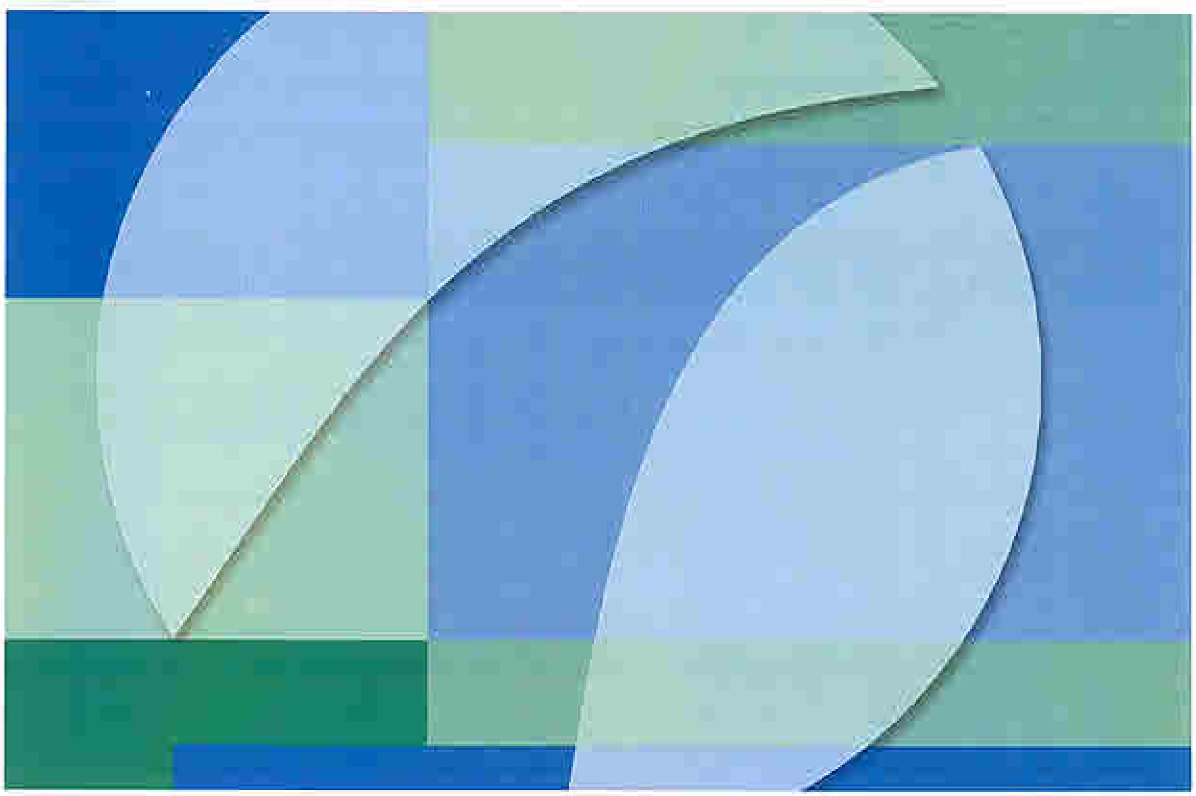
Alternative Investment Portfolio Update

Los Angeles City Employees' Retirement System

4th QUARTER | 2003



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Private Equity Services to Institutional Investors Worldwide

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Introduction

The Los Angeles City Employees' Retirement System (LACERS) alternative investment portfolio experienced a strong third quarter, led predominantly by the performance of several partnerships that will be discussed in the Performance and Significant Events sections of this report. During the third quarter, the portfolio returned $18.9 million in distributions—the largest amount of proceeds distributed during any quarter since the second quarter of 2000. In addition, new partnership investment activity increased during the fourth quarter, with LACERS committing $87.2 million to six partnerships. As of December 31, 2003, LACERS had committed $732.3 million to 53 partnerships since the inception of its alternative investment program.[1]

This report contains information regarding the investment activity of LACERS' portfolio during the third and fourth quarters of 2003 and an overview of the alternative investment environment.

NOTE: In the course of preparing our report, we have relied, without independent verification other than as specifically described herein, upon the accuracy and completeness of financial and other information publicly available or provided to us by the general partners, their professional staffs, and others contacted by us. Our conclusions do not reflect an audit of any portfolio investment by us, and are based on conditions prevailing at the date of this report and known to us.

1. Although the date of this report is December 31, 2003, the most-recent partnership financial data available is as of September 30, 2003.

Portfolio Overview

An overview of the third quarter activity for LACERS' alternative investment portfolio is shown in table 1.1 and figure 1.1. Please refer to Appendix A–Portfolio Summary in Section 3 for a breakdown by partnership. Strong performance among several partnerships including KKR 1996, Madison Dearborn Capital Partners III, TPG III, and Vestar IV drove third quarter performance.

Table 1.1

LACERS' Alternative Investment Portfolio
Third Quarter 2003 Overview
($ in millions)

	No. of Partnerships	Commitments[a]	Cumulative Contributions[b]	Market Value	Cumulative Distributions	Total Value	Gain/ (Loss)	Since-Inception IRR
Sep 30, 2003	47	$641.4	$399.6	$276.1	$173.1	$449.2	$49.6	5.2%
Jun 30, 2003	46	621.2	387.7	270.1	154.3	424.4	36.6	4.2%
Quarter Change	1	$20.2	$11.9	$6.0	$18.9	$24.8	$13.0	1.0%

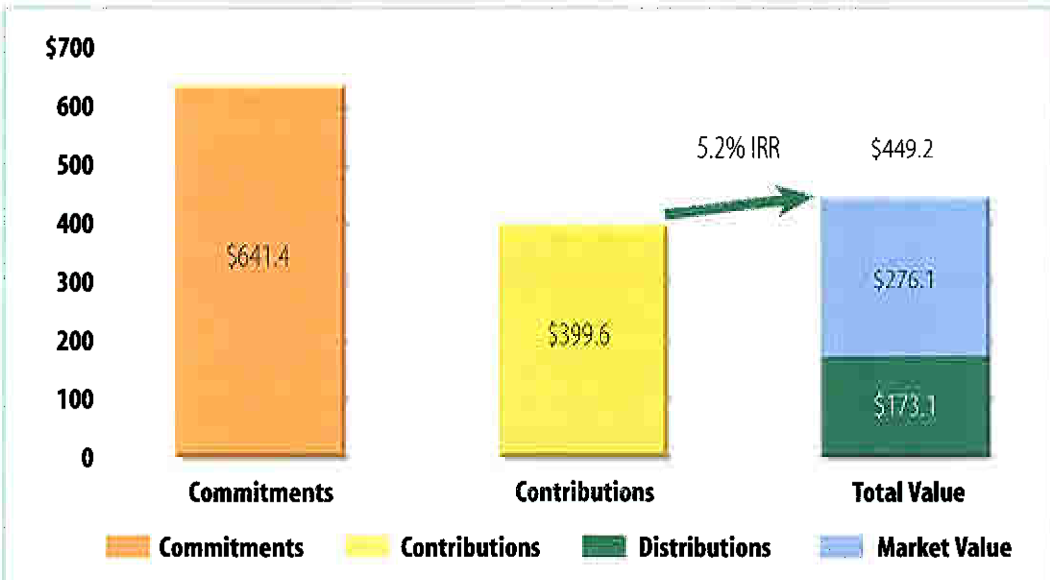
NOTES: Four new additional partnership investments and two secondary investments were made for $87.2 million subsequent to September 30, 2003.
Amounts may not foot due to rounding.

[a]Commitments to non-U.S. partnerships are accounted for by multiplying the unfunded commitments by the quarter-ending exchange rate, and adding cumulative capital contributions, causing commitments to non-U.S. partnerships to fluctuate on a quarterly basis.

[b]Includes capital contributed for management fees called outside of the total commitment.

