Los Angeles City Employees’ Retirement System (LACERS)  
Board of Administration  
Board Governance Policies  
UPDATED: JANUARY 8, 2013

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Statement of Governance Principles

I. THE BOARD’S ROLE

All authority granted by statute in Article XI, Section 17 of the California State Constitution, by Article XI of the City Charter and Administrative Code provisions of the City of Los Angeles, to the Board of Administration, is retained, except as delegated by specific resolution. Consistent with its fiduciary role as Trustee of the Fund, the Board’s principal role is to establish policies and procedures to ensure LACERS is appropriately governed and managed. With the overriding goal of proactively managing the delivery of benefits and investment of trust assets for the exclusive benefit of its current and future members, the Board’s role is to:

A. Develop and Adopt Policies

- Set the long-term strategic direction and annual business plan for LACERS, focusing on the goals of LACERS against which its performance is measured and monitored.

- Set policies for LACERS focusing on:
  - Asset allocation
  - Unfunded liabilities
  - Risk adjusted rates of return
  - Potential future risks

- Select, regularly evaluate, and, if necessary, take disciplinary action against the Chief Executive Officer.

- Delegate execution of established Board policy and strategic objectives to the Chief Executive Officer and through him/her redelegation to the employees of LACERS.

B. Review and Evaluate Performance

- Monitor performance and regularly review results as compared to:
  - LACERS mission/vision statement
  - Strategic plan and other long-range goals
  - Annual business plans
  - Performance measures that include external as well as internal measures

- Benchmarking, incorporating measures that, if realized, clearly position LACERS within the top quartile of comparable funds with which it is compared.

- Assure plans are in place that provide for senior management succession.

- Review, approve, and monitor actuarial data and assumptions.
C. Risk Control

- Review and approve the annual budget, including budget change proposals, financial standards and policies.

- Ensure the integrity of the financial control and reporting system.

- Oversee all audits, including approve the outside auditor, the annual internal audit plan, and provide that financial controls and reporting systems are set forth.

D. Other Board Responsibilities

- Have in place Board policies and guidelines regarding proposed legislation (state and federal), corporate governance, shareholder voting, and the adoption/amendment of administrative code, rules and regulations.

- At all times meet high ethical standards that exceed legal minimums.

- Organize the board of trustees; organize its Committees; and approve charters and delegations to Committees and the General Manager.

- Periodically evaluate the Board, its performance and take any steps necessary to improve Board operations.

- Set the Board agenda, by identifying, articulating, prioritizing and scheduling matters the Board will regularly address.
  
  - Create an annual schedule for its meetings.
  - Identify benchmarks that trigger Board review.
  - Identify information needs and determine how, when and in what form information is to be delivered to Board members so as to enable the Board to meets its responsibilities, having regard for time available.

- Be responsible and accountable to members, beneficiaries, their representative organizations, and others with oversight interests in the Retirement System including the Legislature and taxpayer organizations.
  
  - Monitor relations and communications with members, beneficiaries, their organizations, and other oversight interests.
  - Provide for the election of employee and retired representatives on the Board.
  - Conduct member hearings and decide appeals.
The Board is responsible for creating and maintaining an atmosphere that encourages frank and collegial discussions both at the Board and Committee level and as between the Board and management. The Board strives to achieve a governing style that emphasizes:

- Strategic leadership
- Outward vision
- Focus on the future
- Proactivity
- Encouragement of collegiality
- Respect for diversity in viewpoints
- Governance by consensus
- A partnership with LACERS management
- Ethical conduct of Board business to avoid even the appearance of impropriety.

The Board establishes and communicates Board policies and priorities and then monitors performance in light of its established policies and priorities. The Board recognizes that the achievement of its goals requires self-discipline by the Board as a whole and by individual Board members to live by the policies articulated herein and to govern with excellence.

II. BOARD/CHIEF EXECUTIVE OFFICER RELATIONSHIP

The Board has delegated to the Chief Executive Officer the responsibility for the administration and management of the System. Policy and direction set by the Board is implemented through the Chief Executive Officer so that a strong relationship between the Board and Chief Executive Officer and clear delineation of authority is critical to the accomplishments of the Boards’ objectives.

III. CHIEF EXECUTIVE OFFICER AUTHORITY

The Board has delegated to the Chief Executive Officer responsibility for the administration and management of the System consistent with Board delegation of authority. This includes broad responsibility for: (1) employing, supervising, monitoring, and evaluating senior managers and staff as delegated; (2) services to beneficiaries; (3) budgeting; (4) governmental affairs/media relations; (5) employee training and development; and, (6) actuarial valuations.

The Chief Executive Officer’s duties are defined by the Board and include the following:

- With advice and counsel from the Board, achieve the long-term policies and strategic objectives established for the System by the Board, including as necessary:
- Determining the appropriate methods for attaining the Board-established policies and strategic objectives.
- Directing LACERS employees in furtherance of those objectives.
• Ensuring that management activities and decisions are within Board-approved policies.
• Represent LACERS, or designate other staff representatives, to outside parties and organizations.

• Provide leadership to LACERS employees in terms of collegiality and ethical conduct.

• Act as the liaison for communications and information flow between the Board and LACERS employees.

• Provide annual goals of Manager’s Business Plan to be presented to the Board on (date to be fixed by the Board).
Board Procedures

I. GENERAL

A. The Board and its Committees shall operate under Robert’s Rules of Order unless statutes or Board action provide otherwise. At present there is one standing Board Rule which deviates from Robert’s Rules of Order and provides, for those items preferential for adoption, the requirement that four votes be attained for approval or denial, and deferral to the next regular Board meeting in the event that the requisite four votes are unattainable.

B. Committee assignments are to be determined by the President or Acting President, who shall also name the Committee Chair. An alternate will be appointed for each Committee to serve in the absence of committee members. Additional alternates may be appointed on an as needed basis by the Board President.

