Section 2.0 ASSET CLASSES AND STRATEGIES

2.1 ALTERNATIVE INVESTMENT POLICY

Revised: July 7, 2009

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Section 2.0 ASSET CLASSES AND STRATEGIES

I. Introduction

Included in the Los Angeles City Employees' Retirement System ("LACERS") Investment Policy dated June 24, 2008 the Alternative Investment Guidelines Investment Policy ("Alternative Investments Policy"). This Policy sets forth enhanced guidelines that provide a general framework for selecting, building, and managing LACERS's investments in private equity, including corporate finance/buyout, special situations (including distressed debt, distressed turnaround and mezzanine strategies), and venture capital partnerships.

II. Investment Objectives

A. Return

On a relative basis, the return objective for the Portfolio is 400 bps over the Russell 3000 Index net of fees, expenses, and carried interest.

LACERS understands that, for a given partnership, return can only be reliably measured over the life of the partnership (usually 10 or more years). Typically, the valuation methodology used by one general partner may differ from the valuation methodology used by another. Additionally, the IRR performance in the first few years of a partnership's life is routinely negative due to the J-curve effect. During this period, partnerships are actively making investments and drawing management fees, which results in negative capital account balances.

B. Risk

LACERS understands that private equity investments are illiquid and will have a long-term holding period. When used with publicly traded assets, the asset class helps diversification and reduces risk at the total fund level. Nonetheless, LACERS expects that Hamilton Lane will take all appropriate measures to reduce risks that are not adequately compensated for by expected return. Such measures include, but are not necessarily limited to, diversification (as detailed in Section IV.C of the Alternative Investments Policy), due diligence, and governance activities.

III. Scope

LACERS has a target allocation of 8% to private equity in 2009. The alternative investment plan is split between the traditional "core" portfolio and the specialized non-traditional portfolio ("carve-out") portfolio. The "carve-out" portfolio is covered under a separate policy.

Hamilton Lane was engaged by LACERS in January 2005 to select new investments, to monitor existing investments, and to provide advice in accordance with the investment objectives for the traditional "core" alternative portfolio. This policy establishes the framework for the continued development of the alternative portfolio. Hamilton Lane will be evaluated annually as consultant and investment manager for LACERS traditional "core" portfolio based upon the following: portfolio performance; quality of analytical and technical work, and expertise in the private equity asset class; responsiveness to requests from the Board and staff; availability to attend Board meetings and meetings with staff with reasonable advance notice; consulting and advising on LACERS' portfolio, including information on selected private equity related topics; identifying and mitigating risks; proactively informing staff of new investment opportunities or risks in the marketplace. The annual evaluation will be treated confidentially with open communication.

Hamilton Lane has full Discretion to buy, sell, or otherwise effect investment transactions “within a box,” for all new investments up to and including $25 million and for all existing investments up to and including $40 million (see Attachment 1). Recommendations that exceed those amounts must be presented by Hamilton Lane to LACERS staff and Board for approval.

IV. Investment Guidelines

A. Eligible Investments

LACERS will invest in Top Tier limited partnership interests of pooled vehicles covering the broad spectrum of private investments as follows: .

1. Private equity partnerships – including corporate finance/buyout, special situations and venture capital. Special situation is a broad investment strategy, which includes mezzanine and distressed debt partnerships, fund-of-funds (both direct and secondary), industry-focused and multi-stage “generalist” partnerships;

2. Co-investments – direct investments made alongside a partnership;

3. Direct Secondary Purchases – purchases of existing partnership interest or pool of partnership interests from an investor;

4. Other investments that are deemed appropriate within LACERS’ risk profile.

B. Limitation on Percent of Partnership’s Total Commitment

LACERS’ commitment to any given partnership shall not exceed 20% of that partnership’s total commitments without the Board of Administration’s (“the Board’s”) approval.

C. Diversification

Hamilton Lane, on behalf of LACERS, will diversify the following sources of risk in the portfolio.

1. **Partnerships**

   a. No more than 15% of the portfolio’s total exposure (market value plus unfunded commitments) to private equity may be attributable to partnerships by the same manager at the time the commitment is made.
   b. Hamilton Lane shall diversify the portfolio across vintage years when possible.
   c. The geographic distribution of actual investments shall be monitored, and Hamilton Lane shall avoid excessive exposure to the economic conditions of any one locale.

Hamilton Lane shall monitor investments with respect to industry. In the event that the current cost-basis associated with a single industry exceeds 25%, Hamilton Lane shall attempt to reduce this exposure by limiting future commitments to partnerships with an explicit focus on the industry in question and with the understanding that industry exposure at an investment level will be managed at the discretion of the general partner.

2. **Sub-Asset Classes**

a. Assets committed to venture capital shall be diversified across the stages of venture capital (e.g., early-stage, mid-stage, and late-stage).

b. Assets committed to corporate finance/buyouts shall be diversified by target company size (e.g., mega, large, mid, and small).

In addition to the Diversification criteria listed above, LACERS' Board along with Hamilton Lane will adopt optimal sub-asset allocation targets, which will be updated periodically to reflect general changes in the economy.

The current optimal sub-asset class allocation ranges and targets for LACERS' private equity investments are as follows:

Sub-Asset Class	Range	Long-Term Target
Corporate Finance/Buyout	60-75%	65%
Special Situations	10-25%	20%
Venture Capital	5-15%	15%

D. Prohibited Transactions

LACERS shall not make direct investments in any company. These investments will be done through a comingled partnership, in which LACERS is an existing limited partner.

E. Illiquidity

By its nature, private equity investments are not designed to meet any short-term liquidity needs of LACERS. The investments in this asset class should be considered illiquid until the partnerships, at their discretion, sell investments and distribute proceeds.

F. Distribution

Hamilton Lane is not responsible for investing or disposing of distributions from partnerships.

VI. REVIEW OF INVESTMENT GUIDELINES

Hamilton Lane will notify LACERS if the Guidelines would impede LACERS' investment performance. In this regard, Hamilton Lane may consider the guidelines and other relevant information adopted by its other clients who invest in alternative investments. Hamilton Lane will also review the guidelines annually and present a strategic plan to the Board.

VI. HAMILTON LANE SERVICES

A. Monitoring

Hamilton Lane has developed a proactive investment-monitoring program, permitting it to take an "activist" role in representing its clients' interests. The program consists of frequent and regular phone calls with the general partner groups, periodic visits to their offices (or requests to have them visit Hamilton Lane's offices), attendance at annual meetings, and attendance at advisory board meetings.

Hamilton Lane currently sits on more than 110 advisory boards on behalf of its clients. As a member of an advisory board for a fund in which LACERS invests, Hamilton Lane shall pursue the overall best interests of its clients, collectively, with investments in the fund. Any relevant information arising from LACERS' funds advisory board meetings will be shared on a confidential basis. In serving as a member of an advisory board for a fund in which LACERS invests, Hamilton Lane at all times will have due regard for its contractual and fiduciary duties to all clients invested in the fund. Hamilton Lane will not favor or disfavor, consistently or consciously, any client or class of clients in relation to LACERS. An advisory board position can provide significant insight into the activities and philosophy of a general partner group. It can also be useful to ensure that the general partner recognizes the concerns and interests of institutional clients. While it may be beneficial for an institutional investor to hold advisory board positions, it is not always possible due to the desire to limit the seats to a small number of investors. Hamilton Lane is viewed as a conduit to multiple investors and is often requested to serve on these boards, providing significant added value to its clients. Generally, an advisory board approves the valuation methodology of the partnership on a periodic basis. Hamilton Lane also advises the general partner in its capacity as an advisory board member and thereby helps protect its clients' interests.

B. Reporting

Hamilton Lane takes a customizable approach that takes into consideration the needs of each client. Hamilton Lane does have a core service offering that includes the day-to-day monitoring and reporting upon information made available to the underlying general partner, but the needs or requirements of a client dictate the services it provides.

Reports are prepared on quarterly basis and include various performance and diversification analytics, as well as a summary of all portfolio activity. Standard analytics include strategy and vintage year diversification analyses, geographic and industry diversification analyses, performance return calculations, and attribution on a since-inception and point-to-point basis. Hamilton Lane can also measure these returns against public and private equity benchmarks. The content of the reports is largely customizable to meet each client's individual needs.

Additionally, Hamilton Lane has a proprietary Web-based reporting system to provide clients with 24/7 online access to their portfolios. The Hamilton Lane Portfolio Reporting System ("PRS") allows clients to view information via the Internet through a secure site maintained in Hamilton Lane's server environment. PRS provides point and click access to partnership and portfolio company information and allows the user to generate various reports that may be downloaded into Excel for analysis and Board presentations.

Clients also have access to ClientLink, our proprietary web-based document delivery and storage portal, which provides clients with access to much of the information that Hamilton Lane delivers via email and mail. It serves as an online file cabinet for information pertaining to a client's portfolio, stored in a PDF format, and available through an easily navigated Website. The ClientLink application resides alongside PRS on a secure platform accessible via the Hamilton Lane Website. Clients can log into both ClientLink and PRS simultaneously and toggle between the two systems with ease.

C. Due Diligence

Hamilton Lane's due diligence process is multi-tiered and places significant emphasis on those elements of risk and financial analysis that distinguish private equity from the more conventional asset classes. The same thorough and time-tested process is utilized for every opportunity regardless of prior investments with the general partner. Hamilton Lane's due diligence approach ensures that every important area of analysis is thoroughly reviewed and also provides the flexibility to discover new and/or unique areas of potential concern and opportunity. Whenever possible, Hamilton Lane will invite LACERS' staff to join Hamilton Lane for on-site due diligence events for funds that are being considered for LACERS' account.

Hamilton Lane's due diligence process has five basic steps with its Investment Committee involved in each step. The five steps are as follows:

1. **Screening**: An initial screening of the PPM identifying potential merits and issues of the partnership is created and presented to the Investment Committee. It is important to note that all PPMs received are screened and presented to the Investment Committee.

2. **Initial GP Meeting**: A meeting is held with the fund manager in Hamilton Lane's offices, allowing members of the investment team to ask questions regarding the group's investment philosophy, process, and view of the market opportunity. Meeting notes are presented to the Investment Committee.

3. **Questionnaire**: If Hamilton Lane elects to move forward, a detailed questionnaire is issued to the general partner for completion. The response to the questionnaire will form the basis of the full due diligence report

4. **Site Visit**: Hamilton Lane will conduct a site visit at the fund manager's office to go through, in detail, its track record, portfolio companies, and investment strategy/philosophy. Furthermore, this allows Hamilton Lane to meet and evaluate the entire team.

5. **Final Investment Report:** This report is the culmination of all preceding efforts and provides detail on the manager's performance, merits, issues, and extensive portfolio analytics. This report is presented to Hamilton Lane's Investment Committee for the final approval or rejection of the investment opportunity.

Additionally, extensive reference calls are made as part of the due diligence process, including calls to senior executives from current and former portfolio companies and sources not listed by the general partners. Reference calls allow Hamilton Lane to develop an understanding of the character of the individuals that comprise the general partner. Hamilton Lane maintains a large number of industry contacts that help, further, insight into a general partner; including previous investors and other general partner groups. As part of LACERS due diligence process Hamilton Lane will adhere to LACERS Disclosure Policy (see Attachment 2).

During the due diligence process the General Partnership will be advised of LACERS Marketing Cessation Policy (see Attachment 3).

Upon completion of each step of the due diligence process, the partnership is presented to the Committee for approval or rejection before moving to the next stage of due diligence. This process provides the Committee with a very broad market perspective of partnerships in all different strategies of the private equity market. The process also allows for consensus building that addresses issues or concerns that may arise from Committee members as the potential investment makes its way through the process. A final approval of an investment requires majority approval from the Committee; hence, this procedure reduces the chance that any issues are not addressed before making it to the final stage of approval.

D. Legal

Hamilton Lane commits significant time negotiating all investment and legal terms in the partnership documents on behalf of its clients. Hamilton Lane has a full-time in-house legal team with extensive experience in partnership negotiations that reviews economic and legal terms of new investments in comparison with the most recent standard market terms. Hamilton Lane, through the negotiation process, focuses on the management fee and partnership expenses, certain investment diversification and concentration terms, priority of distributions and carried interest (including the general partner's clawback and credit support), limitations on a general partner's authority, no-fault divorce and "for cause" termination rights, and key man terms. Additionally, Hamilton Lane scrutinizes client-specific issues such as FOIA disclosure, ERISA, and unrelated business taxable income. Hamilton Lane looks for opportunities to enhance limited partnership positioning for each of their representative clients.

Since many of the key partnership negotiations occur prior to the first closing, an important aspect of the negotiation process is active participation at that time. Because of the scale of Hamilton Lane's investments on behalf of its clients, it is often a significant participant in first closing negotiations. Based on that position and on its knowledge, persistence, and attention to detail, Hamilton Lane usually is able to improve partnership terms for its clients.

VII. GLOSSARY OF TERMS

The following is a list of commonly used terms in Alternative Investments and their respective definitions.

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 expenses.

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 and partnership expenses.

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

CO-INVESTMENT: A co-investment is a direct investment made alongside a partnership.

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

COST BASIS: Capital contributions less return of principal.

DIRECT INVESTMENT: A direct investment is a purchased interest of an operating company.

FUND-OF-FUNDS: An investment vehicle that 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- investments, 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-investment, direct investment, corporate finance/buyout, mezzanine, real estate, special situation, or venture capital.