Figure 1.1

LACERS' Alternative Investment Portfolio
Third Quarter 2003 Overview
($ in millions)

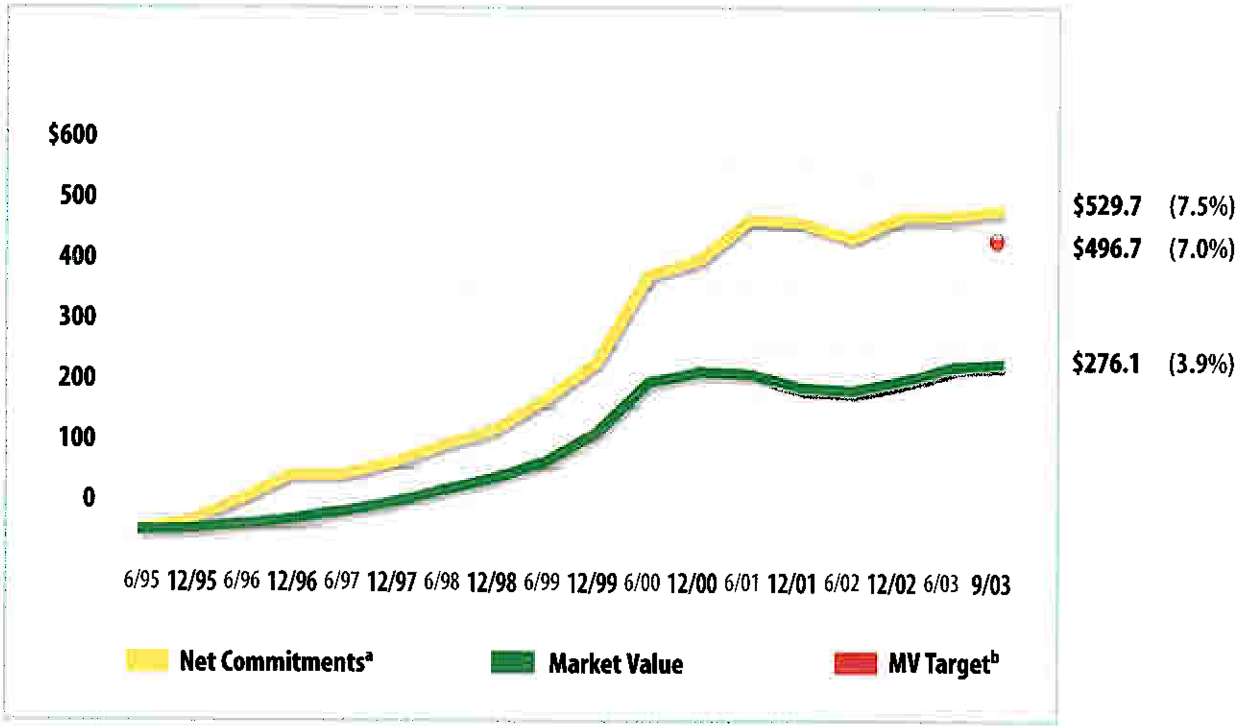


NOTE: Amounts may not foot due to rounding.

Target Allocation

During the third quarter, the market value of the alternative investment portfolio increased from $270.1 million to $276.1 million. Market value, as a percent of the overall pension fund, adjusted slightly from 4.0% to 3.9%. LACERS' market value target allocation for its alternative investment portfolio was increased during the fourth quarter of 2002 from 5.0% to 7.0% of the total pension fund size.

Figure 1.2
LACERS' Alternative Investment Portfolio Target Allocation
As of September 30, 2003
($ in millions)



[a]The ceiling for net commitments to LACERS' alternative investment portfolio is 11%.
[b]LACERS' market value target increased from 5% to 7% during the fourth quarter of 2002.

Diversification

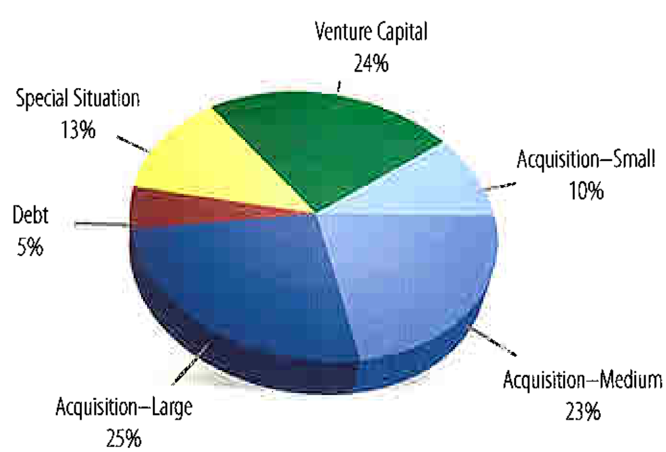
One of LACERS' portfolio objectives is to create an alternative investment portfolio diversified by investment strategy. Figure 1.3 illustrates the diversification of the investment strategies utilized by LACERS' partnerships. Please note that Pathway does not consider non-U.S. partnerships to be a separate investment strategy; therefore, any non-U.S. partnerships will be included in their respective investment strategies. As of September 30, 2003, non-U.S. partnerships accounted for 14.0% of the LACERS alternative investment portfolio. Acquisition partnerships continued to make up the largest percentage of the portfolio as of September 30, 2003, followed by venture capital and special situation investments.

New commitments during the fourth quarter were well diversified in terms of investment strategy, as well as geographic location, and industry. Acquisition-focused partnerships represented 43.4% of fourth quarter commitments. Special situations and venture capital accounted for 28.9% and 21.3%, respectively. Secondary investments accounted for the remaining 6.5%.

Figure 1.3

LACERS' Investment Strategy Diversification

As of September 30, 2003



NOTES: Percentages are calculated using the sum of company market values and unfunded commitments of existing investments at September 30, 2003, plus new commitments made between October 1, 2003, and December 31, 2003.

Performance

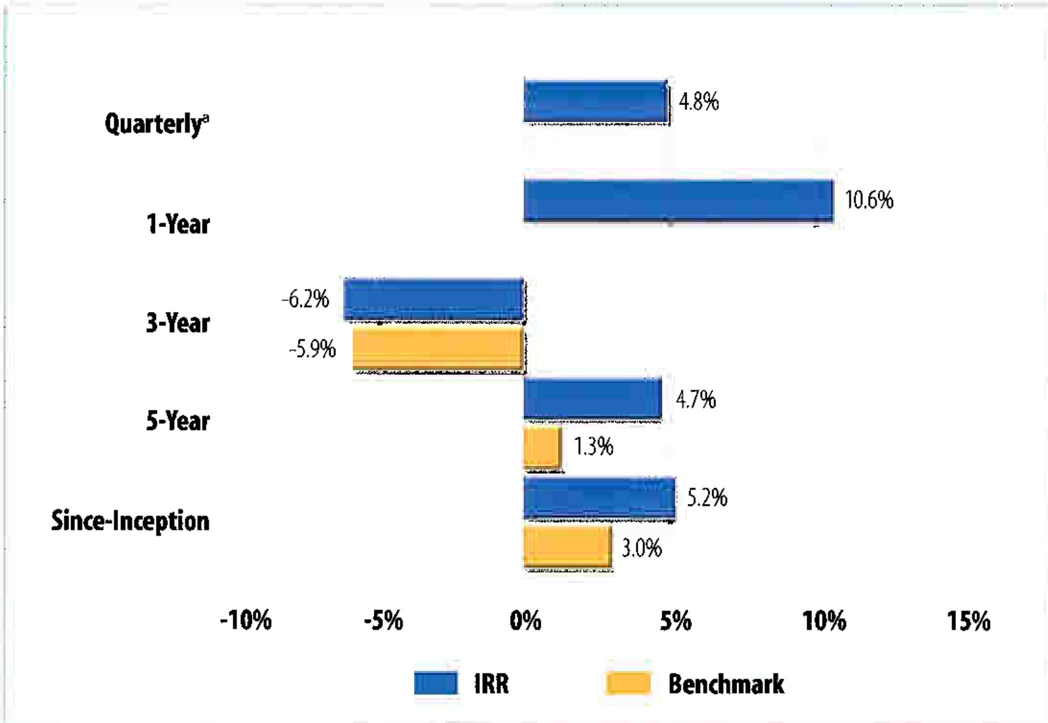
Returns and Benchmark

Illustrated in figure 1.4 are periodic returns for LACERS' portfolio as of September 30, 2003. LACERS' alternative investment portfolio generated a net return of 4.8% during the third quarter of 2003. This positive quarterly return of the portfolio increased the since-inception IRR from 4.2% at the end of the second quarter to 5.2% at the end of the third quarter. The partnerships that had the greatest impact on performance during the third quarter were Madison Dearborn Capital Partners III, TPG III, and Vestar IV, returning 15.0%, 23.2%, and 24.7%, respectively.

Figure 1.4

Investment Returns Summary

As of September 30, 2003



NOTE: LACERS' custom benchmark is dollar-weighted by quarter based on the Russell 3000 (for capital contributions more than three years old). A 400-basis-point premium is added to the Russell 3000 benchmark component to account for the additional illiquidity and risk involved with alternative investments.

[a]Quarterly return not annualized.

Significant Events

TPG III—$25 million commitment

- During the quarter, LACERS' investment in TPG III increased by $4.1 million. The fund has a current value of $3.2 billion, with a cost basis of $1.3 billion.
- Most significantly, a computer-related portfolio company reached an agreement to be acquired, and TPG reached an agreement to sell an Internet-related portfolio company. The values for these companies were subsequently marked to 90% of the announced merger and sales values—an increase of $253.4 million and $110.4 million, respectively.
- At September 30, 2003, TPG III had generated a net IRR of 27.4%, up from 20.4% at June 30, 2003.

