

BOARD OF INVESTMENTS MINUTES 3-10-10

PRESENT

- Herman Santos, Chair
- John M. Barger, Vice Chair
- Simon S. Russin
- Mark J. Saladino
- Leonard Unger
- William Pryor
- Michael Schneider
- Estevan Valenzuela

ABSENT

- Diane Sandoval, Secretary

STAFF, ADVISORS, PARTICIPANTS

- Gregg Rademacher, Chief Executive Officer
- Robert Hill, Assistant Executive Officer
- Janice Golden, Assistant Executive Officer
- Lisa Mazzocco, Chief Investment Officer
- John McClelland, CRE, Principal Investment Officer, Real Estate
- Vache Mahseredjian, CFA, Principal Investment Officer
- Christopher J. Wagner, Senior Investment Officer, Private Equity
- June H. Kim, Senior Investment Officer, Equities
- Robert Z. Santos, Investment Officer, Fixed Income
- Gerald P. Flintoft, CAIA, Investment Officer, Private Equity
- Esmeralda Vita del Bosque, Senior Investment Analyst, Equities
- Dale Johnson, Senior Investment Analyst
- Robb Van Der Volgen, Chief Counsel
- Earl W. Buehner, Senior Staff Counsel
- Michael D. Herrera, Senior Staff Counsel
- Christine Roseland, Staff Counsel
- Cynthia Lau, Legislative Analyst

1. APPROVAL OF THE MINUTES

1. APPROVAL OF THE MINUTES OF THE REGULAR MEETING OF THE BOARD OF INVESTMENTS OF FEBRUARY 10, 2010.

A motion to approve the Minutes of the Regular Meeting of the Board of Investments of February 10, 2010 was made by Mr. Russin, seconded by Mr. Unger. The motion carried by unanimous vote.

2. PUBLIC COMMENT

Ramon Rubalcava of SEIU Local 721 provided a general statement on IV. Action Items A. the June 30, 2009 Actuarial Valuation of LACERA.

3. REPORT ON CLOSED SESSION ITEMS

None.

4. ACTION ITEMS

1. Recommendation as submitted by Gregg Rademacher, Chief Executive Officer:

1. Accept the June 30, 2009, Actuarial Valuation of LACERA prepared by your actuary, Milliman;
2. Adopt recommended employer contribution rates; and
3. Direct the Chief Executive Officer to communicate the results of the Valuation to the Board of Supervisors by May 15, 2010, with a recommendation that the recommended employer rates be implemented no later than September 30, 2010. (Memo dated March 1, 2010.)

Milliman

- Karen I. Steffen, Fellow, Society of Actuaries Member, American Academy of Actuaries
- Nick J. Collier, Associate, Society of Actuaries Member, American Academy of Actuaries

Mr. Rademacher provided an executive summary of the recommendation and reported that LACERA's Board of Investments had adopted the Retirement Benefits Funding Policy, requiring the employer rates to be adjusted annually based on the annual valuation prepared by LACERA's actuary. If the recommended employer contribution rates are adopted, Mr. Rademacher will communicate the results of the Valuation to the Board of Supervisors by May 15, with a recommendation that the recommended employer rates be implemented no later than September 30, 2010. He introduced Nick Collier of Milliman, LACERA's plan actuary who performed the actuarial valuation. Mr. Collier followed with a presentation on the valuation results for June 30, 2009.

Due to the large investment losses for fiscal year 2009, Mr. Collier reported there would be an increase in County contribution rates, a decrease in the funded ratio. The Funded Ratio decreased from 94.5% to 88.9%. The recognition of significant investment losses caused a 5.5% decrease (after reflecting the new Funding Policy) in the Funded Ratio. All other factors had only a minor impact, causing a 0.1% decrease in total. Only a portion of the investment losses for Fiscal Year 2009 will be recognized this year. The impact of the asset loss would have been much greater if it had not been offset somewhat by the change in the asset smoothing method (from three-year smoothing to five-year smoothing), as well as by the inclusion of the STAR reserves in the valuation assets. There is no corresponding liability for future STAR benefits included in the valuation. Smoothing is based on the difference between actual and expected return, recognized over a 5-year period.

In accordance with LACERA's Funding Policy, the required County contribution rate is 14.22% of payroll. This is equal to the payment of the County normal cost rate plus a 30-year amortization of the unfunded actuarial accrued liability ("UAAL"). The 14.22% contribution rate is currently adequate to maintain the funding of the retirement system benefits based on the actuarial methods and assumptions used and satisfies the Funding Policy adopted by the Board of Investments. There are no changes in LACERA's benefit provisions since the last valuation. A brief discussion followed.

