA's policy for mitigation can be summarized as follows:

UNIQUE INVESTMENT RISK	METHOD OF MITIGATION
<p>1. <u>Illiquidity</u> – Illiquidity can result from the form of the asset or security itself or it can be a function of the investment vehicle, i.e., a limited partnership.</p>	<p>Notwithstanding the fact that illiquidity is generally a necessary characteristic of a private equity investment strategy and a source of the expected return premium, LACERA will ensure that each private equity investment provides for the maximum liquidity practical through utilization and structure of an appropriate investment vehicle.</p>
<p>2. <u>Volatility</u> – The increased volatility of most private equity investments is a result of either the concentrated focus of the investment strategy or, the use of leverage, and/or the inclusion of derivatives.</p>	<p>LACERA will mitigate the total volatility of its private equity investment portfolio by implementation of appropriate investment guidelines and criteria through sufficient diversification – both within a particular strategy and by utilizing multiple investment strategies.</p>
<p>3. <u>Lack of Public Information</u> – The private nature of most private equity investments makes obtaining unbiased, reliable information for analysis of potential investments and valuation of the performance of executed investments more difficult.</p>	<p>LACERA will employ the appropriate resources (e.g. specialized managers, databases, etc.) as needed to assist staff and the Board in evaluation of potential investments and to establish appropriate procedures to monitor interim performance and assess valuations of the private equity investment portfolio.</p>

Recognizing that, generally, private equity investment strategies require special knowledge and expertise, LACERA will employ one or more specialized Consultants as needed to assist staff and the Board in development and implementation of the private equity investment program. In addition, a strategic plan and an investment plan will be presented to the Board of Investments each year for their approval. The strategic plan is policy-oriented with a long-term focus on risk minimization. It delineates investment objectives, guidelines, and the responsibilities of staff, advisor(s), and the general Consultant, and provides the definition of Private Equity. This is in contrast to the investment plan which is investment selection-oriented with a near-term focus on return maximization.

Revised: September 12, 2008

ATTACHMENT C (1)

PRIVATE EQUITY PRIVATIZATION POLICY

LACERA does not aim to promote privatization of public jobs through its private equity investment program. It is highly unlikely that LACERA private equity investments would be in domestic partnerships or similar pooled investment vehicles ("partnerships") that are dependent on privatization strategies.

When performing due diligence prior to making the initial investment in a domestic partnership, staff and/or Consultant, as applicable, will use their reasonable efforts to ascertain:

- (1) Whether the partnership's current investment strategy includes the privatization of jobs held by LACERA members.
- (2) Whether previous partnerships operated by the general partners, if any, have invested in companies dependent upon privatization of jobs held by LACERA members.

Staff and/or Consultant will seek guidance from the Board of Investments before investing in a domestic partnership if the due diligence establishes a positive answer to either (1) or (2) above.

Adopted on May 21, 2003.

ATTACHMENT D

FIXED INCOME INVESTMENT POLICY

LACERA's Fixed Income Composite has the following three strategic objectives:

- To reduce the risk of LACERA's overall portfolio because bonds have lower risk than other major asset classes such as stocks, real estate, or private equity.
- To earn an annualized net (after fees and expenses) rate of return that exceeds the Barclays Capital U.S. Universal Bond Index over rolling five to seven year periods by 10 - 20 basis points, with expected tracking error of .5% - 1%.
- To serve as a source of liquidity for making benefit payments and for rebalancing purposes.

Investment Approach

The Fixed Income Composite will be allocated into the following three segments:

- **Core** (the lowest-risk tier) will consist of low tracking-error products such as index funds, enhanced index portfolios, and low-risk active strategies. This tier is also anticipated to offer the greatest level of liquidity. The active managers in the Core category will invest primarily in investment grade, dollar-denominated bonds. The target allocation to Core is 50% of the Composite.
- **Core Plus** (the medium-risk tier) will have a target allocation of 35%. Like Core managers, Core Plus managers will emphasize U.S. dollar, investment-grade bonds, but they will have greater latitude to outperform their benchmark. In addition to the traditional tools of active managers, such as interest rate and yield curve management, sector allocation and security selection, Core Plus managers will have the ability to invest in non-dollar bonds and bonds rated below investment grade on a tactical basis.
- **Opportunistic** (the highest-risk tier) fixed income will be used to enhance return and provide diversification by investing in non-traditional sectors of the bond market. This tier will have a target weight of 15% depending on market conditions. LACERA's high yield portfolios will represent approximately half of this segment. The remaining half will be invested in under-utilized sectors such as bank loans, convertible bonds, emerging market bonds, or cross-sector strategies. While the Opportunistic segment will be the higher risk, higher reward segment of the Composite, this risk will be diversified by sector and strategy.

Allowable Investments

Core and Core Plus managers may invest in all sectors of the fixed income market included in the Barclays Capital U.S. Aggregate Bond Index – a broad measure of the U.S. dollar-denominated, investment-grade, taxable bond market. They may also invest in other investment-grade sectors such as municipal bonds, collateralized mortgage obligations (CMOs) and Rule 144A securities. Core Plus managers may also invest opportunistically in extended sectors

(foreign bonds, high yield bonds and emerging market bonds with a minimum rating of B3 by Moody's or B- by Standard and Poors). The performance of Core and Core Plus managers shall be measured against the Barclays Capital U.S. Aggregate Bond Index.

LACERA's strategic allocation to domestic high yield bonds shall be managed by investment firms that specialize in this sector of the bond market. The performance of high yield managers shall be measured against the Barclays Capital U.S. Corporate High Yield Ba/B Index.

Non-traditional fixed income sectors will be suitable investments for the Opportunistic segment of LACERA's Fixed Income Composite. Such sectors may include, but are not limited to, convertible bonds, bank loans, distressed debt, private placements and international high yield securities. These specialized sectors are generally considered "high return" investments and, therefore, have the potential for enhancing the portfolio's performance expectations. In addition, investments in these sectors increase the overall portfolio diversification since they tend not to be highly correlated with other traditional fixed income securities. However, these sectors are also more volatile and may have higher degrees of credit risk. As a result, allocations to these sectors will be limited to under ten percent of the portfolio.

Tobacco Policy

Investment managers should refrain from purchasing tobacco securities when the same investment goals concerning risk, return and diversification can be achieved through the purchase of another security.

Sudan Policy

Policy Investment managers should refrain from purchasing securities where the company has been identified as doing business in Sudan or with the government of Sudan, when the same investment goals concerning risk, return and diversification can be achieved through the purchase of another security.

Revised: March 11, 2009

ATTACHMENT E

CASH AND CASH EQUIVALENTS INVESTMENT POLICY

LACERA will employ a manager to actively invest the cash of LACERA's in-house account and the cash positions of active equity and fixed income managers. These cash positions will be automatically swept into a special account managed by LACERA's cash/short-term manager.

The key objectives of the cash/short-term manager are:

- To maintain a diversified portfolio.
- To preserve principal through the use of high quality fixed income instruments.
- To maintain an adequate level of liquidity to ensure availability of funds for other LACERA managers
- To outperform the Citigroup 6-month U.S. Treasury Bill Index.

The manager may invest in fixed income instruments with a credit rating of at least A-1/P-1 by Moody's or S&P. The maximum stated maturity (or effective maturity as outlined below) is two years. It is recognized, however, that for certain fixed income instruments including asset-backed securities, collateralized mortgage obligations and floating rate notes, a longer stated maturity will be allowed to provide the manager with a broader universe of eligible securities, while maintaining effective maturities and price variability within the overall risk parameters of the investment guidelines. The use of repurchase agreements will be permitted provided these agreements are adequately collateralized. The cash manager shall not be permitted to invest in instruments with a high level of loss potential, volatility or illiquidity.

Although LACERA recognizes that duration management is a key contributor to total return in the management of cash/short-term assets, the investment manager will also enhance the total return of the portfolio through sector rotation, security selection and overweighting of the higher yielding sectors of the short-term fixed income market. Investment Staff will continually monitor the cash/short-term manager's portfolio to analyze the account's performance, review stability of key investment personnel, ensure the continuity of their investment process, and verify that securities purchased on LACERA's behalf conform to the stated and approved investment guidelines.

Revised: September 12, 2007

ATTACHMENT F

REAL ESTATE POLICY

LACERA seeks to maintain a diversified portfolio of equity-oriented real estate investments to diversify against other asset classes and to enhance overall fund returns. Investment decisions regarding the equity real estate portfolio shall be guided by the objectives of:

- Hedge against unanticipated inflation.
- Maximize cash distribution and income.
- Achieve a total return commensurate with the risk.
- Maintain a broad diversification of assets and managers.
- Improved fund diversification due to anticipated low correlation of returns with other asset classes.

To mitigate the increased risk and unique complexity of these investments, LACERA recognizes that the use of specialized investment resources is required to identify, select, implement, and monitor these investment strategies.

Return Objectives

The overall return objective for the unleveraged equity real estate portfolio is to exceed the NCREIF Property Index minus 25 basis points net of investment manager fees, measured over rolling five-year periods. Specific return objectives will also be established for each separate investment strategy reflecting the appropriate level of return for the risks taken.