KKR 1996 —$25 million commitment

- The partnership value increased by 14.0% during the quarter, primarily as a result of investments in a fiber-optics company and a consumer directories business. As a result, LACERS' investment increased in value by $3 million during the quarter.
- During August, KKR completed a secondary offering of the fiber optics company at a price of $47.95 per share, compared with the fund's cost basis of $13.00 per share. KKR's original investment is currently valued at 3.8 times cost.
- In November 2002, KKR invested approximately $346 million in a consumer directories business. During the third quarter, the company was taken public and is now valued at 2.9 times cost.
- For the quarter, the net IRR improved from 10.2% to 12.8%.
- KKR 1996 made several distributions during the fourth quarter to LACERS totaling $3.5 million. Of the amount distributed, $1.2 million was considered cost and $0.2 million was considered income, resulting in a gain of $2.1 million.

Vestar IV—$17 million commitment

- The partnership value increased by 28.8% during the quarter, almost exclusively as a result of the sale of a specialty food product developer. This resulted in LACERS' investment in the partnership increasing in value by $1.5 million.
- Originally taken private in 2001, the fund held an auction during the third quarter to sell the company, with a winning bid of $1.05 billion.
- The value of the $136.5 million investment was written up from cost to 2.8 times cost at the end of the third quarter, ahead of the auction announcement.
- The transaction was completed during November, yielding proceeds to LACERS of $2.3 million, or 2.1 times original cost basis.
- The partnership had generated a 9.6% since-inception IRR at September 30, 2003, compared with –1.1% at June 30, 2003.

Madison Dearborn Capital Partners III—$16 million commitment

- During the third quarter, the total portfolio value of Madison Dearborn III appreciated by $228.8 million, primarily as a result of the initial public offerings of CapitalSource and RedEnvelope. Overall, the current value of Madison Dearborn III's portfolio is $1.7 billion; the cost basis is $1.4 billion. LACERS' $16 million investment in Madison Dearborn III appreciated by $1.8, increasing the net IRR from 0.4% at June 30, 2003, to 4.4% as of September 30, 2003.
- On August 6, 2003, CapitalSource completed an initial public offering at a price of $14.50 per share. Madison Dearborn sold approximately 1.2 million shares in the offering for total proceeds of $16.4 million, which were distributed in August. Madison Dearborn's post-IPO ownership of CapitalSource is approximately 16.7 million shares, which currently trade at approximately $22.00 per share. As a result of the IPO, Madison Dearborn's $111.6 million investment had a total value of $270.4 million as of September 30, 2003.
- The value of Madison Dearborn's investment in a specialized private equity fund that is focused on direct marketing appreciated by $8.4 million since June 30, 2003, after the successful completion of RedEnvelope's IPO on September 25, 2003. Prior to the IPO, the value of Madison Dearborn's investment was zero, compared with a cost basis of $16.1 million.

Fourth Quarter 2003 Amendments and Consents

CVC European Equity Partners

Subject:

The General Partner ("GP") requested that the Limited Partners ("LPs") consent to (1) allow the GP to take distributions without having to post a letter of credit, (2) allow the GP to change the standard for taking distributions from the Escrow Account, (3) allow the GP to take all future distributions directly, rather than have the carried interest portion deposited in the Escrow Account, and (4) alter the method of paying the management fee so that the GP would pay any remaining management fee from future Portfolio Company fees or Current Income, rather than through capital calls.

Reason for Approval:

Pathway recommended approval of the amendment because LPs' right to carried interest is protected and if, at the end of the Fund, the management fee is not satisfied through the Portfolio Company fees or Current Income, the GP will forgo the remaining management fee that is due.

Nordic Capital V

Subject:

The GP requested that the LPs consent to extend the period for completion of certain investments once capital has been drawn down, prior to returning unused capital to the LPs.

Reason for Approval:

Pathway recommended approval, allowing the GP to pursue an investment opportunity comprising the acquisition of a public company and re-registration of the public company as a private company. The proposed investment may require the GP to hold funds for more than the current 10-day period. The proposed extension is to 30 business days from the draw-down date.

OCM IV

Subject:

The GP requested that the LPs consent that (1) 60% of the initial distributions will not be subject to recall for reinvestment, (2) the management fee will be the lesser of 1% of commitments or 1% net asset value until the end of the investment period, and (3) the GP may form a new fund with similar strategies.

Reason for Approval:

Pathway recommended approval, releasing investors from their obligation to return distributed capital for reinvestment and to reduce management fees. Permission to form a new fund was granted because the GP wanted to return capital to current investors and let LPs decide whether they want to invest in a subsequent fund.

Recent Commitments

TPG IV

Partnership Name:	TPG Partners IV, L.P.
LACERS' Commitment:	$25 million
Fund Size:	$5.3 billion
LACERS' Ownership:	0.5%
Partnership Closing Date:	October 24, 2003
Investment Strategy:	Special Situation—Diverse Strategies
Industry Focus:	Diversified
Geographic Focus:	Diversified

TPG IV will seek control-oriented investments in operating companies through acquisitions and restructurings. The general partner will target companies across a wide range of industries, including, airlines, healthcare, financial, semiconductors, software, broadcasting/cable, food and beverage, and power. TPG IV plans to invest $50–$400 million of equity capital in each portfolio company.

Onex Partners

Partnership Name:	Onex Partners, L.P.
LACERS' Commitment:	$20 million
Fund Size:	$1.6 billion[1]
LACERS' Ownership:	1.3%
Partnership Closing Date:	November 25, 2003
Investment Strategy:	Acquisition—Medium
Industry Focus:	Diversified
Geographic Focus:	United States and Canada

Onex will seek control-oriented investments in operating companies through acquisitions and turnarounds. The general partner's approach involves targeting attractive industries, finding value-oriented investments, and building successful businesses. Onex plans to invest $100–$250 million of equity capital in each portfolio company.

1. Estimated fund size.

TCV V

Partnership Name:	TCV V, L.P.
LACERS' Commitment:	$18.5 million
Fund Size:	$900 million[1]
LACERS' Ownership:	2.1%
Partnership Closing Date:	December 10, 2003
Investment Strategy:	Venture Capital—Late Stage
Industry Focus:	Information Technology
Geographic Focus:	United States

TCV V will primarily invest in expansion and late-stage opportunities in technology companies. The fund may also make PIPE investments, as well as investments in IPOs, publicly traded securities of its portfolio companies, and other public investments in technology companies. The general partner plans to invest between $10 million and $50 million in each portfolio company.

Kelso VII

Partnership Name:	Kelso Investment Associates VII, L.P.
LACERS' Commitment:	$17.5 million
Fund Size:	$2.1 billion[1]
LACERS' Ownership:	0.8%
Partnership Closing Date:	December 16, 2003
Investment Strategy:	Acquisition—Medium
Industry Focus:	Diversified
Geographic Focus:	Diversified

Kelso VII will focus on control investments consisting of management buyouts, growth capital financings, and "going-private" transactions, among others, in middle-market companies in cooperation with strong management teams. These investments will be in companies across a variety of industries that have manufacturing, distribution, or service-oriented businesses. Kelso VII will target investments that range from $50 million to $250 million in companies with enterprise values of $200 million to $1 billion.

1. Estimated fund size.

Trident V

Partnership Name:	Trident Capital Fund V, L.P.
Secondary Interest	$3.4 million
LACERS' Total Commitment:	$14.0 million
Fund Size:	$464.7 million
LACERS' Ownership:	3.1%
Secondary Closing Date:	November 12, 2003
Investment Strategy:	Venture Capital–Early Stage
Industry Focus:	Technology, Internet, and Communications
Geographic Focus:	United States

Trident V will continue to make venture capital investments in seed- and early-stage companies operating in the information technology and communications industries. Additionally, Trident V will opportunistically invest a portion of its capital in late-stage companies and buyout-related investments. Trident will target investments that range from $20 million to $25 million in equity capital. LACERS' purchase of this secondary is an addition to the fund's current interest in Trident V.

Weston Presidio IV

Partnership Name:	Weston Presidio Capital IV, L.P.
Secondary Interest	$2.8 million
LACERS' Total Commitment:	$17.8 million
Fund Size:	$1.4 billion
LACERS' Ownership:	1.2%
Secondary Closing Date:	October 27, 2003
Investment Strategy:	Venture Capital–Late Stage
Industry Focus:	Technology and Internet-Related
Geographic Focus:	United States

WPC IV will continue to focus on making investments in late-stage growth companies. WPC believes that companies at this stage have reduced the level of technology-related risk to their businesses and have entered the stage of execution-related risk and with the firm's capital and experience, the company should be in a position to create a significant amount of value. Purchase of this secondary is an addition to LACERS' current interest in WPC IV.

