



**LACERS**  
LOS ANGELES CITY EMPLOYEES'  
RETIREMENT SYSTEM

# Investments Performance Review

Quarter Ending December 31, 2010



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# Executive Summary

## Performance Overview

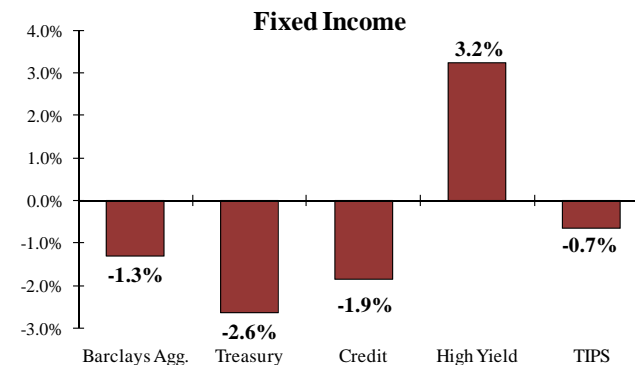
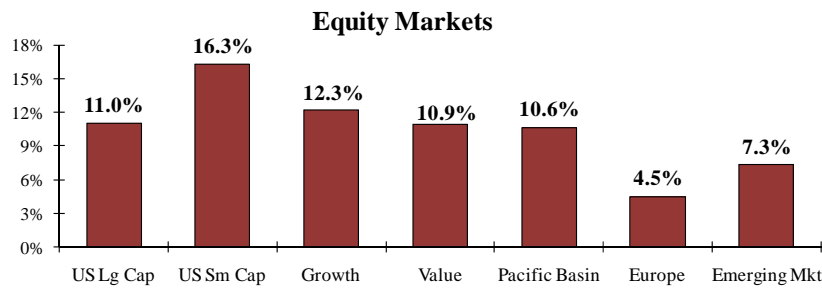
- *LACERS investment portfolio experienced a positive quarter with a 6.9% (gross) or 6.8% (net), bringing the fourth quarter market value to \$10.6 billion. For the year, the portfolio returned 13.6% (gross) or 13.4% (net).*
- *All publicly traded asset classes outperformed its respective benchmark for the quarter and one-year periods.*
- *Real Estate and Alternative Investments underperformed their respective benchmarks for the quarter and one-year periods.*

## Market and Economic Review

U.S. real GDP growth picked up somewhat to an annual rate of 3.2% in the fourth quarter, versus the 2.6% annual rate seen in the third quarter. The main driver for the improved GDP was increased consumer spending for nondurable and durable goods. The official U.S. unemployment rate dropped 0.4% to 9.4% at year-end 2010, with the economy adding 1.1 million jobs over the year; an estimated 384,000 jobs were added in the fourth quarter alone. Consumer-level inflation as measured by the Consumer Price Index (All Urban Consumers) picked up slightly in the fourth quarter with a rise of 0.34%, compared to the 0.22% increase in the third quarter. However, the 1.50% inflation rate for calendar 2010 is markedly lower than the 2.72% figure seen in 2009. The Federal Reserve held their target Federal Funds rate range of 0.0-0.25% in response to the sluggish pace of the economic recovery. Additionally, the Fed announced a second round of quantitative easing (known as QE2), i.e., a buyback of Treasury debt to generate liquidity and economic activity.

Equity Markets ended 2010 with strong gains, building upon the rally that began in September and besting most other broad public securities markets for the year.

In response to QE2 and general profit-taking at year-end, long-term Treasury yields nudged up over the fourth quarter. High yield once again led U.S. bond markets.





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# Fund Overview

## Fund Overview

LACERS total portfolio was valued at \$10.6 billion at the end of the 4<sup>th</sup> quarter and posted a gain of 6.9% for the quarter and 13.4% for the one-year period, net of fees. It outperformed its policy benchmark for the quarter and the one-year period. In a comparison to other public funds in TUCS (Trust Universe Comparison Service) with a market values greater than \$1 billion, LACERS ranked in the 14<sup>th</sup> percentile during the quarter and in the 40<sup>th</sup> percentile for the one-year period.