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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.

OWNERSHIP PERCENTAGE: The investor's percent of ownership as measured by capital committed divided by fund or 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 that aggregates cash flows (paid-in capital and capital distributed) and the reported market values of each investment within a portfolio to create one portfolio investment and return.

PORTFOLIO HOLDING EXPOSURE: The limited partner's pro-rata allocation to an underlying investment based on 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.

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

TOP TIER FUND: A fund managed by a general partner that has a demonstrated track record of superior performance measured against its peers by its given strategy or a fund managed by a general partner that, based on Hamilton Lane's extensive expertise, has the requisite skill set and market opportunity to prospectively produce superior performance compared to its peers by a given strategy.
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.

Section 2.0 ASSET CLASSES AND STRATEGIES

Attachment 1: LACERS Alternative Investment Policy – Discretion in a Box (Rev. 07-07-09)

	Role of Board	Role of Staff	Role of Hamilton Lane
Strategy/Policy	• Select alternative investments consultant. • Approve asset class funding level. • Annually review, provide input, and adopt investment policies, procedures, guidelines, allocation targets, ranges, and other assumptions.	• With Hamilton Lane and PCA, develop policies, procedures, guidelines, allocation, targets, ranges, assumptions for recommendation to the Board.	• With staff and PCA, develop policies, procedures, guidelines, allocation targets, ranges, assumptions, for recommendation to the Board.
Investment Selection	• Review investment analysis reports. • Interview and approve investments in new management groups of amounts greater than $25 million prior to investment. • Interview and approve investments in follow-on partnerships of amounts greater than $40 million prior to investment.	• Review investments to Hamilton Lane for preliminary screening. • Conduct meetings with potential new investments prior to recommending to the Board, if practical • In conjunction with Hamilton Lane, invest up to $25 million for new partnerships, and up to $40 million for follow-on funds without Board approval. If staff opposes, refer to the Board for decision. • In conjunction with Hamilton Lane, make recommendations to Board for approval for investments over $25 million in new partnerships, or over $40 million in follow-on funds. • Execute agreements.	• Conduct extensive analysis and due diligence on investments. • Recommend for Board approval investments over $25 million for new managers, or over $40 million in follow-on funds. • With staff concurrence, approve investment of up to $25 million for new partnerships, and up to $40 million in follow-on funds. • Provide investment analysis report for each new investment. • <u>Communicate with staff regarding potential opportunities undergoing extensive analysis and due diligence.</u> • <u>Coordinate meetings between staff, Board and general partner upon request.</u> • Negotiate legal documents.
Investment Monitoring	• Review quarterly, annual, and other periodic monitoring reports.	• Review quarterly, annual and other periodic monitoring reports prepared by Hamilton Lane. • Conduct meetings with existing managers periodically. • Attend annual partnership meetings when appropriate. • Fund capital calls and distributions. • Review Hamilton Lane's recommendations on amendments. • Execute amendments to agreements.	• Maintain regular contact with existing managers in the portfolio to ascertain significant events within the portfolio. • Recommend amendments to staff for approval. • Provide quarterly, annual, and other periodic monitoring reports.

Attachment 2

THIRD PARTY MARKETING AND REFERRALS DISCLOSURE POLICY

Firms submitting investment proposals for consideration by LACERS are hereby required to disclose the identity of all third-party marketers and/or individuals by whom the Firm has been referred to LACERS, and further indicate those so identified that stand to receive fees or other considerations in the event that a contact between the Firm and LACERS is secured.

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MARKETING CESSATION POLICY

Adopted: April 24, 2007; Revised June 10, 2014

Purpose
The purpose of this policy is to ensure a transparent and fair contracting process which provides equal information and opportunity to all parties interested in contracting with LACERS. The policy helps prevent, and avoid the appearance of, undue influence on the Board or any of its Members in the award of investment related and other service contracts by placing restrictions on communications between parties seeking contracts and those involved in contract award and the contract process.

Parties Affected
Any firm or representative seeking a contract or contract extension/renewal with LACERS is a "Restricted Source" as defined by the City's Governmental Ethics Ordinance, and is subject to this policy.

Any Board Member, Staff member, City Attorney, LACERS consultant, or anyone working on LACERS' behalf which has any privileged information about the potential contract is subject to this policy.

Notification
All firms responding to a Request for Proposal are notified of the Department's Marketing Cessation Policy through the Request for Proposal solicitation. All firms whose contracts are approaching expiration are additionally notified of the Marketing Cessation Policy through their contract provisions.

Restricted Period
Restrictions apply from the time the Request for Proposal is released until a contract is executed.

Restrictions:

Communication Restrictions
All firms that are potential candidates for the award of a contract, or extension of an existing contract, are prohibited from engaging in any direct or indirect marketing of their services except through the process set forth in the Request for Proposal. This includes a prohibition on conversations about the contract or the process to award it, but does not exclude conversations with restricted sources about generic topics at group social events, educational seminars, conferences, or charitable events.

Communications with firms who currently have contracts with LACERS are acceptable when they are related to the performance of the existing contract.

Gift Restrictions
In addition to all other applicable gift restrictions, Board Members and Staff will accept no entertainment or gifts of any kind from any Restricted Source, or intermediary, during the restricted period. An incumbent firm is also restricted from providing any type of gift or entertainment to Board Members or Staff during the three months prior to renewal of the existing contract or during the restricted period, whichever is longer.

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Proposer Disclosure
All Proposers shall provide the following disclosures with their RFP response. All recommendations to the Board to award a contract shall include a copy of such disclosures:

6. All respondents are required to submit a statement listing all contacts with Board Members, Staff, and Consultants during the restricted period.
7. All respondents shall provide information regarding any personal or business relationship between their personnel and any Member of the Board, Staff of LACERS, or Consultants who are designated as Form 700 filers in the Department's Conflict of Interest Code.
8. All respondents shall disclose any payments for marketing or placement services to any person, firm, or entity to assist in seeking the LACERS contracting opportunity.

Penalties
Any failures to disclose, or false disclosures, are a violation of this policy shall result in automatic disqualification of the firm involved.

This policy shall be reviewed by the Board every three years or earlier if necessitated by a change in local, State, or Federal statutes.

Section 2.0 ASSET CLASSES AND STRATEGIES

2.2 SPECIALIZED, NON-TRADITIONAL ALTERNATIVE INVESTMENT POLICY

Revised: July 14, 2009

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I. Introduction

This document sets forth the investment policy ("the Policy") for the Los Angeles City Employees' Retirement System's ("LACERS" or "the System") Specialized Alternative, Non-Traditional Investment Program, ("the Program"). This Policy is designed to ensure that managers, consultants, or other Program participants selected by LACERS are prudently selected and monitored to ensure the highest probability of the Program's success. This Policy provides assurance that there is sufficient flexibility in controlling the investment risks and returns associated with this segment of the portfolio.

The Program is designed to identify and to participate in alternative investment opportunities that are outside of its traditional private equity program.

II. Strategic Objective

The strategic objective of the Specialized Alternative Investment Program is to broaden the opportunity set of the System's investment portfolio to include opportunities not available in traditional private equity investments. Specialized alternative investments are expected to achieve attractive risk-adjusted returns that complement LACERS' traditional private equity program. Specialized alternatives may include, but are not limited to: emerging managers (i.e., smaller partnerships or experienced investment teams having worked together as a team i.e. lift out or a spin out of a larger investment firm raising their first institutional fund), funds focused on underserved markets (primarily defined by demographics: minority populations or lower income markets or geography: urban/inner city or rural), demographically targeted partnerships, geographically targeted investments, etc. These types of strategies are not represented in the traditional private equity portfolio. These types of opportunities may also exhibit a higher level of complexity or be a concept that is novel to the institutional marketplace.

Specialized alternative investments shall be considered solely in the interest of the System's participants and their beneficiaries in accordance with applicable law, and shall be selected to accomplish the following:

A. Enhance the System's long-term risk-adjusted return.
B. Hedge against long-term liabilities.
C. Provide added diversification to the System's overall investment program.

III. Investment Objectives

A. Return

The long-term (5-10 years) expected performance objective of the Program shall be 500 bps over the Russell 3000 Index net of fees, expenses, and carried interest. Use of the Russell 3000 Index reflects the opportunity cost of investing in alternative investments versus publicly traded common stocks. The Program is expected to outperform the traditional alternative investment portfolio by 100 bps over the long term (5-10 years).

B. Risks

Private equity investments, by definition, possess a higher degree of risk with a higher return potential than publicly traded investments. Accordingly, total rates of return from private equity investments are expected to be greater than those that might be obtained from conventional public equity or debt investments. The Board believes that there may be opportunities to achieve greater risk-adjusted returns through the investment in “specialized” alternative investment opportunities.

IV. Scope

Within the private equity asset classification the Specialized Alternative, Non-Traditional Investment (“carve-out”) Program, has targeted 10% of the overall private equity allocation.

Pension Consulting Alliance, Inc. (“PCA”) was engaged by LACERS in June 2005 as a non-discretionary advisor to source and review opportunities, perform due diligence and recommend new investments, to monitor existing investments, and to provide advice in accordance with the investment objectives for the carve-out portfolio. This policy establishes the framework for the continued development of the carve-out portfolio.

- PCA will be evaluated annually as a consultant and investment advisor for LACERS carve-out program based upon the following: portfolio performance; quality of analytical, technical work and recommendations, and expertise within their arena; responsiveness to requests from the Board and staff; availability to attend Board meetings and meetings with staff with reasonable advance notice; evaluating and making recommendations to LACERS including white papers on selected topics; identifying and mitigating risks, proactively informing staff of new ideas of risks in the marketplace.

V. Responsibilities and Delegations

A. The Board’s Investment Committee (“Committee”) shall recommend the approval and amendment of Investment Policy, Strategic Plan, Investment Plan, and investment opportunities to LACERS Board. In addition, the Board shall oversee program performance.

B. Staff shall manage day-to-day operations.

C. PCA is retained to assist in the development and implementation of the Program and acts as a fiduciary to the System.

Attachment 1 outlines specific responsibilities and tasks to be performed by the Board, Committee, Staff, and PCA.

VI. Investment Approaches and Parameters

A. General Approach

Under the Program, LACERS shall consider specialized, non-traditional investments utilizing a specialized management strategy that shall be disciplined and opportunistic. Opportunities shall be sought with specific criteria appropriate to partnership investments. Strategic assessments shall identify portfolio weightings and identify the most attractive segments of the market for opportunistic investing. Based on these assessments, LACERS and PCA shall proactively seek out attractive investment opportunities, while maintaining appropriate diversification.

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B. Program Strategy

The Program Strategy shall be revised periodically as appropriate.

The Strategy shall contain the following elements:

1. Program goals and objectives;
2. Structure of the program;
3. Strategic approach to this asset class.

The Committee and Board shall review the program annually via the Investment Plan prepared by Staff and PCA. The Investment Plan shall be based upon broad economic structural analysis, market conditions, and a review of the existing portfolio. The Strategic Plan, which is a long-term view, shall detail tactical priorities, strategy enhancements, and other objectives.

Partnerships shall be continually reviewed in the following areas:

1. Fit with the Investment Plan;
2. Pace and timing of investment commitments, funding and return of capital;
3. Diversity of sectors (industry, geographical, investment style, and others as appropriate);
4. Targeted performance according to stated objectives specific to the investment;
5. Key personnel turnover.

C. Quality Control Processes

The Program shall employ a quality control process, which includes both the Staff and PCA to monitor Program activity, track investment performance, and control risk.

1. **Process Monitoring** - Staff and PCA shall monitor transaction processing to insure timely decision making and an effective process.
2. **Monitoring Portfolio Performance** - Actual returns will be compared to the benchmark(s) as appropriate, and to the expected return for the investment.
3. **Risk Control** - Documented due diligence activities.

D. Specific Risk Parameters

The Program will be exposed to specific risk parameters that are associated with investing in alternative investments, including, but not limited to:

1. **Financial Risk**: Alternative investments often employ a greater use of leverage (borrowing), which may lead to a greater volatility in returns.
2. **Operating and Business Risk**: Certain alternative investments entail above average operating and business risk.
3. **Liquidity Risk**: Alternative investments lack liquidity and typically have time horizons of 5-to-10 years. Secondary markets for such investments are very limited; and, often, there is no current income.
4. **Country Risk**: Political, economic, and currency risks associated with investing outside of the U.S.
5. **Structural Risk**: Specific fundamental rights and protections are negotiated, which include mechanisms for taking remedial action. These basic protections may include advisory committee participation and specific termination provisions in partnership transactions.

6. **Valuation Risk**: Partnerships shall be evaluated to determine if the general partner employs an appropriate valuation discipline.
7. **Strategy Risk**: Proposed investment strategies are expected to include newer, niche strategies that may be less proven than more traditional approaches.
8. **Organizational Risk**: Firms included in the portfolio may be representing newer firms with less history of working together, increasing risks of personnel turnover or other organizational instability.

