LOS ANGELES CITY
EMPLOYEES' RETIREMENT SYSTEM

DECEMBER 31, 2004

ALTERNATIVE INVESTMENT REVIEW

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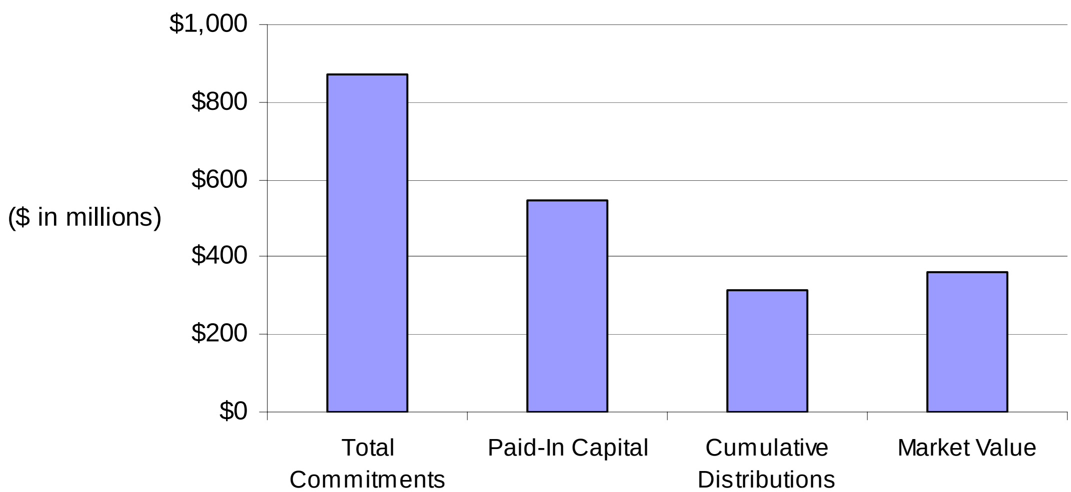
PORTFOLIO UPDATE

PORTFOLIO OVERVIEW

Hamilton Lane was engaged by the Los Angeles City Employees' Retirement System ("LACERS") in January 2005 to select new investments, monitor, and provide advice in accordance with the investment objectives for the alternative portfolio of LACERS. This report represents the review by Hamilton Lane of LACERS alternative investment portfolio ("the Portfolio"), including all private equity investments as of December 31, 2004, *with highlights through March 31, 2005*.

As of March 31, 2005, the Portfolio managed by Hamilton Lane consisted of 62 partnership investments with commitments totaling $870.9 million. Since inception, $547.3 million has been paid-in, representing approximately 62.8% of the total commitments. Cumulative distributions (cash and stock) through March 31, 2005, total $315.6 million, representing 57.7% of the paid-in capital. At the end of the first quarter of 2005, the portfolio had net invested capital of $231.7 million and a total value (distributions plus adjusted market value) of $678.8 million.

Portfolio Summary
As of March 31, 2005



PERFORMANCE ASSESSMENT

As of December 31, 2004, the Portfolio has generated an Internal Rate of Return ("IRR") of 8.64%. This represents an increase of 149 basis points from September 30, 2004, where the Portfolio IRR was 7.15%. This is a result of a very strong private equity market as a whole as well as by increases in IRR for each of the investment strategies represented within the Portfolio. The chart on the following page shows a snapshot of each strategy, including performance, as of December 31, 2004.

The Corporate Finance/Buyout strategy represents the strongest investment strategy from a performance perspective, generating an IRR of 11.74%. This is a considerable increase from September 30, 2004, where the IRR for the Corporate Finance/Buyout strategy generated an

IRR of 9.82%. The Corporate Finance/Buyout partnerships distributed over $17.1 million during the quarter ended December 31, 2004 and the Portfolio's market value increased by 12% over the same time period. In aggregate, the Corporate Finance/Buyout strategy makes up close to 60% of commitments and more than 65% of the reported market value, making it a significant driver of the overall portfolio performance. As such, the increasing IRR is a positive sign for both the Corporate Finance/Buyout strategy itself and the overall Portfolio.

The only strategy in the Portfolio that is generating negative performance is Venture Capital. The Venture Capital strategy is represented by 18 partnerships, of these, 12 partnerships are vintage years 1999, 2000 or 2001, which is considering among the most difficult vintage years for venture capital investing. None of these partnerships have generated a positive IRR to date (excluding secondary purchases). The top performance by a venture capital partnership during these three vintage years was Essex Woodlands Health Ventures Fund V, generating an IRR of (0.91%) as of December 31, 2004. The Venture Capital investment stragegy has paid-in 63% of their aggregate commitments and have approximately $80.0 million yet to be deployed by the general partners. The venture capital strategy represents 22% of the Portfolio's market value and will have a meaningful impact on long-term performance.

	CAPITAL COMMITTED	PAID-IN CAPITAL	PERCENTAGE CONTRIBUTED	CAPITAL DISTRIBUTED	PERCENTAGE DISTRIBUTED	REPORTED MARKET VALUE	NET IRR
Investment Strategy							
Corporate Finance/Buyout	$ 517,368,461	$ 291,792,226	56.40%	$ 175,248,230	60.06%	$ 227,877,561	11.74%
Special Situation	134,440,263	86,308,458	64.20%	64,059,486	74.22%	44,239,497	8.05%
Venture Capital	220,495,679	140,846,922	63.88%	58,025,663	41.20%	76,171,432	(2.55%)
TOTAL PORTFOLIO:	**$ 872,304,403**	**$ 518,947,607**	**59.49%**	**$ 297,333,379**	**57.30%**	**$ 348,288,490**	**8.64%**

Hamilton Lane has completed an assessment of the near term performance drivers within the Portfolio on a net value change basis. The net value change calculation takes into account both distributions received and appreciation of the Portfolio's underlying holdings. The chart below shows the top four portfolio drivers for the three-month period ending December 31, 2004. The top performer over the past three months on a net value basis was Golder, Thoma, Cressey & Rauner ("GTCR") Fund VII. This is related to a significant realization by the partnership, which generated a cash-on-cash multiple of 3.88x. In addition, CVC European Equity Partners and J.H. Whitney represent groups that have recently raised their successor funds which LACERS will be investors in.

Portfolio Drivers Net Value Change
For the Three Months Ending December 31, 2004

Investment Name	Net Value Change $ 000's	% of Change
Golder, Thoma, Cressey & Rauner Fund VII, L.P.	$3,176	10.13%
KKR 1996 Fund, LP	$2,722	8.68%
CVC European Equity Partners III, L.P.	$2,585	8.24%
Whitney V, L.P.	$2,545	8.12%

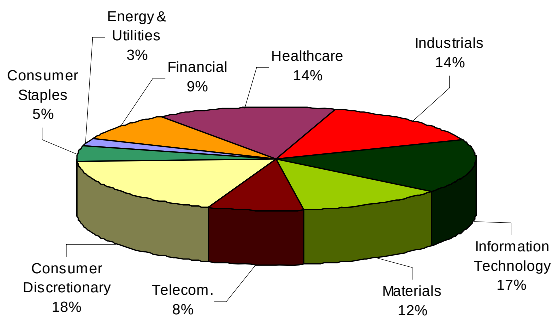
PORTFOLIO ANALYTICS

Diversification – By Industry and Geography

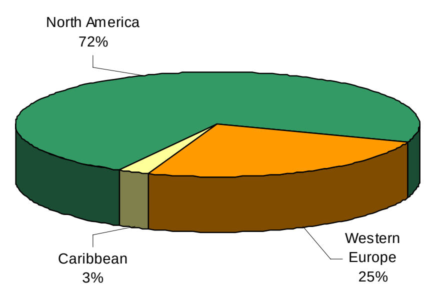
The charts on the following page show the diversification by industry and geography as of December 31, 2004. From an industry perspective, the Portfolio is reasonably well-diversified with the heaviest concentrations in the Consumer Discretionary, Healthcare and Information Technology sectors. The heavy exposure to Consumer Discretionary is expected given the Portfolio's commitments to Corporate Finance/Buyout partnerships, which invest opportunistically across a wide variety of sub-sectors. Consumer Discretionary is a broad sector which includes media, retail, automobiles, consumer durables, apparel, hotels and leisure, among others. The exposure to Healthcare is predominantly attributable to the Welsh, Carson, Anderson & Stowe and the Essex Woodlands Health Ventures partnerships. LACERS has considerable exposure to these general partner groups, investing in six partnerships over a nine year span. With respect to Information Technology, the Portfolio's exposure stems from many of the venture capital general partner groups which LACERS has invested in successive partnerships with, particularly Austin Ventures and Menlo Ventures. Portfolio holdings held by these groups account for more than 36% of the total Information Technology exposure.

From a geographic perspective, the Portfolio is well diversified with 25% of its total exposure coming from Western Europe. This exposure is generated by both commitments made to European partnerships as well as US-domiciled partnerships that complete investments through Western Europe.

Industry Diversification
As of December 31, 2004



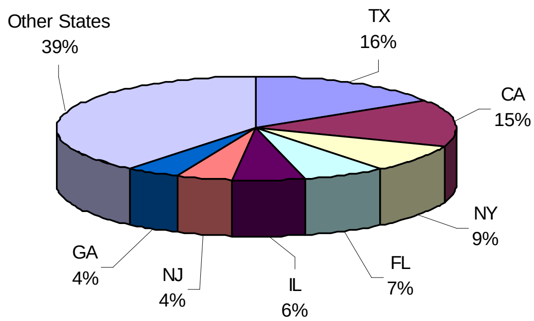
Geographic Diversification
As of December 31, 2004



Diversification – By State

The chart on the following page further magnifies the geographic diversification with respect to the North American exposure by United States. Of particular importance is the exposure within the state of California, representing 15% of the total exposed market value of the Portfolio, or approximately $36 million.

State Diversification
As Measured by Exposed Market Value
As of December 31, 2004



Top Ten Portfolio Holdings

The chart below shows the top ten portfolio holdings as measured by exposed market value. These holdings represent 12.0% of the total reported market value of the Portfolio as of December 31, 2004. All of the top ten holdings are valued above cost, generating an overall value-to-cost multiple of 2.32x. The largest company holding by exposed market value is Company 1 with a value-to-cost multiple of 1.92x. This is a considerable increase from September 30, 2004, where Company 1 was valued at a discount to cost, with a value-to-cost multiple of 0.73x.

The top ten holdings are represented by seven general partner groups. This is a result of LACERS' long-term relationships within several of these groups, namely GTCR, Madison Dearborn Partners, Texas Pacific Group (TPG) and Welsh, Carson, Anderson & Stowe. As such, LACERS receives exposure to three of these holdings through successive partnerships by the same general partner.

