Section 2.0 ASSET CLASSES AND STRATEGIES

2.3 REAL ESTATE INVESTMENT POLICY

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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.

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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.

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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.

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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:

Section 2.0 ASSET CLASSES AND STRATEGIES

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.