E. Guidelines for Evaluating Proposals

Proposed partnership opportunities shall be evaluated relative to their fit with the Program's Investment Policy and Investment Plan. Guidelines for initial partnership evaluation are listed below:

1. **Organization**: Firms considered for this Program may include recently formed organizations that are raising their first institutional investment vehicle. Alignment of interests (including ownership, compensation, general partner commitment, etc.) will be important factors in the proposed investment opportunities. A preliminary review of these key factors should be considered in the initial evaluation.
2. **Investment Experience**: The general partners are expected to have significant investment experience and expertise relevant to their investment strategy. However, greater emphasis should be placed on the experience of the team rather than the firm as a whole as many opportunities may be teams splitting from more established firms ("emerging managers") raising their first institutional fund. This also pertains to analyzing track records. The track records of the team members may need to be examined on each members own merit rather than requiring a track record representative of the entire firm. The team should demonstrate that they are specifically qualified to pursue the proposed strategy in the market in which they propose to work.
3. **Staffing**: The organization must have sufficient investment professionals and support staff to implement the proposed strategy. The principals shall dedicate the majority of their time and effort to the proposed opportunity and make, within the context of the particular investment, a meaningful personal financial commitment. The amount of targeted capital commitments, average investment size and anticipated number of transactions should be reviewed to assess the appropriate staffing level.
4. **Investment Strategy**: The proposed strategy and business plan shall be set forth in sufficient detail to permit substantive and meaningful review of the opportunity, verification of the investment concept, and of the risk factors. The proposed strategy and business plan shall provide reasonable assurance that the investment opportunity can produce the required return. The investment strategy of potential investment opportunities are expected be differentiated primarily in two ways: i) a traditional investment strategy with a specialized focus or ii) a "cutting edge" investment strategy that is relatively new to the institutional marketplace; but the risk/reward trade-off in the particular investment strategy and/or market should be attractive and based on reasonable assumptions and not competitive with existing investments.
5. **Focus**: Potential investments may include a very specific investment focus that differentiates the opportunity from more traditional opportunities. These

opportunities may be focused on investing in “underserved markets”, emphasize investments that impact a particular demographic or possibly specify a designated geographic region for investment. These are only examples and the specific focus on any particular opportunity may be out of the above-mentioned areas of focus.

6. **Fund size**: The majority of potential opportunities are expected to be targeting commitments at the smaller end of the spectrum (i.e. less than $500 million). The target commitment for these funds can vary greatly, but given LACERS program size and the desire to minimize LACERS proportional ownership in a specific partnership, a potential candidate should raise at least $100 million, excluding LACERS commitment. LACERS commitment shall not represent more than 10% of the overall fund size.
7. **Type of Investments**: Opportunities to be reviewed for the Program are expected to span private equity segments, including: buyout/corporate restructuring, expansion capital, venture capital, energy/natural resources, distressed securities, international, and special situations.
8. **Terms**: At a minimum, partnership terms are expected to be “in-line” with industry norms. However, it is anticipated that LACERS (through PCA) should be able to negotiate various terms, particularly governance terms, to be “limited partner friendly” in order to compensate LACERS for the unique risks associated with investing in these types of opportunities.
9. Additional factors may include, as appropriate:
    a. Fit with the Program Strategy, Investment Policy and Investment Plan, and within the overall Program;
    b. A unique strategy that is not competitive with existing investments;
    c. Integrity of the general partner, its employees, and other investors;
    d. Quality of overall partnership governance, management of the partnership, including controls and reporting systems;
    e. Specific objectives;
    f. Relationship with the relevant parts of the investment community;
    g. Relationship with limited partners;
    h. Nature of value added involvement;
    i. Past financial performance of the individual investment professionals;
    j. Reasonable ratio of portfolio companies per partner;
    k. Reasonable ratio of committed capital per partner;
    l. Appropriateness of terms and conditions and alignment of interests with limited partners;
    m. Capital at risk;
    n. Fund size sufficient to cover management expenses;
    o. Principals dedicate the majority of their time to the partnership.
10. Extensive due diligence will be completed by Staff and PCA and shall include but not limited to the following:
    a. Discussions with principals of the proposed investment;
    b. Review and analysis of all pertinent offering documents including: offering memorandums, subscription agreements, and private placement memorandums;
    c. Consideration of potential conflicts of interest, if any, posed by the proposed investment and prior investments and activities of the principals;

d. Review and analysis of the investment concept, including entry and exit strategies and terms including fees, principal participation, and structure;
e. Review and analysis of the fit within the Program, including fit with the Investment Plan, other constraints and guidelines, and compliance with applicable investment policies;
f. Review of news articles, principals, prior investments, and concepts;
g. Reference checks of principals;
h. Review and analysis of track record including performance of prior and current investments;
i. Consideration of relative size of the proposed investment;
j. Investigation of special terms and side letter agreements with past or present investors;
k. Review of any lawsuits, litigation involving the general partner, its principals, employees and prior funds;
l. Due diligence visit to the Partner's offices;
m. Adherence to LACERS Marketing Cessation Policy (see Attachment 2) and LACERS Disclosure Policy (see Attachment 3);
n. Direct general partners to address workforce composition either through completion of the Workforce Composition form or through a letter addressing their internal policy.

11. Legal Constraints

Legal provisions to be considered include, but are not limited to:

a. Unrelated Business Taxable Income (UBTI): Partnerships are structured to minimize UBTI;
b. Registered Investment Advisor (RIA): Investment advisors retained by the Board are so registered or comparable procedure is established;
c. Regulatory (i.e. FCC, SEC, FTC);
d. Bankruptcy or other material litigation;
e. Appropriate alignment of interests.

F. Types of Investments

Partnerships with expected risk/return superior to traditional private equity investment opportunities or that enhance portfolio diversification, and are not otherwise prohibited by the System will be considered for the Program. Partnerships shall generally fall within the categories defined below but will have specialized features that differentiate the opportunity. Such specialized features may include being an "emerging manager" or targeting "underserved markets" (specific demographics, or geographic region), for example. When all else is considered equal regarding performance, strategy, personnel, philosophy and other critical criteria, between top tier investment managers, preference may be given to Los Angeles based managers.

1. **Buyout and Corporate Restructuring Capital**: Investments in leveraged buyouts, management buyouts, equity buyouts, employee buyouts, buy-and-build, other acquisition strategies and restructurings, and related uses of capital.
2. **Expansion Capital**: Investments in established companies for the purpose of growing their businesses.
3. **Venture Capital**: Investments in relatively small, rapidly growing, private companies in various stages of development.

4. **Energy and Natural Resources**: Investments in the exploration, extraction, accumulation, generation, movement or sale of energy (e.g., oil, gas, coal, electricity), and other natural resources and related service companies.
5. **Distressed Securities**: Debt or equity securities investments in troubled companies, under the assumption that the securities will appreciate in value following a restructuring of the company's obligations. This includes, but is not limited to, investments in companies that are insolvent or unable to pay their debts as they come due. This may include companies subject to the Bankruptcy Reform Act, specifically Chapter 7 (Liquidation) and Chapter 11 (Reorganization), and companies under-going restructurings outside of Bankruptcy Court.
6. **Turnarounds**: Investments in companies experiencing financial or operating difficulties. These companies may or may not be insolvent.
7. **International**: Investments that are located in foreign countries or have significant portions of their operations outside of the United States. International investments shall also be considered with respect to their specific type (e.g., corporate restructuring, venture capital, and so forth).
8. **Special Situations**: This includes all other types of investments, e.g., mezzanine strategies, active minority positions, hedge funds, secondary investments, governance strategies, industry specific strategies, and unconventional investments.

G. Reporting and Monitoring

Reporting

1. Reports received from investment managers.
   - Staff shall require periodic reports (i.e. quarterly) from investment partners to facilitate monitoring.

2. Monitoring Investments.
   - Staff and PCA shall monitor individual partnerships and the portfolio as a whole. Monitoring includes diversification across alternative investment types to assure an appropriate mix reducing risk in the Program's investments. Given the focused nature of the Program, specific areas may be emphasized over the short-term with the long-term goal of developing a diversified program.

   The following types of diversification should be monitored, including, but not limited to:

   a. Economic Sector Diversification- Alternative investments should be diversified among sector groups;
   b. Form of Investment - Alternative investments should be diversified throughout various forms and categories of investment (e.g., LBO's, venture capital, distressed, mezzanine etc.);
   c. Payback Diversification - Alternative investments can take significant time to pay back capital. LACERS should attempt to invest in partnerships across a spectrum of payback scenarios;
   d. Geographic Diversification- LACERS should consider geographical diversification in investment selection; and

Section 2.0 ASSET CLASSES AND STRATEGIES

e. Time Diversification - LACERS should endeavor to invest in a consistent manner when appropriate risk adjusted return opportunities are available.

3. Performance
The System shall assess the performance of partnerships relative to the following areas:
a. Objectives established by the partnership;
b. Risk undertaken;
c. The long-term performance objective, with appropriate interpretation if applied to the short-term;
d. Vintage year peer comparisons.

4. Board Reports
Quarterly and annual reports shall be provided to the Committee and/or Board. These reports include, but shall not be limited to, reviews of investments and their performance, and a semi-annual partnership commentary.

Section 2.0 ASSET CLASSES AND STRATEGIES

Attachment 1

DESIGNATED RESPONSIBILITIES AND TASKS

RESPONSIBILITIES OF LACERS' BOARD

Selection of a Consultant

- Monitor the performance of the consultant

Policy and Strategy Development

- Approve:
  Investment Policy
  Strategic Plan

Due Diligence

- Review due diligence report prepared by Consultant, reviewed by staff, and Investment Committee recommendation
- Approve or reject proposed investment opportunity

Performance Monitoring

- Receive and review performance reports from Consultant

RESPONSIBILITIES OF LACERS' INVESTMENT COMMITTEE

Policy and Strategy Development

- Review/recommend approval and amendment of:
  Investment Policy
  Strategic Plan

Due Diligence

- Review due diligence report prepared by Consultant with staff concurrence or if non-concurrence, noted
- Interview management teams of proposed investments
- Recommend to Board the individual investments

Performance Monitoring

- Receive and review performance reports from Consultant

Investment Referrals

- Identify and refer partnerships to staff and/or Consultant for review.

RESPONSIBILITIES OF LACERS' STAFF

Recommendations to the Committee

- Develop recommendations regarding Investment Policies, Strategies, Guidelines

Investment Opportunity Sourcing

- Receipt of partnership referrals from Board members, Consultant, for further review
- Perform initial gatekeeper functions by meeting with groups, reviewing the investment documentation including the Private Placement Memorandums and Offerings documents
- Conduct joint due diligence meetings with consultant on prospective partnerships
- May perform preliminary due diligence prior to referring to consultant for further review, detailed analysis, and due diligence

Due Diligence

- Forward contact information and materials to Consultant for opportunities meeting the initial evaluation criteria
- Initiates Desk Review to be performed by Consultant/Staff
  - Review consultant Desk Review
    - Determine if continued due diligence is warranted

- Full Due Diligence Review conducted by Consultant and staff
    - Initiates outside legal review
    - Communicate status of legal review to Consultant
    - Legal counsel completes legal review and opines as to its acceptability; include recommendation to LACERS
- Review consultant due diligence reviews, analysis, and recommendations for qualitative and quantitative reasonableness;
    - Recommend to the Committee if appropriate;

<u>Investment Administration</u>

- Board-approved partnerships are executed by staff
    - Reviews and approves contracts, modifications, and other documentation;
    - Manages day to day LACERS operations, including setting up communications, setting up the appropriate custodial accounts, data requirements, and standard wire instructions
    - Makes capital calls
    - Receives and processes distributions
    - Reviews and processes a variety of reports from managers

<u>Performance Monitoring</u>

- From Partnerships
    - Receives and reviews quarterly reports
- From Consultant
    - Receives and review reports
        - Quarterly: one-page status report per manager
        - Semi-Annual: full performance report
        - Annual: market overview, Investment Policy, and Investment Plan
        - Ad hoc review of consultant database as needed

RESPONSIBILITIES OF THE CONSULTANT

<u>Deal Flow Management</u>

- Sourcing
    - Receive and review opportunities forwarded from LACERS
    - Document referral of investment opportunities
    - Meet and interview potential investment management teams
    - Evaluate opportunities presented outside of the LACERS relationship for appropriateness of the Program
    - Maintain a database of opportunities considered for the Program Investment Due Diligence to include the source of the recommendation
- Desk Review, initiated by LACERS:
    - Provide Marketing Cessation Policy
    - Review due diligence questionnaire, offering memorandum, limited partnership agreement, marketing materials, etc.
    - Analyze:
        - Market opportunity
        - Investment strategy
        - General Partner background and experience
        - Track record
        - Terms
        - Alignment of interest
    - Upon completion, review findings with LACERS and recommend review or rejection

Section 2.0 ASSET CLASSES AND STRATEGIES

- Full Diligence Review
    - Conduct reference checks
    - Conduct online visit as appropriate
    - Extensively review economic and business terms of legal documents
    - Disclosure of involvement of any placement agent compensation/or other consideration
    - Communicate status of Full Diligence Review to LACERS
    - Upon completion, prepare and issue report to LACERS with recommendation for investment or rejection; include appropriate supporting documents with the report
    - Arrange meeting to review materials and recommendation
- Terms Negotiation:
    - Negotiate specific partnerships terms, if appropriate

<u>Performance Monitoring</u>

- Consultant
    - Receives copies of all notices of capital calls and cash distributions
    - Receives copies of all financial reports and other communications
    - Calculates performance and reconciles same with the manager and master custodian, as needed
    - Prepares periodic reports
        - Quarterly: one-page status report listing:
            - Partnership
            - Commitment
            - Contributions
            - Distributions
            - Fair Market Value
            - IRR
        - Semi-Annual: full performance report
            - Containing brief market overview
            - Performance by manager, vintage year and segment
            - Review portfolio exposures/diversification
            - Provide manager specific data/updates
        - Annual: market overview, Investment Policy, and Investment Plan review
    - Interface quarterly with Traditional Alternative Investment Consultant to integrate status of the Program into the traditional portfolio

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Page 1

MARKETING CESSATION POLICY

Adopted: April 24, 2007; Revised June 10, 2014

Purpose
The purpose of this policy is to ensure a transparent and fair contracting process which provides equal information and opportunity to all parties interested in contracting with LACERS. The policy helps prevent, and avoid the appearance of, undue influence on the Board or any of its Members in the award of investment related and other service contracts by placing restrictions on communications between parties seeking contracts and those involved in contract award and the contract process.