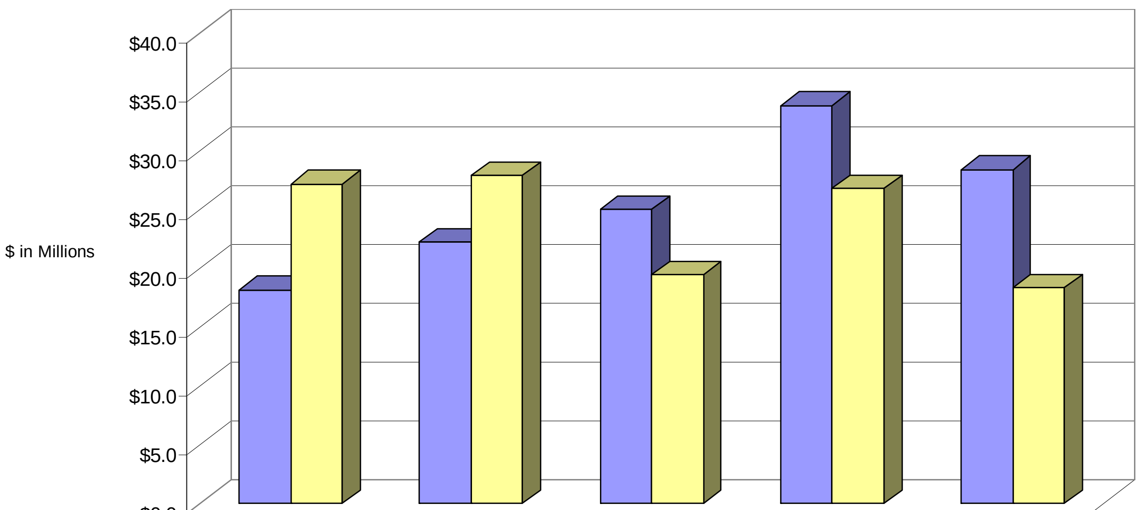
PORTFOLIO COMPANY	INVESTMENT NAME	EXPOSED COST	EXPOSED VALUATION	MULTIPLE
Company 1	Golder, Thoma, Cressey & Rauner Fund VII, L.P. Golder, Thoma, Cressey & Rauner Fund VII-A, L.P.	$ 3,796,104	$ 7,287,003	1.92
Company 2	Madison Dearborn Capital Partners III, L.P.	1,443,885	6,732,476	4.66
Company 3	Madison Dearborn Capital Partners III, L.P. Madison Dearborn Capital Partners IV, L.P.	3,034,255	4,051,829	1.34
Company 4	TPG Partners III, L.P.	141,629	3,975,656	28.07
Company 5	Golder, Thoma, Cressey & Rauner Fund VIII, L.P.	1,405,671	3,705,828	2.64
Company 6	Welsh, Carson, Anderson & Stowe VII, LP Welsh, Carson, Anderson & Stowe VIII, L.P.	803,090	3,653,774	4.55
Company 7	CVC European Equity Partners III, L.P. TPG Partners III, L.P. TPG Partners IV, L.P.	2,593,598	3,065,704	1.18
Company 8	TPG Partners III, L.P.	1,388,530	3,030,979	2.18
Company 9	Welsh, Carson, Anderson & Stowe IX, L.P.	459,558	3,017,507	6.57
Company 10	CVC European Equity Partners III, L.P. Permira Europe III	2,801,805	2,934,159	1.05
TOTALS:		**$ 17,868,125**	**$ 41,454,916**	**2.32**

CASH FLOW ANALYSIS

As seen in the chart below, cash flows have been erratic over the past five quarters. While distributions exceeded paid-in capital for the first and second quarters of 2004, the first quarter of 2005 represents the third consecutive quarter where the Portfolio was cash flow negative (where contributions exceed distributions). The cash flow positive quarters are representative of a maturing portfolio, which was reflected by the undersized commitments made through 2001-2003. The Portfolio made over $125 million in new commitments during 2004, causing the shift noted above. The eight 2004 vintage year partnerships called over $33.4 million in capital during the past three quarters. The Portfolio will experience increasing levels of distributions as the 1999 and 2000 vintage year partnerships approach their post-investment period, as well as increasing levels of contributions generated from the new commitments made in 2004 and going forward.

Paid-in capital and distributions for the fourth quarter totaled $33.9 million and $26.8 million, respectively. The largest single contribution came from Madison Dearborn Partners IV, L.P. The partnership, which distributed the largest amount in the fourth quarter, was GTCR VII, L.P. The majority of the distribution was attributable to one successful realization. LACERS received $2.5 million in proceeds related to this distribution.

In the first quarter of 2005, the Portfolio received $18.3 million in distributions and totaled contributions of $28.4 million. As mentioned above, the largest contributions came from 2004 vintage year partnerships, which paid-in more than $11.5 million, or 41%, of the total contributions for the quarter.



	1st Quarter 2004	2nd Quarter 2004	3rd Quarter 2004	4th Quarter 2004	1st Quarter 2005
Paid-In Capital	$18.2	$22.2	$25.0	$33.9	$28.4
Capital Distributed	$27.2	$27.9	$19.5	$26.8	$18.3

Hamilton Lane 2004 Market Overview and 2005 Outlook

Executive Summary

World private equity markets had a strong year in 2004, as global LBO investments, exits and fundraising continued on the strong momentum from 2003, and US venture capital markets continued to rebound, with stronger IPO markets and renewed enthusiasm in fundraising markets. Global equity markets also posted gains over the year, although they encountered some turbulence in the second and third quarters caused by all-time highs in the price of oil and directional shifts in world currency markets. The strong performance of public equity markets helped drive the gains for private equity, particularly in the fourth quarter.

In the US, the S&P 500 ended the year above 1200, the highest close since mid-2001. The index hit its 52-week low in August, bottoming out at almost 1050. The Dow Jones Industrial Average and the NASDAQ Composite followed similar trends, both ending the year at their 52-week highs of almost 11,000 and 2200, respectively. The DJIA traded in a much tighter range during 2004 compared to the strong upward movement in 2003. The NASDAQ Composite was trading at levels last seen in early 2002. Global equity markets were strong as well. The UK's FTSE 100 had strong performance in the fourth quarter and finished the year at a 52-week high, closing above 4800. Germany's DAX Composite also finished the year strong, closing at almost 380, after trading in a tight band during the year. In contrast to US and European indices Japan's Nikkei 225 hit its 52-week high in April, briefly breaking 12,000 and ending the year near 11,500.

Hamilton Lane believes that the strong close of many indices and performance of private equity markets in both the US and Europe augers well for continued strong exit markets and performance in 2005. However, we are mindful of a possible overheating of markets and fundraising based on overly-optimistic expectations. Below are the highlights of Hamilton Lane's Outlook for 2005:

Buyouts

- A clear differentiation will develop between groups that are institutionalizing and those that are not, in the large/mega end. This will be reflected in fundraising success and investment performance. Institutional groups will dedicate more resources to managing the firm as well as developing more sophisticated approaches and processes for their investing activities.

- The micro-cap sub-asset class is an attractive sector but one that requires significant diligence and investor discipline. This segment will provide a higher risk/reward than other segments of the buyout space.

- Europe represents an attractive market, particularly in the middle market. However, performance to date has been positively impacted by currency (the falling dollar). This will begin to move against investors and needs to be factored into performance expectations going forward.

Venture Capital

- Markets are improving making this a good time to put capital to work with the best groups, particularly in technology. The Life Sciences market is becoming increasingly competitive. However, access to the top venture funds continues to become more difficult.

Hedge Funds

- The convergence of hedge funds with private equity funds will continue and will impact pricing, deal flow and general competitive landscape in the marketplace.

Debt Markets

- Mezzanine and distressed investing will provide limited opportunities in 2005. The impact of hedge funds, BDCs and aggressive banks are all impacting pricing. Middle-market, un-sponsored mezzanine or structured finance funds provide an opportunity for attractive risk reward profiles but only on a limited basis.

Below are some of the highlights of the past year in private equity markets covered in the Hamilton Lane 2004 Market Overview:

- US and European 1-year private equity returns improved markedly over the previous year. In the US and Europe, all of private equity (buyouts, mezzanine and venture capital) gained 18.3% and 4.5%, respectively, for the year ending June 30, 2004, according to Venture Economics, compared to losses of 2.5% and 4.8%, respectively, for the year ending June 30, 2003.

- Fundraising was very strong for buyout funds, up 76% from 2003. US funds were bifurcated with many brand-name funds raising money in record time, sometimes turning away investors, while many unproven or poorly performing managers still found it very hard to raise capital. Several mega European funds are gearing up for what should be a huge year in 2005.

- Venture capital funds raised more money in the first nine months of 2004 than in all of 2003 as investor interest rebounded. Many top-tier funds chose to raise smaller funds than their last vintage, and public investors were notably excluded from some brand-name funds due to FOIA concerns.

- IPO markets in the US and Europe had a roaring comeback. Buyout-backed IPOs had a record-setting year in volume terms, and there were three times more VC-backed IPOs in 2004 than in 2003. In Europe, there were more IPOs in 2004 – 420 - than in 2003 and 2002 combined. The UK was the dominant market with 113 of all IPOs.

- Buyouts were much stronger in the US and Europe. The US had a 45% increase in deal value. In Europe, private equity players accounted for over 25% of the M&A market, which was almost 40% stronger than in 2003.

- M&A activity in the US, Europe and Asia was stronger than in recent years. Venture capital-related M&A activity was two times higher than in 2000, and US buyout-backed M&A had a 50% increase in value over the previous year.

- High-yield bond issuance in the US surged past 1998 levels, and leverage on US companies rose near 1998 levels, as buyout sponsors secured quick returns on equity investments.

2004 Market Overview and 2005 Market Outlook

Global Corporate Finance

Fundraising

Fundraising rebounded significantly in 2004 and is expected to continue strong in 2005. During the year, 159 US corporate finance funds raised more than $42 billion, a 76% increase over the $24 billion raised by 76 funds in 2003. More GPs were in the market as many of them raised their most recent funds in 1999 and 2000 and are now looking to raise new funds. With strong activity and returns, many LPs were actively investing. In the third quarter alone, US buyout funds disclosed over $10 billion of buyout fundraising; for the same period in 2003, only $1.4 billion was raised. Mega funds continued to garner headlines as several general partners raised capital in record time, and many were oversubscribed leaving a number of LPs without allocations. Access has become increasingly difficult not just in venture capital but also with mega-fund buyout funds.

The five largest US buyout funds of the year, all over $3 billion, were the following: Texas Pacific Group's TPG IV, the largest of the year, which raised $5.3 billion; Providence Equity's Fund V, which raised, in only a few months, $4.25 billion; Silver Lake's Fund II, which closed at $3.6 billion; and Bain Capital Fund VIII and Hellman & Friendman Fund V which both raised $3.5 billion. There are more mega funds in the pipelines likely to raise even bigger funds and grab headlines in 2005, including Warburg Pincus' proposed $7-8 billion fund; Carlyle Partners IV, which has already raised its target from $5 billion to $6.5 billion; and many large European funds.

Mezzanine funds also had an improved fundraising year from 2003, raising $5.2 billion in 2004 compared to $4.4 billion the year before. However, average fund size was down slightly with 26 funds in 2004 raising an average of $200 million per fund, compared to the 21 funds in 2003 that raised an average of $210 million.

Mega European buyout funds have been gearing up for a major round of fundraising, which is the third major fund raise for most large European funds; the first and second occurred in 1996-97 and 1999-2000, respectively. This cycle kicked off in earnest in the third quarter with several mega funds coming to market and is expected to close in early 2005: CVC is raising its fourth fund with a €4.5 billion target, Bridgepoint is raising its third European fund, and PAI is raising its fourth European fund both with a target of €2 billion. Continuing in the fourth quarter of 2004 and the start of 2005, several more €3+ billion European funds should be coming to market including: KKR Europe, Cinven, Candover, and BC Partners. In addition, there will be a continued flow of European country-specific and mid-market funds, a number of which will be seeking €1 billion, thus adding to the fundraising totals in Europe.

Asian private equity and venture funds had a strong rebound in fundraising in 2004 and raised $10.6 billion during the year, compared to only $3.3 billion in 2003. Large-sized Asian funds helped drive the increase, with several funds raising more than $700 million.

Performance

Buyout and mezzanine markets continued to recover from the lows of 2001-2002, and performance was significantly higher for the year ending June 30, 2004 than for the year ending June 30, 2003. The total corporate finance asset class had a one-year gain of 21.8% in the period ending June 30, 2004, versus a one-year gain of 3.1% as of June 30, 2003, with across-the-board improvements in one-year returns in all sub-classes of corporate finance. Not surprisingly, buyouts were the best performing sub-asset classes, gaining 23.5% for the year ending in the second quarter versus a 3.1% return for the year ending June 30, 2003. Mega buyouts were the best performers, up 26.1% for the year compared to a gain of 4.1% for the period ending the year earlier. The three-year corporate finance return moved firmly positive for the period ending June 30, 2004, gaining 2.4% compared to -4.7% for the three years ending June 30, 2003. The chart below details the annualized performance of various US corporate finance asset classes through June 30, 2004.