Risk Management

Investment risk associated with real estate investing shall be managed and mitigated by employing a diversification strategy and a commitment to thoroughly evaluate and retain managers which will acquire, manage and dispose of all real estate investments with thorough due diligence. LACERA will seek to diversify its real estate portfolio by property type, economic/geographic location and manager. Risk shall be further mitigated and controlled by strict adherence to the investment procedures established.

All real estate investments shall be underwritten, managed and disposed of by a qualified investment real estate manager which has an established, successful record of providing advisory services to institutions, and is deemed able to deliver similar services in the future. A manager's acquisition, management and disposition of real estate investments will be guided by the "prudent expert" standard.

LACERA recognizes the following additional risks and will make every effort to mitigate these risks as outlined below:

INVESTMENT RISKS	METHOD OF MITIGATION
<p>1. <u>Market Inefficiency</u> - The private real estate equity marketplace is very fragmented and most transactions are negotiated on a case by case basis. There are no market makers or exchanges which facilitate trades.</p>	<p>LACERA's policy is to utilize proven expert real estate managers to advise the fund on individual investments. Expert legal counsel is employed to assist with transaction documentation. Investment and reinvestment in real estate is gradual, allowing for ongoing market activity.</p>
<p>2. <u>Liquidity</u> - Real estate investments have limited liquidity. Private real estate investments are not traded on exchanges or by any other rapid transaction facilitator. Trading of the investments is done on an investment by investment basis and often takes three to six months to execute.</p>	<p>LACERA does not intend to utilize the real estate equity portfolio to satisfy liquidity needs. The structures used in the real estate investment activity will emphasize retaining maximum control over each investment by LACERA. LACERA will frequently revisit each investment's "saleability" and will proactively manage each investment so as to preserve its marketability. (Note: LACERA will limit use of structures that restrict control over the investment(s), such as commingled funds.)</p>
<p>3. <u>Liability</u> - Ownership of real property presents both property and liability related risks to LACERA.</p>	<p>It is LACERA's policy to insure against most property and liability risks. Liability resulting from environmental conditions shall be mitigated by thorough investigation prior to acquiring each asset. LACERA shall decline to purchase properties which have environmental conditions that do not permit reasonable remediation or quantifiable and acceptable risks.</p>

Revised: March 11, 2009

ATTACHMENT F (1)

REAL ESTATE: RESPONSIBLE CONTRACTOR POLICY**Purpose**

The Responsible Contractor Policy (the "Policy") of the Los Angeles County Employees Retirement Association ("LACERA" or the "Fund" is designed to guide, in a manner consistent with the Fund's fiduciary duties, the Fund's real estate investment advisers and other participants in the process of selecting contractors to provide building operations services and construction services to the real estate properties owned by the Fund.

The Policy seeks to ensure that such contractors will be selected based upon demonstrated ability to provide high quality services, and thereby enhance the value of LACERA's real estate investments, as evidenced by their experience, reputation, responsiveness, fees and dependability, and further by their record of compliance with applicable statutes and payment of fair compensation and benefits to employees.

Introduction

LACERA supports and encourages fair compensation and fair benefits for workers employed by its contractors, subject always, however, to the Fund's overriding fiduciary duties to LACERA's participants and their beneficiaries, which duties take precedence over any other duty, including any duty or obligation established by this Policy.

The LACERA Board of Investments hereby adopts the Responsible Contractor Policy described herein in order to support and encourage the engagement of contractors who can be expected to provide high quality services to LACERA properties, utilizing properly-trained and fairly-compensated employees, subject always to LACERA's fiduciary duties, including loyalty, care, skill, prudence and diligence, which require evaluation of expected investment returns and risk of loss when awarding contracts with respect to LACERA's assets.

Utilization of responsible contractors adds value to the investments by ensuring that essential building operations services and construction services are provided by adequately-trained, experienced, and motivated workers. An adequately compensated and trained workforce can be expected to deliver a higher quality product and service. Therefore, LACERA supports a healthy and profitable business environment through market competition, small business development and control of operating costs.

Definition of Responsible Contractor

A Responsible Contractor is a contractor who: (1) has the appropriate experience, reputation, employee relations, responsiveness, fees and dependability to perform the required work; and (2) provides workers fair compensation and fair benefits, for the required work, based on market conditions.

Basic Requirements of the Responsible Contractor Policy

- **Fiduciary Duties take Precedence** - Notwithstanding any other considerations, LACERA's assets shall be diligently and prudently invested and managed in accordance with the Fund's fiduciary duties, in the sole interest of plan participants and their beneficiaries, and for the exclusive purpose of providing benefits to its participants and their beneficiaries. LACERA's duties, and the duties of its advisers, to LACERA's participants and their beneficiaries shall take precedence over any other duty.
- **Competitive Rate of Return** - LACERA seeks to have its real estate investments managed and operated in a manner that is expected to produce a competitive rate of return for its participants and beneficiaries at an acceptable level of risk.
- **Legal Compliance** - LACERA seeks to have all LACERA contractors comply with all applicable federal, state and local laws, regulations and ordinances, including (but not limited to) those related to insurance, withholding taxes, minimum wage, health and safety and environmental matters.
- **Non discrimination** - LACERA shall give equal consideration to minority controlled firms, firms owned and controlled by women, and ventures involving those same firms, that meet the selection criteria for contractors and service providers.

Preference for Responsible Contractors

Provided the basic requirements in the foregoing section have been satisfied LACERA expresses a strong preference that Responsible Contractors be hired, in accordance with this Policy.

Administration, Monitoring and Enforcement

- **Applicable Contracts** - This Policy applies to all contractors and subcontractors who provide building operations services and construction services to real estate properties that are wholly owned by LACERA either directly or indirectly through subsidiary entities. The contractors and subcontractors shall use their best efforts to comply with this Policy. This Policy does not apply to real estate properties in LACERA's portfolio that are not wholly owned by LACERA either directly or indirectly.
- **Notification** - All current and prospective real estate advisers shall be provided with a copy of this Policy.
- **Contract Solicitation** - All requests for proposals and invitations to bid applicable contracts covered by this Policy shall be made in accordance with the terms of this Policy.
- **Contracts and Contract Renewals** - All contracts and contract renewals entered into after the effective date of this Policy shall include applicable provisions of

this Policy. LACERA shall maintain a publicly available list of its properties, with relevant data that would allow any potential contractor to pursue a bid upon contract renewal.

- **Minimum Contract Size** - This Policy shall apply to all contract values at \$25,000 or more. Contract value refers to the total project work to be contracted for with desegregation by trade or task. Desegregation designed to evade the requirements of this Policy shall not be permitted.
- **Reporting** - All advisers and contractors shall collect and retain adequate data documenting their compliance with this Policy and shall be prepared to produce such data for review upon request. LACERA staff shall produce periodic reports to LACERA's Board of Investments, demonstrating best efforts at compliance by advisers and contractors with this Policy.
- **Definition of Fair Wages and Benefits** - This Policy does not mandate any strict definition of fair wages and benefits. This Policy recognizes and considers in the determination of fair wages and benefits indicators such as local wage practices, state law and labor market conditions, as well as prevailing wages.
- **Neutrality** - Where there is a legitimate attempt by a labor organization to organize workers employed in the construction, maintenance, operation and services to a LACERA property, LACERA encourages a position of neutrality.
- **Enforcement** - LACERA shall place any adviser or property manager who fails to comply with this Policy on a probation list. In reviewing adviser and property management contracts for renewal, LACERA shall take into consideration the failure of any LACERA adviser or property manager to comply with this Policy.

DUTIES OF RESPONSIBLE PARTIES

Responsibilities of the LACERA staff shall include:

- Review of the real estate advisers' annual reports regarding compliance with this Policy.
- Furnish periodic reports to LACERA's Board of Investments, as requested, on each adviser's compliance with this Policy, and make recommendations as needed for action to correct any pattern of non-compliance.

Responsibilities of the adviser shall include:

- Communicate this Policy to property managers of LACERA properties and to managers of LACERA's real estate investment vehicles and instruct them to implement it.
- Maintain a simplified bid summary for each applicable contract. The summary should include identification of the contract's successful bidder and the bidder's status as a Responsible Contractor.
- Provide an annual report to LACERA staff describing actions taken by such adviser to comply with this Policy, including those taken by property managers and their subcontractors.
- Monitor and enforce compliance with this policy, including reasonable investigation of potential violations.

Responsibilities of the property manager shall include:

- Communicate this Policy in all bid documents seeking to secure construction or building service contracts subject to this policy.
- Provide to adviser property level annual reports regarding compliance with this Policy.
- Provide to advisers, for each LACERA property under management, a list of contracts subject to this Policy.
- Maintain a list of Responsible Contractors utilized at each LACERA Property.

Responsibilities of contractor shall include:

- Provide the property manager with Responsible Contractor documentation.
- File with the property manager reports, certifications and other forms as required by LACERA or the manager relating to this Policy.

Adopted on December 11, 2002.

ATTACHMENT G

COMMODITIES POLICY

LACERA has made an allocation to commodities in order to diversify its portfolio. Commodities have historically exhibited low correlation with stocks and bonds, so an investment in commodities is expected to reduce the risk of LACERA's total fund. A secondary benefit of investing in commodities is that they are positively correlated with inflation, so they can provide an inflation hedge.