[redacted]

[redacted]

Alternative Investment Environment

Economy and Public Markets

For the first time since 1999, the U.S. equity markets ended the year in positive territory, with double-digit percentage gains for all the major equity indexes. The DJIA, S&P 500, and the Nasdaq composite returned 25%, 26%, and 50%, respectively, for the full year of 2003. Investors have grown increasingly optimistic about the outlook for the world's largest economy. In the third quarter of 2003, the U.S. economy grew at an annual rate of 8.2%, according to final figures released by the Commerce Department in late December. This is the highest annualized GDP growth rate for the U.S. economy since 1983. This strong economic output was driven by a 6.9% increase in consumer spending and a 12.8% increase in business spending. The U.S. central bank maintained its 1.0% target for the federal funds rate, pointing out that weakness in the employment market continues to be a risk factor for the U.S. economy. The Eurozone economy grew 0.4% in the third quarter of 2003 after contracting slightly in the prior quarter. Although the European Central Bank left its key financing rate unchanged at 2.0%, the Bank of England raised its key interest rate by a quarter of a percentage point to 3.75%—its first increase in four years.

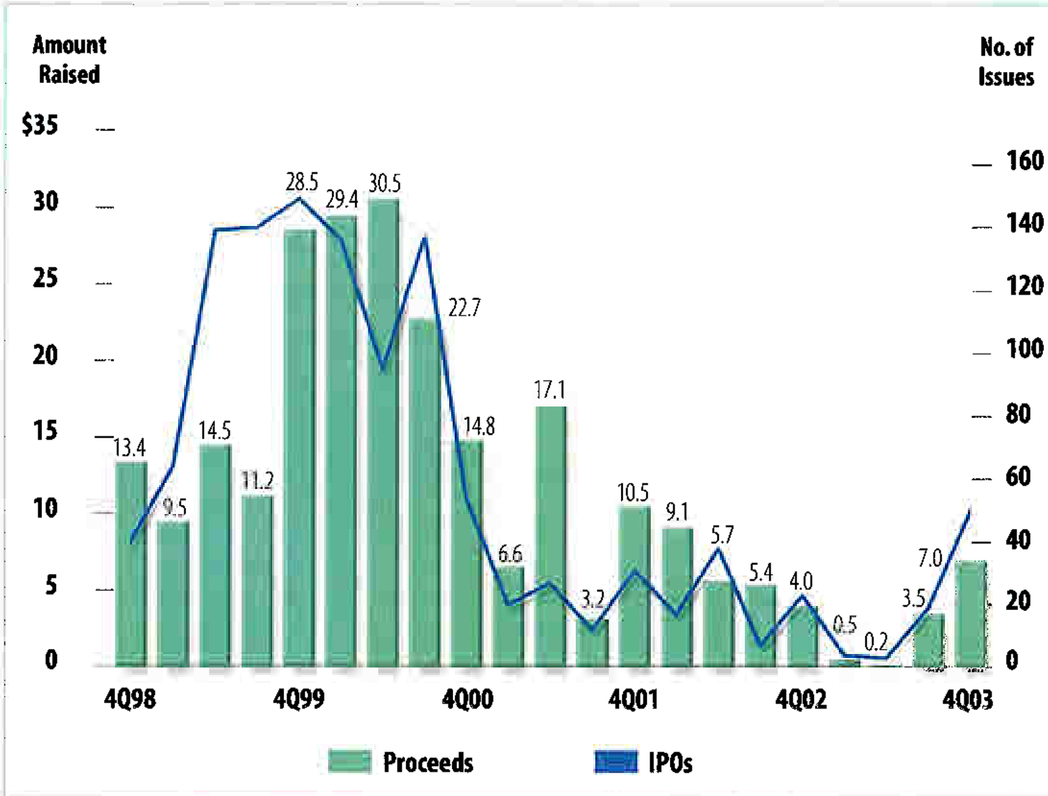
IPO Review

The fourth quarter of 2003 proved to be one of the strongest periods of IPO activity since late 2000. Fifty U.S. companies went public during this period, raising a total of $7.0 billion. This is a marked improvement from the first three quarters of the year, when 26 companies raised a total of $4.2 billion. No single deal led the U.S IPO market during the quarter, with the top 10 deals raising a total of $3.2 billion. Although the total number of companies that completed IPOs during 2003 was down from 2002 (76 in 2003 versus 85 in 2002), the strong fourth quarter is positive news in a market that had previously been near dormant. Of the 50 companies that went public during the quarter, 28 were backed by private equity firms, compared with a total of only 18 private equity–backed companies during the prior three quarters combined. The $3.2 billion raised during the quarter by U.S. private equity–backed firms was the largest amount raised since the third quarter of 2000. Figure 2.1 shows quarterly U.S. IPO issuance for the past five years.

Figure 2.1

Quarterly U.S. IPO Issues

($ in billions)



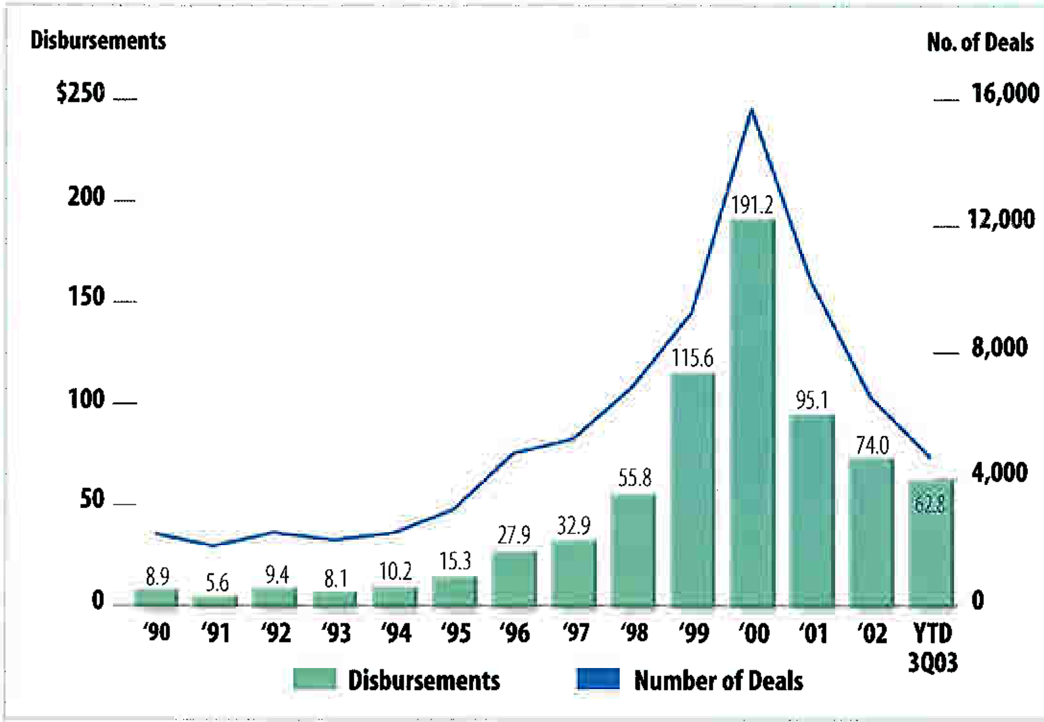
SOURCE: Bloomberg, SDC, and Thomson Financial.

Alternative Investment Activity

During the year, market observers witnessed a divergence in activity levels between the two major sectors of alternative investments: venture capital and buyouts. Although venture capital investment in U.S.-based companies was at its lowest level in the past six years, 2003 is on pace to be one of the most active years ever for buyout investors. Through the first nine months of 2003, venture capital investment in U.S.-based companies totaled $17.1 billion, on pace for a year-over-year decrease from 2002 levels. Figure 2.2 illustrates annual worldwide alternative investment disbursements, which include buyouts and venture capital, from 1990 through the third quarter of 2003.