C. All Committee meetings of the Board shall be open to all Board members, but only Committee members may vote. Committee meetings shall be scheduled to occur on the same day as the first regular meeting of the month whenever possible.

D. Executive sessions of the Board and its Committees shall be limited to Board members and only those other persons who are required by the Board.

E. In the absence of the President, the Vice-president shall assume all responsibilities and authority of the President. In the absence of both the President and Vice-president, the Manager-Secretary will open the meeting and call for nominations of a President Pro Tempore from the members present to serve the duration of the meeting.

II. AGENDAS

A. The Board Secretary shall prepare an Agenda for each Board meeting which incorporates new business, items previously requested by Board Member(s) for inclusion, as well as those items deferred from previous meeting(s) categorized in the following order:

Regular Meeting:
1. Public Comments on Matters within the Board’s Jurisdiction
2. Minutes of Board Meeting of (date of previous meeting[s]) for approval
3. Committee Reports
4. Investments
5. Actuarial Program
6. Contracts
7. Board Governance
8. Travel
9. Department Administration
10. Strategic Plan
11. Manager’s Report
12. Disability Retirement Applications/Hearings, Member Appeals/Requests for Board Action
B. Informational items on Board and Committee agendas shall be supported by written documentation, except for those items presented in the Manager’s Report.

C. Informational items shall not be the subject of discussion or staff presentation to Board or Committee meetings unless one of the following conditions is met:

1. A Committee requests that an informational item be brought up for discussion or staff presentation within the Committee meeting.

2. A Board member other than the Board President or other than a member of the reporting Committee requests that an oral presentation or discussion take place.

D. All Board members shall receive in advance of each meeting copies of all Committee agendas, regular meeting agendas and all support documentation.

E. Following each Committee meeting in which a recommendation for action to the full Board is taken, the Committee Chair, in consultation with staff, will to the degree possible, prepare in writing a brief summary of the proposed Committee actions to be distributed to Board members as a part of the Committee’s report. These written reports will be made available to the Board prior to the call to order of the open Board meeting.

F. Materials supplied to Board members shall be numbered to facilitate locating items under discussion.

III. MINUTES

A. Minutes of the meetings of the Board shall conform in general to the format outlines in the “Trustees’ Handbook” published by the International Foundation of Employee Benefit Plans.

B. All Board members shall have the opportunity to review the minutes (included in Board packages) of the previous meeting(s) before the President affixes his signature upon approval by the Board.

C. The Minutes shall be prepared with letter-size paper for review before approval, and that the historical record of approved and signed minutes shall be maintained electronically with all appropriate considerations for security and accessibility as required by law.
IV. ELECTION

The election of the Board President and Vice-president shall be held at the second meeting of July each year. The Board shall elect one of its members President and one Vice-president, which officers shall hold office for one year and until their successors are elected, unless their membership on the Board sooner expires.

The election shall be placed on the agenda of the second meeting in July of each year. At the appointed time, the President shall call for nominations for the office of Vice-president. After nominations have concluded, the President shall call for the ayes and nays from among the members of the Board for each candidate nominated. Upon one candidate securing a majority vote, the President shall announce that the office of Vice-president is filled until the newly elected member is replaced or reelected at the next election.

The President shall then call for nominations for the office of President and repeat the election procedure described above until one candidate secures a majority vote at which time the office of President may be deemed filled.
Committee Rules

There are two types of ordinary committees, standing and special, or ad hoc, to which the Board may refer or commit matters under consideration. A standing committee remains in existence for the life of the establishing Board, whereas an ad hoc committee ceases to exist upon completion of the assigned task and/or submittal of a final report.

1. Standing and ad hoc Committees shall be established by adoption of a standing rule by a majority vote of the Board without notice.

2. Committee Chair and Members shall be appointed by the President or Acting President of the Board upon adoption of the standing rule establishing the committee; and, such charter as the Board deems necessary to serve as a guide to the committee in the conduct of its assignment shall be provided.

3. Alternate committee Members shall be appointed by the President or Acting President.

4. Committee Members may be removed or replaced by the President or Acting President by his/her own act.

5. Committees shall operate under Robert’s Rules of Order unless otherwise specified by statute or Board action.

6. Committees shall adhere to the same public notification and meeting requirements as the Board.

7. Committee meetings shall be called by the Committee Chair.

8. Committee meetings shall be open to all Board Members; however, only Committee members may vote.

9. Ad hoc committees shall not be established for a matter that falls within the purview of a standing committee.

10. Standing committees in existence upon the termination of a Board shall not be considered as discharged from further consideration of referred matters unless the Board votes otherwise.

11. Committee members shall continue in their duties, upon termination of a Board, until their successors are chosen by the President or Acting President of the succeeding Board.

12. Committees shall receive such assignments as fall within their jurisdiction, and are committed to it by either an adopted motion of the Board or referral of an item by the Manager-Secretary.

13. Committees shall communicate with the Board in the form of Report(s) to the Board, offering recommendations and discussion upon referred matters for the Board’s consideration.

14. Ad hoc committees shall cease to exist upon submittal of the final report to the Board.

15. Staff shall provide, in a timely manner prior to the meeting, agendas and the appropriate paperwork to conduct a committee meeting.
# Committee Structure – Fiscal Year 2012-2013

**Board of Administration**  
**Los Angeles City Employees’ Retirement System**

## STANDING COMMITTEES*

<table>
<thead>
<tr>
<th>Audit &amp; Strategic Planning</th>
<th>Benefits Administration</th>
<th>Corporate Governance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Robert A. Chick, Chair</td>
<td>Ken Spiker, Chair</td>
<td>Elizabeth L. Greenwood, Chair</td>
</tr>
<tr>
<td>Elizabeth L. Greenwood</td>
<td></td>
<td>Jeffrey J. Penichet</td>
</tr>
<tr>
<td>Rick Rogers</td>
<td></td>
<td>Kenneth M. Simril</td>
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*Standing Committees remain in existence for the life of the establishing Board.