Investment Approach

LACERA employs commodities managers to implement diverse, risk-controlled active strategies that are expected to deliver consistent portfolio composite out-performance relative to the commodities benchmark. For example, managers have the discretion to execute futures rolls at the most opportune time. They also have the flexibility to invest collateral in a portfolio of fixed income securities expected to outperform the 3-month T-Bill assumed in the index.

Benchmark

LACERA's benchmark for commodities market performance is the Dow Jones –AIG Commodity index (DJ-AIG). This index consists of futures contracts on physical commodities across the energy, metals, agriculture, and livestock markets. The DJ-AIG index construction rules manage diversification, risk and liquidity by imposing minimum and maximum sector weights.¹

Derivatives Use

The DJ-AIG index is comprised of futures contracts for physical commodities. The index weights are based on liquidity and the market value of each commodity produced. LACERA's managers will use derivatives in order to gain exposure to this index, and at no time will the managers take physical delivery of commodities.

LACERA's managers will invest in derivatives such as futures and swaps to gain exposure to commodities markets. The managers may also employ derivatives to manage the underlying collateral (a portfolio of fixed income securities). All managers investing in derivatives must comply with LACERA's Derivatives Investment Policy, for which risk management is the primary objective.

Adopted May 9, 2007

¹ Index rules ensure that related commodities within a single sector (e.g., energy) constitute no more than 33% of the index at its annual reconstitution. Also, no single commodity may constitute less than 2% or more than 15% of the index.

ATTACHMENT H

CORPORATE GOVERNANCE PRINCIPLES**Introduction**

The fundamental objective that guided the Los Angeles County Employees Retirement Association (LACERA) when drafting Core Principles of good corporate governance was to safeguard and promote the economic interests of its active and retired members. LACERA's Board of Investments recognized that good governance must "maintain an appropriate balance between the rights of shareholders... and the need of board and management to direct and manage the corporation's affairs free from non-strategic short-term influence."¹

This document identifies LACERA's Board of Investments' Core Principles in corporate governance. Core Principles include Board Independence, Board Management and Evaluation, and Shareholder Rights. It is also intended to communicate the importance of **fiduciary duty**, **integrity**, **accountability**, and **transparency** to Corporate America.

Corporate **fiduciary duty** is an obligation to act in the best interests of the company and its shareholders. Lack of independence by corporate directors may periodically impede their ability to act in the shareholders' best interest. Therefore, it is important that a substantial majority of directors be independent to help promote shareholder interests over company management.

Integrity and trust are the cornerstones of America's capital markets and essential for economic stability. Building a corporate culture based on integrity is of paramount importance at all times. Consequently, directors must establish a "tone at the top" for an organization. For example, establishing an ethics committee and encouraging prompt investigation of non-compliant events ensures that a "foundation based on integrity" is promoted throughout the corporation.

Accountability is the obligation of the Board of Directors and Senior Management to be responsible for their actions. Accountability helps to ensure that a company's operations and reporting mechanisms are managed in the best interests of its shareholders. The passage of The Sarbanes-Oxley Act of 2002 helped to enforce corporate accountability by establishing the Public Company Accounting Oversight Board (PCAOB) "to protect the interests of investors and further the public interest in the preparation of informative, accurate, and independent audit reports."

Transparency is a basic shareholder right and critical for an institutional investors understanding of an organization's financial activities. Transparency is essential in the following two areas: first, a complete and clear disclosure of an organization's business and financial activity. Second, complete and clear disclosure of executive compensation including fringe benefits. All investors have a basic right to thorough disclosure of a firm's financial activities and how senior managers are being compensated for their services.

¹ TIAA-CREF Policy Statement on Corporate Governance.

Finally, LACERA's Board of Investments believes strong corporate governance practices should help maximize shareholder value. Therefore, the Board of Investments adopts these Principles in the spirit of the LACERA's mission statement: "To produce, protect, and provide the promised benefits" to the employees of Los Angeles County.

BOARD INDEPENDENCE

An effective corporate governance structure recognizes that "management is held accountable to the Board and the Board is held accountable to shareholders."² The ability to challenge management decisions and objectively evaluate the performance of corporate management may be compromised if a director is not truly independent. Therefore, **a substantial majority** of a corporation's directors should be independent.

Director Definitions³

Inside Director

- Employee of the company or its affiliates (subsidiary, sibling company, or parent company).
- Non employee officer⁴ of the company if among the five most highly compensated individuals.
- Interim CEO.
- Beneficial ownership⁵ of more than 50 percent of the company's voting power (this may be aggregated if voting power is distributed among more than one member of a defined group; e.g., members of a family beneficially own less than 50 percent individually, but combined own more than 50 percent).

Affiliated Outside Director

- Board attestation that an outside director is not independent.
- Former CEO of the company or its affiliate.
- Former interim CEO if the service was longer than one year or if the service was between six months and a year and the compensation was high relative to that of the other directors (5x their pay) or in line with a CEO's compensation.
- Former executive of the company, an affiliate or an acquired firm within the past five years.
- Executive of a former parent or predecessor firm at the time the company was sold or split off from the parent/predecessor within the last five years.

² Institutional Shareholder Service Proxy Voting Manual: page 3.3

³ Source: Institutional Shareholder Services: Corporate Governance Policy 2005 Updates.

⁴ According to ISS, an example of a non employee officer is when the Chairman of the Board is not an employee of the company.

⁵ ISS definition of beneficial ownership: A shareholder that exercises direct voting rights and accrues economic value from holding those shares.

- Executive, former executive, general or limited partner of a joint venture or partnership with the company.
- Relative of a current employee of company or its affiliates (relative follows the NYSE definition of “immediate family members” which covers: spouses, parents, children, siblings, in-laws, and anyone sharing the director’s home).
- Relative of former executive, including CEO, of company or its affiliates within the last five years.
- Currently provides (or a relative provides) professional services directly to the company, to an affiliate of the company or an individual officer of the company or one of its affiliates.
- Employed by (or a relative employed by) a significant customer or supplier (if the company makes or receives annual payments exceeding the greater of \$200,000 or five percent of the recipient’s (the party receiving the financial proceeds from the transaction gross revenues).
- Has (or relative has) any transactional relationship with the company or its affiliates, excluding investments in the company through a private placement.
- Has a contractual/guaranteed board seat and is party to a voting agreement to vote in line with management on proposals being brought to shareholders.
- Has (or relative has) an interlocking relationship as defined by SEC involving members of the board of directors or its Compensation and Stock Option Committee.
- Founder of company but not currently an employee.
- Is (or relative is) a trustee, director, or employee or a charitable or non-profit organization that receives grants or endowments from the company or its affiliates.

Independent Outside Director

- No material connection to company other than board seat (Material is defined as a standard of relationship (financial, personal or otherwise) that a reasonable person might conclude could potentially influence one’s objectivity in the boardroom in a manner that would have a meaningful impact on an individual’s ability to satisfy requisite fiduciary standards on behalf of shareholders).

Separation of CEO and Chairman

“The responsibilities of leading the board and management are distinct. The CEO is the highest ranking member of the management team,”⁶ and the Board of Directors is responsible for management oversight. A dual role played by the CEO and Chairman may create conflict. To mitigate the risk of a dominant CEO controlling the Board, the CEO and Chairman positions should be separated.

⁶ The Conference Board Commission on Public Trust and Private Enterprise: page 7.

If an independent director (as defined above) does not hold the Chairman position, the Board should assign an independent lead director.

Director Compensation

Pay packages of outside directors should be placed on proxy ballots and then be approved by a majority vote of shareholders. Proxy statements should include a table showing exactly what outside directors are paid, including how much is received for each type of compensation and the total pay figure.⁷

“Directors can be compensated in either cash or stock, but the majority of compensation should be in stock.”⁸ Stock compensation should help align directors’ interests with shareholders. To focus the directors attention on the firm’s long-term value, directors should be required to hold a significant portion of the stock for as long as they remain on the Board.

Key Committee Structures

The following committees should only include independent directors:

- Audit
- Director Nominating
- Board Evaluation and Governance
- CEO Evaluation and Management Compensation
- Compliance and Ethics

The Board, rather than the Chief Executive Officer, should appoint committee chairs and members.

BOARD MANAGEMENT AND EVALUATION

Board Meetings and Operations

Board members assume a significant amount of responsibility when accepting a director position. Core responsibilities include understanding the corporation’s long-term business strategy, understanding the risks that define and drive the company’s business and overseeing management. Therefore, to help Board members effectively carry out these duties, the following information and/or options should be available to them:

- Directors should be provided information in advance of meetings.
- Directors should have full access to senior management and information concerning the corporation’s operations.

⁷ Council of Institutional Investors: The Councilor Newsletter: Improving the Way Senior Executives are Paid: page 6

⁸ Council of Institutional Investors, Corporate Governance Policies: page 4.

- Directors should be able to place items on the Board agendas.
- Directors should be familiar with a firm’s operations independent of the CEO or senior management.
- Directors should have access to outside experts if necessary.
- Independent directors should meet at least annually, without management or the other non-independent directors participating.
- Directors should establish a succession plan for the CEO and senior management.
- Directors should develop a plan for evaluating the CEO’s performance and evaluate the CEO at least annually.

