Section 2.0 ASSET CLASSES AND STRATEGIES

2.1 ALTERNATIVE INVESTMENT POLICY

Revised: July 7, 2009

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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.

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.

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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. • Communicate with staff regarding potential opportunities undergoing extensive analysis and due diligence. • Coordinate meetings between staff, Board and general partner upon request. • 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.