Figure 2.2

Worldwide Alternative Investment Disbursements and Deal Volume
($ in billions)



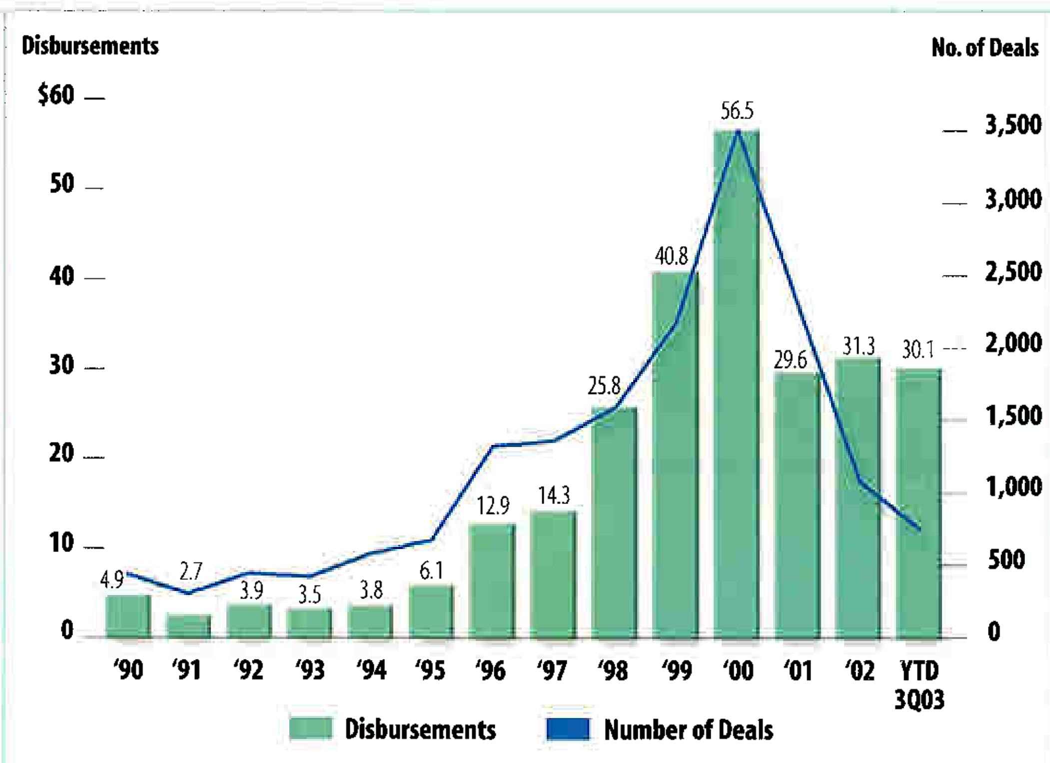
Source: Venture Economics.

Buyout/acquisition investments accounted for the majority of alternative investment deal volume during the year. In the United States, market participants have cited attractive valuations, low interest rates and in the latter half of the year, increased confidence in the economy and financial markets, as reasons for the increased activity. Also, the lack of strategic buyers has helped to decrease competition and reduce valuations for new investments. There has been strong deal flow from corporations wishing to sell non-core divisions to raise much-needed cash or to streamline their operations, such as Northrop Grumman's $4.7 billion sale of TRW Automotive. The number of public-to-private deals has increased: companies who were faced with the additional costs and scrutiny that the passage of the Sarbanes-Oxley Act entailed found willing financial sponsors to back going-private deals. Continuing a trend that started in 2002, most large buyout deals were completed in syndication oftentimes with a portion of the transaction debt financed by the seller.

Of note is the high level of buyout activity outside of the United States, particularly in Europe. The largest buyout deal of the year was announced in the second quarter of this year: the €5.7 billion purchase of telephone directories company Seat Pagine Gialle by a syndicate of four European alternative investment firms. The total amount of equity invested in European-based buyout transactions in the first nine months of 2003 is 13% higher than the total for all of 2002. This high level of non-U.S. buyout activity is expected to continue into the upcoming year. Figure 2.3 shows annual worldwide buyout activity since 1990.

Figure 2.3

Worldwide Buyout Activity and Deal Volume
($ in billions)



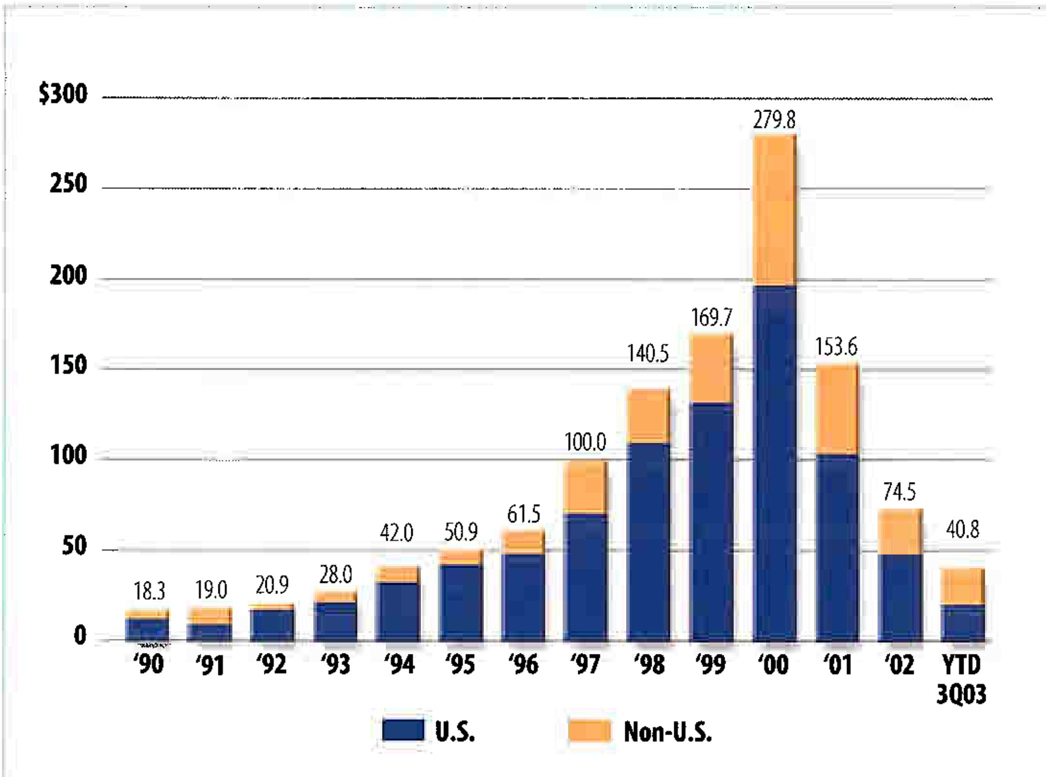
SOURCE: Venture Economics.

Alternative Investment Fundraising

Figure 2.4 shows annual worldwide fundraising levels from 1990 through the third quarter of 2003. Fundraising in 2003 is at its slowest pace since 1995; however, the dramatic decrease in fundraising was not unexpected since there remains a large amount of capital committed to the alternative investment asset class that has yet to be invested. Although alternative investment fundraising will likely remain at depressed levels through the end of the year, the first year-over-year increase in fundraising levels in four years may be recorded in 2004, based on indications from general partners.

Figure 2.4

Worldwide Alternative Investment Fundraising
($ in billions)

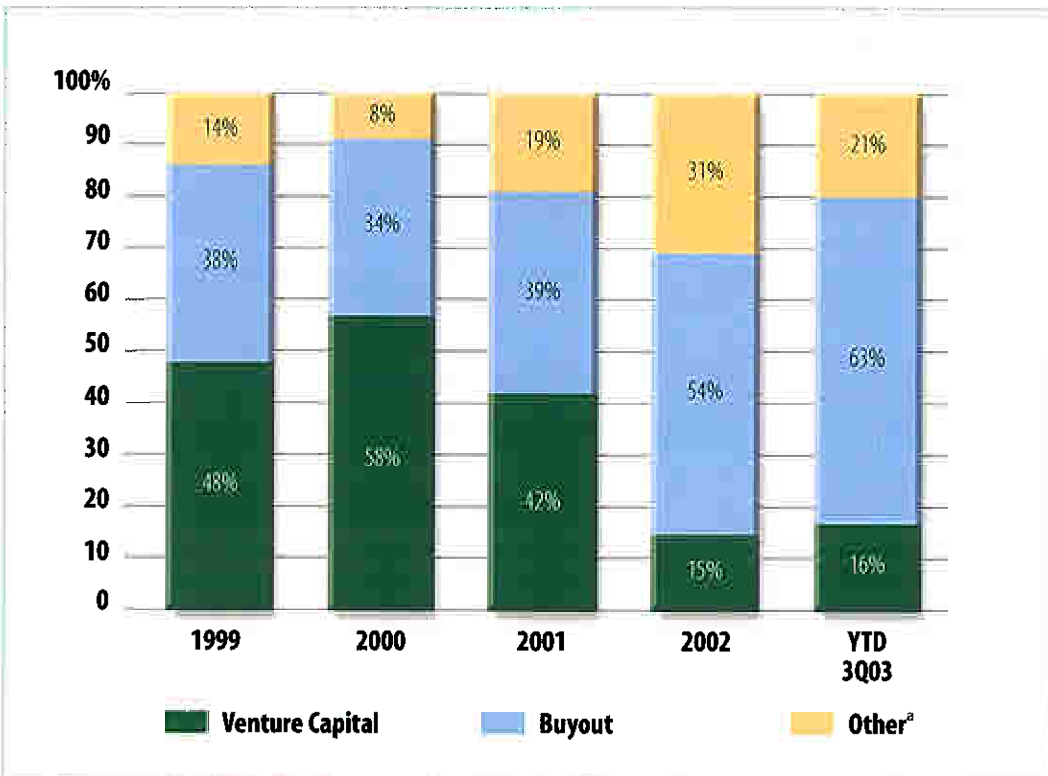


Source: Venture Economics.
Note: Fundraising amounts are based on net amounts raised, which adjusts for fund downsizing.