Board Evaluations

“Board effectiveness and credibility depend in part on a regular self-evaluation process.”⁹ The Board should adopt a written statement of its own governance principles and a process for regular re-evaluation. Independent directors should control the evaluation process, which should be tailored to meet the needs of the individual company and Board.

The evaluation process should include the following factors:

- Review the Boards’ own size, and determine that the size is most effective toward future operations.
- Align with established evaluation processes and goals.
- Design to ensure candor, confidentiality, and trust.
- Delineate Board and management powers.
- Create effective interaction between and among directors.
- Assess directors education and development.
- Disclose process to shareholders and the public.

⁹ Comparison of Board Guidelines and Best Practices—United States: page 27.

SHAREHOLDERS RIGHTS

Basic shareholder rights include the clear and complete disclosure of a company's financial activities. Financial statements provide investors with key financial data that may spur interest in a company as an investment opportunity. Without thorough financial disclosure for all corporations, the foundation for the economic system will erode.

Part one of this section relates to executive compensation and disclosure issues. Part two of this section recognizes shareholders rights specifically relating to voting proxies. Part three addresses shareholder/director communications. Focusing on these issues will help to continue promoting integrity and transparency in the process.

Executive Compensation

Philosophically, LACERA believes that corporate executives should be fairly compensated for their efforts. Corporate executives contend their compensation should be based primarily on risks incurred. LACERA, however, believes that executive compensation should not be based on perceived risks because it is the stockholders, more than anyone else, who ultimately bear these risks. Moreover, executives should not expect to be compensated like top-tier entrepreneurs because generally, unlike entrepreneurs, they do not have much personal wealth at risk. Rather, the vast majority of capital at risk belongs to the corporation's shareholders.

Executive compensation should also be considered in the context of how a firm compensates its employees relative to their peers in the industry. If the firm pays their employees "bottom quartile" wages, it is difficult to justify paying their executives "top quartile" salaries.

The compensation committee, comprised exclusively of independent directors, is responsible for establishing CEO and senior management compensation packages. An independent compensation committee is important to avoid compensation abuses. The committee should be required to hire its own compensation consultant.⁷ Promoting transparency is critical when establishing compensation packages for senior level managers.

Core Principles in this area include:

- Senior managers' total compensation package should be disclosed to shareholders. This includes full disclosure of all fringe benefits and retirement benefits and the fair value of those benefits.
- Compensation consultants retained for assisting directors work exclusively for the compensation committee. Ideally, the consultant should not have other relationships with the firm and should be required to attend all compensation committee meetings.⁸
- Benchmarking for compensation purposes should be avoided because not all executives can be in the top quartile of pay scales.

⁷ California State Teachers Retirement System (CalSTRS): The Perfect Stock Option Plan: page 12

⁸ California State Teachers Retirement System (CalSTRS): The Perfect Stock Option Plan: page 12

- Performance-based compensation plans should be indexed against appropriate peers.
- Boards should award senior managers only one form of equity-based compensation.
- Compensation based on earnings should only include operating earnings. Earnings generated by the pension plan should not be included for compensation purposes.
- Companies should expense the aggregate fair market value of all stock options, stock awards, and other share-based compensation paid to employees, in their annual financial statements.
- Companies should be required to disclose in their proxy statements:⁹
 1. Five-year graph of a CEO's total pay along side the company's total return to investors.
 2. Five-year graph showing the relationship between the annual bonus of the CEO and the company's diluted earnings per share.
 3. Five-year graph showing the ratio of the CEO's total pay to that of an average worker in the company.
 4. Table showing various termination of employment payments to the CEO, including death, disability, normal retirement, discharge for cause, discharge for other than cause, and voluntary resignation.
 5. Names of compensation consultant employed by the compensation committee and by corporate management. Also, the names of the comparable companies the consultant uses to compile pay data.
 6. Percentile ranking of the CEO's total pay package against those of various comparable companies surveyed by compensation consultant, and percentile ranking of the company's five-year total return against the same comparable companies.

⁹ Council of Institutional Investors: The Councilor Newsletter: Improving the Way Senior Executives are Paid: pages 3-5.

- Recognizing that stock option plans are long-term incentives: 1) vesting periods for stock options should be at least five years from the grant date, 2) executives planning to retire from the company within three years should be prohibited from receiving stock options, and 3) post retirement exercise periods should be limited to no more than three years.¹⁰
- Severance agreements for mergers should be modified to require that the only way anyone receives compensation is if, subsequent to the merger, the executive is fired.¹¹

Proxy Issues

- Proxy votes should be kept confidential.
- Broker votes should be counted for quorum purposes only.
- Every company should prohibit greenmail.
- Each share of common stock, regardless of class, should have one vote. Corporations should not have classes of common stock with disparate voting rights. Authorized unissued common shares that have voting rights to be set by the Board should not be issued without shareholder approval.
- Each director should be elected annually.
- Any shareholder proposal that is approved by a majority of proxy votes cast should either be implemented by the Board, or LACERA will withhold votes for director nominees after one year of Board inaction.
- All stock option plans should be approved by shareholders.
- Options should not be re-priced without shareholder approval.

Shareholder/Director Communication

“All companies should establish a mechanism by which shareholders with non-trivial concerns could communicate directly with the independent directors. At a minimum, there should be an open meeting in connection with the company’s annual meeting (before or after) in which shareholders could ask questions and communicate their concerns to the independent directors.”¹²

¹⁰ California State Teachers Retirement System: The Perfect Stock Option Plan: page 9.

¹¹ Council of Institutional Investors: The Councilor Newsletter: Improving the Way Senior Executives are Paid: pages 3-5.

¹² Council of Institutional Investors, Corporate Governance Policies: page 4.

Revisions adopted by the Board of Investments on April 27, 2005
Revisions adopted by the Board of Investments on May 26, 2004
Revisions adopted by the Board of Investments on August 13, 2003
Revisions adopted by the Board of Investments on June 11, 2003
Original adopted by the Board of Investments on March 12, 2003

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8. Council of Institutional Investors: The Councilor Newsletter: Improving the Way Senior Executives are Paid: Graef “Bud” Crystal: March 2003.
9. California State Teachers Retirement System: The Perfect Stock Option Plan: Graef “Bud” Crystal: February 2003.

Revised: September 12, 2007

LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION
STATEMENT OF INVESTMENT POLICY
FOR
DERIVATIVES – EXTERNAL MONEY MANAGERS

JULY 27, 2005

This Policy is effective immediately upon adoption and supersedes all previous policies pertaining to the use of investment derivatives by external money managers.

I. PURPOSE

This document sets forth the investment policy (“the Policy”) for the permitted circumstances, parameters, and requirements for the use of Investment Derivatives by External Money Managers (“the Program”). The design of this Policy ensures that investors, managers, consultants, or other participants selected by the Los Angeles County Employees Retirement Association (“LACERA”) take prudent and careful action while managing the Program. Additionally, use of this Policy provides assurance that there is sufficient flexibility in controlling investment risks and returns associated with the use of derivative instruments.

II. STRATEGIC OBJECTIVE

Facilitating risk management while managing the cost of investing in publicly-traded securities is the strategic objective of this Policy. The growth of derivative instruments worldwide facilitates the investment process. For the purposes of this document a “derivative instrument” is defined as an instrument that derives its value, usefulness, and marketability from an underlying instrument which represents direct ownership of an asset or a direct obligation of an issuer (i.e., a “spot” or cash market instrument).

LACERA retains external money management firms (“Managers”) for the express purpose of investing in publicly-traded U.S. and Non-U.S. securities. LACERA is a long-term investor; therefore, Managers shall manage assets for the generation of long-term gains from investments, principally in cash market positions, stocks, and bonds. However, as a significant global institutional investor, LACERA is positioned for taking advantage of derivative instruments to ensure the overall performance objective is achieved as specified.

III. RESPONSIBILITIES AND DELEGATIONS

- A. **LACERA’s Board of Investments** (“the Board”) is responsible for approving and amending the Policy and delegating responsibility for administering the Policy to LACERA’s Investment Staff. In addition, the Board is responsible for approving Statements of Investment Policy for each asset class or program that incorporates the use of derivatives.
- B. **LACERA’s Investment Staff** (“the Staff”) shall review written policies and procedures of the Managers concerning derivatives use. The Staff shall monitor reports from the Managers and LACERA’s custodian at least quarterly to ensure derivative use is in compliance with this Policy. The Staff shall monitor the use of derivatives by Managers to interpret if any violation has occurred.

The Staff shall monitor the investment performance results of the Managers to ensure that any derivative use does not have a long-term deleterious effect on the Portfolio.

- C. The **Managers** received investment discretion under their contracts with LACERA subject to their investment management guidelines. LACERA delegates to Managers the execution of derivatives transactions under this Policy, subject to Section VI.F. of this document. If Managers do not comply with this Policy, LACERA prohibits their use of derivatives. Nothing in this Policy supersedes the Managers’ legal obligations to LACERA contained in their investment management contracts.

IV. BENCHMARK

Not applicable.

