



**LACERS**  
LOS ANGELES CITY EMPLOYEES'  
RETIREMENT SYSTEM

# Investments Performance Review

Quarter Ending June 30, 2010



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# Executive Summary

## Performance Overview

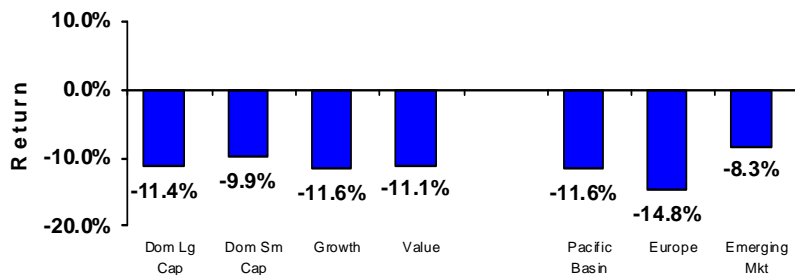
- *LACERS investment portfolio closed the 2<sup>nd</sup> quarter valued at \$9.0 billion, \$700 million lower than the previous quarter. The Fund posted a gross return of -5.7% for the quarter and 12.9% over the past year.*
- *The Total Fund outperformed the policy benchmark for the quarter. Publicly traded portfolio returns positive in the 2<sup>nd</sup> quarter of 2010, except for Fixed Income.*
- *Real Estate continued to experience decline, while Alternative Investments provided the highest return for the quarter.*

## Market and Economic Review

Preliminary readings show that the U.S. economy expanded at an annualized rate of 2.4 percent during the second quarter of 2010. The increase in real GDP in the quarter primarily reflected positive contributions from nonresidential fixed investment, personal consumption expenditures, exports, and private inventory investment, while an increase in imports represented a drag on GDP growth. The Consumer Price Index for All Urban Consumers (CPI-U) decreased 1.5 percent in the quarter on an annualized basis, after seasonal adjustment. Core CPI-U increased 1.3 percent for the quarter. CPI-U, before seasonal adjustment, increased 0.2 percent over the last 12 months. The U.S. economy added 576,000 jobs in the quarter with the official unemployment rate decreasing from 9.7 to 9.5 percent. In the quarter, job gains were largely due to increased hiring of temporary workers, notably government hiring for the 2010 Census. U.S. Treasury rates declined across the maturity spectrum during the most recent quarter. Since the December 16, 2008 meeting, the Federal Reserve has maintained a target range for the Federal Funds rate of 0.00 to 0.25 percent.

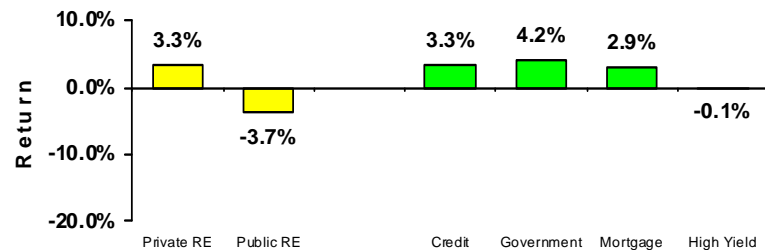
### Equity Markets turned negative with Europe leading the markets lower...

Small Cap U.S. Equities outperformed Large Cap Equities as markets slid into negative territory.



### ...while Fixed Income investors benefited from a drop in interest rates.

Risk premiums across Fixed Income expanded during the most recent quarter.





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# Fund Overview

- *Fund Overview*

LACERS' total portfolio was valued at \$9.0 billion at the end of the 2<sup>nd</sup> quarter. The total portfolio posted a 5.7% loss for the quarter and returned 12.9% over one year, gross of fees. The total portfolio return surpassed its policy benchmark for both the quarter and the one-year period. In a comparison to other public funds in TUCS (Trust Universe Comparison Service) with a market value greater than \$1 billion at June 30, 2010, LACERS performance was in the 68<sup>th</sup> percentile for the quarter and in the 51<sup>st</sup> percentile over the one year period.

The U.S. equity portfolio outperformed its policy benchmark for the quarter, returning -11.0% compared to -11.3%. The portfolio provided a 16.5% return over the one-year period compared to the 15.7% return for the policy benchmark.