Venture capital firms have borne the brunt of the fundraising drought. In the nine months to September 30, 2003, venture capital firms raised just $6.6 billion, compared with the record $159.0 billion raised by venture capital funds in 2000. Aside from the venture capital overhang, other factors contributing to the relative and absolute decline in venture capital fundraising include smaller investment sizes (corresponding to lower pre-money valuations) and the dearth of exit opportunities for venture-funded technology sector companies. Figure 2.5 shows the breakdown among venture capital, buyouts, and other fundraising over the past five years.

Figure 2.5

Worldwide Alternative Investment Fundraising by Strategy



SOURCE: Venture Economics.
NOTE: Fundraising amounts are based on net amounts raised, which adjusts for fund downsizing.
[a]Includes mezzanine, distressed debt, and other strategies.

Non-U.S. Alternative Investment

European-based alternative investment firms enjoyed one of their most active years ever, investing over $25.0 billion through the first three quarters of 2003.[1] Nearly 70% of this amount was invested in buyout transactions. European-based buyout partnerships have also raised 70% of all buyout capital raised globally through the first three quarters of 2003. Other geographic regions of the world including Asia and Canada continue to account for a relatively small portion of alternative investment activity and fundraising levels. Figures 2.6 and 2.7 illustrate the breakdown of 2003 private equity fundraising by geographic region in comparison to 2002. In the long term, the prospects for continued growth and opportunity in the continental European buyout market are positive:

- Convergence and expansion of the Eurozone
- Corporate restructurings and consolidations are creating opportunities for buyout and buy-and-build strategies
- Deregulation and denationalization of industries
- European markets in general are less efficient and less well-arbitraged than in the United States
- Alternative investment as a percentage of GDP is low in comparison to the United States
- A stable, albeit low growth, economic environment

Breakdown of Alternative Investment Fundraising by Region

Figure 2.6

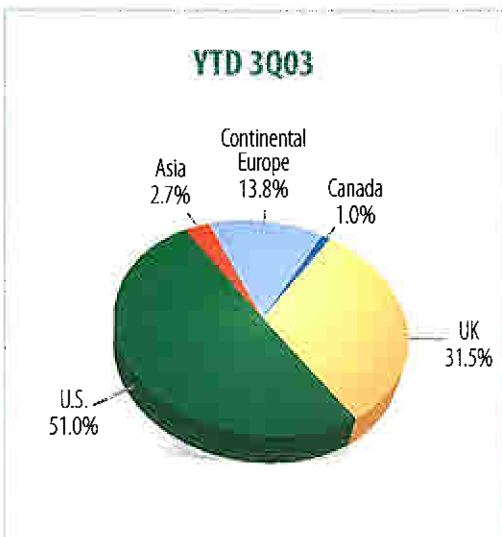
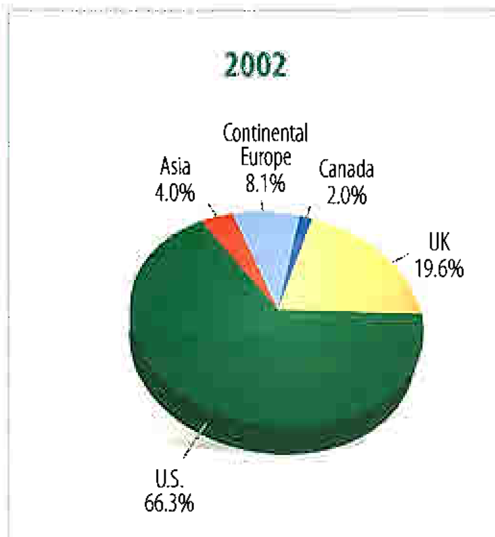


Figure 2.7



SOURCE: Venture Economics.
NOTE: Fundraising amounts are based on net amounts raised, which adjusts for fund downsizing.

1. Venture Economics.

Performance

Short-term investment performance for many alternative investment sectors continues to be negative in 2003 (latest data is through June 30, 2003), though there have been recent signs of improvement. For the first time in three years, the average quarterly return for U.S.-based alternative investment partnerships was positive, though this was mostly the result of strong performance by buyout partnerships.[2] The second half of 2003 may prove to be the long-awaited inflection point in the current cycle, as strong economic growth and increased exit opportunities begin to deliver stronger performance in most alternative investment sectors.

U.S.-based alternative investment funds had a pooled average return of –6.0% for the year ended June 30, 2003. This is a marked improvement from the –16.5% pooled average return for U.S.-based private equity funds for the year ended June 30, 2002. Table 4 summarizes private equity performance for the U.S. and European markets for various time periods and provides index and market returns for comparison. Over longer periods of time, U.S. and European private equity portfolios continue to outperform many public equity indexes. Further, as seen in table 2.1, the performance of upper quartile private equity funds far exceeds the pooled average return and the public equity indexes, stressing the importance of manager selection in the development of a successful private equity portfolio.

Table 2.1

Private Equity Performance
(As of June 30, 2003)

Index	1-Year	3-Year	5-Year	10-Year	20-Year
U.S. All Private Equity–Pooled Average	-6.0%	-9.9%	6.1%	14.2%	13.8%
U.S. All Private Equity–Upper Quartile	16.6%	3.0%	42.5%	44.0%	31.4%
Europe All Private Equity–Pooled Average	4.1%	0.3%	8.0%	12.8%	10.4%
Europe All Private Equity–Upper Quartile	37.3%	15.2%	30.2%	33.7%	25.1%
DJIA	-2.8%	-4.9%	0.6%	9.8%	10.5%
S&P 500	0.2%	-11.2%	-1.6%	10.0%	12.2%
Russell 3000	0.8%	-10.5%	-1.1%	9.7%	11.6%
Russell 2000	-1.6%	-3.3%	1.0%	8.2%	8.5%
NASDAQ	11.4%	-25.5%	-2.7%	8.9%	9.0%

SOURCE: Venture Economics, Bloomberg.

2. Venture Economics' 2Q03 U.S. All Private Equity Pooled Return is 3.1%.

Market Outlook

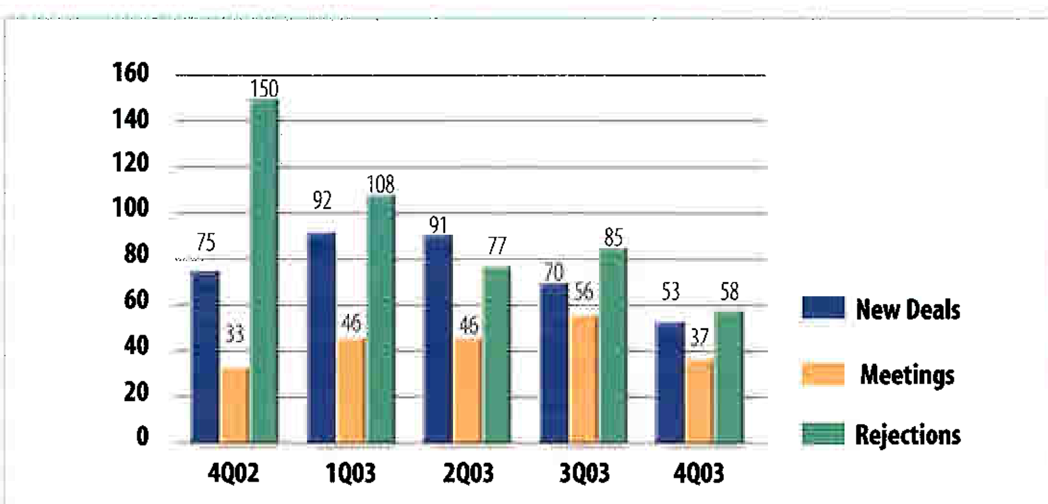
The alternative investment industry appears poised to recover from current cycle lows in terms of performance, investment activity, and fundraising levels in 2004. There should be a greater number of alternative investment opportunities in 2004 than there were in 2003, with buyout-oriented partnerships continuing to account for the majority of fund offerings. However, the number of quality alternative investment funds coming to market in the upcoming year will continue to be limited since many alternative investment firms still have a significant amount of capital from the large funds that they raised in 2000 and 2001. While well-regarded alternative investment firms will have no trouble attracting investor interest, other alternative investment firms will endure longer fundraising cycles. Recent strength in the U.S. financial markets and economy will likely drive increased alternative investment levels and returns in the region, while Europe will continue to attract significant levels of investment and deal activity.