Parties Affected
Any firm or representative seeking a contract or contract extension/renewal with LACERS is a "Restricted Source" as defined by the City's Governmental Ethics Ordinance, and is subject to this policy.

Any Board Member, Staff member, City Attorney, LACERS consultant, or anyone working on LACERS' behalf which has any privileged information about the potential contract is subject to this policy.

Notification
All firms responding to a Request for Proposal are notified of the Department's Marketing Cessation Policy through the Request for Proposal solicitation. All firms whose contracts are approaching expiration are additionally notified of the Marketing Cessation Policy through their contract provisions.

Restricted Period
Restrictions apply from the time the Request for Proposal is released until a contract is executed.

Restrictions:

Communication Restrictions
All firms that are potential candidates for the award of a contract, or extension of an existing contract, are prohibited from engaging in any direct or indirect marketing of their services except through the process set forth in the Request for Proposal. This includes a prohibition on conversations about the contract or the process to award it, but does not exclude conversations with restricted sources about generic topics at group social events, educational seminars, conferences, or charitable events.

Communications with firms who currently have contracts with LACERS are acceptable when they are related to the performance of the existing contract.

Gift Restrictions
In addition to all other applicable gift restrictions, Board Members and Staff will accept no entertainment or gifts of any kind from any Restricted Source, or intermediary, during the restricted period. An incumbent firm is also restricted from providing any type of gift or entertainment to Board Members or Staff during the three months prior to renewal of the existing contract or during the restricted period, whichever is longer.

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Proposer Disclosure

All Proposers shall provide the following disclosures with their RFP response. All recommendations to the Board to award a contract shall include a copy of such disclosures:

9. All respondents are required to submit a statement listing all contacts with Board Members, Staff, and Consultants during the restricted period.
10. All respondents shall provide information regarding any personal or business relationship between their personnel and any Member of the Board, Staff of LACERS, or Consultants who are designated as Form 700 filers in the Department's Conflict of Interest Code.
11. All respondents shall disclose any payments for marketing or placement services to any person, firm, or entity to assist in seeking the LACERS contracting opportunity.

Penalties

Any failures to disclose, or false disclosures, are a violation of this policy shall result in automatic disqualification of the firm involved.

This policy shall be reviewed by the Board every three years or earlier if necessitated by a change in local, State, or Federal statutes.

Attachment 3

THIRD PARTY MARKETING AND REFERRALS DISCLOSURE POLICY

Firms submitting investment proposals for consideration by LACERS are hereby required to disclose the identity of all third-party marketers and/or individuals by whom the Firm has been referred to LACERS, and further indicate those so identified that stand to receive fees or other considerations in the event that a contract between the Firm and LACERS is secured.

2.3 REAL ESTATE INVESTMENT POLICY

Revised: March 31, 2010

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Section 2.0 ASSET CLASSES AND STRATEGIES

I. INTRODUCTION

This Real Estate Investment Policy sets forth a general framework for managing the Los Angeles City Employees' Retirement System ("LACERS") investments in real estate (the "Portfolio"),(the "Real Estate Policy"). Additionally this Real Estate Policy provides that the LACERS' real estate program shall be planned, implemented, and monitored through the coordinated efforts of the Board of Administration (the "Board"), the Investment Committee (the "Committee"), the Investment Staff (the "Staff"), the Real Estate Consultant (the "Consultant") and the Investment Managers (the "Manager" or "Managers"). Additionally, the Real Estate Policy is subject to the guidelines set forth by LACERS in the Marketing Cessation Policy and in the Third Party Marketing and Referrals Disclosure Policy, as amended from time to time by the Board, or as stated under applicable laws or regulations.

The Consultant, along with the Staff, shall prepare an Annual Strategic Plan, as defined below, to be considered and acted upon by the Board that will address the specific goals and guidelines to be achieved and followed in the Portfolio each year. The Annual Strategic Plan shall be consistent with the guidelines set forth in this Real Estate Policy.

Real Estate

For purposes of this Real Estate policy, real estate shall be defined to include investments that are private or public, equity or debt positions in real property. Investments may be leveraged or unleveraged. As further set forth in this policy, LACERS will invest primarily in discretionary commingled funds through investment vehicles (e.g., limited liability companies, real estate investment trusts, and limited partnerships) owned with other suitable institutional investors (e.g., pension funds, endowments, foundations and sovereign funds). As further set forth in this policy, LACERS also may invest in real estate assets on a direct ownership basis through a discretionary separate account vehicle. Such investments will be evaluated on a case by case basis, but at a minimum need to provide a compelling opportunity, which is consistent with the Portfolio's tactical investment objectives and overrides or outweighs the benefits of commingled fund investments.

Fiduciary Standards

The investment and management of the Portfolio shall be accomplished in a manner consistent with the "prudent man's" standard of fiduciary care. This level of care requires that all LACERS' fiduciaries act reasonably to accomplish the stated investment objectives and to safeguard the Portfolio on behalf of LACERS' participants and their beneficiaries. The implementation of this Real Estate Policy, including the selection of investment managers, shall be completed in a manner that enhances the Portfolio's diversification, thereby reducing risk by limiting exposure to any one investment, manager, real estate property type, geographic region or other defined risk factor.

II. SCOPE

This Real Estate Policy sets forth the objectives, policies and processes and procedures related to the implementation and oversight of the Portfolio. Specifically, the objectives outlined herein define the desired risk level and return expectations governing the Portfolio; the policies provide guidelines governing investment styles to manage defined risk exposures within the asset class; the investment processes and procedures and roles and responsibilities describes the investment process and allocation of duties among the Board, the Committee, the Staff, the Managers and the Consultant.

The Board and Staff intend to adhere to the objectives, policies and processes and procedures stated in this Real Estate Policy. Any deviations from these objectives, policies and processes and procedures shall require the review and approval of the Staff, the Committee and the Board.

LACERS has engaged the Consultant on a non-discretionary basis to assist the Staff, the Committee and the Board to implement and revise, when necessary, the Real Estate Policy. The Consultant's duties and responsibilities, which are further defined in section VII.E include selecting Managers, including performing due diligence and recommending new investments; monitoring existing investments; and generally providing advice to the Staff, the Committee and the Board with respect to the Portfolio. The Consultant shall conduct a tactical review of this Policy, in conjunction with the Board and the Staff, at a minimum of once per year, and set forth any recommendations in the Annual Strategic Plan.

III. INVESTMENT OBJECTIVES

The main investment objective with respect to the Portfolio is to maximize returns given the defined level of risk, as determined by the Board. While it is necessary to use active asset management strategies to maximize total investment returns (i.e., income and appreciation returns), investment principal is to be safeguarded within the Portfolio's framework of prudence and managed risk. Although real estate investments are illiquid and have a long-term holding period, investing in this asset class should improve the Portfolio's fund level risk-adjusted returns by enhancing overall diversification, which reduces total portfolio risk. Specifically, the objectives of LACERS with respect to the Portfolio include the following:

A. Attractive Risk-Adjusted Returns

To obtain superior risk-adjusted returns by taking advantage of the inefficiencies of real estate as compared to other asset classes. Active management, value creation and opportunistic strategies, as well as the prudent use of third-party debt, are approved methods for generating expected returns. As discussed in section VI, the benchmarks for the Portfolio will be 1) the NCREIF Property Index plus 100 basis points; and 2) custom benchmarks weighted quarterly on a risk/return basis based on the portfolio allocation.

B. Increased Portfolio Diversification/Reduced Portfolio Risk

To use real estate to enhance overall Portfolio diversification and, in turn, reduce overall Portfolio risk, given the historically low to negative return correlations that exist between real estate and other asset classes.

C. International Investments

To access international real estate markets through public and private, and equity and debt real estate investments. By so doing, the Portfolio will obtain exposure to diverse economies, populations and currencies.

D. Significant Current Cash Yields

To invest in real estate assets, which will generate a significant cash return based primarily on current rental income. In general, as a portion of total investment return, higher levels of current income are expected from core and value than opportunistic investments; in contrast, higher levels of appreciation are expected from opportunistic than value and core investments.

E. Inflation-Hedge

To make investments primarily in real estate equity investments that are likely to provide a reasonable hedge against price inflation.

F. Preservation of Principal

To achieve meaningful risk-adjusted returns without undue exposure to loss of investment principal.

IV. INVESTMENT GUIDELINES

LACERS shall establish a long-term target allocation to real estate (the "Target Allocation"). The Target Allocation will fluctuate according to the relative values among the Portfolio and the allocations to other asset classes of LACERS. To accomplish and maintain the Target Allocation, the Consultant may recommend committing in excess of the Target Allocation percentage in order to meet full allocation objectives. The Portfolio allocation percentage actually achieved quarterly may vary from the Target Allocation within a reasonable range as determined by the Board and Staff from time to time.

Eligible real estate funds will range from core open-end funds to opportunistic closed-end funds, and may also include separate investment accounts with selected fund managers; however, the Portfolio will be comprised primarily of commingled fund vehicles. Separate accounts represent opportunities wherein LACERS would be the sole or significant equity sponsor for an investment manager pursuing a specifically targeted opportunity or defined strategy. As the sole or significant equity sponsor, LACERS would likely be entitled to voting and control rights generally not available to commingled fund investors.

The following investment guidelines set forth investment parameters consistent with the risk and return objectives of the Portfolio.

Section 2.0 ASSET CLASSES AND STRATEGIES

A. Portfolio Composition – Risk Strategy Mix

The Portfolio shall be comprised of three different but complementary risk/return categories or risk strategies. These categories or risk strategies generally define the three basic risk and return levels ranging from low to high risk associated with institutional real estate investments. These categories or strategies are referred to as the following: (1) core, (2) value and (3) opportunistic investments, as further defined below.

1. Core

Equity investment in operating and substantially-leased (i.e., at least at market occupancy levels) institutional quality real estate in the traditional property types (i.e., apartment, office, retail, industrial, and hotel). Assets are located in significant metropolitan markets with reasonable population sizes and economies. Net returns historically have been in the 6-9% range (net of fees) with annual standard deviation near 8.0%. Of note, core investments typically feature current income as a large portion of overall return (i.e., up to 70%), and appreciation that generally matches or exceeds inflation. Low leverage is utilized (i.e., 50% or less on a portfolio basis). Core debt investments include first mortgage loans secured by the previously defined core equity real estate assets. Such mortgage loans are either newly originated or are existing but performing loans with reasonable borrowers (e.g., credit), reasonable terms (e.g., loan to value of less than 50% and debt service coverage of 1.25 or greater) and institutional-quality management (e.g., an institutional investment manager with reasonable experience and track record in managing first mortgage loan investments). During periods of market illiquidity, core equity investments can provide high going in income returns and provide a reasonable inflation-hedge so long as markets are not over-supplied.

2. Value

Value investments are functional, high quality assets with specific property issues, such as high vacancy, significant upcoming lease expirations, or below market rents. These are debt or equity investments that typically require rehabilitation, redevelopment, development, lease-up, or repositioning. Net returns historically have been in the 10-14% range (net of fees). Value investments also typically feature both current income and appreciation as components of overall return, and frequently involve the repositioning of distressed assets (i.e., not fully leased and operating) and potentially the purchase of interests in real estate operating companies ("REOCs"). For example, a value investment may be an office building that is 40% vacant and needs significant capital investment for rehabilitation and repositioning. Investment may also include non-traditional property types (e.g., manufactured housing) which may feature incremental risk. Value investments typically are expected to generate above-core returns through the leasing-up of a property, which increases the end value by increasing in-place income and, in many cases, ultimately decreasing the capitalization rate upon disposition. Value investments are typically more dependent on appreciation returns than core investments, with purchase prices based on in-place income or asset replacement cost (i.e., at a discount to replacement cost). During periods of market illiquidity, value equity investments can provide high going in income returns and pricing at significant discounts to replacement costs. During periods of market liquidity, value equity investments include new development projects (i.e., acquire land, obtain entitlements, construct building and lease or sell), which require significant expertise and underwriting. Moderate leverage is utilized for these investments (i.e., targeting 50%-65% on a portfolio basis).

3. Opportunistic

Equity or debt investment in real estate properties, operating companies, and other investment vehicles involving significant investment risk, including real estate, financial restructuring, and non-real estate risk. Net returns have been 15% or higher (net of fees) with significant annual standard deviation. Opportunistic investing includes distressed assets, financial restructurings, and/or financial engineering opportunities (e.g., foreclosing on a mortgage and selling the equity interest) and potentially the purchase of REOCs. Investment may also be made in non-traditional property types (e.g., self-storage) which typically contain greater risk. Opportunistic investments typically have even greater appreciation potential than value investments (e.g., 50% of total returns); correspondingly, these investments offer a higher return potential and a higher risk profile than core or value investments. In many cases, since appreciation is the primary goal of opportunistic investing, many are originated with little if any in-place income and therefore less current income as a portion of total return. These investments have historically experienced higher return performance during periods of market illiquidity (e.g., early 1990's in the U.S.). Higher leverage is used (i.e., up to 80% with some funds).

