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.

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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.

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.

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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.

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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.