Pathway New Deal Activity

Pathway reviewed 52 new investment opportunities during the fourth quarter, which trailed third quarter's level by 26%. For the year, the 305 opportunities reviewed by Pathway represent a 15% decline from the 360 opportunities reviewed during 2002. Pathway held 37 meetings during the fourth quarter, compared with 56 meetings that took place in the third quarter. In 2003, Pathway participated in 185 meetings, compared with 208 for all of 2002—an 11% year-over-year decline. To make the most efficient use of time and resources, Pathway only meets with the partnerships that satisfy its basic investment criteria. Figure 2.8 illustrates the number of new investment opportunities Pathway reviewed, met, and rejected over the past five quarters.

Figure 2.8

Pathway Quarterly New Deal Activity



Pathway's deal flow for the year has been diverse and balanced, representing a variety of investment strategies. The category for *Other* investment strategies experienced the largest change from a year ago, increasing from 16% to 24% of Pathway's deal flow. This was due primarily to a large increase in the number of secondary opportunities reviewed by Pathway during 2003. Acquisition and venture capital funds accounted for approximately equal shares of Pathway's deal flow during 2003, representing 30% and 31% of all opportunities reviewed, respectively. Figures 2.9 and 2.10 illustrate the breakdown by investment strategy of Pathway's deal flow for 2002 and 2003.

New Deal Opportunities
(by Investment Strategy)

Figure 2.9

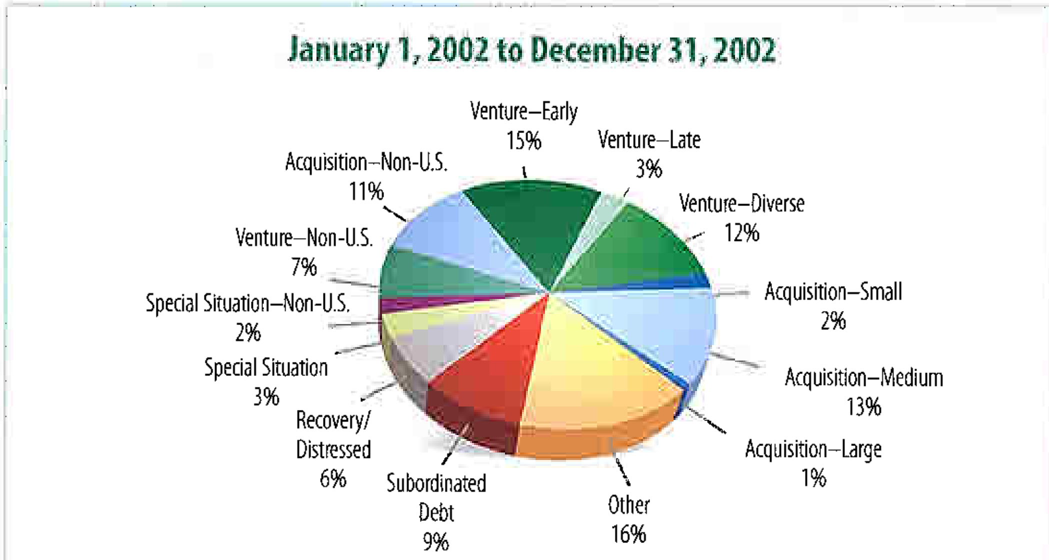


Figure 2.10

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Appendix A–Portfolio Summary

LACERS' Alternative Investment Portfolio Summary

From Inception to September 30, 2003

($000s)

	Partnership	Fund Incept. Date	Fund Size (In Mil.)	Commit.	Contrib.[a]	Market Value	Distrib.	Total Value	Gain/ (Loss)	Inception IRR[b]	V. E. Median Q'tile[c]	V. E. Upper Q'tile[c]
	1995 Generation											
1	WCAS VII	10/95	$1,426	$15,000	$15,000	$8,708	$20,314	$29,022	$14,022	17.3%	5.6%	17.1%
2	OCM	10/95	$671	11,000	11,000	2,343	14,512	16,855	5,855	10.0%	4.0%	17.1%
				$26,000	**$26,000**	**$11,051**	**$34,826**	**$45,877**	**$19,877**	**14.1%**	**4.9%**	**17.1%** [d]
	1996 Generation											
3	CVC European	2/96	$630	$10,000	$9,753	$6,481	$14,884	$21,365	$11,612	23.4%	14.1%	23.5%
4	CGW Southeast III	4/96	$278	9,000	8,611	1,913	3,829	5,742	(2,869)	-12.3%	0.8%	11.1%
				$19,000	**$18,364**	**$8,394**	**$18,713**	**$27,107**	**$8,743**	**11.6%**	**7.9%**	**17.7%** [d]
	1997 Generation											
5	InterWest VI	6/96	$175	$5,000	$5,000	$3,422	$9,318	$12,740	$7,740	49.6%	9.4%	60.1%
6	GTCR Fund V	7/96	$521	10,000	10,000	5,803	8,505	14,309	4,309	8.8%	-1.1%	7.9%
7	KKR 1996 Fund	9/96	$6,012	25,000	26,334	22,598	15,782	38,381	12,047	12.2%	-1.1%	7.9%
8	Menlo VII	10/96	$253	5,000	4,750	1,312	22,729	24,041	19,291	144.8%	9.4%	60.1%
9	OCM II	10/97	$1,500	11,000	11,000	5,547	7,104	12,651	1,651	3.6%	-1.0%	9.6%
				$56,000	**$57,084**	**$38,682**	**$63,439**	**$102,121**	**$45,037**	**22.0%**	**0.7%**	**17.1%** [d]
	1998 Generation											
10	Thomas Lee IV	12/97	$3,450	$7,000	$6,118	$4,694[e]	$296	$4,989	($1,129)	-5.3%	-2.2%	9.1%
11	Kelso VI	2/98	$1,500	5,000	3,865	3,152	1,074	4,226	361	4.1%	-2.2%	9.1%
12	Apollo IV	4/98	$3,600	5,000	4,658	4,848	927	5,775	1,117	6.0%	1.9%	13.5%
13	GTCR Fund VI	4/98	$870	10,000	9,904	4,428	5,474	9,902	(2)	0.0%	-2.2%	9.1%
14	Thoma Cressey VI	5/98	$450	5,000	4,845	2,937	860	3,797	(1,048)	-7.5%	-2.2%	9.1%
15	CVC European II	6/98	$2,500	10,000	8,964	7,893	5,250	13,143	4,178	13.1%	1.6%	9.7%
16	Essex Woodlands IV	6/98	$137	4,000	3,594	2,797[e]	1,862	4,659	1,065	12.5%	3.4%	17.6%
17	WCAS VIII	7/98	$3,000	15,000	14,850	10,465	0	10,465	(4,385)	-9.2%	-2.2%	9.1%
				$61,000	**$56,799**	**$41,213**	**$15,742**	**$56,955**	**$156**	**0.1%**	**-0.9%**	**10.1%** [d]

LACERS' Alternative Investment Portfolio Summary

From Inception to September 30, 2003

($000s)

	Partnership	Fund Incept. Date	Fund Size (In Mil.)	Commit.	Contrib.[a]	Market Value	Distrib.	Total Value	Gain/(Loss)	Inception IRR[b]	V. E. Median Q'tile[c]	V. E. Upper Q'tile[c]
	1999 Generation											
18	Madison Dearborn III	1/99	$2,173	$16,000	$15,046	$13,332	$3,640	$16,972	$1,926	4.4%	-5.2%	5.8%
19	CGW Southeast IV	4/99	$405	10,000	6,556	4,281	27	4,307	(2,249)	-19.0%	-5.2%	5.8%
20	Chisholm IV	5/99	$275	9,000	8,075	4,553	192	4,745	(3,330)	-18.6%	-11.7%	0.0%
21	Menlo VIII	5/99	$505	18,000	14,400	4,234	1,154	5,389	(9,011)	-33.5%	-19.8%	-3.8%
22	OCM III	9/99	$2,077	10,000	10,000	6,192	6,269	12,461	2,461	8.5%	-2.8%	7.3%
23	Richland III	9/99	$202	18,000	14,724	7,968	1,782	9,750	(4,974)	-12.5%	-19.8%	-3.8%
24	Vestar IV	10/99	$2,525	17,000	7,610	8,709	269	8,978	1,367	9.6%	-5.2%	5.8%
25	Austin VII	10/99	$825	17,000	13,085	7,222	701	7,924	(5,161)	-25.5%	-19.8%	-3.8%
26	J.H. Whitney IV	11/99	$1,003	25,000	22,448	7,370	1,916	9,286	(13,162)	-27.2%	-19.8%	-3.8%
27	Alchemy Investment Plan[f,g]	12/99	$425	26,083	19,094	16,166	4,874	21,040	1,945	6.2%	0.0%	2.7%
				$166,083	**$131,039**	**$80,027**	**$20,823**	**$100,851**	**($30,188)**	**-10.5%**	**-11.9%**	**3.7%** [d]
	2000 Generation											
28	TPG III	12/99	$3,406	$25,000	$15,374	$20,632	$5,388	$26,020	$10,646	27.4%	N.M.	N.M.
29a	GTCR Fund VII	1/00	$1,517	18,750	15,609	12,442	3,227	15,669	60	0.2%	N.M.	N.M.
30	VantagePoint IV	4/00	$1,392	15,000	4,350	2,172	0	2,172	(2,178)	-42.3%	N.M.	N.M.
31	Weston Presidio IV	4/00	$1,353	15,000	6,150	5,017	0	5,017	(1,133)	-14.8%	N.M.	N.M.
32	Thomas Lee V	4/00	$6,114	15,000	4,290	4,249	58	4,307	17	0.4%	N.M.	N.M.
33	WCAS IX	6/00	$3,781	15,000	9,000	7,054	1,160	8,214	(786)	-6.2%	N.M.	N.M.
34	Nautic V	6/00	$1,083	15,000	5,167	3,981	14	3,995	(1,172)	-24.1%	N.M.	N.M.
35	Essex Woodlands V	7/00	$280	10,000	5,250	4,687	706	5,393	143	1.9%	N.M.	N.M.
36	Trident V	8/00	$519	10,588	3,689	2,540	59	2,598	(1,091)	-22.9%	N.M.	N.M.
37	Madison Dearborn IV	11/00	$4,036	25,000	5,826	3,974	1,191	5,165	(661)	-12.5%	N.M.	N.M.
				$164,338	**$74,705**	**$66,748**	**$11,803**	**$78,551**	**$3,845**	**3.3%**	**N.M.**	**N.M.**