The following table sets forth investment policy ranges for the previously defined real estate risk/return strategies.

LACERS' Real Estate Portfolio Risk/Return Diversification Guidelines	
Risk/Return Strategy	**Policy Range**
Core	10% - 70%
Value	20% - 80%
Opportunistic	10% - 50%

Core, value and opportunistic exposure targets shall be evaluated at a minimum of once per year and set forth in an annual investment plan completed by the Staff with the assistance of the Consultant and approved by the Committee and the Board (the "Annual Strategic Plan"). When making investment recommendations, the Consultant shall evaluate the impact of the prospective investment on the Portfolio's risk/return exposures based on the then existing portfolio net asset value.

B. Risk Mitigation

1. Leverage

Leverage is a significant risk factor that shall have exposure guidelines and monitoring requirements, as set forth in the following section G of this Real Estate Policy.

2. Diversification

Diversification is an important tool in reducing real estate portfolio risk and accomplishing superior risk-adjusted returns. The real estate portfolio shall be diversified by risk factors which can be reduced through diversification (e.g., geographic region and property type). Diversification reduces the impact on the portfolio of any one investment or any single investment manager to the extent that an adversity affecting any one particular area will not impact a disproportionate share of the total portfolio.

It is expected that at various points in time, the Portfolio may have a significant exposure to a single property type or location to take advantage of opportunities available in the market which are projected to generate superior returns. When making investment recommendations, the Consultant shall consider as part of its investment recommendation the impact on Portfolio diversification and risk and return. As part of the Annual Strategic Plan, the Consultant shall provide annually, or more frequently when market conditions require, the risk factor (e.g., property type and region) ranges which it believes provide reasonable diversification given the expected market conditions. The following describe the various diversification guidelines that will be utilized. The Board's approval is required prior to investment for any investment that is projected to lead to the Portfolio exceeding the following risk mitigation guidelines.

a. Property Type

Diversification Policy ranges are based on the universe of available real estate investments, institutional investor portfolio information and industry indices' diversification. Property type portfolio exposure levels have had a significant impact on institutional investor returns since property types have historically performed differently during economic cycles. For example, during economic downturns, residential investments have historically outperformed the other property types while office has historically underperformed due to reduced tenant demand, higher owner operating and build-out costs and reduced income and cash flow. Hotels have historically also underperformed during economic downturns. The guidelines governing the Portfolio's property type exposure are shown in the following table. The Consultant shall monitor the Portfolio's real estate in its quarterly performance reports to indicate the level of compliance with these guidelines.

LACERS' Real Estate Portfolio Property Diversification Guidelines	
Property Types	**Policy Range**
Residential	Up to 40%
Industrial	Up to 35%
Office	Up to 40%
Retail	Up to 40%
Hotel	Up to 15%
Other Real Estate	Up to 30%

[1]Includes other property types not included within the NCREIF Index, including senior living, manufactured housing, student housing, healthcare, land and self storage. Also includes real assets such as infrastructure, timber, commodities, oil and gas, and agriculture.

Real estate investments may include investments other than the traditional property types, such as healthcare and manufactured housing. Real estate may also include other investments such as infrastructure and timber. The Consultant shall include a section in each Annual Strategic Plan reviewing the Portfolio's property-type exposures and investment objectives relating thereto.

b. Geographic Region

Diversification Policy ranges are based on the universe of available real estate investments, institutional investor portfolio information and industry indices' diversification. The importance of location to the long-term value of real estate is based on local economic fundamentals and the other risk attributes (e.g., weather, earthquake and local government impact) of regional areas. The distribution of real estate investments by geographic region shall be monitored for compliance within the broad ranges set forth in the table below.

LACERS' Real Estate Portfolio Geographic Diversification Guidelines	
Geographic Regions	**Policy Range**
West [1]	Up to 50%
South [2]	Up to 40%
Midwest[3]	Up to 40%
East[4]	Up to 50%
International	Up to 40%

[1] Alaska, Arizona, California, Colorado, Hawaii, Idaho, Montana, Nevada, New Mexico, Oregon, Utah, Washington, Wyoming.
[2] Alabama, Arkansas, Florida, Georgia, Louisiana, Mississippi, Oklahoma, Tennessee, Texas.
[3] Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota, Wisconsin.
[4]Connecticut, Delaware, District of Columbia, Kentucky, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York, North Carolina, Pennsylvania, Rhode Island, South Carolina, Vermont, Virginia, West Virginia.

The Consultant shall include in each Annual Strategic Plan investment guidelines and targets related to the Portfolio's international allocation.

C. Investment Life Cycle

Investment life cycle refers to the stage of development of a real estate investment. The stages of development include the following: (1) land or pre-development (i.e., un-entitled or partially entitled land); (2) development/redevelopment (i.e., in process of entitling or constructing improvements); (3) leasing (i.e., less than full or market occupancy); and (4) operating (i.e., greater than market occupancy). As a result of the risks associated with development, at no time shall the Portfolio have an exposure exceeding 30% to total non-operating investments (i.e., the total of pre-development/land, development/redevelopment and leasing). Also, the Consultant shall monitor the Portfolio's exposure to different life cycles through the quarterly performance report, which shall indicate the Portfolio's non-operating investment exposure and whether a non-compliance issue exists.

D. Permissible Investment Structures/Vehicles and Public/Private Allocations

The Portfolio may include real estate public and private equity and debt investments. Private equity real estate investments may include any investment made in equity interests in real estate assets (i.e., land and assets deriving most of their income return from rents paid by tenants subject to lease agreements) or companies through private placements, including REOCs and REITs. Typical property types include the following: office, retail, rental apartments, for sale residential, industrial and hotel. Public equity real estate investments may include publicly traded REITs, REOCs, limited partnerships and other entities that own and operate real estate, as further described below. Private debt investments may include structured investments, which provide for stated preferred returns, which may be accrued or paid on a current basis. Private debt investments may also include loans secured by senior or junior mortgage or deed of trust agreements. Public debt investments may include the following publicly traded securities: commercial mortgage backed securities ("CMBS"), residential mortgage backed securities ("RMBS"), commercial debt obligations ("CDOs") and REIT/REOC debt. The following table sets forth the guidelines governing the Portfolio's investment structure.

LACERS' Real Estate Portfolio Investment Structure Diversification Guidelines	
Investment Structure	**Policy Range**
Private Equity Real Estate	30% - 100%
Private Debt	0% - 50%
Public Equity	0% - 20%
Public Debt	0% - 10%

E. Investment Vehicles

The investment vehicle exposure ranges shown on the following page shall be used to mitigate portfolio risk including enhancing portfolio liquidity. The following discussion provides a summary of the advantages and disadvantages of the investment vehicles, which shall be used in developing the LACERS real estate portfolio.

1. Open-End Commingled Funds

As shown on the following page, the Portfolio shall have up to a 60% exposure to open-end commingled funds. The open-end fund investments shall be made primarily to provide (1) reasonable property type and geographic diversification, (2) exposure to larger properties (i.e., over $50 mil.) or certain countries, and (3) reasonable liquidity (i.e., ability to redeem within 90 days). The Consultant shall complete reasonable due diligence in evaluating open-end commingled funds consistent with this Policy. No investment may be made without the Board's approval in any existing open-end commingled funds with (1) less than $1.0 bil. of gross assets, (2) a current investor redemption queue or the existence of a queue within one year of the proposed investment date, (3) a new investment manager with less than one year of experience prior to the proposed investment date, or (4) diversification attributes that are inconsistent with the needs of the the Portfolio, as determined by the Consultant. Open-end commingled fund vehicles may include, but are not limited to, insurance company separate accounts, group trusts, limited liability companies, single purpose corporations or any other vehicle that is determined by the Consultant to be consistent with the Policy.

2. Closed-End Commingled Funds

As shown in the following table, the Portfolio shall have up to a 90% exposure to closed-end commingled funds. The closed-end fund investments shall be made primarily to obtain exposure to reasonably diversified portfolios of value and opportunistic investments. The primary advantages of closed-end funds are that they provide access to talented management teams with focused niche value and opportunistic strategies. Also, management teams typically co-invest and rely on incentive fees, which combined enhance the alignment of investor and manager interests. The Consultant shall complete reasonable due diligence in selecting closed-end fund investments. Co-investment by the manager of a fund or by investors in the fund is acceptable providing: (1) the coinvestor(s) have similar investment objectives regarding risk/return exposures and holding periods, (2) control and voting rights with respect to investment decisions are deemed reasonable, and (3) reasonable buy/sell or other agreements exist to allow for the resolution of investor disagreements. Closed-end funds typically have terms of seven to ten or more years and are therefore illiquid.

3. Separate Account Vehicles

Separate accounts may be used to make private equity/debt investments or public real estate securities allocations. Separate accounts offer the primary advantage of control over the manager, the strategy, the asset investment and sales decisions, and the capital. The Consultant shall complete reasonable due diligence in selecting the Managers for both direct investment and public real estate securities separate accounts.

a. Direct Investments

LACERS may make direct equity/debt investments using separate account vehicles; however, such investments require careful consideration. Transaction costs and management expenses are high and there may be a significant time commitment by the Staff. Separate account direct investments shall be made only when the opportunity is compelling, as determined by the Staff, the Consultant and the Board. To be compelling, a direct investment needs to (1) be in compliance with this Policy; (2) be consistent with the tactical needs of LACERS, as set forth in the Annual Strategic Plan; and (3) present an investment opportunity that provides benefits to LACERS that outweigh or override those provided by commingled funds, as previously described. (For example: LACERS may acquire an office building in Los Angeles using a separate account vehicle for the prime purpose of using it as its headquarters facility). The Consultant shall assist the Staff with any direct investments by recommending a Manager and by completing an independent report, which summarizes and evaluates the manager due diligence completed. The report shall include a summary of findings and conclusions and shall be retained by the Staff on file for review.

Direct investments shall also include any private REOC investments. These include full or joint venture ownership of an operating company, which may be used to acquire a single asset, to implement a niche investment strategy or to serve another purpose as defined by the Consultant and approved by the Staff and the Board.

Each direct investment strategy, fee structure and level of investment discretion shall be defined by the Consultant and approved by the Staff and the Board. Direct investment separate account allocations providing discretion subject to the approved investment strategies (“discretion within a box”) are preferred. Non-discretionary allocations are permissible, but not preferred. The Manager shall complete annually a budget review, as defined by the Consultant, and a hold/sell analysis, for each direct investment. No individual direct separate account investment shall exceed ten percent (10%) of the portfolio. Since the sale or refinancing of a direct investment interest is required to return invested capital, such investments are considered illiquid.

b. Public Real Estate Securities

Public real estate related securities shall comprise up to 20% of the Portfolio’s allocation, on a buy and hold basis. These investments shall be paced over an appropriate time period as determined by the Consultant with the Managers to avoid a significant investment during a high valuation period.

LACERS' Real Estate Portfolio Investment Structure Diversification Guidelines		
Investment Vehicle	**Liquidity Level**	**Policy Range**
Commingled Fund – Open-End	Moderate	Up to 60%
Commingled Fund – Closed-End	Illiquid	Up to 90%
Separate Accounts – Private	Illiquid	Up to 30%
Separate Account – Public Real Estate and Real Estate Securities	Liquid	Up to 20%

F. Manager/Investment Concentration

LACERS shall limit its exposure to any single Manager or investment, and be subject to other investment restrictions to reduce risk, as further defined below.

1. Maximum Manager Allocation

No single manager (including any allocation to pooled funds and/or separate accounts shall be allocated more than twenty-five percent (25%) of the Portfolio's total allocation at the time of the prospective investment commitment. The allocation amount calculation shall include all of the Portfolio's investment commitments remaining to the Manager plus the net asset value of the existing investments at the time of measurement or at the time of a prospective investment allocation.

2. Minimum Investment Size

The Portfolio's minimum investment commitment to a commingled fund or a separate account Manager shall be $10 million.

3. Maximum Investment Commitment

The Portfolio's maximum investment commitment to a commingled fund or a separate account Manager shall be shall be limited to fifteen percent (15%) of the Portfolio's allocation to real estate at the time of the prospective investment commitment.

4. Commingled Fund Guidelines

The Portfolio's investment in a single open-ended commingled fund shall not exceed twenty percent (20%) of the total net market value of the commingled fund at the time of the prospective investment. The Portfolio's investment in a single closed-end commingled fund shall not exceed twenty percent (20%) of the total investor commitments to the fund at the time of closing of the commitment period of the prospective investment. LACERS shall not consider investments in a commingled fund that has less than $100 million in net equity capital commitments exclusive of the Portfolio's investment.

5. **Maximum Individual Separate Account Investment**

   The Portfolio's maximum investment in any single separate account investment shall be limited to a maximum of ten percent (10%) of the Portfolio's total allocation to real estate at the time of the prospective separate account investment, unless otherwise approved by the Board and staff.