**UPDATED: JANUARY 8, 2013**
Audit and Strategic Planning Committee Charter

Audit Function

The Committee will provide assistance to the Board in fulfilling their oversight responsibility to the participants, the City of Los Angeles, the investment community, and others relating to LACERS’ financial statements, and the legal compliance, ethics programs and other related risks, as established by the Board. In so doing, it is the responsibility of the Committee, with approval of the Board, to maintain free and open communication between the Committee, independent auditors, the internal auditors, if any, and management of LACERS. In discharging its oversight role, the Committee is empowered to investigate any matter brought to its attention with access to all books, records, facilities, and personnel of LACERS.

RESPONSIBILITIES AND PROCESSES

The primary responsibility of the Committee is to oversee LACERS’ financial reporting process on behalf of the Board and to report the results of their activities to the Board. Management is responsible for preparing LACERS’ financial statements, and the independent auditors are responsible for auditing those financial statements. The Committee is responsible for understanding risks affecting LACERS’ operations and monitoring how management implements controls to minimize those risks.

The Committee, in carrying out its responsibilities, believes its policies and procedures should remain flexible in order to best react to changing conditions and circumstances. The Committee will take the appropriate actions to set the overall “tone” for quality financial reporting, sound business risk practices, and ethical behavior.

The following will be the principal recurring process of the Committee in carrying out its oversight responsibilities. The processes are set forth as a guide with the understanding that the Committee may supplement them as appropriate.

Risk Control Responsibilities

- The Committee will review the interim financial statements with management quarterly, or as deemed necessary by the Committee.
- The Committee will review LACERS proposed annual budget presented by staff and submit to the Board for approval before June 30th of each year.
- The Committee will review LACERS systems of internal accounting and financial controls whenever a significant change occurs.
- The Committee will review controls over LACERS’ information systems, including security access and program change controls as well as contingency plans on an annual basis.
- The Committee will review annually the internal control reports of LACERS custodian (SAS 70 Report) and of the City of Los Angeles management letter.
- The Committee will review all audit reports and the management response. The Committee shall forward a separate report of the review when forwarding the report to the Board.
External Audit Responsibilities

The Committee will have a clear understanding with management that the independent auditors are ultimately accountable to the Board and the Committee as representatives of LACERS participants. When appropriate, the Committee will recommend to the Board the issuance of an RFP for an independent auditor. The Committee will evaluate proposals received and shall recommend to the Board the Committee’s selection of LACERS independent auditors.

The Committee shall discuss with the independent auditors the overall scope and plans for their audits. Also, the Committee shall discuss with management and the independent auditors the adequacy and effectiveness of the accounting and financial controls, including LACERS system to monitor and manage business risk and legal and ethical compliance programs.

The Committee shall review with management and the independent auditor the financial statements of LACERS Comprehensive Annual Financial Report.

Strategic Planning Function

(a) Draft the Departmental Strategic Plan in accordance with the mission statement;

(b) Develop process to ensure operational implementation of the Strategic Plan;

(c) Continuously monitor operations for compliance with the Strategic Plan;

(d) Propose adjustments to operations, and/or the Plan, which the Committee deems appropriate for carrying out the mission statement.
Benefits Administration Committee Charter

The Benefits Administration Committee is responsible for:

(a) Recommending to the Board draft policies and procedures for member benefits and departmental administration in accordance with the mission statement;

(b) Developing processes by which operational implementation of the Board’s directions are monitored for compliance; and,

(c) Proposing adjustments to operations which the Committee deems appropriate for the sound administration of member benefits and the Department as a whole.
**Investment Committee Description**

The Committee will consider all investment items including private equity, real estate, publicly traded U.S./Non-U.S. equities, fixed income, etc. This would allow for an integrated view of all asset classes. Currently, the review of investments by asset class is bifurcated between the Committee and the Board. The Investment Committee will make recommendations on all investment decisions for the Board’s consideration.
Corporate Governance Committee Charter

Purpose

Good corporate governance is believed to increase shareholder value. The purpose of this Committee is to help ensure good governance in the corporations in which LACERS is invested.

Objectives

Maximizes LACERS shareholder value by ensuring good corporate governance, while maintaining an appropriate balance between the rights of shareholders and the need of corporate board and management to direct and manage the corporation’s affairs free from non-strategic short-term influence.

These objectives shall be considered whenever the Committee recommends policies, reviews proxy voting issues, reviews securities litigation issues, or takes other corporate governance-related actions.

Role

The Corporate Governance Committee shall be authorized, under the direction of the Board to:

- Monitor developments in the corporate governance arena that may affect the value of the equity holdings in LACERS’ portfolio and to review and make recommendations to the Board regarding corporate governance issues, proxy voting practices related to corporate securities held in the LACERS portfolio, and securities litigation issues/activities.

Responsibilities

The Board assigns specific duties of the Committee as follows:

- Examine the effectiveness of LACERS current corporate governance policies and activities;
- Review and recommend modifications of existing Corporate Governance Policies;
- Report to the Board on activities of, other state and national pension fund associations and of member stakeholder associations, such as the Council of Institutional Investors, regarding corporate governance issues;
- Periodically, recommend proxy voting policies and guidelines to the Board;
- Through staff, monitor proxy voting activity including but not limited to the status of current proxy votes and votes which fell outside existing guidelines and previously established policy;
- Interact with staff and legal counsel on shareholder responsibility policy matters;
- Recommend a securities litigation policy to the Board if found desirable by the Committee; and
- Review and monitor securities litigation issues/activities and make recommendations to the Board, as appropriate.
**Committee Members**

The Corporate Governance Committee shall consist of three LACERS Board members. All members shall be appointed by the LACERS Board President. The LACERS Board President shall appoint a Committee Chair.

