

LACERS

Los Angeles City Employees' Retirement System



Report to Board of Administration

From: Investment Committee
Eric Holoman, Chairperson
Kelly Candaele
Shelley I. Smith

Agenda of: **AUGUST 14, 2007**

ITEM: **III-D**

SUBJECT: AUTHORIZATION TO INVEST IN CITYFRONT CAPITAL PARTNERS, L.P.

Recommendation:

That the Board approve an allocation not to exceed \$5 million to Cityfront Capital Partners, L.P. as part of the Specialized Alternative Investment Program, and authorize the General Manager to approve and execute the necessary documents for this investment, subject to: 1) a minimum \$50 million in committed capital (including LACERS' commitment); 2) final negotiation of terms and conditions to the limited partnership agreement; and 3) subsequent legal review.

Discussion:

Background

Cityfront Capital Partners, L.P. ("Cityfront"), a 100% women- and minority-owned, small and middle-market buyout fund of funds investment vehicle, is targeted to be \$300 million (\$350 million hard-cap). Cathy R. Williams, Julie Goldstein, and Tish Borkowski (the "Principals"), all previously worked together at JPMorgan Chase and its predecessors (collectively, "JPMorgan"). A Controller and a Strategic Advisory Committee will support the Principals. The General Partner (GP) is located in Chicago.

Prior Investment Performance

As of December 31, 2004, the Principals committed \$1.76 billion across a total of 92 funds between 1996 and 2003, and earned a 3.9% internal rate of return (IRR)¹. Of the total funds, the Principals committed \$223 million (12.6% of the total portfolio) across 19 small- and mid-market buyout funds between 1997 and 2003. This produced an aggregate IRR of 8.6%, and achieved an upper quartile ranking for vintage years 1999 and 2001, and an above-median ranking for vintage years 1997 and 1998.²

Strategy

Through their network of established relationships, the GP will develop a diversified portfolio of twelve to twenty established small to mid-size buyout funds. A smaller allocation is designated to emerging small to mid-size buyout funds; co-investments, special situation/late stage venture, and secondary investments that will be considered opportunistically. Portfolio investment funds will be those that are located primarily in the

¹ The JP Morgan portfolio was sold off in the secondary market, updated performance information is not available.

² Venture Economics Buyout Universe – 1997 to 2001

United States. The GP will align its interest with the limited partners by making a 1% contribution of the total capital commitments.

Commitment Size

Since the inception of the Specialized Alternative Investment Program, the Board has approved a commitment of \$145 million to seventeen specialized alternative investments. PCA is recommending a \$5 million commitment to Cityfront, conditioned upon: 1) a minimum \$50 million in committed capital (including LACERS' commitment); 2) final negotiation of terms and conditions to the limited partnership agreement; and 3) subsequent legal review.

DPG:RJ:ib

Attachments: 1) Proposed Resolution
2) Issues and Mitigating Factors
3) Workforce Composition

AUTHORIZATION TO INVEST IN
CITYFRONT CAPITAL PARTNERS, L.P.

PROPOSED RESOLUTION

WHEREAS, as initial gatekeeper, Pension Consulting Alliance (PCA) conducted a due diligence review of Cityfront Capital Partners, L.P.; and

WHEREAS, PCA completed its analysis of Cityfront Capital Partners, L.P., and concluded its review with a favorable recommendation; and

WHEREAS, the Committee considered Cityfront Capital Partners, L.P., and believes Cityfront Capital Partners, L.P. would be a good fit for the Specialized Alternative Investments Equity Program; and

WHEREAS, the Committee recommended to the Board an allocation of up to \$5 million subject to: 1) a minimum \$50 million in committed capital (including LACERS' commitment); 2) final negotiation of terms and conditions to the limited partnership agreement; and 3) subsequent legal review;

NOW, THEREFORE, BE IT RESOLVED, that the Board hereby commits an amount not to exceed \$5 million to Cityfront Capital Partners, L.P., and authorizes the General Manager to approve and execute the necessary documents to invest in Cityfront Capital Partners, L.P. subject to: 1) a minimum \$50 million in committed capital (including LACERS' commitment); 2) final negotiation of terms and conditions to the limited partnership agreement; and 3) subsequent legal review.

August 14, 2007

Cityfront Capital Partners, L.P.
Issues and Mitigating Factors

Issues	Mitigating Factors
<i>First institutional fund by the Cityfront investment team.</i>	The principals have worked together on a proprietary investment team at JPMorgan from 1995 to 2005.
<i>Extra layer of management fees and carried interest using a fund of funds investment vehicle.</i>	Extra layer of management fees associated with fund of funds investment vehicles are standard in the industry, and offset by the following benefits: 1) additional portfolio diversification; and, 2) wider access to top quartile emerging managers through a fund of funds investment vehicle.

WORKFORCE COMPOSITION

Vendor Address
 Cityfront Capital Partners
 415 N. LaSalle St., Suite 502
 Chicago, IL 60610

Date Completed: June 18, 2007

Category: Private equity fund-of-funds

TOTAL COMPOSITION OF WORK FORCE										
Occupation	African American	Hispanic	Asian or Pacific Islander	American Indian/Alaskan Native	Caucasian (Non Hispanic)	Total Employees	Percent (%)		Gender	
	Full Time	Full Time	Full Time	Full Time	Full Time	Full Time	Full Time	Full Time	Male	Female
Officials & Managers	1					0	0.00%			
Professionals					3	4	25.00%			4
Technicians						0	0.00%			
Sales Workers						0	0.00%			
Office/Clerical						0	0.00%			
Semi-Skilled						0	0.00%			
Unskilled						0	0.00%			
Service Workers						0	0.00%			
Other						0	0.00%			
Total	1	0	0	0	3	4	25.00%	0	0	4