V. DERIVATIVE STRATEGIES

Four basic strategies can be implemented through the use of derivatives. Of these four strategies described below, only substitution and risk control and arbitrage are permitted; speculation is prohibited.

- A. **Permitted:**
1. **Substitution:** When the characteristics of the derivative sufficiently parallel those of the cash market instrument, the derivative may be substituted on a short-term basis for the cash market instrument, or on a longer-term basis to avoid withholding taxes. This strategy is particularly useful when investing cash flow or liquidating investments,

as the derivative can be used to manage more precisely the market entry and exit points. Derivatives will also be held as a substitute in those cases where investing in the underlying asset is not practical (e.g. commodities).

2. **Risk Control:** When characteristics of the derivatives instrument sufficiently parallel those of the cash market instrument, an opposite position in the derivative can be taken from the cash market instrument to alter the exposure to or the risk (volatility) of the cash instrument. This strategy is useful to manage risk without having to sell the cash instrument. Sometimes referred to as 'hedging', the use of derivatives in this context means that there is at least a 95% correlation in price movement between the cash market or instrument and derivative instrument over a rolling three-year period. For currency overlay managers, the 95% correlation refers to the correlation between the proxy basket of currencies and the underlying portfolio.

3. **Arbitrage:** The strategy of a simultaneous purchase and sale of like or similar securities to take advantage of price discrepancies with the goal of making profits.

B. Prohibited:

1. **Speculation:** When the characteristics of the derivative are the sole reason for its purchase or sale where an underlying naked cash position is taken in the portfolio. This strategy also implies the leveraging of the portfolio, which may create an obligation of value in excess of the value of that portfolio.

VI. GENERAL REQUIREMENTS AND RESTRICTIONS

A. Each external manager shall prepare, maintain, and periodically review a written derivatives policy that describes the following information:

1. Specifies the philosophy and prescribed use of derivatives for client accounts:
2. Establishes limits to derivatives exposure within a client account expressed in terms of percentage of notional amount of derivatives exposure as a percent of market value;
3. Establishes a standard of care concerning the following areas:
 - a. Back office and systems capabilities,
 - b. Internal audit and review of derivatives use,

- c. Separation of responsibilities,
 - d. Senior management supervision,
 - e. The required expertise of those permitted to engage in the use of derivative, and
 - f. The authority of those permitted to use derivatives.
4. Establishes and describes the following criteria:
- a. The accounting and valuation procedures in the use of derivatives,
 - b. The counter-party exposure credit limit policy,
 - c. The value-at-risk analysis regarding the impact to a client's portfolio caused by the use of derivatives,
 - d. Reconciliation procedures with the client's master custodian bank,
 - e. Reporting requirements to clients, and
 - f. The frequency of the policy review and the name of individuals conducting the review.
5. Establishes and describes the monitoring procedures for the following issues:
- a. Policy implementation, and
 - b. Risk exposures
6. Describes the compensation of traders, portfolio Managers, and other individuals involved in the use of derivatives to avoid inappropriate, fraudulent, or non-compliant behavior; and
7. Specifies the periodic review of the written derivatives policy.
- B. Managers shall mark-to market derivatives positions daily.
- C. Managers shall use a daily pricing source for valuing derivative positions.

- D. Managers shall reconcile daily cash and margin positions with LACERA's master custodian bank.
- E. Any derivative transaction, which results in the leveraging of the portfolio, is strictly prohibited.
- F. Only the Managers' investment guidelines can confer authorization to use derivatives, which is included as part of its contract with LACERA. If derivative use is authorized, then this Policy applies.
- G. Any derivative transaction, or any action concerning derivatives not expressly permitted in this Policy, is prohibited unless singularly approved by LACERA's Chief Investment Officer or his/her designee. Managers shall request approval for any policy exception from the Staff, who will seek the appropriate determination.
- H. Each Manager shall make available to LACERA's Chief Investment Officer or his/her designee, copies of any policy regarding derivatives it maintains which is applicable to the management of LACERA's account, including those policies required by this Policy.
- I. While the use of options is permitted as expressed, there may be times when simultaneous, but opposing options positions may be taken by a manager. An example of this occurs when a call option is written so that the premium income received is then used to finance the purchase of a put option. When these simultaneous transactions result in a risk controlling or cost controlling impact to LACERA's portfolio, then they will be permitted.

VII. TYPES OF RISKS

- A. **Market Risk** – Managers shall have systems, procedures, and, if necessary, models to assess the market-related risks to the price behavior of the derivative instruments held in the portfolio, and the impact of market-related risk on the value of the portfolio managed for LACERA.
- B. **Credit Risk** – Managers shall have available for inspection credit policies which are applicable to their derivative use. Credit risk analysis must assess the current replacement cost of the transaction of a counter-party default and estimate the replacement cost if the counter-party were to default at some future point during the derivatives exposure period.
- C. **Liquidity Risk** – To minimize liquidity risk, the potential derivatives transaction shall be reviewed and supported by at least two market makers.

- D. **Cash Flow Risk** – To minimize the cash flow requirements of LACERA, especially in the currency overlay program, Managers shall make use of master netting agreements and have systems in place to monitor when unrealized losses exceed unrealized gains in connection with derivatives transactions.
- E. **Basis Risk** – To minimize basis risk, the price movement correlation of the derivative and the underlying cash market or instrument which represents the deliverable instrument must be at least 95% over a rolling three-year period. For currency overlay managers, the 95% correlation refers to the correlation between the proxy basket of currencies and the underlying portfolio.
- F. **Legal Risk** - To minimize legal risk, Managers are prohibited from engaging in derivative transactions where such transactions are unenforceable under the laws of the governing jurisdiction. Managers are required to maintain sufficient documentation to enable enforceability of a claim arising from a derivatives transaction and may only engage in derivative transactions when there exists sufficient authority or capacity to do so. Where reasonable, Managers at their own expense shall engage appropriate legal counsel expert in the laws of the governing jurisdiction to protect the interests of LACERA in the use of derivatives.
- G. **Settlement Risk** – To minimize settlement risk, master payment netting agreements shall be used where feasible and enforceable for payment in the same currency. Cross currency settlement risk shall be minimized by avoiding the use of spot and short-dated forward trades simultaneously.
- H. **Operational Risk** – To minimize operational risk, Managers shall have sufficient internal controls to minimize derivative losses due to errors or omissions. These internal controls shall include the following:
1. Oversight of informed and involved senior management.
 2. Documentation of policies and procedures, listing approved activities and establishing limits and exceptions, credit controls and management reports.
 3. Independent risk management function, separate from the portfolio management function, or appropriate checks and balances to ensure proper risk management.

4. Independent internal and external audits to verify adherence to the firm's policies and procedures.
5. Back office support with sufficient technology and systems for handling confirmations, documentations, payment, margin levels and accounting and reporting.
6. A system of independent checks and balances throughout the derivatives transaction process from initiation of trade to final settlement.

VIII. COUNTER-PARTY REQUIREMENTS

- A. Each Manager shall prepare, maintain, and periodically review a counter-party credit policy for non-exchange-traded derivatives, meeting the following standards:
 1. Outlines acceptable credit standards a counter-party must meet.
 2. Outlines how a counter-party will be evaluated against those standards.
 3. Specifies the individuals within the firm responsible for evaluating counter-party creditworthiness.
 4. Specifies a list of approved counter-parties with credit exposure limits.
 5. Outlines the frequency of review of counter-parties for the approved list.
 6. Outlines procedures for enforcing the counter-party credit policy.
 7. Provides for the independent audit of credit policy procedures to ensure compliance.
 8. Requires the separation of trading (dealing) activity responsibilities from credit approval and review responsibilities and provides for a separate risk management function within the firm, or an appropriate sets of checks and balances to ensure proper risk management.
 9. Outlines restrictions against the use of counter-parties requiring credit enhancement to establish acceptable creditworthiness.

10. Outlines appropriate internal reporting and control requirements for the management of counter-party risk exposure.
 11. Specifies periodic review of the written counter-party credit policy.
- B. Counter-party creditworthiness shall equal an “investment grade” of “A3” as defined by Moody’s Investor Service or “A-” by Standard & Poor’s. The use of counter-parties holding a split rating with one of the ratings below A3/A- is prohibited. Managers shall notify LACERA if a counter-party is downgraded below A3/A- while an instrument held in portfolio is outstanding with that counter-party. The use of unrated counter-parties is prohibited unless the counter-party has an explicit and legal guarantee from its parent company and the parent company meets LACERA’s credit rating requirements.
- C. Non-exchange traded derivatives or individual counter-party exposure, including LACERA’s Custodian, are limited to 33% of the notional amount of the derivative exposure of the portfolio being managed for LACERA. An exception is allowed if the total derivative exposure in the portfolio is less than \$100 million. Where netting agreements approved by LACERA’s Chief Investment Officer or his/her authorized designee are in place with the counter-party, only the net amount applies toward the \$100 million limit.
- D. Any entity acting as a counter-party shall be regulated in either the United States or the United Kingdom.
- E. The Manager shall, where applicable and enforceable, use master agreements permitting the netting of counter-party of exposure to minimize credit risk.
- F. LACERA’s Chief Investment Officer or his or her designee may request an adjustment of the counter-party exposure, as LACERA manages its overall counter-party exposure.