**Organization**

The Corporate Governance Committee shall meet no less than twice during the calendar year, or more often as needed.

The Committee Chair is responsible for setting the agendas for each Committee Meeting. The Chair shall take as an agenda item any matter referred by the LACERS Board. The Chair shall also take as an agenda item any matter submitted by two or more members of the Corporate Governance Committee.

*(Adopted November 13, 2007; Revised January 10, 2012)*
**Code of Ethics**

Each member of the LACERS Board of Administration is bound by the Board’s Statement of Governance Principles. The Board’s Governance Principles state that members of the Board must “at all times meet high ethical standards that exceed legal minimums” and that “individual Board members shall avoid favoritism, conflict and disclosure of privileged information and at all times individual Board members shall act in the best interest of LACERS consistent with his/her fiduciary duty.”

To supplement the Statement of Governance Principles, the Board of Administration adopts the following Code of Ethics.

- Board members shall maintain high ethical conduct at all times.

- Board members shall conduct themselves with integrity and dignity, strive to understand LACERS objectives, and exercise care, prudence and diligence in handling confidential information.

- Board members shall not seek nor accept any compensation or political contributions that would violate California law, including without limitation the Political Reform Act of 1974.

- Board members shall not seek nor accept any gifts, or reimbursements for travel or any other activity, that is not specifically permitted in California’s Political Reform Act of 1974.

- Board members shall take positive steps to prohibit breaches of duty (through negligence or intentional action), unauthorized communication with individuals seeking to influence the Board, and unauthorized communication with individuals who may receive personal gains as a result of Board actions, such as, but not limited to, the conducting of serial meetings; discussion with any respondents of an RFQ or RFP, while the selection process is underway, concerning issues directly related to the matter.

- Board members shall never act where there may be a conflict of interest or appearance of conflict of interest. A conflict of interest is understood to be a situation where a relationship exists that could reasonably be expected to diminish independence of judgment in performance of official responsibilities as a Board member. Specifically, Board members may not participate in decisions which might result in significant personal economic advantage.

- Board members recognize that all LACERS business transactions are to be based on integrity, competence, financial merit and benefit to LACERS participants and their beneficiaries, and not no personal relationships.

- Board members shall act in accordance with the prudent expert rule.
Commitment of a LACERS Board Member

Members of the Board of Administration have a fiduciary responsibility to act solely for the exclusive benefit of members and beneficiaries with a secondary duty to minimize contributions of the employers. All responsibilities must be fulfilled in a cost effective and efficient manner.

Members function as part of a seven member Board consisting of four appointed and three elected members.

The Board is required by the Administrative Code to meet twice per month. These meetings generally occur on the second and fourth Tuesday of each month and may last between two and four hours.

Members may be assigned to at least one of the following standing committees:

♦ Benefits & Administration
♦ Strategic Planning
♦ Audit & Risk Control
♦ Private Investments

In addition, Members may serve on the following sub-committees:

♦ Private Investment
♦ Proxy Policy

Committee meetings may last between one and two hours. Depending on the nature of the committee assignment, meetings may be regular monthly meetings or on an as-needed (Ad Hoc) basis addressing single issues.

• Advanced preparation for the meetings is imperative. Depending on the committee assignment, preparation can require between one and eight hours.

• Education is a fiduciary responsibility and is strongly encouraged. In-house seminars and outside conferences are available for this purpose. The time commitment for education is usually five days per year.

• Most meetings take place during normal business hours, Monday through Friday, however some travel and conferences take place over weekends.

• Members are expected to attend all regularly scheduled Board and Committee meetings. If a Board Member’s attendance becomes sporadic, the Member should strongly consider resigning from the Board for the benefit of the members they have vowed to serve.

• On February 23, 2010, the Board approved securing Fiduciary Liability Insurance. LACERS maintains a total of $20-million of Fiduciary Liability Insurance. This coverage is subject to a $100,000 retention, which will apply whenever the System, itself, is liable or indemnification of any Insured Person is legally permissible. If Board Members are ultimately personally liable through a settlement or judgment for a covered Loss and the System or the City denies
indemnification, the Fiduciary Liability Insurance will respond on a $0.00 (first dollar) basis, subject to the policies' other terms and conditions. Indemnification by the System or the City may be unavailable and the Board Members may be deemed 100% responsible for any damages when neglect of duty, incompetence or malfeasance contributed to the loss.

Policy on Outside Communication

LACERS shall provide the public with access to public records to the fullest extent authorized by law and consistent with its duties to protect the interests and rights of LACERS and its members. All Board and committee/subcommittee meetings are open to the public and appropriate and timely notice will be posted for each such meeting. Each Board and committee/subcommittee meeting shall allow for public comments on any matter within its jurisdiction. All inquiries from the media shall be directed to the General Manager, who may designate as staff member to comply with requests for information.

Members and their beneficiaries need to know their benefit options and rights so that they can adequately plan for their retirement. Thus, LACERS should adequately communicate with members and their beneficiaries all information necessary to complete their goal.

In situations in which the right of the public to know competes with the rights of LACERS and the membership to confidentiality, the standards listed below shall, when appropriate, be applied:

- Medical records shall not be released to the public because disclosure may impair a member’s reputation.
- Information that could be detrimental to LACERS’ investments, if disclosed, shall be protected if disclosure would violate the prudent expert standard of care.
- Requests for information from governmental investigatory bodies shall be complied with in good faith.
- LACERS shall in good faith respond to court orders and subpoenas upon consultation with the City Attorney.
- Home addresses of members shall not be released to the public because it may impair the member’s personal security.
LOS ANGELES CITY EMPLOYEES’ RETIREMENT SYSTEM (LACERS)
Board Education and Travel Policy
Adopted: May 29, 2009
Revised: June 22, 2010, December 13, 2011

This policy supersedes any previously adopted policy.