LACERS' Alternative Investment Portfolio Summary
Fourth Quarter Activity
as of December 31, 2003
($000s)

Partnership	Commit.	Actual 9/30/2003 Market Value	4th Qtr Contrib.	4th Qtr Distrib.	Estimated 12/31/2003 Market Value	Cum. Contrib.[a]	Cum. Distrib.
1995 Generation							
1 WCAS VII	$15,000	$8,708	$0	$2,355	$6,353	$15,000	$22,669
2 OCM	11,000	2,343	0	0	2,343	11,000	14,512
	$26,000	**$11,051**	**$0**	**$2,355**	**$8,696**	**$26,000**	**$37,181**
1996 Generation							
3 CVC European	$10,000	$6,481	$0	$597	$6,421	$9,753	$15,481
4 CGW Southeast III	9,000	1,913	0	82	1,831	8,611	3,911
	$19,000	**$8,394**	**$0**	**$678**	**$8,252**	**$18,364**	**$19,391**
1997 Generation							
5 InterWest VI	$5,000	$3,422	$0	$0	$3,422	$5,000	$9,318
6 GTCR Fund V	10,000	5,803	0	84	5,719	10,000	8,590
7 KKR 1996 Fund	25,000	22,598	0	3,458	19,140	26,319	19,240
8 Menlo VII	5,000	1,312	0	0	1,312	4,750	22,729
9 OCM II	11,000	5,547	0	880	4,667	11,000	7,984
	$56,000	**$38,682**	**$0**	**$4,422**	**$34,260**	**$57,069**	**$67,862**
1998 Generation							
10 Thomas Lee IV	$7,000	$4,694	$0	$397	$4,297	$6,118	$692
11 Kelso VI	5,000	3,152	74	622	2,603	3,939	1,696
12 Apollo IV	5,000	4,848	68	508	4,409	4,726	1,435
13 GTCR Fund VI	10,000	4,428	0	0	4,428	9,904	5,474
14 Thoma Cressey VI	5,000	2,937	0	143	2,794	4,845	1,003
15 CVC European II	10,000	7,893	0	2,086	6,460	8,964	7,336
16 Essex Woodlands IV	4,000	2,797	0	119	2,678	3,594	1,982
17 WCAS VIII	15,000	10,465	0	0	10,465	14,850	0
	$61,000	**$41,213**	**$142**	**$3,875**	**$38,134**	**$56,941**	**$19,617**

Partnership	Commit.	Actual 9/30/2003 Market Value	4th Qtr Contrib.	4th Qtr Distrib.	Estimated 12/31/2003 Market Value	Cum. Contrib.[a]	Cum. Distrib.
1999 Generation							
18 Madison Dearborn III	$16,000	$13,332	$72	$0	$13,404	$15,118	$3,640
19 CGW Southeast IV	10,000	4,281	415	0	4,696	6,971	27
20 Chisholm IV	9,000	4,553	0	0	4,553	8,075	192
21 Menlo VIII	18,000	4,234	0	0	4,234	14,400	1,154
22 OCM III	10,000	6,192	0	362	5,829	10,000	6,631
23 Richland III	18,000	7,968	0	0	7,968	14,724	1,782
24 Vestar IV	17,000	8,709	484	2,312	6,881	8,094	2,581
25 Austin VII	17,000	7,222	0	0	7,222	13,085	701
26 J.H. Whitney IV	25,000	7,370	0	0	7,370	22,448	1,916
27 Alchemy Investment Plan[b]	27,052	16,166	502	302	17,447	19,597	5,176
	$167,052	**$80,027**	**$1,473**	**$2,976**	**$79,605**	**$132,512**	**$23,799**
2000 Generation							
28 TPG III	$25,000	$20,632	$2,660	$2,087	$21,206	$18,035	$7,474
29a GTCR Fund VII	18,750	12,442	188	0	12,629	15,797	3,227
30 VantagePoint Ventures IV	15,000	2,172	900	134	2,938	5,250	134
31 Weston Presidio IV	15,000	5,017	0	0	5,017	6,150	0
32 Thomas Lee V	15,000	4,249	1,492	141	5,600	5,856	199
33 WCAS IX	15,000	7,054	0	1,389	5,665	9,000	2,549
34 Nautic V	15,000	3,981	211	0	4,192	5,498	14
35 Essex Woodlands V	10,000	4,687	0	549	4,138	5,250	1,255
36 Trident V	10,588	2,540	1,059	0	3,598	4,748	59
37 Madison Dearborn IV	25,000	3,974	689	0	4,663	6,515	1,191
	$164,338	**$66,748**	**$7,199**	**$4,301**	**$69,646**	**$82,098**	**$16,103**
2001 Generation							
29b GTCR VII-A	$6,250	$1,663	$0	$0	$1,663	$1,922	$1,673
38 Menlo IX	20,000	4,513	1,000	0	5,513	7,000	0
39 Austin VIII	8,300	1,693	100	0	1,793	2,700	230
40 Whitney V	10,000	5,005	1,155	0	6,160	7,252	876
41 CVC III	15,000	7,748	447	911	7,925	7,921	912
42 OCM IV	10,000	8,700	0	2,000	6,700	10,000	7,000
	$69,550	**$29,322**	**$2,702**	**$2,911**	**$29,754**	**$36,795**	**$10,691**

Partnership	Commit.	Actual 9/30/2003 Market Value	4th Qtr Contrib.	4th Qtr Distrib.	Estimated 12/31/2003 Market Value	Cum. Contrib.[a]	Cum. Distrib.
2002 Generation							
43 Resolute Fund	$20,000	$447	$2,843	$0	$3,290	$3,988	$1
	$20,000	**$447**	**$2,843**	**$0**	**$3,290**	**$3,988**	**$1**
2003 Generation							
44 GTCR VIII	$20,000	$198	$500	$0	$698	$800	$0
45 Nordic V[b]	13,786	(11)	0	0	(11)	248	0
46 Olympus IV	7,000	26	275	0	301	331	0
47 Weston Presidio IV - Secondary	1,884	0	1,025	114	911	1,025	114
48 Trident V - Secondary	3,782	0	1,295	0	1,295	1,295	0
49 TPG IV	25,000	0	1,402	1	1,400	1,636	1
50 Onex Partners	20,000	0	0	0	0	0	0
	$91,452	**$213**	**$4,497**	**$115**	**$4,594**	**$5,335**	**$115**
2004 Generation							
51 Permira III[b]	$21,347	$0	$0	$0	$0	$0	$0
52 TCV V	18,500	0	0	0	0	0	0
53 Kelso VII	17,500	0	0	0	0	0	0
	$57,347	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**
12/31/03 Total	**$731,739**	**$276,098**	**$18,856**	**$21,634**	**$276,231**	**$419,102**	**$194,761**

[a] Capital contributions may exceed capital commitments due to the inclusion of outside management fees.

[b] Commitment amounts are accounted for by multiplying the remaining unfunded commitment in foreign currency by the prevailing exchange rate at the end of the respective quarter, added to cumulative capital contributions at the end of the respective quarter. As a result, commitment amounts will fluctuate slightly on a quarterly basis.