IX. PERMITTED AND RESTRICTED INSTRUMENTS

The derivative instrument market is evolving and new instruments are created constantly. Rather than list each derivative, classes of derivatives will be described below, and **may only be used by Managers with guideline authority to do so.**

- A. **Futures Contracts** – Stock index futures, bond futures, swap futures, and currency futures contracts which are Commodities and Futures Trading Commission (CFTC) – approved are permitted when the Manager has permission to invest in the underlying or deliverable cash market instrument.
- B. **Options** – Stock index options, interest rate options, options on stocks, bonds, and swaps, options on futures and currency options are permitted for use by Managers who have permission to invest in the underlying or deliverable cash market instrument or whose mandate is to overlay a designated portfolio of deliverable cash market instruments.
- C. **Currency Forward Contracts** – Currency forward contracts are permitted for use by Managers who have permission to invest in the underlying or deliverable cash market instrument or whose mandate is to overlay a designated portfolio of deliverable cash market instruments. FX transactions may occur between foreign currencies (cross currencies) when made in anticipation of future sales or purchases of securities or when consistent with the Manager’s currency management guidelines.
- D. **Swaps** – Swaps which provide for the receipt of the interest rate or the rate of return of the permitted cash market instrument are allowed.
- E. **Structured Notes** – Structured notes (such as, but not limited to, inverse floaters) and mortgages are not considered derivatives for the purposes of this Policy, and are prohibited, unless expressly permitted by the Manager’s investment guidelines included in its contract with LACERA.
- F. **Warrants** – Purchasing warrants separately is prohibited; however, warrants are permitted when attached to securities authorized for investment.
- G. **Credit Default Swaps** – The purchase and sale of single name and basket/index credit default swaps is allowed, if expressly permitted in the Manager’s investment guidelines included in its contract with LACERA. In no case may credit default swaps be used to lever the portfolio.

X. LISTING REQUIREMENTS

Derivatives, which are future contracts, shall be CFTC-approved and exchange-traded. Options may either be exchange-traded or traded over-the-counter (OTC). If the derivative is traded over-the-counter, then manager shall strictly adhere to the counter-party guidelines.

XI. CRITERIA FOR NEW DERIVATIVES

Use of any new derivatives shall only occur upon written authorization of LACERA's Chief Investment Officer or his/her authorized designee. New derivatives instruments subject the investor to three types of risk:

- A. Objective pricing risk
- B. Legal risk
- C. Liquidity risk

Because most derivative instruments are traded under unregulated circumstances, a "common law" practice shall prevail. Before use of a new derivative, at least two market makers shall review and support it. The two market makers shall have adequate capitalization, exemplary reputations in the marketplace, and creditworthiness equivalent to "investment grade" of "A3" as defined by Moody's Investor Service or "A-" by Standard and Poor's. The benefits of two market makers include competitive pricing, a minimum number of market participants to create "commonly accepted practices and requirements" for a new derivative, and a minimum degree of liquidity to support institutional use. The derivative must be linked to a pre-existing permissible cash market or instrument, which can be used for delivery.

XII. REPORTING REQUIREMENTS

Managers shall prepare a monthly report for LACERA outlining the following information:

- A. The derivatives and the counter-parties used and the market value, cost-value, gain or loss, notional exposure, and amount of exposure;
- B. A description of the strategy and expected outcome of the derivative use; and
- C. The value-at-risk analysis regarding the impact to LACERA's portfolio caused by the use of derivatives.

XIII. OPERATIONAL REQUIREMENTS

Managers shall comply at all times with the operational requirements of LACERA and its Custodian.

ATTACHMENT J

EMERGING MANAGER POLICY^{1,2}**Emerging Manager Definition**

Emerging investment managers are newer, independent firms that may not have substantial assets under management (generally, less than \$2 billion) nor a long-term investment performance record (generally, less than five years). Emerging investment managers can include, but are not limited to, minority-, women- and disabled veteran-owned organizations.

Purpose and Objective

The objective of LACERA's Emerging Manager Policy (Policy) is to gain early access to smaller investment management organizations. LACERA recognizes that smaller investment management firms may generate superior performance returns because of increased market flexibility associated with smaller asset bases. The Policy provides LACERA an opportunity to identify potentially talented investment management organizations in their early business stages.

The application of this Policy to the various asset classes is discussed below.

U.S. Equity

A "manager-of-manager" strategy was selected as the most effective way to implement LACERA's U.S. equity emerging manager policy because of the resources and expertise required to effectively manage this program. The following defines the manager-of-manager's ("Manager") responsibilities:

- Maintaining an extensive emerging manager database, that meets the criteria outlined in this Policy, and continuously evaluating prospective managers.
- Retaining and terminating firms at its sole discretion based on standards for performance, assets under management and other key issues deemed critical by the Manager.
- Monitoring each emerging manager participating in LACERA's manager-of-manager program for adherence to LACERA's investment guidelines.
- The program Manager shall select emerging managers that meet the following minimum qualifications:
 1. The emerging manager is a registered investment adviser under the Investment Advisers Act of 1940.
 2. No person or entity, other than the principals or employees of the emerging manager, shall own more than a forty-nine percent (49%) interest in the emerging manager.

¹ Emerging manager (9-13-01).doc

² Adopted by the Board of Investments on June 13, 2001

3. LACERA prefers emerging managers who currently comply with the performance presentation standards set forth in *Global Investment Performance Standards (GIPS)*, CFA Institute. If Manager selects any emerging manager who does not currently follow the GIPS of the CFA Institute, then such emerging manager must make a good faith effort to comply with such standards within one (1) year of hire.
4. The portfolio managers which each emerging manager assigns to manage the LACERA portfolio must have an average of at least five (5) years of verifiable investment experience managing portfolios containing a similar investment style as that in the Managed Assets to be allocated to such emerging manager.
5. Each emerging manager must have at least \$25 Million of assets under management in the same investment style to be managed for LACERA before any allocation of Managed Assets to such emerging manager.
6. Each emerging manager must have no more than \$2 Billion of total assets under direct management before being selected for the Fund.
7. Manager shall review with LACERA investment Staff the rationale for retaining any emerging manager who reaches a level of \$3 Billion of total assets under management, inclusive of its portion of the Managed Assets, at any time during such emerging manager's participation in the Fund.
8. Each emerging manager must have direct responsibility of assets consisting of the same investment style it will manage for LACERA for at least three (3) other clients besides LACERA.
9. LACERA's Managed Assets must comprise no more than forty percent (40%) of the total assets managed by any emerging manager.
10. The assets for any single client (other than LACERA) must comprise no more than fifty percent (50%) of the total assets managed by any emerging manager, including all Managed Assets allocated to such emerging manager.

LACERA's investment Staff is responsible for monitoring and evaluating the performance of the Manager.

Fixed Income

U.S. fixed income emerging manager candidates may arise in two distinctive areas: more traditional fixed income and specialized non-traditional areas. The most feasible method of gaining access to fixed income emerging managers is by identifying those firms with unique investment capabilities that may potentially complement the existing portfolio structure. Examples include, but are not limited to, investment firms that specialize in non-traditional fixed income sectors or that utilize investment styles complementary to those employed by existing managers. Non-traditional fixed income sectors include, but are not limited to, convertible bonds, bank loans, private placements and international high yield securities.

For initial searches, fixed income emerging managers will be required to meet the following minimum investment criteria. Fixed income emerging managers that meet these minimum qualifications shall be considered search candidates.

- Emerging manager is a registered investment adviser under the Investment Advisers Act of 1940.
- No person or entity, other than the principals or employees of an emerging manager, shall own more than a **forty-nine percent (49%) interest** of the organization.
- LACERA prefers emerging managers who currently comply with the performance presentation standards set forth in the Global Investment Performance Standards (GIPS) of the CFA Institute. If the emerging manager does not currently follow the GIPS standards, then the emerging manager must make a good faith effort to comply with such standards within **one (1) year** of date of hire.
- The firm's portfolio manager(s) must have an average of at least **five (5) years** of verifiable investment experience managing portfolios containing a similar investment style as that in the LACERA Assets to be allocated to the emerging manager.
- The emerging manager must have at least **\$100 Million** of assets under management in the same investment style to be managed for LACERA.
- The emerging manager must have no more than **\$2 Billion** of total assets under direct management prior to selection. The emerging manager's total assets under management should not exceed **\$3 Billion** subsequent to funding.
- The emerging manager must have direct responsibility for managing assets utilizing the same investment style it will manage for LACERA for at least **three (3) other** Institutional clients besides LACERA.
- LACERA's Assets must comprise no more than **thirty-three percent (33%)** of the total assets managed by the emerging manager.

- The assets of any single client (other than LACERA) must comprise no more than **fifty percent (50%)** of the total assets managed by the emerging manager.

The Board recognizes that objective investment criteria, although important, is only a small part of the manager evaluation process. Therefore, Staff and Consultant will conduct the standard due diligence review process for each manager meeting the above criteria.

Real Estate³

The structure and timing of capital raises may not coincide with times when LACERA has capital available for the Emerging Manager Program. Therefore, Staff will manage the ten percent (10%) allocation (10% of the Targeted Real Estate Portfolio) within the range of zero percent (0%) to twenty percent (20%) to allow for over or under weighting emerging manager exposure based on market opportunities.