US Private Equity Pooled IRRs as of June 30, 2004					
Fund Type	**1 Yr**	**3 Yr**	**5 Yr**	**10 Yr**	**20 Yr**
Small Buyouts	17.2%	-0.8%	1.0%	8.8%	27.2%
Med Buyouts	11.5%	-1.3%	3.0%	9.2%	17.2%
Large Buyouts	19.3%	4.2%	4.9%	11.4%	14.9%
Mega Buyouts	26.1%	2.2%	2.8%	7.3%	9.0%
All Buyouts	**23.5%**	**2.1%**	**3.1%**	**8.5%**	**12.8%**
Mezzanine	12.8%	1.0%	4.9%	7.5%	9.5%
Buyouts and Mezz.	**21.8%**	**2.4%**	**3.4%**	**8.3%**	**11.9%**

Source: Venture Economics (data reported as of January 13, 2005)

Based on data from Venture Economics, European buyout funds continued a more modest recovery, with a preliminary Venture Economics return of -2.7% for the year ending June 30, 2004, up considerably from the -9.4% return for the year ending in the first quarter of 2004. For many US-based investors, European performance has been more attractive due to foreign currency gains, as the euro has gained ground against the dollar.

European Private Equity Pooled IRRs as of June 30, 2004					
Fund Type	**1 Yr**	**3 Yr**	**5 Yr**	**10 Yr**	**20 Yr**
All Buyouts	**-2.7%**	**2.4%**	**6.4%**	**11.9%**	**11.7%**

Source: Venture Economics (data reported as of January 13, 2005)

Investment Activity and Exits

The size and pace of buyout transactions built upon the momentum of 2003 to have a record-breaking year in 2004. According to *Buyouts* magazine the total of all US LBO deals completed in 2004 had an aggregate value of $137 billion, a 45% increase in total deal value from 2003 and more than six times greater than deals completed in 2001. Over 34% of the year's value came in the fourth quarter when $48 billion worth of deals were completed, compared to only $30 billion in the third quarter of 2004.

The US M&A market had a robust year, with $834 billion in disclosed deals. According to Thomson Financial, this represents the best year for M&A since the record-breaking year of

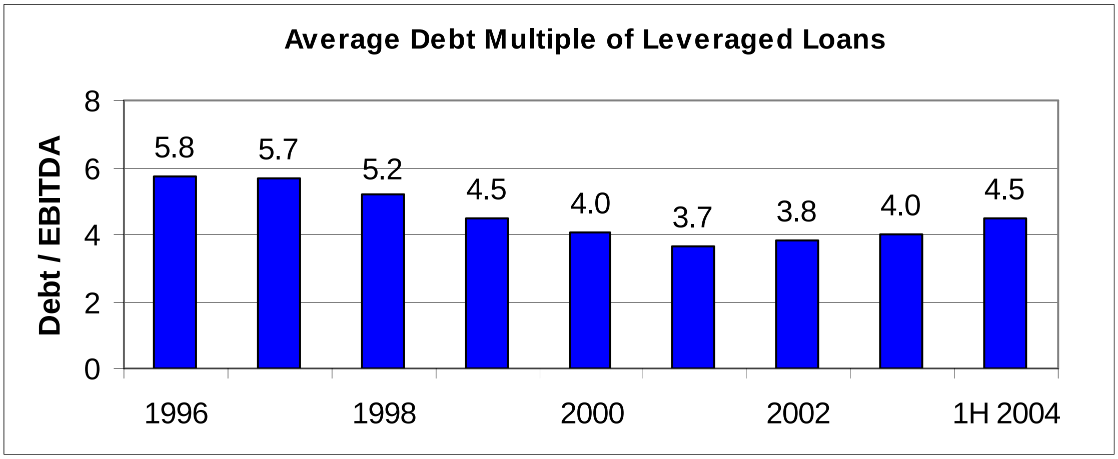
2000, and a 47% increase in deal value over 2003. LBOs were a relatively large portion of the M&A market, accounting for over 16% of the total market in 2004, as corporate buyers remained more cautious with their purse strings for much of the year. In 2005, this trend should begin to change as more strategic buyers pursue acquisitions after several years of cleaning up their operations and balance sheets. This could drive up deal prices even more in 2005 as competition for targets increases.

Some of the largest deals this year involved satellite companies and included: a consortium including Madison Dearborn, Apax Partners, Apollo Management, and Permira purchased Intelsat Ltd. of Bermuda for $5 billion; KKR closed a $4.3 billion purchase of PanAmSat, with Carlyle and Providence also investing. Other large and noteworthy North American deals in 2004 included: Sony along with Texas Pacific Group, Providence, and DLJ Merchant Banking, won the bidding for Metro-Goldwyn-Mayer with a $3 billion offer, backed by generous debt financing from J.P. Morgan Chase; Texas Genco Holdings was acquired for $3.65 billion in a large club deal including Blackstone, Hellman & Friedman, TPG and KKR; Cerberus Capital acquired LNR Property for $3.8 billion; Boise Cascade sold its forest products and timberland assets to Madison Dearborn for $3.7 billion; TH Lee, Bain, and Providence bought Warner Music for $2.8 billion; and Bain entered into a deal for the Canadian directories business of Verizon for $1.54 billion.

The emergence of "club deals," where multiple GPs form a bidding consortium, was a major theme throughout 2004. The trend was most notable in the mega-deal category, and in the third quarter alone, eight of the 11 transactions over $1 billion in size that were completed were club deals. Club deals have been occurring on both sides of the Atlantic and have even included strategic buyers who have teamed up with private equity "clubs" as they have begun to slowly enter back into the M&A market, as discussed above.

Capital markets opened up in 2004, including a rebound in the IPO market. Buyout-backed IPOs had a record-setting year in 2004, with 55 IPOs on US markets, raising over $10 billion. This represents more activity for buyout-backed IPOs than for all of 2001, 2002 and 2003 combined. The third and fourth quarters were the busiest with 17 and 16 IPOs, respectively. The largest offering of the year was in February by TRW Automotive, an auto components company that Blackstone had acquired in March 2003. TRW raised $676 million, and half of the proceeds were used to reduce Blackstone's equity stake. Of the 55 IPOs, only 13 were trading below their offering levels as of January 1, 2005, and on average, buyout-backed IPOs are up 22% from their IPO offering price.

As the market has heated up with more capital chasing deals, competition has increased, raising prices and multiples. Easier debt financing and more capital in the industry led to increased multiples paid in leveraged buyouts during the year, and purchase price multiples rose to nearly 9x EBITDA by the end of 2004._ Large deals were the most affected, with an increase in deal multiples from the fourth quarter of 2003 to the first half of 2004 from an average of 7.28x EBITDA to an average 8.02x EBITDA (Source: S&P Leveraged Commentary and Data). Average debt multiples have risen as well, and are approaching 5x EBITDA; close to the 1998 average of 5.2x EBITDA, though still well below the average 8.8x EBITDA of the late 1980s. In the PanAmSat deal mentioned above, it was reported that the initial equity on the deal was only 13%, or $550 million of the total $4.1 billion deal. Later in the year, after distributing $250 million back to the sponsors via a dividend recap, KKR, Carlyle, and Providence had only 7% equity in the company.

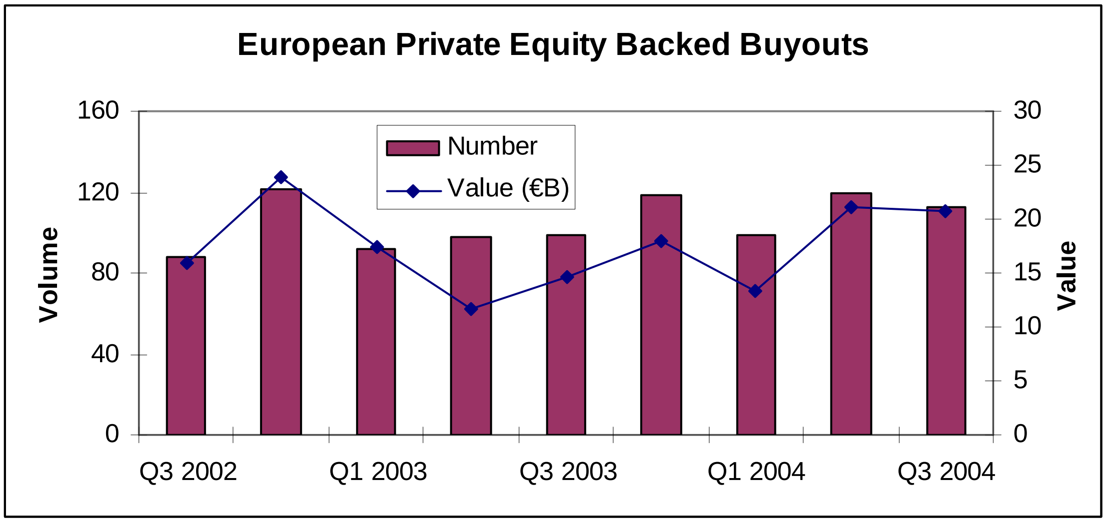


Source: *Standard & Poor's*

Debt markets were much easier to access and LBO sponsors took advantage of this to recoup large portions of their investments quickly, often through dividend recaps. Accordingly, US high-yield bond issuance surged higher in 2004 than all recent years with $141 billion issued during the year, surpassing even the $138 billion in junk bonds issued in 1998, according to Thompson Financial. Private companies, and their LBO sponsors, were major users of this source of capital for dividend repayments; 49 of the 52 high-yield offerings for dividend payouts were from private companies. In the Warner Music deal mentioned above, several dividend payouts during the year from high-yield issuances have helped return almost all of the equity invested in February 2004 by TH Lee, Bain and Providence. Warner Music has now increased its leverage to almost 7x EBITDA.

Europe has had an even more pronounced trend of easier debt and increasing leverage in deals. Two deals that closed with reported debt at over 7x EBITDA were the £1B+ battle for Saga in the UK and the €2B auction of the VNU's world directory business, which was won by Apax and Cinven. Some lenders in Europe are allowing investors to replace equity with debt, an aggressive move that has not been acceptable in recent years; a testament to how strong the competition has become to finance deals, especially in the high-yield markets in Europe. As an example, Grohe, a German fixtures company, raised €335M in high-yield debt in the third quarter, to partially refinance the buyout by TPG and Credit Suisse Private Equity completed earlier in 2004.

European buyouts continued to be the most active segment of the European private equity market for the first three quarters of 2004. According to *Initiative Europe,* 332 deals were completed through the third quarter, with an aggregate value of €55.2 billion. These figures represented a significant improvement over the same period a year earlier, when 291 buyout deals were completed with total value of €44.6 billion, a 14% and 24% gain, respectively. As an indicator of the breadth of the market, the second and third quarter of 2004 both had four deals valued at €1 billion or more, compared to the second quarter of 2003, which had no deals in this size range. The distribution of deals by size during the first three quarters of 2004 remained similar to the same period a year earlier, with deals in the small range (less than €160M) accounting for 77% of the number of deals done and 21% of the value of deals; the mid-size range (€160M-€1.65B) accounted for 22% of the number of deals done and 61% of the value of deals; and the large range (greater than €1.65B) accounted for 1% of the number of deals done and 18% of the value of deals.



Source: *Initiative Europe Barometer*

The year's largest European LBO came in the fourth quarter when Clayton Dubilier & Rice, Merrill Lynch Private Equity, and Eurazo teamed up to purchase Rexel SA for $4.9 billion. Other notable European and Asian LBOs included: Blackstone acquired Celanese for €3.2 billion; a €2.6 billion buyout in the UK of The AA by Permira and CVC; JPMorgan Partners, DLJ Merchant Banking Partners, Bain, and TH Lee acquired Warner Chilcott, a UK drug company, for $2.9 billion; Carlyle and Kyocera acquired Japanese company DDI Pocket for $2 billion; and the Apax and Cinven purchase of the directories business of VNU for over €2 billion.

Private equity firms were major players in the European M&A markets, accounting for 25% of the total market, an unusually high proportion, as corporate players stayed on the sidelines. In the fourth quarter, however, strategic buyers started to become more active, such as Honeywell International's acquisition of Novar, a UK manufacturer, for $2.4 billion. This signals a trend that should continue into 2005. Overall, M&A in Europe was valued at $688 million, according to Thomson Financial, a 36% increase over 2003. This figure is slightly misleading, as $80 billion of the total value was for the Royal Dutch/Shell Group's unification and $28 billion from Telecom Italia's buyout of minority shareholders of its wireless unit, both of which many did not consider "real" M&A deals.