A motion was made by Mr. Pryor, seconded by Mr. Unger to: (1) Accept the June 30, 2009, Actuarial Valuation of LACERA prepared by your actuary, Milliman; (2) Adopt recommended employer contribution rates; and (3) Direct the Chief Executive Officer to communicate the results of the Valuation to the Board of Supervisors by May 15, 2010, with a recommendation that the recommended employer rates be implemented no later than September 30, 2010. The motion carried with Messrs. Schneider and Barger voting No.

2. Recommendation as submitted by Gregg Rademacher, Chief Executive Officer:

1. Approve the salary level for the Director, Retiree Health Care position as Tier 1 MAPP, Range 14; and

2. Delegate authority to the Chief Executive Officer the flexibility to set salary in the fourth quartile on the salary range. (Memo dated February 3, 2010.)

Mr. Rademacher provided a brief background of the recommendation. He conveyed to the Board the importance of addressing certain compensation issues prior to executing a recruitment plan for the current vacant position of Director, Retiree Health Care. A brief discussion followed regarding the current salary range in the public sector for this position and budget authority and delegation concerns.

A motion to approve the recommendation was made by Mr. Valenzuela, seconded by Mr. Pryor. The motion carried with Mr. Russin voting no.

3. Recommendation as submitted by Christopher J. Wagner, Senior Investment Officer and Earl W. Buehner, Senior Staff Counsel: Approve the attached revisions to LACERA's Placement Agent Policy. (Memo dated March 3, 2010.)

Mr. Wagner gave a brief overview on the proposed revisions to LACERA's Placement Agent Policy. A brief discussion followed on issues relating to the background of certain placement agents.

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

4. Recommendation as submitted by Robert S. Van Der Volgen, Chief Counsel: Approve the attached ballot insert entitled "POWERS AND DUTIES OF INVESTMENTS BOARD MEMBERS" to be included with the ballot materials for the election of the Fourth Member of the Board of Investments. (Memo dated February 25, 2010.)

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

5. Recommendation as submitted by Michael D. Herrera, Senior Staff Counsel: Adopt the revised Board of Investments Securities Litigation Policy, in the form set forth as Attachment B. (Memo dated February 28, 2010.)

Mr. Herrera provided an overview on the proposed adoption of the Revised Securities Litigation Policy. He reported that in ensuring the Policy's continued success and effectiveness in achieving its stated purpose and principles, the Legal Office reviews the Policy on a regular basis to determine whether changes or amendments are necessary. The proposed changes are minor and intended to update the language of the Policy to reflect certain procedures, options and actions adopted and/or utilized over time by the Legal Office in order to implement the existing Policy.

A substitute motion was made by Mr. Barger, seconded by Mr. Santos to postpone this item to the next regularly scheduled meeting of the Board of Investments for more clarification from staff on preserving the Board's authority. The substitute motion carried by unanimous vote.

6. Recommendation as submitted by Cynthia Lau, Legislative Affairs Officer: Recommend that Board of Investments adopt a "Watch" position on Senate Bill 414 relating to the process of filing Board member vacancies. (Memo dated February 26, 2010.)

Ms. Lau gave a brief overview on Senate Bill 414 and reported that this Bill addresses the process for filling of vacancies on boards of retirement and board of investments in counties operating retirement systems under CERL. Contra Costa County Employees Retirement Association, this Bill's sponsor, has reported that the Bill will be further amended to remove the 90-day requirement. Instead, they will seek to have an election called at the earliest possible date. A brief discussion followed.

A motion to adopt a watch position on Senate Bill 414 was made by Mr. Pryor, seconded by Mr. Russin. The motion carried by unanimous vote.

5. REPORTS

1. Acadian Asset Management, LLC, Manager Review

- June Kim Senior Investment Officer, Equities
- Dale Johnson, Senior Investment Analyst, Equities

(Memo dated February 23, 2010.)

Acadian Asset Management LLC

- John Chisholm, Executive Vice President and Chief Investment Officer
- Michael Randall, Senior Vice President

Ms. Kim and Mr. Johnson gave a brief overview on Acadian Asset Management's ("Acadian") performance and reported that LACERA's Manager Monitoring and Review Policy stipulates that formal investment manager reviews may be undertaken when a manager's last three consecutive quarters of one-year rolling excess returns are outside pre-determined performance bands. Staff is cautiously optimistic in the manager's ability to add value over the longer term and will closely monitor this portfolio. They introduced the principals of Acadian who followed with a presentation on their investment process and performance.