An emerging manager must meet all the following requirements:

- The emerging manager must be a registered investment adviser under the Investment Advisers Act of 1940.
- No person or entity, other than the principals or employees of the emerging manager, shall own more than forty-nine (49%) interest in such emerging manager.
- If the emerging manager does not currently follow the GIPS performance presentation standards, then the emerging manager must make a good faith effort to comply with such standards within one (1) year of date of hire.
- The firm's portfolio manager(s) must have at least five (5) years of verifiable investment experience managing portfolios containing a similar investment style as that in the LACERA assets to be allocated to the emerging manager.
- The emerging manager must have at least \$100 Million of assets under management in the same investment style to be managed for LACERA.
- The emerging manager must have no more than \$2 Billion of total assets under direct management prior to selection.
- The emerging manager's total assets under management should not exceed \$4 Billion subsequent to funding.

The Board recognizes that objective investment criteria, although important, are only a small part of the manager evaluation process. Therefore, Staff will conduct an on-site manager review(s) to evaluate the subjective criteria and prepare a report to the Board of Investments for each emerging manager meeting these criteria when new investment allocations are being considered.

³ Adopted by the Board of Investments on September 13, 2006.

Staff anticipates that emerging managers will benefit from the investment track record established in partnership with LACERA. As such, emerging managers and their allocations shall be reviewed periodically to determine if sufficient growth and/or track record exist to allow the firm and its investments to be transferred to an appropriate style group within the traditional Real Estate Portfolio. Such movement would be initiated by a recommendation from Staff based on one or both of the following events:

- Three-year (3) track record exceeding LACERA's return requirements.
- Total assets managed in excess of \$2 billion and two-year (2) track record exceeding LACERA's return requirements.

Private Equity

The objective of the private equity emerging manager program is to diversify the portfolio by partnering with investment managers that are not part of the core program, while generating performance results consistent with LACERA's private equity class return expectation—the Russell 3000 plus 300 to 500 basis points. The emerging manager program will provide LACERA the ability to invest in smaller, lesser-known firms and in some cases first time funds whose general partners acquired their experience working at more established firms.

A “manager-of-manager separate account” strategy was selected as the most effective way to implement LACERA's private equity emerging manager policy because of the resources and expertise required to manage this program. The following defines the manager-of-manager's (“Manager”) responsibilities:

- Maintain a database of emerging managers that meet the criteria outlined in this policy, and continuously evaluate prospective managers.
- Select managers within the policy investment guidelines.
-
- Monitor the performance of each manager in the portfolio.
- Provide LACERA quarterly reports that include, but are not limited to, a list of funds selected, performance results of each fund with benchmark comparison, and commentary on the performance of each fund.

The following factors will be considered when selecting an emerging private equity investment:

- To reduce the risk of the emerging manager portfolio, investments will be diversified by vintage year⁴ of investment, location of general partner, industry, and investment category. Investment categories include early and late stage venture capital, mezzanine financing, and leveraged buyouts.
- The minimum size of investment made shall be \$5 million, while the maximum size of investment made shall be \$20 million.
- LACERA's share in a single partnership, once the partnership has closed to new investments shall not exceed 10% of that partnership's total commitments from all limited partners.
- The performance objective for this program, as measured by IRR (Internal Rate of Return), will be an annualized return of 300 to 500 basis points over the Russell 3000 Index over a 10-year time frame. This objective is net of all partnership fees and expenses.
- The general partner must have demonstrated private equity expertise in sourcing deals, deploying capital, and successfully implementing exit strategies.
- The key persons of the General Partner must have at least five years of verifiable private equity expertise in sourcing deals, deploying capital, and successfully implementing exit strategies.
- No person or entity, other than the principals or employees of the emerging manager, shall own more than forty-nine (49%) interest in such emerging manager.
- .The fund must be the General Partner's first, second, or third institutional fund.
- .The fund cannot exceed \$300 million in capital commitments if it is a venture fund or \$750 million in capital commitments if it is a corporate finance-type or buyout fund.

Emerging Manager Qualifications for Promotional Opportunities

Opportunities for larger mandates may occur for emerging managers when, from time to time, LACERA evaluates asset class structure and/or conducts strategic reviews. Prior to LACERA conducting an external search for an active manager, managers participating in LACERA's emerging manager program that meet the following minimum objective investment criteria will be considered short-list candidates:

- The product under consideration must have a minimum five-year performance history at that firm.⁵ Exceptions to this may occur if the manager has a clearly established

⁴ A private equity partnership vintage year is defined as the year of first investment or capital call.

⁵ All returns must be in compliance with the Global Investment Performance Standards (GIPS) of the CFA Institute. Performance history must be reflective of institutional accounts.

performance record from their previous employment or manages a related, similar investment product with longer performance history.

- For Equity and Fixed Income, the emerging manager's five-year net-of-fee⁶ performance must exceed LACERA's passive alternative⁷; and, the five-year (gross-of-fees) performance must rank above median in an appropriate peer universe⁸ comparison. For Real Estate, the emerging manager's return must exceed LACERA's return objective as outlined in the Equity Real Estate Strategic Plan.
- The manager's three-year rolling return over the most recent five-years must exceed LACERA's passive alternative for 60% of the available observations.
- The manager's three-year performance history must be built on an asset base that is equivalent to the proposed size of the assignment.
- LACERA comprises no more than 25% of the manager's total assets under management.
- The key individuals responsible for developing the performance history must still be active in the investment management process when the search is conducted.
- A representative portfolio for the product under consideration must have fundamental characteristics generally associated with the style being considered.

The Board recognizes that objective investment criteria, although important, are only a small part of the manager evaluation process. Therefore, Staff and Consultant will conduct an on-site manager review(s) to evaluate the subjective criteria and prepare a report to the Board of Investments for each emerging manager meeting these criteria.

⁶ Fees will be calculated using the manager's regular fee schedule.

⁷ Passive alternatives for equity mandates are as follows: Large Cap Growth-Russell 1000 Growth index, Large Cap Value-Russell 1000 Value index, Large Cap Core-S&P 500 index, Small-Cap Growth-Russell 2000 Growth index, Small Cap Value-Russell 2000 Value. Passive alternatives for fixed income mandates are as follows: Lehman Brothers Aggregate Bond Index, CS First Boston Domestic + High Yield Index-Upper Tier, Salomon Smith Barney Non-U.S. Government Bond Index-50% Hedged.

⁸ Peer universe data will be obtained for both equity and fixed income mandates from either Wilshire Associates Trust Universe Comparison Service or Russell/Mellon Analytical Services.

Asset Allocations**TABLE 1**

	Minimum	Maximum
U.S. Equities	2%	4%
Fixed Income	0%	4%
Real Estate ⁹	0%	20%
Private Equity	0%	3.5%
Total Fund	0%	4%

Revised March 11, 2009

⁹ Adopted by the Board of Investments September 13, 2006.

ATTACHMENT K

MANAGER MONITORING AND REVIEW POLICY

This policy outlines and defines, in accordance with Board Policies, a process for the on-going monitoring and review of investment managers by LACERA's investment Staff and to establish guidelines for scheduling manager presentations to the Board of Investments (the Board). In adopting this policy, the Board acknowledges that LACERA has developed a highly qualified and capable in-house Investment Staff. The Staff is led by a Chief Investment Officer with asset class responsibility delegated to individual Investment Officers. This Investment Staff is responsible for and fully capable of performing the work assigned to it by the procedures discussed below.

The Board recognizes it is not necessary to meet with every investment manager annually, although from time-to-time, the Board may need to meet with managers experiencing either performance or organizational related problems.

The following outlines the Investment Staff's responsibilities for monitoring and reporting back to the Board investment manager activities.

MONTHLY AND QUARTERLY INVESTMENT REPORTS**Monthly Chief Investment Officer Reports**

This report will provide the Board asset class market values and target allocations, as well as preliminary performance results for calendar year-to-date, fiscal year-to-date, and most recent calendar year's return. Other information will include investment activity such as manager rebalancing and funding activity, purchases and sales of real estate assets, distributions and fundings of private equity fund investments, and upcoming Staff projects.

Quarterly Performance Measurement Reports

The Investment Staff will provide quarterly performance measurement reports for the most recent calendar quarter end. Staff will supplement these written reports with oral presentations for the June and December quarter-end results.

Public market reports will include the Total Fund results for the trailing quarter, one-, three- and five-year periods. Composite results for all asset classes will also be reported. Real Estate Private Equity results, while included, will be one quarter in arrears.

Public markets individual manager results will also be included in this report. Manager results will include a summary page reviewing all managers' gross and net-of-fee performance results for the most recent quarter, one, three, and five years. Risk-adjusted graphs will be provided for managers with at least three years of data.

A one-page summary for each manager will also be provided in the quarterly performance report. This summary will list each manager's mandate, provide peer and benchmark relative

performance and since inception results. Estimated manager fees will be included in the appendix.

Real estate performance will be provided quarterly by the Fund's real estate Consultant. The Consultant performance measurement report will address return objectives, return by investment vehicle, portfolio composition, return by investment style, property and manager diversification, and provide a market update commentary.