I. STATEMENT OF PURPOSE
Los Angeles City Charter Section 1106(c), consistent with Article XVI, Section 17 of the California Constitution, requires the Board to exercise a Prudent Person Standard, discharging their duties with respect to its system, with care, skill, prudence, and diligence. It is imperative that LACERS Board Members maintain a broad and current understanding of issues affecting the administration of public pension systems to fulfill their fiduciary duties. This policy recognizes and affirms the role of education in ensuring Trustees have the knowledge to successfully discharge their duties as fiduciaries.

II. EDUCATIONAL OBJECTIVES
This policy defines a Prudent Person Standard for Trustees as a general understanding of:
A. The role of the Board Members and the role of staff
B. The obligations and role of fiduciary and the paramount duties of loyalty and prudence
C. The business model (including knowledge of true measure of success, the driving factors that determine success and the major business risks associated with public pension systems; namely, in the areas of investments and benefit administration).
D. Governance principles
E. The legal and legislative environment
F. Actuarial principles
G. Plan design and other benefit program
H. Investment and asset allocation strategies

III. NEW TRUSTEE ORIENTATION PROGRAM
To ensure that newly appointed and elected LACERS Board Members are securely grounded in their role as fiduciaries at the outset of assuming such an important responsibility, each shall participate in the New Trustee Orientation Program which offers critical background information and education on the Board’s governance responsibilities, the knowledge of which is essential for the fullest possible engagement of each Board Member in every aspect of pension fund management.

The structure of the orientation will generally be as follows:

A. Day 1
   Morning
   1. History and overview of LACERS
   2. Fiduciary Responsibility
   3. Ethics Training
Afternoon
1. Board Governance
2. Benefits and Services
3. Actuarial Concepts

B. Day 2
1. Investment Concepts
2. Operations
3. Legal Representation and Law
4. Current Topics for LACERS
5. Tour of the offices and boardroom

IV. IN-HOUSE EDUCATION PROGRAM
To provide updates on various issues affecting the administration of public pension systems, in-house education sessions will occur periodically at regular Board meetings or organized as stand-alone sessions. The General Manager will arrange in-house training for the Board based on the schedule below and as-needed:

A. Mentoring
Any new Board Member may request a mentor to assist him or her in becoming familiar with his or her responsibilities on the Board. If a request is made, the Board President will designate an experienced Board Member to be a mentor to the new Board Member for a period of one year.

B. Investment Education
At least once per fiscal year, an investment educational session for all Board Members shall be conducted. The General Manager shall survey the Board to identify specific investment topics of interest.

C. Fiduciary Education Sessions by Fiduciary Counsel
Each year outside Fiduciary Counsel will provide fiduciary education to the Board.

D. Actuarial Education
Each year an actuarial education session will be provided to the Board.

E. Healthcare Benefits Education
Each year a healthcare benefits education session will be provided to the Board.

F. Retirement Benefits
Each year an update of the issues regarding retirement benefits will be provided to the Board.

G. Ethics Training
Board Members are required to participate or attend the City’s Ethics training during the first year of appointment and then once every two years. Refresher ethics training will be provided to the Board annually.
H. Other As-needed Topics
Staff will periodically coordinate educational sessions for the Board on topics of general interest or topics that Board Members may request.

V. EDUCATIONAL CONFERENCES/SEMINARS
The complexities of sound management of the assets and liabilities of a trust fund impose a continuing need for all members of the LACERS Board to attend professional and educational conferences, seminars, and other educational events that will better prepare them to perform their fiduciary duties.

A. Annual Approved List of Educational Seminars
At the beginning of each fiscal year, the General Manager shall prepare for Board adoption a list of recommended conferences, seminars and meetings (Appendix A). Board Members are encouraged to attend a minimum of one educational conference or seminar per fiscal year from this list.

The General Manager will prepare an annual blanket authority for Board approval for conferences included in the Approved List of Educational Seminars.

Every Board Member’s participation in a pre-approved conference shall be noticed on the Board agenda following submission of the Board Travel request.

B. Travel Requiring Explicit Board Approval
Subject to explicit approval of the Board for each conference, the requesting Board Member shall provide appropriate justification to the Board for consideration of:

1. Requests to travel to conferences outside the List of Educational Seminars (Appendix A) will be submitted to the Board for approval, so long as the trustee’s education allocation is not exceeded.
2. Requests for lodging within 50 miles of the Board Member’s residence.
3. Requests for travel outside the United States.

C. Travel Outside the United States
All conferences and seminars which involve travel to a destination outside the United States must be approved by the Board. Each Board Member may attend no more than one conference which involves international travel in any 12-month period.

D. Travel to Washington D.C. or Sacramento
The Mayor requires notification of any travel to Washington D.C. or Sacramento. Staff will process the appropriate forms on behalf of the Trustees.

E. Conference Invitations Received by a Board Member
To provide all the Trustees with the same conference and seminar opportunities, individual Board Member shall forward invitations they receive to a conference or seminar, to the General Manager or the Board Executive Assistant. LACERS will consult with the Office of the City Attorney or the City Ethics Commission for compliance with gift and disclosure requirements. If the conference or seminar clears the ethics compliance process, the Board Executive Assistant shall disseminate the conference or seminar invitation to all Board Members.
F. This section is intentionally left blank.

G. **Board Education and Travel Limitations**

Board Member travel shall adhere to the following guidelines:

- The Board education travel budget per Trustee shall not exceed $10,000 per fiscal year for conference fees and travel expenses. Expenses which exceed this annual allocation shall be the personal responsibility of the Board Member.