Acadian has managed active non-U.S. equities for U.S. tax-exempt clients since 1988. Their active equity product utilizes a proprietary multi-factor model that analyzes 21 factors in four broad categories: valuation, earnings, quality and technical indicators. Their investment process is structured and disciplined with the goal of maximizing excess return relative to active risk and their focus is on companies that have positive earnings trends, high quality assets, and whose stock prices exhibit positive momentum and less volatility. This mandate invests in the developed and emerging markets. They are focused on building an efficient portfolio incorporating return forecasts, projected transaction costs, estimated liquidity, and recent volatility. Trading is conducted cost-effectively by using multiple liquidity sources and pre-approved brokers for executing trades. They have underperformed for all annualized periods since inception and their performance was severely impacted by the financial crisis and global economic contraction. The portfolio returned 27.5% for 2009 versus 33.7% for the MSCI EAFE plus Canada index. Acadian is once again focusing on company fundamentals. The portfolio is poised to benefit and their relative performance results are expected to continue to be positive. A brief discussion followed and their Report was received and filed.

2. Infrastructure Investing

- John D. McClelland, Principal Investment Officer, Real Estate

(Memo dated March 2, 2010.)

Mr. McClelland presented an outline on infrastructure investing. He reported that infrastructure investments could be broadly defined, commonly encompassing transportation, utility, communication and social assets, like hospitals or prisons. He reported that LACERA has indirect exposure to infrastructure assets via publicly traded securities that include approximately \$169 million of equity and \$57 million of fixed income. The Fund also has a \$119 million exposure to infrastructure via project investments made by private equity partnerships; however LACERA does not have any dedicated allocations to either mature or developing infrastructure assets. Introducing a dedicated allocation to infrastructure would require displacing existing program allocations, likely core real estate or private equity (the most comparable asset types). Private infrastructure investments, which offer similar return characteristics to real estate or private equity, are considered

riskier because they have a short track record of performance and an unproven exit strategy. The infrastructure investment asset class may be an opportunity sometime in the future. LACERA will continue to monitor this asset class and revisit if and when the opportunity becomes more compelling. A brief discussion followed and the Report was received and filed.

3. Chief Executive Officer's Report

- Gregg Rademacher, Chief Executive Officer

(Memo dated February 24, 2010.) (For information only.)

The Chief Executive Officer's Report is for information only and was received and filed.

4. Corporate Governance Quarterly Review

Volume 5, Issue #4: October 1, 2009 — December 31, 2009

(Memo dated February 22, 2010.) (For information only.)

The Corporate Governance Quarterly Review is for information only and was received and filed.

5. Annual Report on Securities Litigation

- Michael D. Herrera, Senior Staff Counsel

(Memo dated February 25, 2010.) (For information only.)

The Annual Report on Securities Litigation is for information only and was received and filed.

6. Support of U.S. Senate Bill 1551

- Michael D. Herrera, Senior Staff Counsel

(Memo February 22, 2010.) (For information only.)

U.S. Senate Bill 1551 is for information only and was received and filed.

7. Assembly Bill 1743 — Placement Agents Required to Register as Lobbyists.

(Memo dated March 1, 2010.) (For information only.)

Memorandum regarding Assembly Bill 1743 is for information only and was received and filed.

6. EXECUTIVE SESSION

1. CONFERENCE WITH LEGAL COUNSEL — ANTICIPATED LITIGATION

(Subdivision (b) of California Government Code Section 54956.9

1. One Case.

The Board met in Executive Session to discuss anticipated litigation under Subdivision (b) of California Government Code Section 54956.9 and there is nothing to report at this time.

7. GOOD OF THE ORDER


(For discussion purposes only.)

Ms. Mazzocco reported that Jim Rice formerly of Wilshire Associates has joined LACERA's Investment staff and the Board welcomed Mr. Rice (who was not present at the meeting). Ms. Mazzocco also reminded the Board that the next Investment Board meeting would be held on Thursday April 29, 2010.

Mr. Rademacher thanked the Board for their flexibility and availability.

Messrs. Russin and Barger attended the Pacific Institute and reported the sessions were very informative. Messrs. Santos and Russin commended Mr. Pryor on the LA Trustee Round Up Conference and reported it was an excellent conference.

8. ADJOURNMENT

 PROTECT | We continue to employ solid investment and business strategies designed to serve the best interests of our members and their beneficiaries.

4/28/11