The Fund's alternative asset Consultant will provide the asset class's performance measurement report quarterly. The Consultant's performance measurement report will address portfolio performance, portfolio diversification, portfolio overview and highlights, top ten companies held, and commitment by vintage year. The Consultant will supplement this report with an oral presentation to the Board, at least yearly, on the performance of the private equity portfolio.

ASSET CLASS STRUCTURE AND MANAGER REVIEWS

Public Markets

Bi-annually, Staff will review with the Board the current strategies for implementing the public markets allocations in relation to the Board's adopted asset allocation policy. Periodically, Staff may recommend the Board adopt strategy changes; however, because these are long-term investment goals, the Board and Staff recognize that continually changing these strategies could negatively impact composite results.

Equity strategy papers will review the composite portfolio's active/passive allocations and any style biases or other deviations resulting from either past policy decisions or occurring from recent market trends.

Fixed income strategy papers will review the rationale for utilizing strategic and tactical allocations to the different sectors of global fixed income markets and their specific role in the composite portfolio structure. Additionally, specific sector allocations will be discussed as part of the fixed income strategic review.

Manager reviews will include, but are not limited to, a review of each manager's investment mandate, investment process, key personnel and/or organizational structure and historical performance. Staff concerns that have not been previously broached with the Board will also be addressed at this time, although such concerns may or may not require immediate Board action.

Private Markets – Real Estate

The Equity Real Estate Strategic Plan, the Fund's long-range plan, will set forth the objectives, policies and procedures for investment in the asset class of equity real estate. This plan will be reviewed periodically by Staff. Suggested updates or changes will be advanced to the Board for consideration.

Staff will prepare a real estate investment plan annually for Board consideration. The investment plan will review the strategic goals for the portfolio, present a profile and analysis of the current

real estate portfolio, review the real estate market, review prior year investment initiatives, and recommend investment initiatives for the upcoming year.

Each real estate manager will present an annual Manager Investment Plan in which specific investment guidelines are identified in accordance with LACERA's Strategic Plan and Investment Plan. Staff reviews and approves each manager's annual Manager Investment Plan and Minimum Return Requirements.

Private Equity

The Private Equity Strategic Plan, the asset class's long-range plan, will set forth the objectives, policies, and procedures for private equity investments. This plan will be reviewed yearly by Staff, and any suggested changes will be advanced to the Board.

Staff and advisor will also prepare an annual Investment Plan for Board consideration. The Investment Plan will review the strategic goals for the portfolio, present a profile and analysis of the current private equity portfolio, review the private equity market, review prior year investment initiatives, and recommend investment initiatives for the upcoming year.

Each year Staff and advisor will present an annual Investment Plan, in which specific investment guidelines will be identified to the Board for approval.

MONITORING MANAGERS BY INVESTMENT STAFF

The Board has delegated to the investment Staff the fundamental responsibility of monitoring LACERA's investment managers on an on-going basis. Effectively monitoring managers can be broken into two key areas: identifying critical factors to monitor and establishing how managers will be monitored.

Public Markets

Staff will monitor the following critical factors: adherence to investment style, changes in key personnel, performance, organizational changes such as a sale of a firm, rapid asset growth, high staff turnover. Additionally, manager portfolios will be monitored for adherence to investment guidelines and contract compliance issues.

Managers will be monitored via periodic telephone calls and on-site visits. Each manager's performance will be reviewed monthly. Equity manager portfolio characteristics will be periodically reviewed using outside analytical software packages to ensure a manager is adhering to their investment style. Fixed income manager portfolio characteristics will be monitored using analytical information obtained from the investment managers and LACERA's custodian.

Private Markets – Real Estate

Staff will monitor the real estate investment managers by conducting annual manager meetings. Key issues that will be reviewed during these meetings include: personnel and organizational changes, client gains/losses and general operational issues. Staff will also conduct a separate meeting to review and approve each manager's proposed annual operating budget and strategic management plan for each property.

Staff will conduct on-site inspections for each new investment property purchased by a manager on LACERA's behalf. Subsequent to these property visits, Staff will provide the Board with a written report that contains the following information: a market review, a product review, and a confirmation that the manager has underwritten the investment in a prudent and reasonable manner.

Staff will conduct periodic site inspections of each asset owned by the Fund to confirm that the manager is complying with the approved management plan and appropriately monitoring each property's operation and physical condition.

In addition to the monitoring and reviews conducted by the Investment Staff, additional oversight will be conducted by LACERA's internal audit department. Internal audit will periodically conduct operational reviews of the separate account real estate managers to confirm their compliance with the terms and conditions of the investment management agreements. The results of these audits will be reported directly to the Board of Investments.

Private Equity

Staff will monitor both the private equity advisor(s) and the investment managers that the private equity advisor(s) recommends for investment. Staff will meet with the private equity advisor(s) and Board at least yearly to review performance, asset allocation to the various subclasses of private equity, and other issues that arise. In addition, Staff will periodically meet with the private equity advisor(s) to discuss portfolio status, potential investments, and other topics germane to private equity and LACERA's portfolio.

Staff will monitor the performance of the investment managers that the private equity advisor(s) recommends by attending annual partnership meetings and either periodically visiting the investment managers' offices or taking meetings in LACERA's offices to review their portfolio(s) of investments.

FORMAL BOARD REVIEW OF MANAGERS

Formal manager reviews may be undertaken for any of the following reasons:

- When a manager's last three consecutive quarters of one year rolling excess returns are below the calculated performance bands.
- When a manager's last three consecutive quarters of one year rolling excess returns are *above* the calculated performance bands, a manager review may be undertaken at the discretion of the Chief Investment Officer.
- At the Board's request.
- At either Staff's or Consultant's recommendations.

Staff will notify the Board during performance reviews, or at other times of the year, when in Staff's opinion it is necessary to conduct a manager review. Additionally, the Board may periodically decide for no particular reason to invite investment managers to undertake a formal review.

The review will entail the manager conducting a formal presentation to the Board of Investments. Managers requested to present to the Board because of performance or organizational concerns will be asked to specifically address these issues. They will also be asked to review the following key points:

- Investment philosophy.
- Performance results.
- Past Investment strategy and performance impact relative to the benchmark.
- Current investment strategy.
- Potential investment strategy risk.

Revised: March 11, 2009

ATTACHMENT L

SECURITIES LENDING PROGRAM POLICY

LACERA's securities lending program provides the fund with an opportunity to earn incremental income and offset administrative expenses. The program may be managed by the Plan custodian, and/or qualified third-party securities lending agent(s), and/or direct borrowers (principals). It should be recognized that the operation of the securities lending program should remain transparent to LACERA's external investment managers and should not impede their investment management process.

The securities lending program consists of two separate functions. The first function is the lending of LACERA's eligible portfolio securities (U.S. and Non-U.S. equities & bonds), to approved and qualified borrowers, either through an agent or directly, subject to the terms and conditions specified in LACERA's "Agreement for Securities Lending Services." Loans of U.S. securities must have a minimum collateralization level of 102% and loans of Non-U.S. securities must have a collateralization level of at least 105%.

The second function is the reinvestment of cash proceeds generated by the lending of LACERA's portfolio securities. This function is an investment management function, and as a result is governed by the same "prudent man rules" employed by LACERA's existing investment managers. Cash proceeds may be invested in commingled funds or in separately managed accounts. Separately managed accounts will be managed in accordance with investment policies and guidelines adopted by the Board of Investments.

To maintain appropriate risk controls, staff shall continually monitor the securities lending program for compliance with the investment guidelines and policies pertaining to the reinvestment of cash proceeds. These guidelines and policies shall be periodically reviewed and, if needed, amended to incorporate any appropriate revisions.

Revised: June 25, 2003

ATTACHMENT M**PLACEMENT AGENT POLICY**

Investment managers in both the public and private markets use placement agents to help them raise capital from previously untapped sources. Placement Agents are any person or entity hired by or acting on behalf of an investment manager to market, solicit, or raise money either directly or indirectly from LACERA. The purpose of this policy is to bring transparency to placement agent activity in connection with LACERA's investments and to help ensure that all investment decisions are made solely on the merits and in a manner consistent with the Board of Investments fiduciary duties.

Prior to LACERA investing with any manager, Investment Staff shall obtain a written representation from the investment manager, in a form acceptable to the Legal Office, stating that the investment manager has not used a placement agent in connection with LACERA's investment, or if the manager has used a placement agent, it will disclose the following:

- the name of the placement agent.
- the fee paid or payable to the placement agent.
- representation that the fee is the sole obligation of the investment manager and not of LACERA or the limited partnership.
- current or former LACERA board members, employees, or consultants or a member of the immediate family of any such person that are either employed or receiving compensation from the placement agent.
- the names of any current or former LACERA Board members, employees, or consultants who suggested the retention of the placement agent.
- the regulatory agencies the placement agent or any of its affiliates are registered with, such as the SEC, FINRA, or any similar regulatory agency.

In the event a placement agent is expected to receive remuneration for a LACERA investment, Staff will notify your Board in the memorandum discussing the recommended/approved investment. If a manager breaches the Policy, Staff will notify the Board of Investments in a timely manner.