   The Consultant and the Staff shall be responsible for reviewing separate account allocations and commingled fund terms to ensure they are consistent with or have incorporated the applicable restrictions previously described. Even though a prospective commingled fund or separate account allocation may be in compliance with the Policy restrictions, the Consultant shall complete reasonable due diligence with respect to each prospective investment to determine whether it is appropriate for recommendation to the Staff and the Board. The Consultant may consider a number of factors in determining whether investments are reasonable and appropriate for institutional investors, including the following: the level of investment by institutional investors (e.g., pension funds, endowments, foundations and sovereign funds); the size of the organization; the experience of key personnel; the track record of key personnel in investments comparable to the strategy to be undertaken; and the financial condition of the firm.

G. Leverage

Leverage is a significant risk factor, the importance of which is magnified during an economic downturn when decreasing property values and stricter lending terms can lead to unexpected increased leverage levels and decreased equity interests. The maximum leverage for the Portfolio shall be sixty-five percent (65%) with established maximum levels for each investment style based on the risk/return profile of the underlying investments as shown in the following table. In the Annual Strategic Plan the Consultant shall set forth reasonable leverage targets given market conditions. When making a new investment recommendation, the Consultant shall consider the impact on the Portfolio's leverage guidelines and targets at the time of the prospective investment.

LACERS' Real Estate Portfolio Leverage Guidelines	
Investment Strategies	**Policy Range**
Core	Up to 50%
Value	Up to 65%
Opportunistic	Up to 75%
Total	Up to 65%

Additionally, the Consultant shall monitor the Portfolio's leverage to evaluate compliance with the above stated guidelines through the quarterly performance report.

H. Specialized Investments

LACERS has in the past, and as determined by the Staff, the Board, and the Consultant, may continue to allocate to unique investment strategies and/or investment firms, as further described below.

1. Unique Investment Strategies

Unique investment strategies include those that have collateral benefit objectives, which include job creation, community development, green or environmental objectives (e.g., reduce the use of carbon based fuels) and underserved market initiatives (e.g., defined by geography such as urban or inner city and by demographics such as minority or lower income areas). While such strategies offer attractive benefits, the Consultant shall focus its evaluation on whether the expected return projected for the investment is reasonable given the level of risk. To recommend such an investment to the Staff and the Board, the Consultant needs to show that the expected risk and return of the prospective investment allocation is reasonable and consistent with that of a comparable real estate strategy not providing the same collateral benefits. For example, if reviewing an office development strategy targeted at a certain urban community, the Consultant needs to show in its recommendation that the expected risk and return are comparable to those of an office investment not offering the same benefits, all other things being equal.

2. Unique Managers

Unique Managers include those that are emerging managers (i.e., newly formed firms raising institutional investment capital for the first time); minority owned business enterprises (MBE); women owned business enterprises (WBE); and firms owned by disabled individuals. To recommend such an investment to the Staff and the Board, the Consultant needs to show that the expected risk and return of the prospective investment allocation to the unique Manager is reasonable. In so doing, the Consultant needs to comprehensively evaluate any traits of the unique Manager that may adversely affect investment performance and conclude that such traits are not likely to materially adversely affect return performance. For example, an emerging Manager with a small staff and no firm track record may prove to be reasonable if the key principals of the firm have significant experience, superior return performance with investments made at prior firms and reasonable financial backing at the firm level.

V. INVESTMENT PROCESSES AND PROCEDURES

A. Real Estate Manager Selection Process

The following discussion describes the process by which LACERS selects Managers and investments.

1. Universe of Potential Candidates

The Consultant at the request of the Staff will initiate a Manager search by creating a global list of potential candidates for selection based on the Staff and Consultant's initial search criteria. The Consultant shall provide information from its databases regarding the candidates to be reviewed with the Staff. The Staff will set forth any additional candidates to be considered. The Consultant and the Staff will consolidate their lists to create a single list of potential candidates.

2. Minimum Manager Qualifications

The Manager requirements include that the Manager have $200 million of assets at a minimum under management and no less than three (3) years of firm experience. Special exceptions will be made for emerging managers or niche strategies where appropriate as previously described under Specialized Investments.

3. Candidate Summaries

The Consultant shall complete a brief summary of the Manager candidates, including descriptions of their meeting Manager criteria established by the Consultant and the Staff relating to the Managers' organization, track record, personnel, alignment of interests, terms and fees. The Consultant will screen these summaries and recommend the finalists for further due diligence to the Staff.

4. Due Diligence

After the Staff and the Consultant select the finalists, the Consultant, with the assistance of the Staff, shall complete a comprehensive due diligence review. Whenever possible, the Consultant shall invite the Staff to participate in completing due diligence activities. The due diligence process at a minimum shall include the following:

a. Review the firm organization, including the professionals (manager principals, senior and key firm professionals and proposed team members), staff and office location.

b. Review the financial condition of the firm, including the financial strength and motivations of significant investors and key personnel.

c. Review the existing investors/other limited partners.

d. Review the business backgrounds of key personnel to evaluate their competence and expertise.

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e. Review the turnover of personnel and succession of leadership within the organization.

f. Review whether there are any other pending events that may affect the organization (sale, merger or litigation).

g. Evaluate the research capabilities of the firm and whether research is incorporated into investment and management activities.

h. Analyze past track record, Manager returns and performance, specifically including the investment under consideration or preceding investments with comparable investment strategies.

i. Assess the reasonableness of the proposed investment strategy given current market conditions.

j. Evaluate the firm's ability to source new investments and the reasonableness of the proposed cost of such activities.

k. Evaluate the reasonableness of the fund fee structure in terms of the amount and alignment of investor and manager interests.

l. Determine whether any conflicts of interest exist that may unacceptably affect investment performance (e.g., whether the investment will compete within the firm for new investments and if so, whether the process for allocating new investments is reasonable and acceptable).

m. Request that the Manager complete a workforce composition report and evaluate workforce composition to determine the firm's adherence to the Equal Employment Opportunity Act.

n. Determine the fund's position regarding the integration of sustainable practices with its investment strategies.

o. With respect to Specialized Managers, determine the Managers' unique attributes focusing specifically on the special considerations weighing those considerations against the other positive investment characteristics of the investment, as further described in more detail in the Specialized Manager section.

p. Determine compliance with LACERS' Marketing Cessation Policy and relevant City of Los Angeles and LACERS' vendor requirements and to LACERS' Disclosure Policy. The Consultant will note the name of the individual and their respective firm referring the fund to the Consultant for consideration for the Portfolio's investment, and also list the name of any placement agent, their firm, and the amount of compensation.

q. Specifically for direct property or separate account investments:

    1) The Consultant shall recommend to the Staff for necessary approval a Manager who will conduct due diligence on the proposed acquisition and provide the Staff and Consultant with a real estate investment brief. The

investment brief shall be a written summary of the investment including an analysis of the economic viability of the investment; a financial summary including cash flow projections; a market overview; environmental and engineering assessments, locator map, site plan, photographs; and other information required to complete a thorough evaluation of the investment.

2) The Consultant shall prepare the final investment recommendation report. This report shall be the culmination of all preceding efforts and provides detail on the Manager's performance, merits, issues, and extensive portfolio analytics. This report is presented to the Consultant's Investment Committee for final approval or rejection of the investment opportunity.

5. Selection and Approval

After completing the due diligence report, the Staff and Consultant will recommend a candidate for consideration to the Committee. The Committee shall make a recommendation to the Board which will make the final decision.

6. Term Negotiation

The Staff, Consultant, and the legal counsel will negotiate the Manager contract and propose a side letter if necessary. The final contract shall be executed by LACERS' CIO or the appropriate party or parties.

7. Monitoring Process and Performance Measurement

The Consultant and the Staff, when available, will meet with managers on a periodic basis to determine the progress being made in the fund. These discussions may occur at annual investor meetings or in face-to-face or telephone meetings either at the Manager's or the Consultant's offices.

Investment Managers will send financial reports and capital account statements on a regularly scheduled basis. Quarterly Performance Measurement Reports ("PMR") shall be prepared by the Consultant. The PMR is a comprehensive reporting and evaluation system addressing each investment. The PMR system shall provide such information as may be required by LACERS to understand and administer its investments and shall include attributes for both the Managers and the total portfolio. These attributes include: income, appreciation, gross and net returns for the portfolio and each manager, cash flow, internal rate of return calculations, diversification, comparisons to relevant industry performance indices and information reporting standards.

VI. BENCHMARK RETURNS

Individual investment risk categories within the real estate investment portfolio shall have different return objectives established by the Board in order to account for increased risk relative to a core strategy. The return objectives are as follows:

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LACERS' Real Estate Portfolio Benchmark Guidelines	
Risk Category	**Return Objectives Over Rolling 5-Year Periods**
Private Equity Real Estate	NCREIF Index + 100 basis points
Global REITs	EPRA/NAREIT/Global[1]
Total Real Estate Portfolio	**Blended Private/Public Portfolio Exposure**

[1]Combination of U.S. and Foreign Securities.

A. Portfolio Benchmark

With respect to private real estate investments, The Consultant, the Staff and the Board shall use the National Council of Real Estate Investment Fiduciaries Real Property Index ("NCREIF Index") plus 100 basis points over a rolling 5-year period as its benchmark. With respect to public real estate securities, the Consultant, the Staff, and the Board shall use the European Public Real Estate Association ("EPRA") and the National Association of Real Estate Investment Trusts ("NAREIT") Global Index ("EPRA/NAREIT/Global Index"). In the event that the Portfolio includes both private and public real estate investments, the benchmark shall be a weighted benchmark based on the Portfolio's exposure to public and private real estate investments, weighted quarterly.

B. Custom Benchmarks

Additional custom benchmarks will be used to measure the Portfolio's return performance including the Courtland Partners' Index ("CPI"). The CPI refers to investments reported in Courtland's Quarterly Performance Measurement Databases including pooled funds, separate accounts, direct investments, and real estate securities in which public and ERISA pension funds, endowments and/or foundations currently have investments. The CPI differs from NCREIF because it includes leverage and higher risk/return investments (i.e., value and opportunistic). The CPI shall be weighted based on the Portfolio's allocation to core, value, and opportunistic.

VII. ROLES AND RESPONSIBILITIES

The following duties have been established to manage the risks involved with investing in real estate. Set forth below is the delegation of the major roles and responsibilities of each participant:

A. Duties of the Board

1. Establish the role of the real estate investment program in light of the total portfolio objectives.
2. Consider and act upon the allocation to real estate and approve any adjustments to the allocation which may from time to time be necessary.
3. Consider and act upon the Policy (objectives, policies and procedures) and the Annual Strategic Plan for the real estate program.

4. Consider and act upon the Committee recommendations for selection, retention, and removal of the Managers and/or the Consultant and the selection of Manager investments.

5. Review the real estate portfolio on a quarterly basis to evaluate the investment performance and to ensure compliance with policy guidelines and approved Investment Plans.

B. Duties of the Committee

1. Review the Policy (objectives, policies and procedures) and the Annual Strategic Plan for the real estate program. Present findings and recommendations on the Policy and the Annual Strategic Plan to the Board for consideration.

2. Interview the Managers, the Consultant and recommend selections to the Board for consideration.

3. Review recommendations for removal of the Managers and recommend termination to the Board for consideration.

4. Participate in the Annual Strategic Plan review and present summary findings to the Board.

5. Review the performance of the Consultant on a periodic basis and discuss findings with the Board.

C. Duties of the Staff

1. Update and communicate with the Board and Investment Managers on issues and matters of the Policy.

2. Provide the Board with education and analysis that is independent from the Consultant to the extent time and resources allow.

3. Be familiar with the asset class and stay informed of developments in industry as they occur.

4. Oversee the Consultants' preparation of the Policy and Annual Strategic Plan for the real estate program. Present and recommend, along with the Consultant, the Policy and Annual Strategic Plan to the Committee.

5. Oversee performance of the Consultant and the Managers.

6. Bring any non-conforming items or significant issues to the attention of the Board.

7. Document and monitor funding procedures.

8. Complete any other activity as directed by the Committee and/or Board.

9. Conduct or assist in conducting due diligence on prospective investment opportunities as LACERS' resources permit.

10. Prepare investment documentation with the consultant.

D. Duties of the Manager

1. Adhere to reporting and performance measurement standards established by the CFA Institute and comply with generally accepted accounting principles ("GAAP") applied on a fair market value basis.

2. Execute and perform its duties under the terms of the investment vehicle documents.

3. Provide timely requests for capital contributions.

4. Provide quarterly financial statements, annual reports and other investment information requested by the Staff and/or the Consultant.

5. Conduct annual meetings to discuss important developments regarding investment and management issues.

E. Duties of the Consultant

LACERS engaged the Consultant on a non-discretionary basis to select new investments, to monitor existing investments, and to provide advice in accordance with the investment objectives for the real estate portfolio. The Consultant will be evaluated annually based on the performance of these duties. The Consultant's services to LACERS may include but are not limited to the following:

1. Report directly to the Board, the Investment Committee and the Staff on matters of policy.

2. Bring any non-conforming items or significant issues to the attention of the Staff, Investment Committee and the Board.

3. Complete due diligence on potential investments and preparation of the due diligence report.

4. Monitor the performance of the real estate portfolio and compliance with approved policy.

5. Prepare the Policy and Annual Strategic Plan for the real estate program, in conjunction with the Staff, and present the Annual Strategic Plan to the Committee for review.

6. Review proposed real estate investments and recommend prudent investments, structure and controls. Monitor investments and ventures through completion and disposition, including satisfaction of conditions to funding, partnership and financial issues.