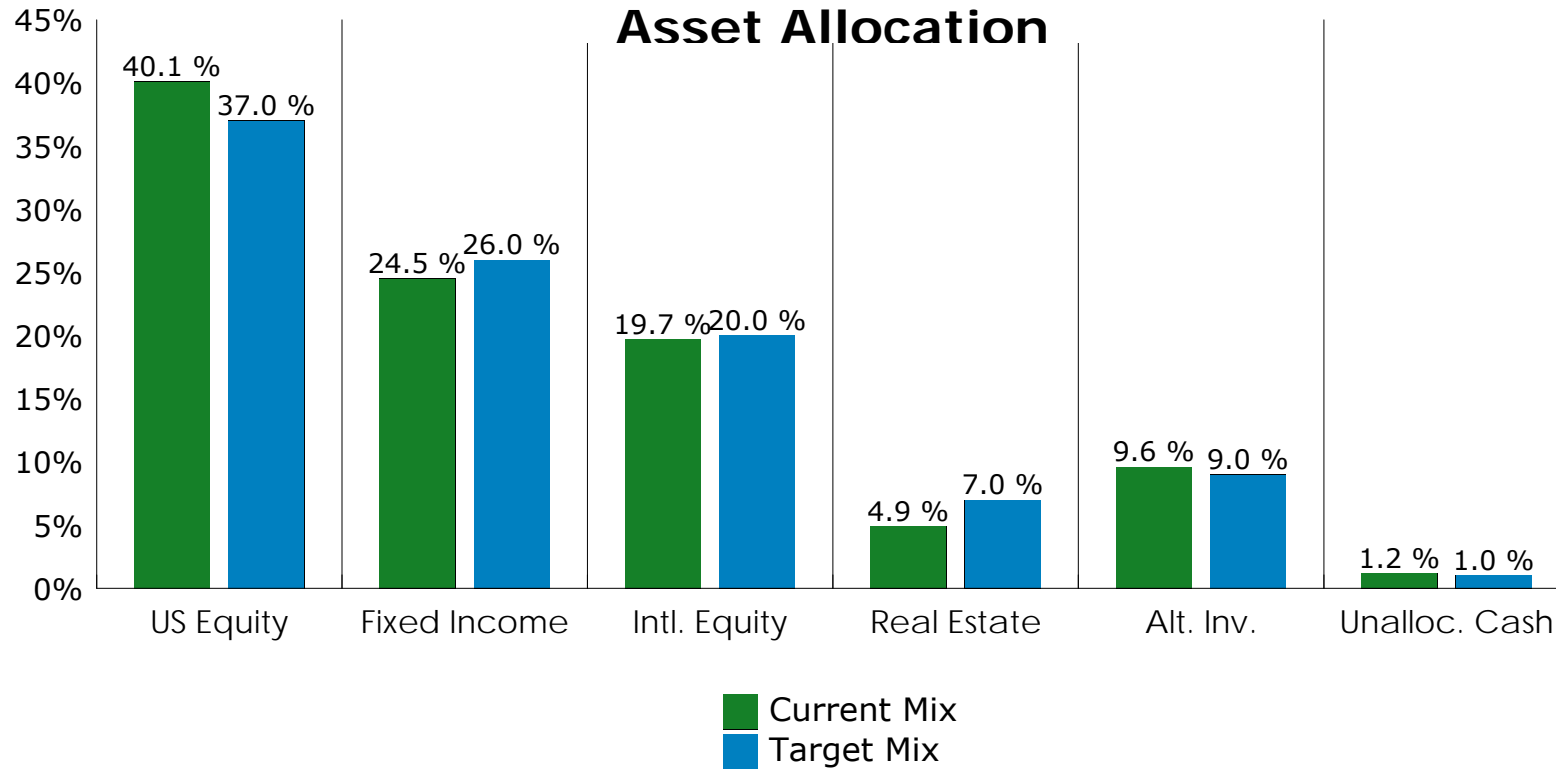
The U.S. equity portfolio surpassed its policy benchmark by 1.2% for the quarter with a 12.8% return. For the one-year period, it also outperformed its policy benchmark by 1.8%, returning an 18.7%.

The Non-U.S. equity portfolio outperformed its policy benchmark by 0.2% for the quarter with a 7.4% return. The composite also outperformed its policy benchmark by 1.9% for the one-year period with a 13.1% return.

The fixed income portfolio returned -0.2% for the quarter, outperforming its policy benchmark by 0.8%. The composite returned 9.3% for the one-year period, besting its policy benchmark by 2.1%.

The real estate portfolio continued to detract value for the quarter with a return of 3.8% versus 3.9% for its benchmark. For the one-year period, the portfolio significantly underperformed by 9.7% with a -3.9% return.

The alternative investments portfolio significantly underperformed its policy benchmark by 7.8% for the quarter with a 4.8% return. The portfolio also underperformed its benchmark by 4.5% for the one-year period.



	As of 12/31/2010	Target *	Minimum	Maximum
US Equity	40.1%	37.0%	33.0%	42.0%
Fixed Income	24.5%	26.0%	23.0%	29.0%
Intl Equity	19.7%	20.0%	17.0%	24.0%
Real Estate	4.9%	7.0%	4.0%	10.0%
Alternative Inv.	9.6%	9.0%	6.0%	12.0%
Unallocated Cash	1.2%	1.0%	0.0%	3.0%

\* Revised 4th Qtr 2009 - decrease US Equity from 42% to 37%; increase Fixed Income from 22% to 26%; increase Alternative Inv. from 8% to 9%.