IPOs in Europe had a strong end of the year, with 151 and 118 offerings in the fourth and third quarters, respectively. Those deals were worth €8.6 billion and €2.6 billion, respectively. For all of 2004, there were a total of 420 European IPOs, a vast increase over the previous two years with 143 IPOs in 2003 and 174 IPOs in 2002. Deal values also rose with a total value of €27 billion for 2004, compared to €7 billion and €11 billion, respectively, in 2003 and 2004. London was the most active IPO market in Europe, with 75% of total offerings by volume in the fourth quarter, although only 32% of the total value of European IPOs, as 100 of London's 113 offerings for the quarter were on the AIM, a smaller-cap market.

Regionally, the UK dominated the European buyout market for the first three quarters of 2004, with 41% of the total number of deals in the period worth 37% of the aggregate value. In the third quarter, the UK had 11 of the 20 largest deals in the quarter. Germany was the second largest region in terms of aggregate deal value, accounting for over one-quarter of total deal value, and 14% of the total number of deals. France and Benelux both had 13% of the total deal value for the period, and 17% and 8% of the total number of deals, respectively. Benelux's high value per deal figure was driven in large part by two very large deals: the €2B auction of the VNU's world directory business, mentioned above, and the consortium of Change Capital Partners, Alpinvest, and KKR buying Vendex for an estimated €1.4 billion.

European Deal Activity by Country for the First Nine Months of 2004		
	Number of Deals	Aggregate Value (€ Million)
Benelux	8%	13%
Germany	14	28
France	17	13
Nordic Countries	12	5
UK	41	37
Rest of Europe	8	5
Total	100	100

Source: *Initiative Europe Barometer*

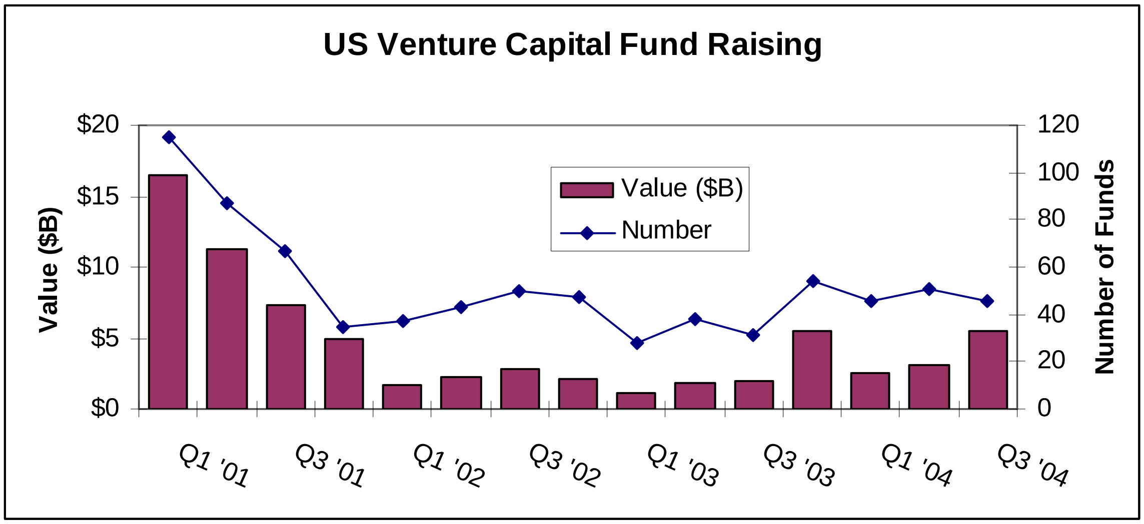
Asian private equity and venture capital firms made investments of nearly $17 billion during 2004, according to the *Asian Venture Capital Journal*. Buyouts groups were the most active, investing over $10 billion during the year. For all private equity investments Distribution, Telecommunications, and the Information Technology industries had the most investment activity, accounting for 18%, 16% and 14% of total investments, respectively. Japan was the most active country in private equity investments with $7 billion invested, followed by Australia and China, where US$1.95 billion has been invested. Major Japanese transactions included Nikko Principal Investment's US$2.2 billion purchase of BellSystem24, as well as Carlyle Japan Partners' and Kyocera's buyout of DDI Pocket.

M&A activity in Asia remained near 2003 levels with $104 billion in total announced value in 2004, an increase of only 3% over the year earlier. However, completed deal value fell 14% from 2003 to $72 million. China led the region in M&A activity, with 24% of the total value, followed by Hong Kong and South Korea, with 13% and 12%, respectively. The largest Asian M&A deal of the year involved two Asian countries when Singapore Power acquired TXU Australia for $3.3 billion.

Venture Capital

Fundraising

Venture capital continued to rebound during the year from the fundraising lows in 2001. Overall, 125 venture funds raised $11.3 billion for the year to September 30, 2004, compared to $10.5 billion raised in all of 2003. In the third quarter, venture capital GPs raised $5.5 billion for 46 funds, a marked improvement over the second quarter, which had 51 funds raising $3.1 billion.



Source: *Venture Economics and NVCA*

The largest VC fund raised during the first three quarters of 2004 was Oak Investment Partners XI, a technology-focused, balanced fund, which raised $1.5 billion. Many VC funds chose to shrink fund sizes from their last round of raising during 1999-2000 and some funds notably excluded public investors. Battery Ventures VII and Kleiner Perkins both had smaller funds and excluded some existing LPs. The two groups raised $450 million and $400 million for Battery VII and Kleiner XI, respectively. Other big names that raised funds during the year included: Benchmark Fund V with $400 million; Doll Capital's DCM IV with $375 million; and Sevin Rosen's Fund IX with $300 million.

Performance

The performance of venture capital funds has begun to rebound from the weak years since March 2000. Venture funds began to show gains again in all stages except early and seed. The three-year gain for all US venture capital was firmly positive, up 11.9% for the period ending June 30, 2004. With the continued recovery of the public markets and the rebirth of the IPO markets in particular, there is hope that the performance of venture capital funds will continue to improve. Despite the fact that the performance of venture funds will likely improve in the near term, vintage year 1999 and 2000 funds are still expected to generate negative returns for investors; failing to return capital regardless of investment focus.

US VC Investment Performance through 6/30/2004

Fund Type	**1 Year**	**3 Year**	**5 Year**	**10 Year**	**20 Year**
Early/Seed	-25.3%	18.2%	25.4%	39.8%	19.1%
Balanced Stage	12.6%	-7.5%	13.2%	21.4%	13.6%
Later Stage	17.8%	-6.8%	4.7%	16.8%	13.8%
All Venture	7.5%	11.9%	14.4%	26.7%	15.6%

Source: Venture Economics (data as of January 13, 2005)

While the long-term performance for US venture funds remains attractive, returns generated by European venture funds over both the short and long term remain poor to mediocre, causing investors to question the value proposition of the inclusion of European venture in their private equity portfolios. Shorter-term performance did improve in 2004 after weak results for several years. However, early- and seed-stage VC in Europe still continued to struggle. The following chart details the performance of European venture funds through the second quarter of 2004.

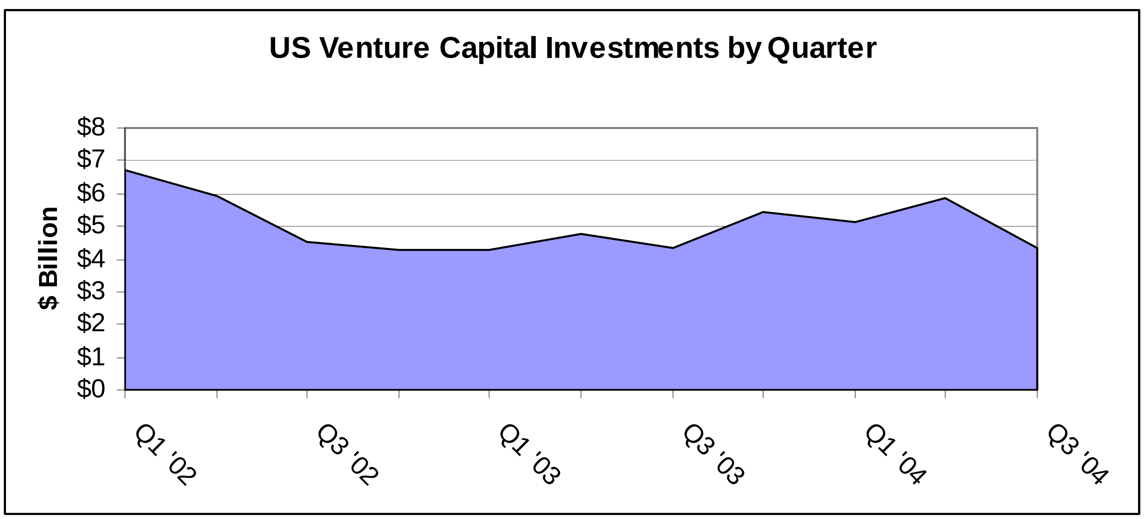
European VC Investment Performance through 6/30/2004					
Fund Type	**1 Year**	**3 Year**	**5 Year**	**10 Year**	**20 Year**
All Venture	14.4%	-10.6%	-1.0%	6.9%	6.2%

Source: Venture Economics (data as of January 13, 2005)

Investment Activity and Exits

Venture capital investing picked up from 2003. During the first nine months of 2004, $15.2 billion had been invested in over 2,000 companies, a 14% increase in value over the same period in 2003 according to The MoneyTree™ Survey by PricewaterhouseCoopers, Thomson Venture Economics and the National Venture Capital Association. Industry analysts expected the full year figure to top 2003, when $18.8 billion was invested. The third quarter of 2004 was weak however, with $4.3 billion invested in 606 companies. This is near the low end of the $4.2 to $5.8 billion range of quarterly investing over the past two years, although the third-quarter is often the slowest period of the year for VC investing.

The Life Sciences sector (Biotechnology and Medical Devices) and the Software Industry received the lion's share of funding during the first three quarters of the year, continuing recent trends, and together received nearly 50% of all venture investing for the year. Life Sciences companies took nearly 30% of all venture investing, near historical highs, and Software companies gathered over 20% of all funding for the year.



Source: *MoneyTree Survey*

Venture capitalists had a strong year with exits in the IPO market, with 93 VC-backed companies raising $11 billion dollars in 2004, three times more activity than 2003, when only 29 VC-backed companies raised $2 billion. Google's $1.7 billion offering was the major event of the year, and technology-focused companies led all other industries in number of offerings, with 42 offerings for the year that raised $6.6 billion. Life Sciences companies raised $2.4 billion in 41 IPOs. The largest IPO of the year was Semiconductor Manufacturing, whose offering of $1.8 billion just topped Google's. Many of the companies that had offerings were more mature than those companies that went public during the bubble of the late '90's, as 62% of the VC-backed companies that completed IPOs in 2004 had their first round of funding between 1997 and 2000.

US Venture Capital-Backed IPOs by Quarter 2003-2004

Quarter	Total Number of IPOs	Total Number of VC-Backed IPOs	Total VC-Backed Offering Size ($M)	Average VC-Backed Offering ($M)
Q1 2003	5	1	77	77
Q2 2003	5	2	164	82
Q3 2003	20	9	733	81
Q4 2003	52	17	1,049	62
2003 Total	**82**	**29**	**2,023**	**70**
Q1 2004	42	13	2,721	209
Q2 2004	58	29	2,078	72
Q3 2004	67	24	3,226	134
Q4 2004	82	27	2,990	111
2004 Total	**249**	**93**	**11,015**	**118**

Source: *Venture Economics and the NVCA*

Venture capital M&A activity also had a strong year, and for the first three quarters of 2004 there were 247 deals involving venture-backed companies, with an aggregate disclosed deal value of $12 billion (only 135 deals disclosed their deal values). For the full year of 2003, there were only 123 deals that disclosed value for a total of $7.73 billion. For the first nine months of 2004, the average size of disclosed deals was over $91 million, compared to only $62 million for the same period in 2003. Venture-backed companies in the Software and IT Services Sectors had the most M&A activity for the first nine months of the year. In the third quarter of 2004, there were 33 Software deals and 17 had an aggregate disclosed deal value of $1.5 billion.