7. Assist Staff with the review and preparation of documents related to new investments approved by the Board consistent with the Consultant's recommendation.

8. Prepare a quarterly performance report to the Board to evaluate investment performance and to ensure compliance with policy guidelines and approved Annual Strategic Plans. The evaluation system shall provide such information as may be required by LACERS to understand and administer its investments.

9. Assist the Staff and the Committee in the Annual Strategic Plan portfolio review.

10. Provide Board and Staff with topical research and education on investment subjects that are relevant to LACERS.

11. The Consultant will review the Policy annually and will notify LACERS if any revisions are needed thereto.

12. Monitor and report on risk.

13. Provide ongoing real estate education information and seminars to the Board.

F. Duties of Legal Counsel

The legal counsel selected by LACERS along with the Office of the Los Angeles City Attorney will represent LACERS, and will review all real estate related documents and provide advice for special investment situations as needed.

G. Consultant Evaluation

The Consultant will be evaluated annually as consultant for LACERS real estate portfolio based upon, but not limited to, the following criteria. The annual evaluation will be treated confidentially with open communication.

1. Portfolio performance.

2. Quality of analytical and technical work.

3. Expertise in the real estate asset class.

4. Responsiveness to requests from the Board, the Investment Committee and Staff.

5. Availability to attend Board meetings, Investment Committee meetings and meetings with Staff given reasonable advance notice.

6. Consulting and advising on LACERS portfolio including white papers on selected topics.

7. Ability to identify and mitigate risks.

8. Proactively informing Staff of new investment opportunities or risks in the market place.

APPENDIX A

GLOSSARY OF TERMS

The following is a list of commonly used terms in Real Estate Investments and their respective definitions.

Appreciation Return: Expressed as a percentage, the return generated by the Capital Appreciation of a property or portfolio over the period of analysis.

Capital Appreciation: The change in market value of property or portfolio over the period of analysis, adjusted for Capital Improvements and Partial Sales for the period.

Capital Expenditures: Investment of cash or the creation of a liability to acquire or improve an asset, e.g., land, buildings, building additions, site improvements, machinery, equipment; as distinguished from cash outflows for expense items that are normally considered part of the current period's operations.

Capital Improvements: Expenditures that cure or arrest deterioration of property or add new improvements and appreciably prolong its life. By comparison, repairs merely maintain property in an efficient operating condition.

Capitalization Rate: The Capitalization Rate or Cap Rate is a ratio used to estimate the value of income producing properties. It is computed by dividing the annual net operating income by the sales price or value of a property.

Commingled Funds: A term applied to all open-end and closed-end pooled investment vehicles designed for institutional tax-exempt investors. A commingled fund may be organized as a group trust, partnership, corporation, insurance company separate account or other multiple ownership entity.

Open-end Fund: A commingled fund with no finite life that allows continuous entry and exit of investors, and typically engages in on-going investment purchase and sale activities.

Closed-end Fund: A commingled fund with a stated maturity (termination) date, with few or no additional investors after the initial formation of the fund. Closed-end funds typically purchase a portfolio of properties to hold for the duration of the fund and, as sales occur, typically do not re-invest the sales proceeds.

Diversification Attributes:

Equity: Direct undivided ownership in real estate that has not been financed using borrowed funds.

Leveraged Equity: Direct undivided ownership in real estate that has been financed using borrowed funds

Equity Oriented Debt: A mortgage loan with a stated interest rate in addition to equity participation by the lender via annual cash flow and/or sale proceeds or refinancing proceeds.

Traditional Debt: A mortgage loan payable at one or more stated interest rates.

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Life Cycle:

Pre-development:	Raw land.
Development:	Properties under construction including preparation and installation of infrastructure.
Leasing:	Completed construction that is less than 60% leased and that has been available for occupancy one year or less.
Operating:	Properties with greater than 60% average leasing, or that have been available for occupancy for more than one year.
Redevelopment:	Properties that are undergoing substantial expansion or re-tenanting, rehabilitation or remodeling.
Property Size:	Property size categories refer to gross asset value of each property. The dollar amount entered in each category should reflect net asset value within each category.

Property Type:

Office:	Low-rise, mid-rise and high-rise office buildings and office parks.
Industrial:	Warehouse, manufacturing, office showroom, flex space and research and development.
Retail:	Neighborhood center, community center, regional center, super regional center, fashion/specialty center, power center, theme/festival center and outlet center.
Residential:	High-rise elevator projects, low-rise projects, and garden type projects.
Hotel/Motel:	Hotels, resorts, and motels.
Timberland:	Timber, timberland, and mineral rights
Agriculture:	Row crops, permanent crops, pasture/ranch and agribusinesses.
Vacant Land:	Undeveloped land.
Other:	Mobile home parks, self storage facilities, etc.

Gross Asset Value: The fee simple or leased fee market value of an investment, without regard to the debt balance or ownership percentages.

Gross Income: The income or loss of a portfolio or entity, resulting after deducting all expenses, (except for portfolio and asset management fees), but before realized and unrealized gains and losses on investments.

Income Return: Expressed as a percentage, the component of return derived from property operations during the period of analysis.

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Lease Expiration Exposure Schedule: A tabulation listing the total leasable square footage of all current leases that expire in each of the next five years, without regard to renewal options.

Net Assets: Total Assets on a market value basis less total liabilities on a market value basis.

Net Investment Income (Net Income): The income or loss of a portfolio or entity resulting after deducting all expenses, including portfolio and asset management fees, but before realized and unrealized gains and losses on investments.

Net Operating Income: Rental and other income of property, less operating expenses other than Capital Expenditures and mortgage debt service.

Net Sales Proceeds: Proceeds from the sale of an asset or part of an asset less brokerage commissions, closing costs, and marketing expenses.

Partial Sales: The sale of an interest in real estate which is less than the whole property. This may include, for example, a sale of easement rights, parcel of land or retail pad, or a single building of a multi-building investment. (See Net Sales Proceeds)

Principal Payments: The return of invested capital to the lender, as compared to interest payments, which represents a return on invested capital.

Separate Accounts: A term applied to an investment vehicle for investors with the ability to commit substantial funds to real estate assets who may prefer to invest through individual portfolios specifically tailored to their unique investment requirements. Separate accounts provide clients with a greater degree of control and enable them to capitalize on specific investment opportunities.

Time Weighted Annual Rate of Return: The yield for a year calculated by geometrically compounding the previous four quarters' returns.

Total Assets: The sum of all gross investments, cash and equivalents, receivables, and other assets presented on the Statement of Assets and Liabilities.

Total Return: The sum of the quarterly income and appreciation returns.

Weighted Average Equity: The denominator of the fraction used to calculate investment level Income, Appreciation, and Total returns on a quarterly basis, consisting of the Net Assets at the beginning of the period adjusted for Weighted Contributions and Distributions.

2.4 CREDIT OPPORTUNITIES STRATEGY STATEMENT

Adopted: February 14, 2012

I. INTRODUCTION

At the January 10, 2012 LACERS Board meeting, the Board approved a 5% asset allocation objective to a new asset class, Credit Opportunities, following the results of an asset-liability study that took into account the System's liabilities as well as current projected capital market expectations.

II. PURPOSE

This policy provides a broad framework for managing the Credit Opportunities investment program. It outlines the asset allocation, strategic objectives, roles and responsibilities, performance objective, benchmarks, portfolio structure, and risk management objectives. This policy is designed to provide sufficient flexibility for Staff and external managers to achieve the performance objective and control risks.

III. ASSET CLASS OBJECTIVES

The objective of the asset class is to provide one or more of the following contributions over the long term (i.e., market cycle or longer) to the LACERS total investment program:

1. Real return above inflation of between 3% and 5%;
2. Diversification versus LACERS' two main asset classes: equities and bonds; and
3. Income

The target allocation to Credit Opportunities is 5% with flexible rebalancing given the public/private composition of the asset class. Generally, the actual allocation will be kept within or + 2% of this target allocation objective.

IV. ROLES AND RESPONSIBILITIES

Key duties and responsibilities are as stated below.

Board – The LACERS Board is responsible for establishing the allocation targets and rebalancing ranges for the Credit Opportunities asset class and sub-asset classes comprised within as well as the return objectives for the asset class. The Board is also responsible for setting the risk budget for the Credit Opportunities asset class. Lastly, the Board is ultimately responsible for manager hire and termination decisions as well as the manager mandate asset sizes.

Staff – The LACERS Staff is responsible for the development of investment strategy and manager recommendations for the Credit Opportunities asset class for Board review and subsequent approval. Each recommendation will include an investment thesis, evaluation criteria, benchmark(s), resources required, implementation plan, and funding amount. Staff is also responsible for day-to-day implementation and oversight of the credit opportunities strategies and managers, including formulating hiring, firing and allocation size recommendations for the Board. Additionally, Staff shall monitor the Credit Opportunities program for compliance with Board policies.

Consultant – An investment consultant(s) shall provide independent advice to the LACERS Board with respect to the Credit Opportunities asset class and sub-asset classes in terms of appropriate strategies and manager products to employ, new developments and investment opportunities in the asset class, and the investment performance monitoring and reporting of strategies and manager products post-implementation. The Consultant(s) shall assist Staff in the development of investment strategy and manager recommendations. Additionally, the Consultant(s) will assist Staff in conducting strategy/manager searches, negotiation of guidelines and fees as well as provide on-going technical advice and support as needed.

Managers – External investment management firms shall be responsible for the management of the respective Credit Opportunities strategies implemented by the Board in accordance with Board policies. The managers shall also communicate key issues to the Board and Staff as necessary. Additionally, the managers shall provide LACERS Staff and Consultant(s) on a timely basis monthly (public markets managers) and quarterly (public and private markets managers) detailed performance reporting which shall include a statement of holdings, performance and performance attribution and risk, and a summary of individual security transactions, cash flows and income.

V. PERFORMANCE OBJECTIVE

The primary return objective for the LACERS' Credit Opportunities program is to outperform a custom weighted benchmark of 65% Barclays Capital U.S. High Yield Capped Index plus 35% J.P. Morgan Emerging Markets Bond Index – Global Diversified ("EMBI—GD") by 50 basis points net of fees over a market cycle. Performance evaluation on a risk-adjusted basis shall consider the diversification impact of Credit Opportunities on the LACERS Total Fund. Returns will be calculated after management fees.

VI. BENCHMARKS

The primary benchmark for the Credit Opportunities program is a custom weighted benchmark of 65% Barclays Capital U.S. High Yield Capped Index plus 35% J.P. EMBI—GD.

VII. EVALUATION OF POLICY

The Credit Opportunities Policy shall be reviewed and revised as necessary by Staff, with the assistance of the investment consultant(s), at least annually. Revisions shall be submitted to the Board for approval.

VIII. PORTFOLIO STRUCTURE

Investments will primarily be characterized by their underlying holdings of asset types. The Credit Opportunities investment program can be comprised of both public and private credit opportunities strategies. The following strategies will be considered as appropriate for consideration and implementation within the LACERS' Credit Opportunities investment program.

Section 2.0 ASSET CLASSES AND STRATEGIES

U.S and Non-U.S. High Yield Bonds – Below investment grade (i.e., <BBB/Baa) rated bonds issued by public corporations with a perceived higher risk of default. Investors in these securities hope to benefit from spread tightening relative to investment grade bonds and from their higher overall yields, i.e., income.

Emerging Markets Debt (Local, Hard, Sovereign and Corporate) – Debt issued by the governments ("sovereign") of developing, or emerging, countries. Additionally, debt issued by corporations domiciled within emerging markets countries. Can be investment grade or below investment grade rated debt. Also can be issued in a foreign external, or "hard", currency (e.g., U.S. dollars, Euros, etc.) or in the country's local currency. Investors in these securities hope to benefit from spread tightening relative to investment grade and/or domestic bonds and from their higher overall yields.

Leveraged Loans – Loans extended to high yield (i.e., below investment grade) or levered borrowers, generally by banks or other financial institutions. The loans are *not* levered – the borrowers are. Hence, there is a perceived higher risk of default. Leveraged loans tend to have short maturities and are higher in the capital structure than regular debt of the company. Investors in these securities hope to achieve higher than investment grade bond returns due to their higher yields.

Distressed Debt – Debt of issuers that 1) are sufficiently financially impaired where there is a high risk of default or bankruptcy, 2) have already defaulted on financial obligations, or 3) have entered into bankruptcy proceedings. Investors in these securities hope to achieve high returns through financial or other restructuring at the issuing company.

Opportunistic or Special Debt Situations – Debt which may not fit within the preceding categories that may offer a unique investment opportunity due to broader economic or financial conditions.

Diversification within Credit Opportunities is desirable, because the credit risk and liquidity characteristics of individual investments can be highly adverse in some market environments. Because the correlation of returns across such individual opportunities are moderate, pursuing diversification across individual opportunities is intended to produce a portfolio structure that in aggregate is less risky in terms of volatility of returns than the individual investments it comprises would be, if considered on a stand-alone basis. The Credit Opportunities structure allocation targets and rebalancing ranges of the investments strategies identified above are summarized in Exhibit 1.