- Each Board Member shall attend no more than six conferences or seminars per fiscal year which result in any travel expenses to the trust fund. A conference/seminar with registration fees only will not be counted toward the annual limit of six conferences/seminars, but will be counted toward the $10,000 education budget.

- Board Members shall attend conferences or seminars that have a solid reputation for quality program content (see Appendix A); i.e., agendas with a minimum of five hours of substantive educational content. Content shall not be geared toward marketing or the promotion of investment management and related sponsors. Topics covered during the conference or seminar must be related to the pension fund industry.

H. **Reports to the Board**

1. **Quarterly Travel Expenditure Report**

   An educational travel expenditure report shall be provided to the Board on a quarterly basis, covering cumulative Board Member and staff travel for the fiscal year.

2. **Monthly Report on Seminars and Conferences Attended by Board Members on Behalf of LACERS**

   There may be occasions where a Board Member attends seminars or conferences as a LACERS representative or in the capacity of a LACERS Board Member which are either complimentary (no cost involved) or with expenses fully covered by the Board Member.* Since there is no expense incurred to LACERS, these seminars or conferences do not require Board approval. However, for the purpose of transparency and to avoid the appearance of impropriety, Board Members are required to report to the Board, on a monthly basis at the last Board meeting of each month, such conferences or seminars attended. Monthly reports will include conferences or seminars attended during the period preceding the said Board meeting.

* Pursuant to the Gifts and Travel Section of the Los Angeles City Ethics Commission’s Ethics Handbook, such conferences or seminars fall under the category of Exceptions to Gift Limits and are, therefore, not subject to City or state gift limitations. “Informational materials such as books, reports, pamphlets, calendars, seminars or informational conferences used exclusively for performance of official duties” are considered exceptions to the gift limits. However, travel is never informational material and informational material received from a restricted source must be valued at less than $250. “Restricted source” is a person or entity that: 1) is a lobbyist, lobbying firm, or lobbyist employer who lobbies LACERS; 2) does or seeks to do business with LACERS;
3) has attempted to influence you during the past year in a legislative or administrative action that would have a direct financial effect on the person or the person’s employer; or 4) has a matter involving a license, permit, or other entitlement for use currently before LACERS or had one pending during the past nine months. (Subject to City Ethics Commission review)

I. Meeting for Business Purpose in Compliance with the Ralph M. Brown Act
In accordance with the Ralph M. Brown Act, a quorum comprising of majority of the members of the LACERS’ Board or Committee to hear, discuss or deliberate upon any matter which is under the subject matter jurisdiction of LACERS are meetings subject to the Brown Act. Board Members must be cognizant of this requirement and avoid discussing LACERS’ business when in meetings or discussions with other members of the Board.

VI. TRAVEL EXPENSE REIMBURSEMENT POLICIES
As a public trust, administration of LACERS is subject to strict fiduciary responsibilities under trust law. The policies set forth in this document are designed to give guidance for Board Member’s travel authority for purposes other than due diligence-required travel or LACERS-sponsored events and are intended to comply with common law trust requirements and to reflect sensitivity to the members and beneficiaries on whose behalf the LACERS Board of Administration serves.

A. Compliance with Los Angeles Administrative Code Travel Guidelines
LACERS travel reimbursement policies will comply with the travel guidelines set forth in Division 4, Chapter 5, Article 4 of the Los Angeles Administrative Code.

B. Cooperation with Controller’s Travel Policy Guidelines
LACERS acknowledges the Los Angeles Controller’s Travel Policy as best practice and endeavors to cooperate with the Controller’s rules when deemed practicable for LACERS. However, LACERS Board and its designees retain their plenary authority to approve all education and related travel expenditures which are reasonable and appropriate for the conduct of official LACERS business.

C. Non-Reimbursable Expenses
Expenditures which are incurred by a Board Member that are not substantive to LACERS’ business will not be reimbursed by LACERS. A list of non-reimbursable travel expenses is included in Appendix C.

D. Event Participation Report
Whenever a Trustee attends a conference or other event at the expense of the Fund, it shall be his or her responsibility to complete the Board Members Education Evaluation Form (Appendix D) and to provide the Board information on concerns with the event, which they believe are of significance to the System. The evaluation form must be submitted with the request for reimbursement of expenses associated with each conference attended. A reimbursement will not be made without a completed evaluation form.

E. Travel Activity Summary
Upon the close of the fiscal year, the General Manager shall report to the Board on Trustee (along with staff) travel expenditures throughout that year.

VII. APPENDICES
A. Appendix A – List of Educational Seminar Schedule
B. Appendix B – Intentionally Left Blank
C. Appendix C – Board Travel Reimbursement Checklist
D. Appendix D – LACERS’ Board Member Education Evaluation Form
## APPENDIX A
**LOS ANGELES CITY EMPLOYEES’ RETIREMENT SYSTEM**
**LIST OF EDUCATIONAL SEMINARS – FISCAL YEAR 2012-2013**
(Approved June 26, 2012)

<table>
<thead>
<tr>
<th>CONFERENCES / SEMINARS / MEETINGS</th>
<th>COMMITTEE</th>
<th>TRUSTEE EVALUATION</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>TRUSTEE RATING</strong></td>
<td>Rate seminar with <strong>A</strong> (excellent), <strong>B</strong> (very good), <strong>C</strong> (good), <strong>D</strong> (not beneficial)</td>
<td><strong>LEVEL</strong> Introductory, Intermediate, Advanced</td>
</tr>
</tbody>
</table>