The international equity portfolio surpassed its policy benchmark for the quarter with an -11.7% return. The portfolio returned 12.1% for the one-year period, which was 1.7% higher than its policy benchmark.

The fixed income portfolio was 0.4% below its policy benchmark for the quarter with a 2.7% return. The portfolio returned 15.7% for the trailing one-year period besting its policy benchmark by 5.1%.

The real estate portfolio continued to struggle, returning -0.9% for the quarter compared to 0.8% for its benchmark. For the one-year period, the portfolio significantly underperformed by 15.7% with a -25.3% return.

The alternative investments portfolio returned 3.5% for the quarter surpassing its benchmark by 13.8%. The portfolio provided a 19.9% return for the one-year period besting its benchmark by 0.2%.

- ***US Equity Managers***

For the quarter, U.S. equity managers in aggregate outperformed the policy benchmark by 0.3%. Outperformance was driven by performance of small cap growth.

Both small cap growth managers outperformed their benchmark for the quarter, while the small cap value managers posted mixed results compared to their benchmark.

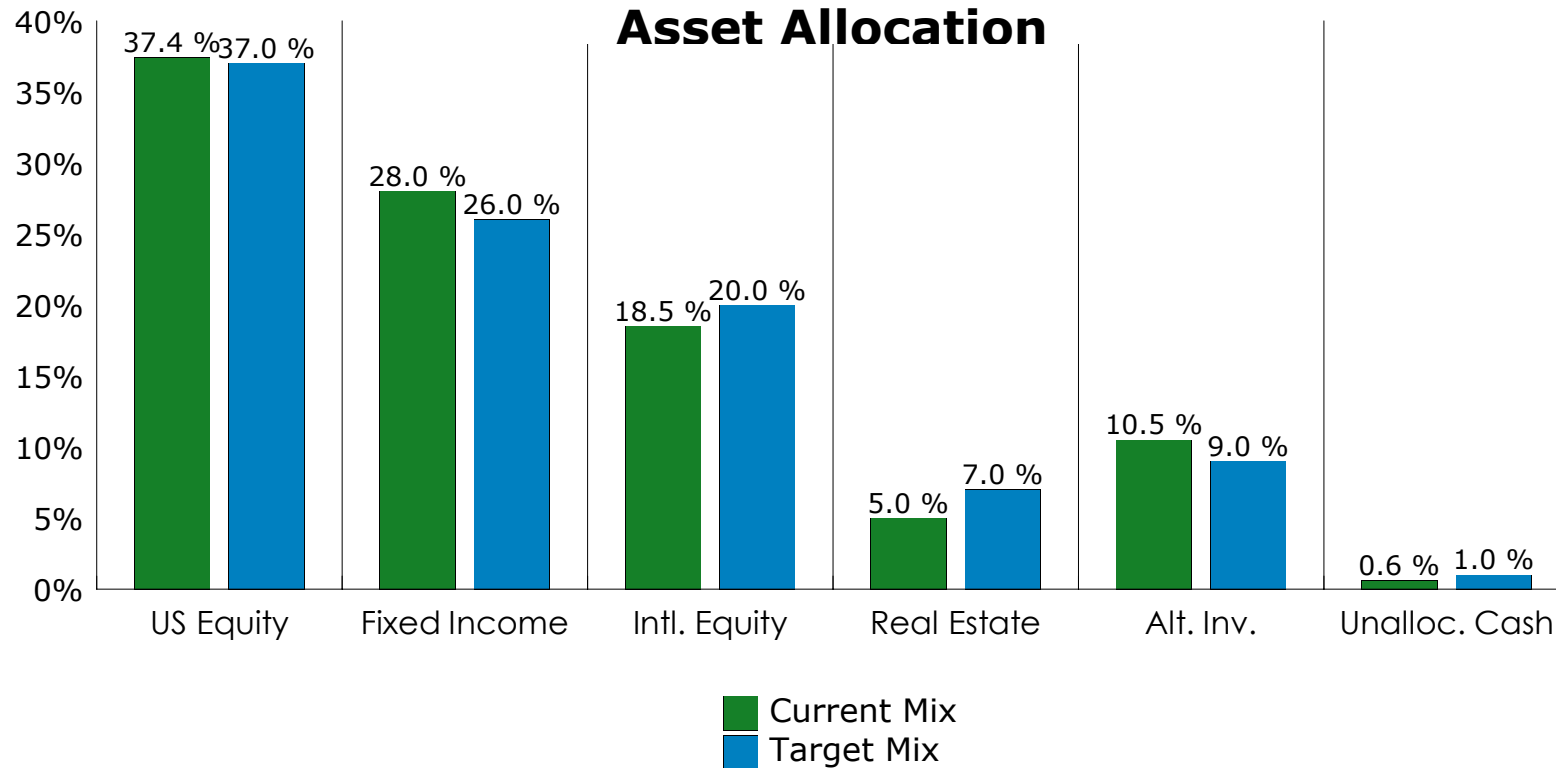
LACERS corporate governance managers produced mixed results compared to their respective benchmarks for the quarter. Two of the three Manager of Managers programs outperformed their respective benchmark for the quarter.