In Europe, the venture market remains in its infancy and continues to exhibit few signs of growth. Limited partners and fund managers are still wary of investing in Europe, citing sparse investment opportunities, the lack of small cap IPOs on European exchanges, and sub-par historical returns compared to the US. In a positive signal this year, London's AIM market, which specializes in small cap stocks, had 100 of London's 113 IPOs, a sign that recovery is perhaps breathing life into European small caps. However, the spectacular failure of the German Neuer Markt, a small-cap technology exchange, lingers for many who consider Europe still too risky for a robust venture capital market. The Neuer Markt was shut down in 2002 after having suffered scandal and staggering losses following the collapse of its explosive growth during the tech bubble.

Asian venture capital is still in its infancy, although interest in China has been growing in recent years. According to the *Asian Venture Capital Journal,* there was nearly $2 billion invested by venture capital firms in the region. Asian markets had a very strong year in IPOs, raising $27 billion in IPOs in 2004, a 30% increase over 2003 activity, according to Thomson Financial. Greater China led the way, accounting for 56% of total Asian IPO values. In the fourth quarter, China had 62 IPOs with total value of €6 billion in the fourth quarter of 2004, compared to only 46 IPOs in the fourth quarter of 2003, although total deal value remained constant. The three largest Asian IPOs of the year were all Chinese: Ping An Insurance, which raised $1.8 billion; Semiconductor Manufacturing, which also raised $1.8 billion; and China Netcom, which had a $1 billion offering. Japan had 22 IPOs in the fourth quarter of 2004 with aggregate value of €1.1 billion, compared to 16 in the same period in 2003 with only €283 million in aggregate value.

Final Comments

Hamilton Lane believes that new private equity fund deal flow will follow recent trends and remain strong throughout 2005. However, fund access continues to be a critical key to success in private equity, and it is becoming more difficult to get into funds due to a continued flight to quality in the private equity world. Fundraising in Europe in particular will be very active, and several US mega buyout funds are likely to break size records in 2005. Many venture capital funds are also coming back to market as their 2000-2001 vintage funds reach the end of their investing cycle. With this as a backdrop, it will be important to keep a careful eye on excess capital in the industry, particularly in venture capital, possibly driving up deal prices. For the time being, exit markets remain strong, and private equity performance continues to improve. Hamilton Lane believes that improving financial markets will continue to help drive private equity growth and performance.

SECTION 2

PORTFOLIO ASSESSMENT

LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM
PERFORMANCE SUMMARY BY INVESTMENT
AS OF DECEMBER 31, 2004

INVESTMENT NAME	VINTAGE YEAR	INVESTMENT STRATEGY	CAPITAL COMMITTED	PAID-IN CAPITAL (1)	CAPITAL DISTRIBUTED (2)	REPORTED MARKET VALUE	NET IRR
Alchemy Investment Plan (LACERS)	1999	Special Situation	$ 43,340,263	$ 23,196,495	$ 9,675,543	$ 19,023,794	9.84%
Apollo Investment Fund IV, L.P.	1998	Corporate Finance/Buyout	5,000,000	4,818,449	2,670,009	4,811,512	9.84%
Austin Ventures VII, L.P.	1999	Venture Capital	17,000,000	15,042,427	3,168,361	8,333,064	(9.50%)
Austin Ventures VIII, L.P.	2001	Venture Capital	8,300,000	4,400,000	593,760	3,457,397	(5.58%)
Carlyle Partners IV, L.P.	2005	Corporate Finance/Buyout	20,000,000	-	-	-	0.00%
CGW Southeast Partners III, L.P.	1996	Corporate Finance/Buyout	9,000,000	8,614,359	6,732,313	3,536,443	3.85%
CGW Southeast Partners IV, L.P.	1999	Corporate Finance/Buyout	10,000,000	8,356,864	26,623	5,886,770	(11.77%)
Chisholm Partners IV, L.P.	1999	Special Situation	9,000,000	8,246,712	985,137	4,110,299	(11.72%)
CHS Private Equity V, L.P.	2005	Corporate Finance/Buyout	20,000,000	-	-	-	0.00%
CVC European Equity Partners II, L.P.	1998	Corporate Finance/Buyout	10,000,000	9,104,617	10,712,248	8,249,307	19.77%
CVC European Equity Partners III, L.P.	2001	Corporate Finance/Buyout	15,000,000	10,442,736	3,625,456	12,124,038	32.64%
CVC European Equity Partners, LP	1996	Corporate Finance/Buyout	10,000,000	9,752,649	19,407,831	5,459,704	23.93%
Essex Woodlands Health Ventures Fund IV, L.P.	1998	Venture Capital	4,000,000	4,000,000	2,357,151	2,661,898	8.70%
Essex Woodlands Health Ventures Fund V, L.P.	2000	Venture Capital	10,000,000	6,750,000	1,398,565	5,225,201	(0.91%)
Essex Woodlands Health Ventures Fund VI, L.P.	2004	Venture Capital	15,000,000	1,972,500	-	1,840,959	(11.63%)
First Reserve Fund X, L.P.	2004	Corporate Finance/Buyout	20,000,000	2,358,079	-	2,288,000	(2.97%)
Golder, Thoma, Cressey & Rauner Fund V, LP	1997	Corporate Finance/Buyout	10,000,000	10,000,000	8,589,720	6,623,044	8.97%
Golder, Thoma, Cressey & Rauner Fund VI, L.P.	1998	Corporate Finance/Buyout	10,000,000	9,904,197	7,657,570	3,481,714	4.58%
Golder, Thoma, Cressey & Rauner Fund VII, L.P.	2000	Corporate Finance/Buyout	18,750,000	17,484,375	8,643,486	15,275,188	12.05%
Golder, Thoma, Cressey & Rauner Fund VII-A, L.P.	2001	Corporate Finance/Buyout	6,250,000	3,484,375	1,896,987	4,572,913	100.29%
Golder, Thoma, Cressey & Rauner Fund VIII, L.P.	2003	Corporate Finance/Buyout	20,000,000	4,550,000	-	6,271,742	50.65%
Hellman & Friedman Capital Partners V, L.P.	2004	Corporate Finance/Buyout	11,000,000	703,063	-	688,470	(4.90%)
InterWest Partners VI, L.P.	1997	Venture Capital	5,000,000	5,000,000	13,061,242	1,617,286	49.74%
J.H. Whitney IV, L.P.	1999	Venture Capital	25,000,000	22,448,463	3,069,590	3,265,598	(28.49%)
Kelso Investment Associates VI, L.P.	1998	Corporate Finance/Buyout	5,000,000	4,291,449	3,791,492	1,867,951	10.07%
Kelso Investment Associates VII, L.P.	2004	Corporate Finance/Buyout	18,000,000	415,148	380	276,913	(49.27%)
KKR 1996 Fund, LP	1997	Corporate Finance/Buyout	25,000,000	26,280,417	32,449,829	12,650,464	14.53%
Madison Dearborn Capital Partners III, L.P.	1999	Corporate Finance/Buyout	16,000,000	15,117,655	7,388,347	12,202,232	7.02%
Madison Dearborn Capital Partners IV, L.P.	2000	Corporate Finance/Buyout	25,000,000	13,474,134	2,526,649	11,657,980	4.50%
Menlo Ventures IX, L.P.	2001	Venture Capital	20,000,000	11,000,000	-	9,246,817	(9.16%)
Menlo Ventures VII, L.P.	1997	Venture Capital	5,000,000	5,000,000	22,728,937	809,363	135.88%
Menlo Ventures VIII, L.P.	1999	Venture Capital	18,000,000	15,300,000	3,452,648	4,204,345	(18.82%)
Nautic Partners V, L.P.	2000	Special Situation	15,000,000	8,282,751	1,208,032	5,905,453	(8.95%)
Nordic Capital V, L.P.	2004	Corporate Finance/Buyout	14,627,599	5,160,634	-	5,346,031	13.51%

LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM
PERFORMANCE SUMMARY BY INVESTMENT
AS OF DECEMBER 31, 2004

INVESTMENT NAME	VINTAGE YEAR	INVESTMENT STRATEGY	CAPITAL COMMITTED	PAID-IN CAPITAL [1]	CAPITAL DISTRIBUTED [2]	REPORTED MARKET VALUE	NET IRR
OCM Opportunities Fund II, L.P.	1998	Special Situation	11,000,000	11,000,000	10,930,959	4,099,110	6.97%
OCM Opportunities Fund III, L.P.	1999	Special Situation	10,000,000	10,500,000	12,332,664	2,644,980	11.94%
OCM Opportunities Fund IV, L.P.	2001	Special Situation	10,000,000	10,000,000	13,335,778	2,399,132	28.76%
OCM Opportunities Fund V, L.P.	2004	Special Situation	7,100,000	4,082,500	7,781	4,372,954	10.85%
OCM Opportunities Fund, LP	1996	Special Situation	11,000,000	11,000,000	15,583,592	1,683,775	10.00%
Olympus Growth Fund IV, L.P.	2003	Corporate Finance/Buyout	7,000,000	2,152,046	-	2,020,176	(9.42%)
Onex Partners, L.P.	2003	Corporate Finance/Buyout	20,000,000	6,036,347	327	8,022,808	82.59%
Permira Europe III	2004	Corporate Finance/Buyout	22,740,862	5,528,637	320,157	5,161,884	(2.89%)
Providence Equity Partners V, L.P.	2005	Special Situation	18,000,000	-	-	-	0.00%
Resolute Fund, L.P.	2002	Corporate Finance/Buyout	20,000,000	6,727,099	805	6,111,599	(10.94%)
Richland Ventures III, L.P.	1999	Venture Capital	18,000,000	15,624,000	3,564,000	7,531,382	(8.54%)
TCV V, L.P.	2004	Venture Capital	19,500,000	6,836,700	-	6,518,005	(8.05%)
Thoma Cressey Fund VI, L.P.	1998	Corporate Finance/Buyout	5,000,000	4,845,000	1,125,961	2,569,690	(6.30%)
Thomas H. Lee Equity Fund IV, L.P.	1998	Corporate Finance/Buyout	7,000,000	6,218,907	1,895,785	4,423,786	0.33%
Thomas H. Lee Equity Fund V, L.P.	2000	Corporate Finance/Buyout	15,000,000	9,907,564	3,125,801	9,964,301	19.70%
TPG Partners III, L.P.	2000	Corporate Finance/Buyout	25,000,000	19,876,433	10,918,011	18,719,416	16.83%
TPG Partners IV, L.P.	2003	Corporate Finance/Buyout	25,000,000	5,925,795	356,196	5,247,995	(8.76%)
Trident Capital Fund V, L.P.	2000	Venture Capital	10,587,999	6,336,192	899,449	5,109,614	(2.73%)
Trident Capital Fund V, L.P. - Secondary	2000	Venture Capital	3,781,680	1,862,633	300,240	1,824,978	15.89%
Trident Capital Fund VI, L.P.	2005	Venture Capital	8,500,000	-	-	-	0.00%
VantagePoint Venture Partners IV, L.P.	2000	Venture Capital	15,000,000	8,100,000	1,337,361	5,728,936	(7.11%)
Vestar Capital Partners IV, L.P.	1999	Corporate Finance/Buyout	17,000,000	11,489,851	5,571,015	8,584,129	10.21%
Welsh, Carson, Anderson & Stowe IX, L.P.	2000	Corporate Finance/Buyout	15,000,000	10,800,000	3,959,027	9,176,187	9.08%
Welsh, Carson, Anderson & Stowe VII, LP	1995	Corporate Finance/Buyout	15,000,000	15,000,000	27,406,728	3,854,238	17.91%
Welsh, Carson, Anderson & Stowe VIII, L.P.	1998	Corporate Finance/Buyout	15,000,000	15,000,000	1,014,206	11,764,788	(3.17%)
Weston Presidio Capital IV, L.P.	2000	Venture Capital	15,000,000	9,474,751	1,741,382	7,314,041	(2.55%)
Weston Presidio Capital IV, L.P. - Secondary	2000	Venture Capital	2,826,000	1,699,256	352,977	1,482,547	10.63%
Whitney V, L.P.	2001	Corporate Finance/Buyout	10,000,000	7,971,348	3,435,271	8,986,148	26.24%
TOTAL PORTFOLIO:			**$ 872,304,403**	**$ 518,947,607**	**$ 297,333,379**	**$ 348,288,490**	**8.64%**

[1] Certain funds allow for reinvestment of capital and fees in excess of commitment, therefore, Paid-In Capital may exceed Capital Committed.