<p>| CALAPRS – Trustee Training* Principles of Pension Management Course - March 26-29, 2013 (Stanford, CA) | - Benefits Admin - Investments - Corporate Governance - Audit &amp; Strategic Planning | A (Bardwell, 2011) | Introductory |</p>
<table>
<thead>
<tr>
<th>CONFERENCES / SEMINARS / MEETINGS</th>
<th>COMMITTEE</th>
<th>TRUSTEE EVALUATION</th>
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<td>B (very good),</td>
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<td>C (good),</td>
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<td></td>
<td>D (not beneficial)</td>
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<td><strong>LEVEL</strong></td>
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<td>Introductory,</td>
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<td>Intermediate,</td>
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<td>Advanced</td>
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<tr>
<td>Pacific Pension Institute (PPI) – Winter Roundtable and Summer Roundtable</td>
<td>Investments - Corporate Governance</td>
<td>A (Penichet 2012) (Greenwood 2012)</td>
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<tr>
<td>- Winter Roundtable – TBD</td>
<td></td>
<td>None</td>
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<tr>
<td>International Foundation of Employee Benefit Plans (IFEBP) – New Trustees Institute</td>
<td>Benefits Admin - Investments - Plan Admin</td>
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<tr>
<td>- November 10-11, 2012 (San Diego, CA)</td>
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<tr>
<td>International Foundation of Employee Benefit Plans (IFEBP) – Advanced Trustees Institute</td>
<td>Benefits Admin - Investments - Plan Admin</td>
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<tr>
<td>- TBD</td>
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<tr>
<td>National Conference on Public Employee Retirement Systems (NCPERS) – Trustee Educational Seminar</td>
<td>Benefits Admin - Investments - Corporate Governance</td>
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<tr>
<td>- May 18-19, 2013 (Honolulu, HI)</td>
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<tr>
<td>National Conference on Public Employee Retirement Systems (NCPERS) – Annual Conference and Exhibition</td>
<td>Benefits Admin - Investments - Corporate Governance</td>
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<tr>
<td>- May 19-23, 2013 (Honolulu, HI)</td>
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<tr>
<td>- July 30 – August 1, 2012 (Cambridge, MA)</td>
<td></td>
<td>Intermediate</td>
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<tr>
<td>Fiduciary College</td>
<td>Benefits Admin - Investments - Corporate Governance - Audit &amp; Strategic Planning</td>
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<td>- July 23-25, 2012 (Stanford Law School - Stanford, CA)</td>
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<td>Intermediate,</td>
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<td>Advanced</td>
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<tr>
<td>State Association of County Retirement Systems (SACRS) Public Pension Investment Management Program 2012</td>
<td>- Investments</td>
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<tr>
<td>- July 16-18, 2012 (Berkeley, CA)</td>
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<tr>
<td>State Association of County Retirement Systems (SACRS) Fall Conference 2012</td>
<td>- Benefits Admin</td>
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<tr>
<td>- November 13-16, 2012 (Hollywood, CA)</td>
<td>- Investments</td>
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<tr>
<td>- Corporate Governance</td>
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<tr>
<td>State Association of County Retirement Systems (SACRS) Spring Conference 2013</td>
<td>- Benefits Admin</td>
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<tr>
<td>- May 14-17, 2013 (Napa, CA)</td>
<td>- Investments</td>
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<td>- Corporate Governance</td>
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<tr>
<td>International Foundation of Employee Benefit Plans (IFEBP) – U.S. Annual Employee Benefits Conference</td>
<td>- Benefits Admin</td>
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<tr>
<td>- November 11-14, 2012 (San Diego, CA)</td>
<td>- Investments</td>
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<td>- Plan Admin</td>
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<tr>
<td>Institute for Fiduciary Education (IFE) Market Makers Annual Seminar</td>
<td>- Investments</td>
<td>(Bardwell, 2012)</td>
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<tr>
<td>- Location varies</td>
<td>- Corporate Governance</td>
<td>(Chick, 2012)</td>
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<tr>
<td>- Date of 2013 Market Makers Annual Seminar TBD</td>
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</tr>
<tr>
<td>Pension Real Estate Association (PREA) Annual Plan Sponsor Real Estate Conference</td>
<td>- Investments</td>
<td>A (Greenwood, 2011)</td>
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<tr>
<td>- October 22-24, 2012 (Los Angeles, CA)</td>
<td></td>
<td>B (Penichet, 2011)</td>
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<td>B (Rogers, 2011)</td>
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<td></td>
<td></td>
<td>Introductory</td>
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<tr>
<td>Pension Real Estate Association (PREA) Spring Conference</td>
<td>- Investments</td>
<td>Intermediate</td>
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<tr>
<td>CONFERENCES / SEMINARS / MEETINGS</td>
<td>COMMITTEE</td>
<td>TRUSTEE EVALUATION</td>
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<td>Advanced</td>
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<tr>
<td>International Foundation of Employee Benefit Plans (IFEBP) – Health Care Cost Management</td>
<td>- Benefits Admin</td>
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<tr>
<td>- October 19-20, 2012 (Washington D.C.)</td>
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<tr>
<td>International Foundation of Employee Benefit Plans (IFEBP) – Hedge Funds, Real Estate and Alternative Investments Course</td>
<td>- Investments - Corporate Governance</td>
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<tr>
<td>- July 16, 2012 (San Francisco, CA)</td>
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<td>Intermediate</td>
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</tbody>
</table>

*Recommended for new Trustee first-year curriculum.
APPENDIX B

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I. STEPS FOR TRAVEL APPROVAL AND REIMBURSEMENT:

Step 1: Provide details of the educational event to the Commission Executive Assistant (CEA)

Step 2: Submit information on estimated expenses to the CEA

Fees Paid Directly By LACERS:

Step 3: Register for the Conference
- Conference registration and registration fees can be arranged through the CEA prior to the conference date. Registration fees are paid directly by LACERS with no out-of-pocket expenses for the traveler;
  - Under State and City gift laws, complimentary conferences or conference-related events could be considered gifts. LACERS will evaluate the circumstances with the assistance of the City Ethics Commission and may be required to pay a pro-rata share of conference expenses provided by the hosting organization.
- Or after the fact, submit a receipt showing a zero balance as proof of payment.