Exhibit 1: Credit Opportunities Portfolio Strategy Target Allocations

Credit Opportunities Strategy	Strategy Allocation Target	Strategy Allocation Range
U.S. and Non-U.S. High Yield	55%	45% – 65%
Emerging Markets Debt	35%	30% – 40%
Leveraged Loans	10%	0% - 15%
Distressed Debt/ Opportunistic Bonds	0%	0% - 5%

IX. RISK MANAGEMENT

Credit Opportunities investments will be subject to a combination of risks, including the following:

1. Credit Risk – The risk that portfolio holdings default on their payment obligations.
2. Bankruptcy Risk – The risk that portfolio companies become so impaired as to have to file for bankruptcy protection.
3. Capital Risk – The risk of losing the original investment.
4. Liquidity Risk – The risk that the investment cannot be readily converted to cash at prevailing or assumed prices.
5. Market Risk – The risk that adverse market shifts will cause losses.
6. Active Management Risk – The risk that portfolio implementation decisions will cause under-performance relative to the portfolio's benchmark.
7. Agency Risk – The risk that interests are misaligned between an external investment manager or general partner and LACERS.
8. Operational Risk – The risk that non-investment processes necessary to the implementation of the investment fail.
9. Leverage Risk – The risk that investments that have express or hidden leverage features or significant elements of optionality will have amplified sensitivity to some of the preceding risks.

Risk management will be effected through a combination of quantitative and qualitative efforts, including:

1. The overall size of the Credit Opportunities investment program is limited by the Board and the above strategy policy limitations:

    a. Each individual manager account will be limited to no more than 40% of the Credit Opportunities asset class overall market value;

    b. LACERS' investment in a Credit Opportunities investment strategy will not comprise more than 20% of the strategy assets in private or public Credit Opportunities vehicles. However, for public vehicles, it is acceptable if a firm has broader exposure to the Credit Opportunities strategy investments through other firm products that when aggregated, LACERS' investment will not comprise more than 20% of the assets under management for those aggregated assets.

    c. Private Credit Opportunities exposures will not comprise more than 5% of the total Credit Opportunities allocation.

    d. Public markets Credit Opportunities investment strategies shall be long only.

    e. No leverage shall be employed.

    f. The stated total investment horizon (i.e., from initial commitment to last distribution) for a private Credit Opportunities investment strategy shall not exceed seven (7) years in length.

    g. Product exposure for Credit Opportunities investments will be sized according to the strategies' risk profile.

Section 2.0 ASSET CLASSES AND STRATEGIES

2. The identification and implementation of appropriate Credit Opportunities strategies will follow a prudent and diligent process with the assistance of the investment consultant(s).

3. In general, Credit Opportunities investments will be diversified across multiple dimensions:
    a. Across strategy types, according to the strategy exposure allocation ranges in Exhibit 1;
    b. Within credit opportunities strategy types; and
    c. Within individual portfolios utilized to implement the strategies, subject to approved portfolio guidelines.

4. Investment products and organizations selected to implement strategies will be subject to LACERS' Staff and investment consultant due diligence reviews as well as ongoing monitoring of organizations, process and performance using expert investment consultants as appropriate.

Section 2.0 ASSET CLASSES AND STRATEGIES

2.5 REAL ASSETS STRATEGY STATEMENT

Adopted: February 14, 2012

I. INTRODUCTION

At the January 10, 2012 LACERS Board meeting, the Board approved a 10% asset allocation objective to a new asset class, Real Assets, following the results of an asset-liability study that took into account the System's liabilities as well as current projected capital market expectations.

II. PURPOSE

This policy provides a broad framework for managing the Real Assets investment program. It outlines the asset allocation, strategic objectives, roles and responsibilities, performance objective, benchmarks, portfolio structure, and risk management objectives. This policy is designed to provide sufficient flexibility for Staff and external managers to achieve the performance objective and control risks.

III. ASSET CLASS OBJECTIVES

The objective of the asset class is to provide one or more of the following contributions over the long term (i.e., market cycle or longer) to the LACERS total investment program:

1. Real return above inflation of between 3% and 5%;
2. Inflation hedge;
3. Diversification versus LACERS' two main asset classes: equities and bonds; and
4. Income

The target allocation to Real Assets is 10% with flexible rebalancing given the public/private composition of the asset class. Generally, the actual allocation will be kept within 30% (or ± 3%) of this target allocation objective.

IV. ROLES AND RESPONSIBILITIES

Key duties and responsibilities are as stated below.

Board – The LACERS Board is responsible for establishing the allocation targets and rebalancing ranges for the Real Assets asset class and sub-asset classes comprised within as well as the return objectives for the asset class. The Board is also responsible for setting the risk budget for the Real Assets asset class. Lastly, the Board is ultimately responsible for manager hire and termination decisions as well as the manager mandate asset sizes.

Staff – The LACERS Staff is responsible for the development of investment strategy and manager recommendations for the Real Assets asset class for Board review and subsequent approval. Each recommendation will include an investment thesis, evaluation criteria, benchmark(s), resources required, implementation plan, and funding amount. Staff is also responsible for day-to-day implementation and oversight of the real asset strategies and managers, including formulating hiring, firing and allocation size recommendations for the Board. Additionally, Staff shall monitor the Real Asset program for compliance with Board policies.

Consultant – An investment consultant(s) shall provide independent advice to the LACERS Board with respect to the Real Assets asset class and sub-asset classes in terms of appropriate strategies and manager products to employ, new developments and investment opportunities in the asset class, and the investment performance monitoring and reporting of strategies and manager products post-implementation. The Consultant(s) shall assist Staff in the development of investment strategy and manager recommendations. Additionally, the Consultant(s) will assist Staff in conducting strategy/manager searches, negotiation of guidelines and fees as well as provide on-going technical advice and support as needed.

Managers – External investment management firms shall be responsible for the management of the respective Real Assets strategies implemented by the Board in accordance with Board policies. The managers shall also communicate key issues to the Board and Staff as necessary. Additionally, the managers shall provide LACERS Staff and Consultant(s) on a timely basis monthly (public markets managers) and quarterly (public and private markets managers) detailed performance reporting which shall include a statement of holdings, performance and performance attribution and risk, and a summary of individual security/property transactions, cash flows and income.

V. PERFORMANCE OBJECTIVE

The primary return objective for the LACERS' Real Assets program is to outperform the U.S. Consumer Price Index ("CPI") plus 5% over multiple market cycles and to outperform a secondary custom benchmark comprised of the weighted average of the underlying strategy benchmarks over a full market cycle, with appropriate consideration of risk. Performance evaluation on a risk-adjusted basis shall consider the diversification impact of Real Assets on the LACERS Total Fund. Returns will be calculated after management fees.

VI. BENCHMARKS

The primary benchmark for the Real Assets program is an annualized return of 5% above the CPI. The secondary benchmark for Real Assets is the weighted average of the underlying benchmarks for each strategy employed.

VII. EVALUATION OF POLICY

The Real Assets Policy shall be reviewed and revised as necessary by Staff, with the assistance of the investment consultant(s), at least annually. Revisions shall be submitted to the Board for approval.

VIII. PORTFOLIO STRUCTURE

Investments will primarily be characterized by their underlying holdings of asset types. The Real Assets investment program will be comprised of both public and private real asset strategies. The following strategies will be considered as appropriate for consideration and implementation within the LACERS' Real Assets investment program.

Section 2.0 ASSET CLASSES AND STRATEGIES

Private Real Estate – LACERS already has a meaningful exposure to this asset class, the governing policy of which is separate from this policy. This policy only governs the allocation exposure to private real estate.

Public Real Estate "REITS" – Publicly traded companies that trade on major stock exchanges and invest directly in real estate either through properties or mortgages. A distinguishing characteristic of this investment strategy versus private real estate is the improved liquidity and yield orientation.

Treasury Inflation Protection Securities ("TIPS") or Global Inflation-Linked Bonds – Securities where the principal value adjusts to reflect changes in the U.S. CPI or other sovereign-linked inflation measures upward or downward, but never below the original face amount at maturity. Semi-annual coupon payments are based upon the bond's adjusted principal which provides a direct inflation link.

Commodities/Natural Resources – Financial instruments, such as individual stocks, stock baskets or futures which represent companies or markets where the prices are directly linked to the ownership or trading of physical commodities/natural resources or companies whose primary source of revenues are tied directly or indirectly to the management, ownership or trading of physical commodities/natural resources. Commodities/natural resources are raw materials which are inputs to the production of goods and services. Thus, changes in commodities/natural resources prices typically lead inflation. Higher commodities/natural resources prices lead to increased prices goods and services, hence, a directly link to inflation.

Timber/Farmland – These are a hybrid investment strategy in that similar to commodities, they provide final and raw material in the production of goods and services and will tend to lead inflation. However, as private investments, they are similar to private real estate in that a potential increase in property value exists due to changes in supply and demand factors that influence inflation.

Master Limited Partnerships ("MLPs") – An MLP is a publicly traded partnership that combines individual limited partnerships into one entity to make the ownership interests more marketable with a general partner operating the business. MLPs are high income assets that should provide a consistent yield in between REITS and High Yield Bonds. As equities, they are also expected to earn returns commensurate with traditional public equities. An MLP is a pass-through entity that is taxed at the unit holder (i.e., share holder) level and not subject to tax at the partnership level. However, tax exempt investors may produce Unrelated Business Taxable Income ("UBTI"), which means tax-exempt investors engaged in a 'business' outside of the purpose for their exemption may be subject to UBTI. The businesses of MLPs are related to the extraction, production, and distribution of natural resources or energy infrastructure.

Infrastructure – Private markets investments in essential physical infrastructure such as toll roads, bridges, airports and utilities accessed by most citizens and designed to provide a steady income stream via tolls, leases, etc. Income stream is periodically adjusted by owners and inflation escalation provisions are often "built in" to provide a direct link to inflation. Capital appreciation also directly linked to primary economic drivers such as inflation.

Section 2.0 ASSET CLASSES AND STRATEGIES

Oil and Gas Limited Partnerships – Private markets investments in limited partnerships which have the objective of exploring/develop/market oil/gas sources. Returns are primarily driven by an income stream as well as from profits earned at the end of the partnership. However, returns are influenced by rate at which oil and gas flow from source. Thus, this is considered a highly risky, speculative investment strategy.

Multi-Asset Real Asset/Return Strategies – Bundled public markets or combination private/public markets real assets and/or real return strategies where the investment objective is to provide a real return above inflation over a market cycle. The investment manager has the discretion to select the combination of real asset strategies and to establish the exposure to each respective real asset strategy.

Diversification within Real Assets is desirable, because the inflation hedging, risk, and liquidity characteristics of individual investments can be highly adverse in some market environments. Because the correlation of returns across such individual opportunities are not high, pursuing diversification across individual opportunities is intended to produce a portfolio structure that in aggregate is much less risky in terms of volatility of returns than the individual investments it comprises would be, if considered on a stand-alone basis. The Real Assets structure allocation targets and rebalancing ranges of the investments strategies identified above are summarized in Exhibit 1.

Exhibit 1: Credit Opportunities Portfolio Strategy Target Allocations

Real Assets Strategy	Strategy Allocation Target	Strategy Allocation Range
Private Real Estate	50%	40% - 60%
REITS	5%	0% - 10%
Inflation-Linked Bonds	30%	25% - 35%
Commodities/Natural Resources	10%	5% - 15%
Timber/Farmland	0%	0% - 3%
MLPS	0%	0% - 2%
Infrastructure	0%	0% - 2%
Oil and Gas Partnerships	0%	0% - 2%
Multi-Asset Real Asset/ Return Strategies	5%	0% - 10%

IX. RISK MANAGEMENT

Real assets investments will be subject to a combination of risks, including the following:

1. Capital Risk – The risk of losing the original investment.
2. Liquidity Risk – The risk that the investment cannot be readily converted to cash at prevailing or assumed prices.
3. Market Risk – The risk that adverse market shifts will cause losses.
4. Active Management Risk – The risk that portfolio implementation decisions will cause under-performance relative to the portfolio's benchmark.
5. Agency Risk – The risk that interests are misaligned between an external investment manager or general partner and LACERS.
6. Operational Risk – The risk that non-investment processes necessary to the implementation of the investment fail.
7. Leverage Risk – The risk that investments that have express or hidden leverage features or significant elements of optionality will have amplified sensitivity to some of the preceding risks.

Risk management will be effected through a combination of quantitative and qualitative efforts, including:

1. The overall size of the Real Assets investment program is limited by the Board and the above strategy policy limitations:

   a. Each individual actively managed account will be limited to no more than 20% of the Real Assets asset class overall market value;

   b. LACERS' investment in the real asset strategy will not comprise more than 20% of the strategy assets in private or public real asset vehicles. However, for public vehicles, it is acceptable if a firm has broader exposure to the real asset strategy investments through other firm products that when aggregated, LACERS' investment will not comprise more than 20% of the assets under management for those aggregated assets.

   c. Product exposure for real assets investments will be sized according to the strategies' risk profile.

2. The identification and implementation of appropriate Real Assets strategies will follow a prudent and diligent process with the assistance of the investment consultant(s).

3. In general, Real Assets investments will be diversified across multiple dimensions:

   a. Across strategy types, according to the strategy exposure allocation ranges in Exhibit 1;

   b. Within real asset strategy types; and

   c. Within individual portfolios utilized to implement the strategies, subject to approved portfolio guidelines.

Section 2.0 ASSET CLASSES AND STRATEGIES

4. Investment products and organizations selected to implement strategies will be subject to LACERS' Staff and investment consultant due diligence reviews as well as ongoing monitoring of organizations, process, and performance using expert investment consultants as appropriate.