[2] Capital Distributed includes recallable returns of capital, which will increase the unfunded commitment.

LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM
PERFORMANCE SUMMARY BY CATEGORY
AS OF DECEMBER 31, 2004

	CAPITAL COMMITTED	PAID-IN CAPITAL [1]	PERCENTAGE CONTRIBUTED	CAPITAL DISTRIBUTED [2]	PERCENTAGE DISTRIBUTED	REPORTED MARKET VALUE	NET IRR
Investment Strategy							
Corporate Finance/Buyout	$ 517,368,461	$ 291,792,226	56.40%	$ 175,248,230	60.06%	$ 227,877,561	11.74%
Special Situation	134,440,263	86,308,458	64.20%	64,059,486	74.22%	44,239,497	8.05%
Venture Capital	220,495,679	140,846,922	63.88%	58,025,663	41.20%	76,171,432	(2.55%)
TOTAL PORTFOLIO:	**$ 872,304,403**	**$ 518,947,607**	**59.49%**	**$ 297,333,379**	**57.30%**	**$ 348,288,490**	**8.64%**
Vintage Year							
1995	$ 15,000,000	$ 15,000,000	100.00%	$ 27,406,728	182.71%	$ 3,854,238	17.91%
1996	30,000,000	29,367,008	97.89%	41,723,736	142.08%	10,679,922	13.48%
1997	45,000,000	46,280,417	102.85%	76,829,727	166.01%	21,700,157	26.80%
1998	72,000,000	69,182,619	96.09%	42,155,380	60.93%	43,929,756	5.53%
1999	183,340,263	145,322,466	79.26%	49,233,928	33.88%	75,786,593	(4.69%)
2000	170,945,679	114,048,090	66.72%	36,410,981	31.93%	97,383,843	8.26%
2001	69,550,000	47,298,459	68.01%	22,887,252	48.39%	40,786,445	19.88%
2002	20,000,000	6,727,099	33.64%	805	0.01%	6,111,599	(10.94%)
2003	72,000,000	18,664,188	25.92%	356,523	1.91%	21,562,721	31.44%
2004	127,968,461	27,057,261	21.14%	328,318	1.21%	26,493,216	(2.84%)
2005	66,500,000	-	0.00%	-	0.00%	-	N/A
TOTAL PORTFOLIO:	**$ 872,304,403**	**$ 518,947,607**	**59.49%**	**$ 297,333,379**	**57.30%**	**$ 348,288,490**	**8.64%**

[1] *Certain funds allow for reinvestment of capital and fees in excess of commitment, therefore, Paid-In Capital may exceed Capital Committed.*

[2] *Capital Distributed includes recallable returns of capital, which will increase the unfunded commitment.*

LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM
PRIVATE EQUITY BENCHMARKS
AS OF DECEMBER 31, 2004

CORPORATE FINANCE/BUYOUT NORTH AMERICA		
VINTAGE YEAR	NET IRR	POOLED AVG IRR [1]
1995	17.91%	8.70%
1996	7.66%	5.80%
1997	12.70%	8.70%
1998	3.20%	1.20%
1999	6.23%	5.80%
2000	13.31%	6.20%
2001	32.60%	9.80%
2002	(10.94%)	1.60%
2003	31.44%	19.80%
2004	2.26%	(32.00%)

SPECIAL SITUATION NORTH AMERICA		
VINTAGE YEAR	NET IRR	POOLED AVG IRR [1]
1995	N/A	21.40%
1996	N/A	23.60%
1997	N/A	14.10%
1998	N/A	5.60%
1999	(11.72%)	(1.50%)
2000	(8.95%)	(0.50%)
2001	N/A	6.80%
2002	N/A	6.50%
2003	N/A	15.50%
2004	N/A	(35.20%)

[1] Source: Venture Economics, 12/31/2004 Benchmarks. The benchmarks reflect pooled average returns from the vintage year to the latest available reported date in Venture Economics.

N/A - No investments made in the specified vintage year in the defined investment strategy.

LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM

PRIVATE EQUITY BENCHMARKS

AS OF DECEMBER 31, 2004

VENTURE CAPITAL NORTH AMERICA

VINTAGE YEAR	NET IRR	POOLED AVG IRR [1]
1995	N/A	61.70%
1996	N/A	86.40%
1997	91.10%	51.60%
1998	8.70%	14.60%
1999	(16.66%)	(11.00%)
2000	(2.50%)	(8.00%)
2001	(8.28%)	(5.20%)
2002	N/A	(7.10%)
2003	N/A	(7.70%)
2004	(10.78%)	(53.90%)

CORPORATE FINANCE/BUYOUT WESTERN EUROPE

VINTAGE YEAR	NET IRR	POOLED AVG IRR [1]
1995	N/A	38.00%
1996	23.93%	18.40%
1997	N/A	7.00%
1998	19.77%	7.20%
1999	9.84%	1.80%
2000	N/A	13.80%
2001	32.64%	1.90%
2002	N/A	(2.30%)
2003	N/A	3.90%
2004	4.74%	(62.70%)

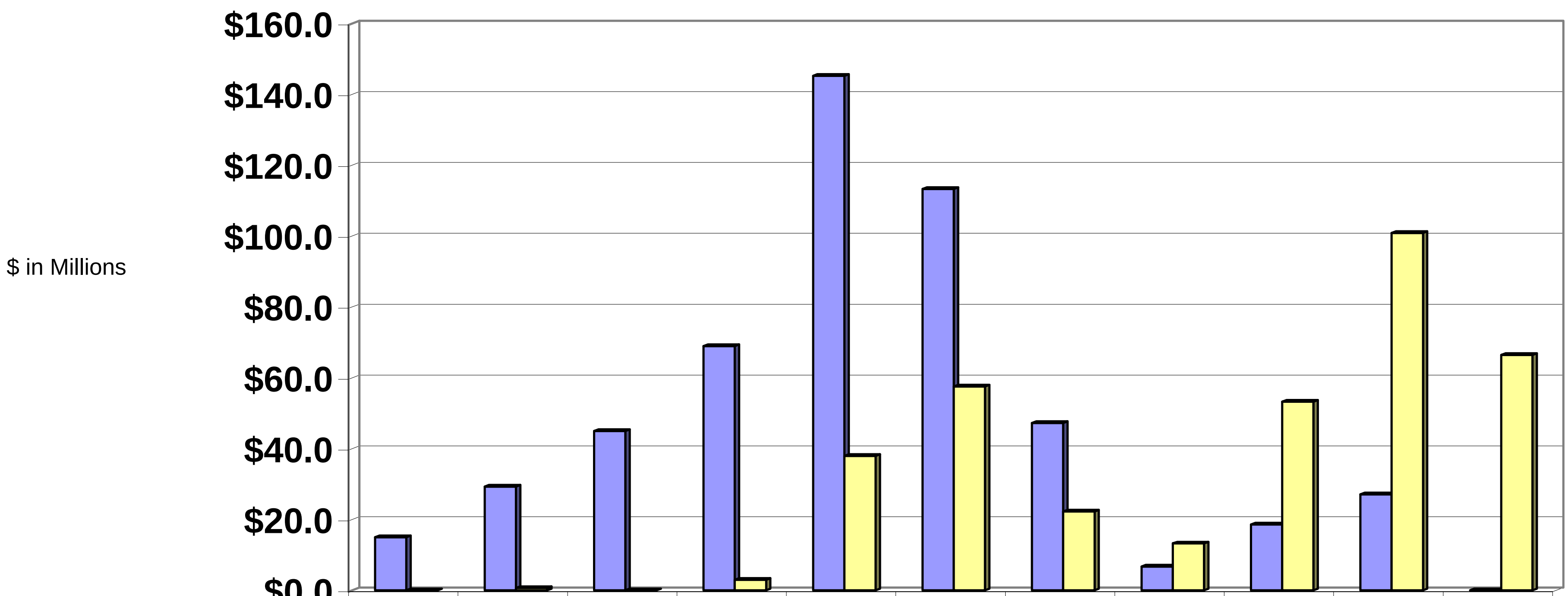
[1] Source: Venture Economics, 12/31/2004 Benchmarks. The benchmarks reflect pooled average returns from the vintage year to the latest available reported date in Venture Economics.

N/A - No investments made in the specified vintage year in the defined investment strategy.

SECTION 3

PORTFOLIO ANALYTICS

LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM
COMMITMENTS BY VINTAGE YEAR
AS OF DECEMBER 31, 2004



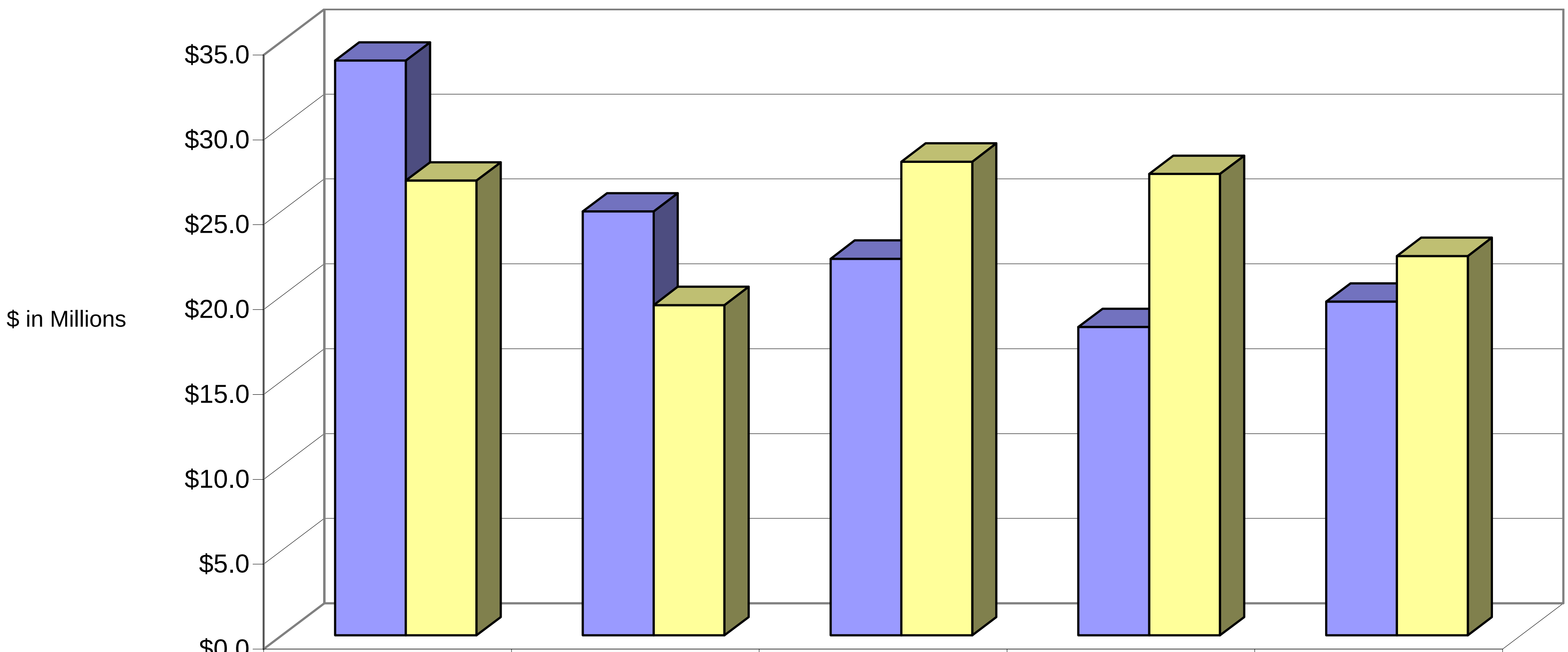
	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Funded Commitments	$15.0	$29.3	$45.0	$69.0	$145.3	$113.3	$47.3	$6.7	$18.7	$27.1	$0.0
Unfunded Commitments	$0.0	$0.7	$0.0	$3.0	$38.0	$57.6	$22.3	$13.3	$53.3	$100.9	$66.5

Notes: Funded Commitments exclude additional fees.
Unfunded commitment includes recallable returns of capital.

LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM

QUARTERLY CASH FLOW SUMMARY

AS OF DECEMBER 31, 2004

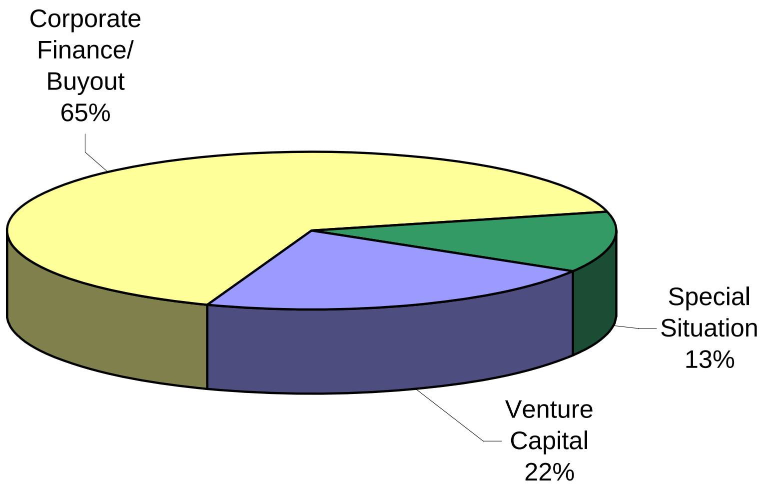


	4th Quarter 2004	3rd Quarter 2004	2nd Quarter 2004	1st Quarter 2004	4th Quarter 2003
Paid-In Capital	$33.9	$25.0	$22.2	$18.2	$19.7
Capital Distributed	$26.8	$19.5	$27.9	$27.2	$22.3

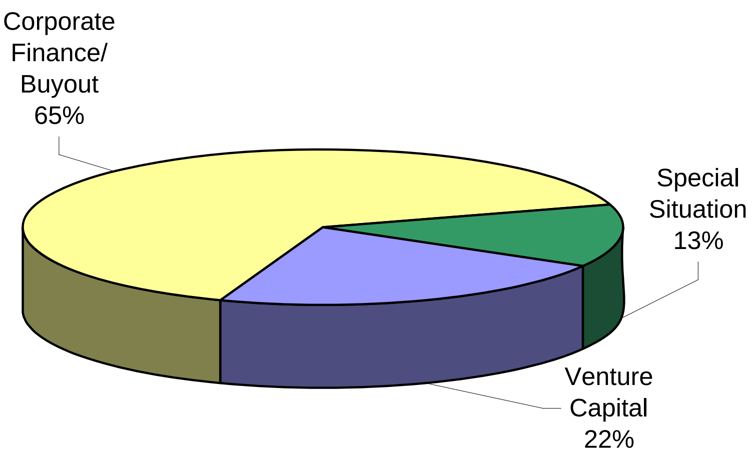
HAMILTON LANE

LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM
PORTFOLIO STRATEGIC DIVERSIFICATION

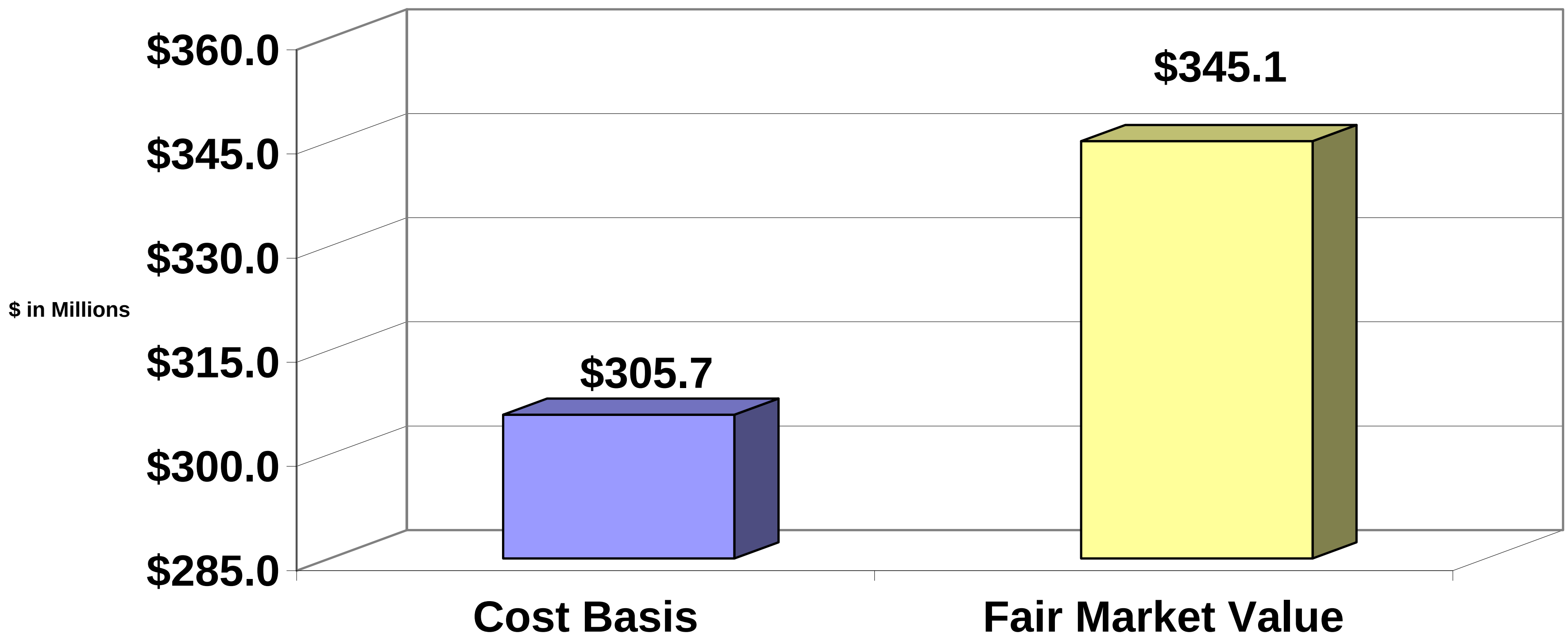
Reported Market Value
As of December 31, 2004



Total Exposure
As of December 31, 2004



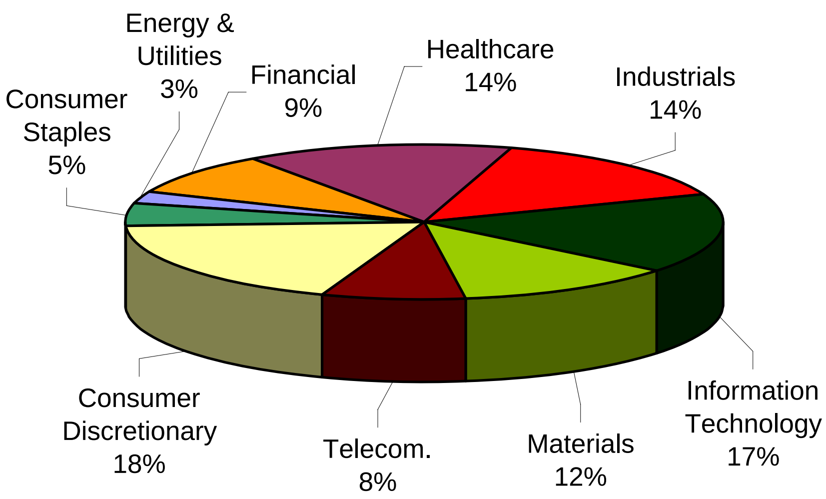
LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM
COST AND FAIR MARKET VALUE (EXPOSED MARKET VALUE)
OF PORTFOLIO HOLDINGS
AS OF DECEMBER 31, 2004



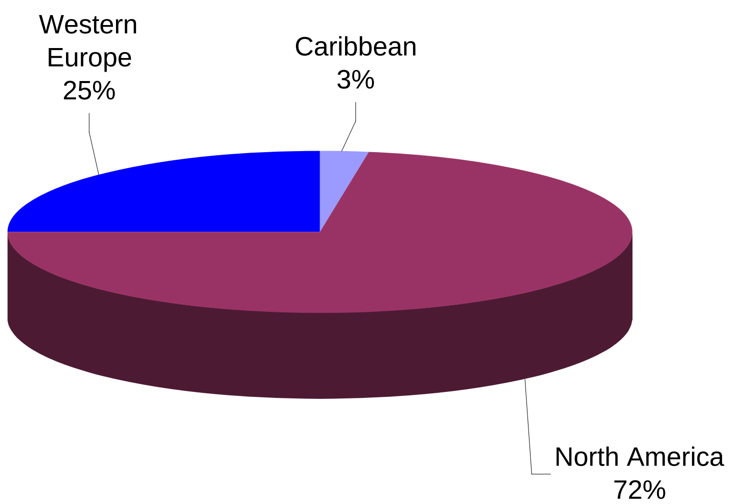
Note: Based on the reported market values provided by the general partners.

LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM
UNDERLYING INVESTMENT DIVERSIFICATION

Industry Diversification
As of December 31, 2004



Geograhphic Diversification
As of December 31, 2004



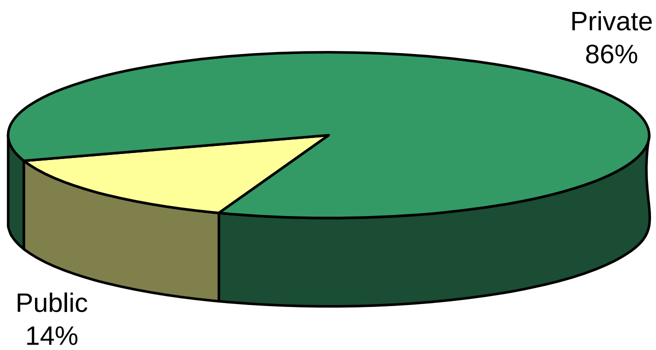
Note: Based on reported market values provided by the general partners.

LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM

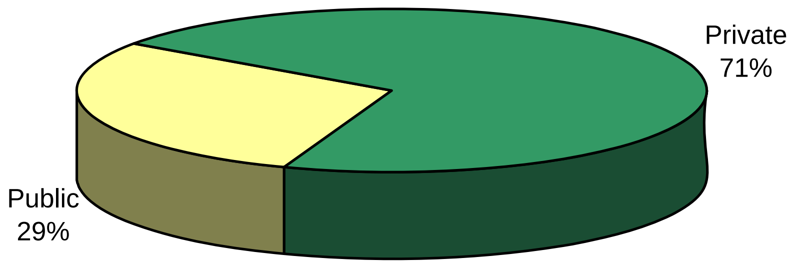
PUBLIC VS. PRIVATE HOLDINGS

AS OF DECEMBER 31, 2004

Based on Number of Companies



Based on Reported Market Value



Note: Based on reported market values provided by the general partners.

LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM
COST RECONCILIATION
FOR THE QUARTER ENDED DECEMBER 31, 2004

INVESTMENT NAME	BEGINNING COST BASIS	CAPITAL CONTRIBUTED	ADDITIONAL FEES	RETURN OF PRINCIPAL	ENDING COST BASIS	ORDINARY INCOME	REALIZED GAIN/(LOSS)	REPORTED MARKET VALUE
Alchemy Investment Plan (LACERS)	$ 17,170,444	$ 248,927	-	$ 237,792	$ 17,181,579	$ 54,581	$ 13,275	$ 19,023,794
Apollo Investment Fund IV, L.P.	3,377,119	-	-	325,059	3,052,060	-	563,966	4,811,512
Austin Ventures VII, L.P.	12,838,852	927,273	-	273,062	13,493,063	-	772,961	8,333,064
Austin Ventures VIII, L.P.	3,382,137	600,000	-	-	3,982,137	-	-	3,457,397
Carlyle Partners IV, L.P.	-	-	-	-	-	-	-	-
CGW Southeast Partners III, L.P.	6,533,110	-	-	-	6,533,110	-	-	3,536,443
CGW Southeast Partners IV, L.P.	8,330,241	-	-	-	8,330,241	-	-	5,886,770
Chisholm Partners IV, L.P.	7,882,214	73,679	-	551,911	7,403,983	520	-	4,110,299
CHS Private Equity V, L.P.	-	-	-	-	-	-	-	-
CVC European Equity Partners II, L.P.	4,678,948	-	-	313,580	4,365,368	108,919	1,304,287	8,249,307
CVC European Equity Partners III, L.P.	8,610,976	226,288	-	522,567	8,314,697	97,922	488,910	12,124,038
CVC European Equity Partners, LP	3,919,478	-	-	325,417	3,594,062	87,643	142,535	5,459,704
Essex Woodlands Health Ventures Fund IV, L.P.	3,465,448	-	-	140,682	3,324,765	-	60,178	2,661,898
Essex Woodlands Health Ventures Fund V, L.P.	5,609,014	500,000	-	-	6,109,014	-	-	5,225,201
Essex Woodlands Health Ventures Fund VI, L.P.	1,972,500	-	-	-	1,972,500	-	-	1,840,959
First Reserve Fund X, L.P.	-	2,358,079	-	-	2,358,079	-	-	2,288,000
Golder, Thoma, Cressey & Rauner Fund V, LP	8,452,178	-	-	-	8,452,178	-	-	6,623,044
Golder, Thoma, Cressey & Rauner Fund VI, L.P.	8,970,873	-	-	-	8,970,873	-	-	3,481,714
Golder, Thoma, Cressey & Rauner Fund VII, L.P.	15,339,197	-	-	966,592	14,372,605	-	2,067,379	15,275,188
Golder, Thoma, Cressey & Rauner Fund VII-A, L.P.	2,888,355	140,625	-	91,267	2,937,713	-	133,028	4,572,913
Golder, Thoma, Cressey & Rauner Fund VIII, L.P.	4,550,000	-	-	-	4,550,000	-	-	6,271,742
Hellman & Friedman Capital Partners V, L.P.	-	703,063	-	-	703,063	-	-	688,470
InterWest Partners VI, L.P.	3,958,690	-	-	293,449	3,665,241	-	86,358	1,617,286
J.H. Whitney IV, L.P.	20,500,917	-	-	1,074,232	19,426,684	-	79,616	3,265,598
Kelso Investment Associates VI, L.P.	2,723,847	-	-	-	2,723,847	-	-	1,867,951
Kelso Investment Associates VII, L.P.	146,417	268,731	-	0	415,148	185	195	276,913
KKR 1996 Fund, LP	14,183,182	-	$ 6,764	164,967	14,018,215	63,819	405,979	12,650,464
Madison Dearborn Capital Partners III, L.P.	12,453,228	-	-	805,142	11,648,086	319,908	-	12,202,232
Madison Dearborn Capital Partners IV, L.P.	9,280,994	2,787,413	-	366,959	11,701,447	193,639	-	11,657,980
Menlo Ventures IX, L.P.	10,000,000	1,000,000	-	-	11,000,000	-	-	9,246,817
Menlo Ventures VII, L.P.	3,234,961	250,000	-	-	3,484,961	-	-	809,363
Menlo Ventures VIII, L.P.	13,836,169	-	-	-	13,836,169	-	-	4,204,345
Nautic Partners V, L.P.	7,624,438	332,648	-	863,715	7,093,371	4,033	(0)	5,905,453
Nordic Capital V, L.P.	1,651,307	3,509,327	-	-	5,160,634	-	-	5,346,031
OCM Opportunities Fund II, L.P.	2,811,940	-	-	1,026,631	1,785,309	-	-	4,099,110
OCM Opportunities Fund III, L.P.	1,814,781	-	-	0	1,814,781	796,751	(0)	2,644,980
OCM Opportunities Fund IV, L.P.	2,967,041	-	-	0	2,967,041	828,411	(0)	2,399,132
OCM Opportunities Fund V, L.P.	2,130,000	1,952,500	-	-	4,082,500	-	-	4,372,954
OCM Opportunities Fund, LP	1,379,215	-	-	0	1,379,215	283,459	(0)	1,683,775
Olympus Growth Fund IV, L.P.	1,377,898	774,148	-	-	2,152,046	-	-	2,020,176
Onex Partners, L.P.	2,607,455	3,419,267	-	0	6,026,722	200	(0)	8,022,808
Permira Europe III	3,035,982	2,492,655	-	320,157	5,208,480	-	-	5,161,884
Providence Equity Partners V, L.P.	-	-	-	-	-	-	-	-
Resolute Fund, L.P.	4,681,846	2,045,253	-	-	6,727,099	-	-	6,111,599
Richland Ventures III, L.P.	13,313,547	900,000	-	-	14,213,547	-	-	7,531,382
TCV V, L.P.	4,212,000	2,624,700	-	-	6,836,700	-	-	6,518,005
Thoma Cressey Fund VI, L.P.	4,547,681	-	-	-	4,547,681	-	-	2,569,690
Thomas H. Lee Equity Fund IV, L.P.	5,176,188	-	-	215,619	4,960,569	13,535	-	4,423,786
Thomas H. Lee Equity Fund V, L.P.	8,347,202	24,800	-	980,810	7,391,192	848,607	-	9,964,301

LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM
COST RECONCILIATION
FOR THE QUARTER ENDED DECEMBER 31, 2004

INVESTMENT NAME	BEGINNING COST BASIS	CAPITAL CONTRIBUTED	ADDITIONAL FEES	RETURN OF PRINCIPAL	ENDING COST BASIS	ORDINARY INCOME	REALIZED GAIN/(LOSS)	REPORTED MARKET VALUE
TPG Partners III, L.P.	15,402,289	696,345	-	11,744	16,086,890	-	1,063,889	18,719,416
TPG Partners IV, L.P.	4,600,095	980,979	-	-	5,581,074	-	-	5,247,995
Trident Capital Fund V, L.P.	5,505,771	529,400	-	65,559	5,969,613	-	460,270	5,109,614
Trident Capital Fund V, L.P. - Secondary	1,602,949	189,084	-	23,415	1,768,617	-	164,408	1,824,978
Trident Capital Fund VI, L.P.	-	-	-	-	-	-	-	-
VantagePoint Venture Partners IV, L.P.	6,962,976	1,050,000	-	258,160	7,754,816	-	695,007	5,728,936
Vestar Capital Partners IV, L.P.	8,861,465	517,411	-	754,438	8,624,438	117,280	742,688	8,584,129
Welsh, Carson, Anderson & Stowe IX, L.P.	8,669,539	-	-	151,973	8,517,567	18,783	-	9,176,187
Welsh, Carson, Anderson & Stowe VII, LP	9,241,322	-	-	143,212	9,098,110	-	446,343	3,854,238
Welsh, Carson, Anderson & Stowe VIII, L.P.	14,850,000	150,000	-	341,781	14,658,219	51,787	339,651	11,764,788
Weston Presidio Capital IV, L.P.	7,565,179	1,312,591	-	205,389	8,672,381	7,163	274,447	7,314,041
Weston Presidio Capital IV, L.P. - Secondary	1,312,188	266,061	-	42,833	1,535,416	1,452	54,429	1,482,547
Whitney V, L.P.	5,846,647	-	-	23,042	5,823,605	657,940	(0)	8,986,148
TOTAL PORTFOLIO:	**$ 376,388,431**	**$ 33,851,247**	**$ 6,764**	**$ 11,881,159**	**$ 398,358,519**	**$ 4,556,537**	**$ 10,359,797**	**$ 348,288,490**

APPENDIX A

GLOSSARY OF TERMS

GLOSSARY OF TERMS

ADDITIONAL FEES: The amount of capital an investor pays into a fund/investment that does not count against the investors' commitment. Additional fees typically consist of management fees or late-closing interest expense.

CAPITAL COMMITTED: An investor's financial obligation to provide a set amount of capital to the investment.

CAPITAL CONTRIBUTED: Capital contributed from an investor's capital commitment to fund partnership investments, organizational expenses and management fees.

CAPITAL DISTRIBUTED: Cash or stock disbursed to the investors of an investment.

CO/DIRECT INVESTMENT: A direct investment is a purchased interest of an operating company. A co-investment is a direct investment made alongside a partnership.

CORPORATE FINANCE/BUYOUT: Funds seeking to make controlling and non-controlling investments in established companies which have the potential to achieve greater value through improved performance.

COST BASIS: Capital contributions less return of principal.

FUND-OF-FUNDS: An investment vehicle which invests in other private equity partnerships.

FUND/INVESTMENT SIZE: The total amount of capital committed by investors to a fund.

INVESTMENT CATEGORY: Used to identify investments in one of the following categories: co/direct investments, fund-of-funds, primary funds, secondary fund-of-funds or secondary purchases.

INVESTMENT STRATEGY: A sub-classification of a partnership's investment type, such as Co/Direct Investment, Corporate Finance/Buyout, Mezzanine, Real Estate, Special Situation, Venture Capital.

LIFE CYCLE PERIOD: The current stage of a partnership depending on the percentage contributed to date. Life cycle periods are investment and realization.

MEZZANINE: An investment strategy involving the purchase of subordinated debt. These securities exist between the senior debt and equity of a holding's capital structure. Subordinated debt carries a lower level of risk than pure equity structures because they generate current income and have a more senior position in the company's capital structure.

NET INTERNAL RATE OF RETURN ("IRR"): The discount rate that equates the net present value of the partnership's cash outflows with its inflows and residual value at the time of calculation. The calculation is net of management fees and the general partner's carried interest.

ORIGINATOR: The institution responsible for recommending a client commit to an investment.

GLOSSARY OF TERMS

OWNERSHIP PERCENTAGE: The investor's percent of ownership as measured by capital committed divided by fund/investment size.

PAID-IN CAPITAL: The amount of capital an investor has contributed to a partnership, which includes capital contributions and additional fees.

POOLED AVERAGE IRR: An IRR calculation which aggregates cash flows (paid-in capital and capital distributed) and the reported market values of each investment within a portfolio to create one portfolio investmen and return.

PORTFOLIO HOLDING EXPOSURE: The limited partner's pro rata allocation to an underlying investment based on the its ownership percentage of the partnership.

PRIMARY FUND: Defines when the investor acquired an interest in the partnership. Primary fund is the investment category when an investor participates in a closing at the inception of the partnership.

PRIVATE EQUITY PARTNERSHIP: A professionally managed pool of capital that generally invests in unlisted companies or securities. Common investment strategies include corporate finance/buyout, mezzanine, special situations and venture capital.

REALIZED MULTIPLE: Ratio of cumulative distributions to paid-in capital.

RETURN ON INVESTMENT ("ROI"): A calculation based on the total value (market value plus distributions) divided by paid-in capital for an investment.

REPORTED MARKET VALUE: The investment's capital account balance at quarter end, which includes the general partner's reported value of the underlying holdings and other assets and liabilities.

SECONDARY FUND-OF-FUNDS: A private equity vehicle formed to purchase active partnership interests from an investor.

SECONDARY PURCHASE: A purchase of an existing partnership interest or pool of partnership interests from an investor.

SPECIAL SITUATION: Partnerships that invest using a unique strategy. Examples include distressed and turnaround, industry focused and multi-stage partnerships.

TOTAL EXPOSURE: Calculated by the summation of market value and unfunded commitments.

VENTURE CAPITAL: An investment strategy that provides start-up or growth capital to companies in the early stages of development. Venture investments generally involve a greater degree of risk, but have the potential for higher returns.

VINTAGE YEAR: The year in which a partnership makes its first capital call for an investment into a portfolio company/holding.