## LACERS Total Fund

(Returns are Gross of Fees)

	Current Quarter	One Year	Two Years	Three Years	Five Years
<b>LACERS Master Trust</b>	<b>6.9</b>	<b>13.6</b>	<b>15.9</b>	<b>-0.7</b>	<b>4.4</b>
<i>Policy Benchmark</i>	<i>6.8</i>	<i>13.1</i>	<i>17.7</i>	<i>-0.3</i>	<i>4.4</i>
Excess Return	0.1	0.5	-1.8	-0.4	0.0
<b>US Equity</b>	<b>12.9</b>	<b>18.9</b>	<b>23.7</b>	<b>-1.6</b>	<b>2.8</b>
<i>Russell 3000</i>	<i>11.6</i>	<i>16.9</i>	<i>22.5</i>	<i>-2.0</i>	<i>2.7</i>
Excess Return	1.3	2.0	1.2	0.4	0.1
<b>International Equity</b>	<b>7.5</b>	<b>13.6</b>	<b>26.8</b>	<b>-3.9</b>	<b>5.4</b>
<i>MSCI ACWI ex US *</i>	<i>7.2</i>	<i>11.2</i>	<i>25.4</i>	<i>-5.0</i>	<i>4.8</i>
Excess Return	0.3	2.4	1.4	1.1	0.6
<b>Total Fixed Income</b>	<b>-0.2</b>	<b>9.5</b>	<b>14.1</b>	<b>7.7</b>	<b>6.9</b>
<i>BC US Universal *</i>	<i>-1.0</i>	<i>7.2</i>	<i>7.9</i>	<i>6.0</i>	<i>5.9</i>
Excess Return	0.8	2.3	6.2	1.7	1.0
<b>Real Estate</b>	<b>3.8</b>	<b>-3.8</b>	<b>-24.1</b>	<b>-17.9</b>	<b>-5.8</b>
<i>NCREIF Property</i>	<i>3.9</i>	<i>5.8</i>	<i>-9.2</i>	<i>-4.6</i>	<i>3.7</i>
Excess Return	-0.1	-9.6	-14.9	-13.3	-9.5
<b>Alternative Investments</b>	<b>4.8</b>	<b>16.5</b>	<b>3.6</b>	<b>0.0</b>	<b>10.6</b>
<i>Russell 3000 plus 400 bps</i>	<i>12.6</i>	<i>20.9</i>	<i>26.5</i>	<i>2.0</i>	<i>6.7</i>
Excess Return	-7.8	-4.4	-22.9	-2.0	3.9

\* Both the MS ACWI ex US and Barclays US Universal indices are historically blended with other indices.



## LACERS Total Fund

(Returns are Net of Fees)

	Current Quarter	One Year	Two Years	Three Years	Five Years
<b>LACERS Master Trust</b>	<b>6.9</b>	<b>13.4</b>	<b>15.6</b>	<b>-0.9</b>	<b>4.2</b>
<i>Policy Benchmark</i>	<i>6.8</i>	<i>13.1</i>	<i>17.7</i>	<i>-0.3</i>	<i>4.4</i>
Excess Return	0.1	0.3	-2.1	-0.6	-0.2
<b>US Equity</b>	<b>12.8</b>	<b>18.7</b>	<b>23.5</b>	<b>-1.8</b>	<b>2.6</b>
<i>Russell 3000</i>	<i>11.6</i>	<i>16.9</i>	<i>22.5</i>	<i>-2.0</i>	<i>2.7</i>
Excess Return	1.2	1.8	1.0	0.2	-0.1
<b>International Equity</b>	<b>7.4</b>	<b>13.1</b>	<b>26.3</b>	<b>-4.2</b>	<b>5.1</b>
<i>MSCI ACWI ex US *</i>	<i>7.2</i>	<i>11.2</i>	<i>25.4</i>	<i>-5.0</i>	<i>4.8</i>
Excess Return	0.2	1.9	0.9	0.8	0.3
<b>Total Fixed Income</b>	<b>-0.2</b>	<b>9.3</b>	<b>14.0</b>	<b>7.5</b>	<b>6.8</b>
<i>BC US Universal *</i>	<i>-1.0</i>	<i>7.2</i>	<i>7.9</i>	<i>6.0</i>	<i>5.9</i>
Excess Return	0.8	2.1	6.1	1.5	0.9
<b>Real Estate</b>	<b>3.8</b>	<b>-3.9</b>	<b>-24.2</b>	<b>-18.1</b>	<b>-6.0</b>
<i>NCREIF Property</i>	<i>3.9</i>	<i>5.8</i>	<i>-9.2</i>	<i>-4.6</i>	<i>3.7</i>
Excess Return	-0.1	-9.7	-15.0	-13.5	-9.7
<b>Alternative Investments</b>	<b>4.8</b>	<b>16.4</b>	<b>3.6</b>	<b>0.0</b>	<b>10.5</b>
<i>Russell 3000 plus 400 bps</i>	<i>12.6</i>	<i>20.9</i>	<i>26.5</i>	<i>2.0</i>	<i>6.7</i>
Excess Return	-7.8	-4.5	-22.9	-2.0	3.8

\* Both the MS ACWI ex US and Barclays US Universal indices are historically blended with other indices.