- ***International Equity Managers***

For the quarter, international equity managers in aggregate exceeded the policy benchmark.

- ***Fixed Income Managers***

For the quarter, fixed income managers in aggregate underperformed the policy benchmark. Core fixed income managers produced mixed results relative to their respective benchmarks. Opportunistic Fixed Income outperformed its benchmark for the quarter.



	As of 6/30/2010	Target *	Minimum	Maximum
US Equity	37.4%	37.0%	33.0%	42.0%
Fixed Income	28.0%	26.0%	23.0%	29.0%
Intl Equity	18.5%	20.0%	17.0%	24.0%
Real Estate	5.0%	7.0%	4.0%	10.0%
Alternative Inv.	10.5%	9.0%	6.0%	12.0%
Unallocated Cash	0.6%	1.0%	0.0%	3.0%

\* Revised 4th Qtr 2009 - decrease US Equity from 42% to 37%; increase Fixed Income from 22% to 26%; increase Alternative Inv. from 8% to 9%.



## LACERS Total Fund

 (returns are **gross** of fees)

	Current Quarter	One Year	Two Years	Three Years	Five Years
<b>LACERS Master Trust</b>	<b>-5.7</b>	<b>12.9</b>	<b>-4.7</b>	<b>-5.0</b>	<b>2.9</b>
<i>Policy Benchmark</i>	-6.8	12.5	-4.7	-4.9	2.5
Excess Return	1.1	0.4	0.0	-0.1	0.4
<b>US Equity</b>	<b>-11.0</b>	<b>16.5</b>	<b>-7.3</b>	<b>-9.6</b>	<b>-0.4</b>
<i>Russell 3000</i>	-11.3	15.7	-7.8	-9.5	-0.5
Excess Return	0.3	0.8	0.5	-0.1	0.1
<b>International Equity</b>	<b>-11.7</b>	<b>12.1</b>	<b>-10.8</b>	<b>-10.2</b>	<b>4.0</b>
<i>MSCI ACWI ex US *</i>	-12.5	10.4	-12.7	-10.7	3.4
Excess Return	0.8	1.7	1.9	0.5	0.6
<b>Total Fixed Income</b>	<b>2.7</b>	<b>15.7</b>	<b>9.9</b>	<b>8.1</b>	<b>6.2</b>
<i>BC US Universal *</i>	3.1	10.6	7.7	7.2	5.6
Excess Return	-0.4	5.1	2.2	0.9	0.6
<b>Real Estate</b>	<b>-0.9</b>	<b>-25.3</b>	<b>-28.5</b>	<b>-17.5</b>	<b>-4.7</b>
<i>NCREIF Property</i>	0.8	-9.6	-12.2	-4.3	4.2
Excess Return	-1.7	-15.7	-16.3	-13.2	-8.9
<b>Alternative Investments</b>	<b>3.5</b>	<b>19.9</b>	<b>-3.1</b>	<b>1.7</b>	<b>12.0</b>
<i>Russell 3000 plus 400 bps</i>	-10.3	19.7	-3.8	-5.5	3.5
Excess Return	13.8	0.2	0.7	7.2	8.5

\* Both the MS ACWI ex US and Barclays US Universal indices are historically blended with other indices.