Step 4: Book flight
- Provide desired flight numbers, dates, and times to the CEA. The CEA will book the flight. Flights booked through the City’s travel service negate the need to secure three fare quotes. The City’s travel service will also provide a flight credit if the traveler is unable to fly and proper notification is given.
- Or after the fact, submit a receipt for the purchase of the airline ticket and three fare quotes generated on the same day the flight was booked. Reimbursement is limited to the lowest regular fare.

Items Requiring Pre-Approval for Expenditure Reimbursement:

Step 5: Submit written justification for items requiring pre-approval from the General Manager. If approval is not secured prior to incurring the expense, reimbursement may not be granted.
- Requests for reimbursement of airfare which exceeds the lowest regular fare – justification should demonstrate the official necessity of the selected flight. Attach to the request three air fare quotes generated on the same day the flight was booked.
- Requests for transportation other than air flight – justification should indicate reasons for use of the alternate mode of transportation.
- Requests for cash advances to cover lodging and per diem for meals must be submitted 30 days prior to the commencement of travel. See further instructions below.
After the Travel has been completed, submit report and receipts:

Step 6: Submit an Event Evaluation Report within thirty (30) days of the conclusion of the trip
- The report is required prior to reimbursement

Step 7: Submit a Personal Expense Statement (PES) within thirty (30) days of the conclusion of the trip
- Itemize all reimbursable daily expenses for lodging, transportation, and miscellaneous expenses; list the per diem for meals and incidentals.
- Report expenses paid directly by LACERS as a deduction to the total reimbursable amount
- See further instructions on the following checklist

II. REIMBURSEMENT CHECKLIST

<table>
<thead>
<tr>
<th>ALLOWABLE TRAVEL COSTS</th>
<th>REQUIRED DOCUMENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Air Travel</strong></td>
<td></td>
</tr>
<tr>
<td>Air Travel</td>
<td></td>
</tr>
<tr>
<td>Air travel expenses are only allowable for the lowest regular fare available. If the flight with the lowest regular fare is not booked, reimbursement will only be for the lowest regular fare. If three fare quotes are not submitted, the lowest regular fare will be determined by a quote from the City’s travel agent for a direct flight, coach class, 14 days prior to the date of business travel. The CEA will determine the reasonable flights to be quoted which best meet the conference dates and times. Exceptions allowing reimbursement for a higher cost fare may be approved by the General Manager for “official necessity.” Official necessity means there is a bona fide benefit to LACERS for taking the selected flight which outweighs the cost of the higher fare.</td>
<td>[ ] Submit a receipt showing a zero balance as proof of payment for airfare [ ] Provide three air fare quotes from the same date as the booked flight, demonstrating that the selected flight is the lowest regular fare practically available [ ] Provide written justification of the “official necessity” for any higher cost fare if seeking reimbursement above the lowest fare rate. The General Manager must concur for the expense to be submitted for reimbursement</td>
</tr>
<tr>
<td><strong>Transportation Expenses</strong></td>
<td></td>
</tr>
<tr>
<td>[ ] Submit request for pre-approval from the General Manager for all modes of transportation other than regularly scheduled airlines</td>
<td></td>
</tr>
<tr>
<td><strong>Bus or Rail Travel</strong></td>
<td></td>
</tr>
<tr>
<td>The allowable cost shall be the actual cost for the regular fare for the bus/rail travel</td>
<td></td>
</tr>
</tbody>
</table>
### Automobile Rental
Automobile rental expenses are allowable if traveling by automobile is less expensive or more appropriate than by other modes of transportation.

#### Private Automobile
The allowable cost shall be the actual total mileage rate allowance as determined by the Internal Revenue Service (IRS).

- Submit request for pre-approval from the General Manager demonstrating that traveling by rental car is less expensive or more appropriate for the efficient conduct of City business than by taxi or bus.
- Submit request for pre-approval from the General Manager, and include a satisfactory liability insurance policy covering the full use and operation of the vehicle. The limits of liability on any such policy shall not be less than $25,000 in the case of injury to or death of one person, and $50,000 in the case of injury to or death of more than one person; and in the case of property damage, not less than $5,000 in any one accident.

### Registration Fees
<table>
<thead>
<tr>
<th>Registration Fees</th>
<th>Reimbursable if paid by the Trustee</th>
<th>Submit a receipt showing a zero balance as proof of payment</th>
</tr>
</thead>
</table>

### Lodging
Hotels generally offer specially rated room blocks for conference participants. The Trustee may stay at an “off-site” hotel if the room blocks are exhausted.

- Transportation costs, time and other relevant factors must be considered in selecting the most economical and practical accommodations.
- An extra-night stay is allowable if it sufficiently reduces the airfare, or if the conference commences early in the morning or adjourns late in the evening.

- Submit receipt showing a zero balance as proof of payment. Personal credit card information must be redacted from the receipt.

### Meals & Incidental Expenses
- The meal and incidental per diem for domestic travel is $60 per day.
- Incidental expenses are fees and gratuities provided to service workers, and for transportation costs in acquiring meals.
- The daily allowance is prorated at 75% if the flight leaves after 2:00 p.m. on the first day.

- Receipts for meals and incidental expenses are not required.
- Submit justification letter if claiming reimbursement for expenses exceeding the per diem allowance of $60 per day.
day of travel, if the flight arrives before 2:00 p.m. on the last day of travel, and when meals are provided as part of the conference
  o No meal allowance is provided when meals are provided throughout the day by the hosting organization
  o The rate for international travel is in accordance with current Federal per diem rate guidelines

<table>
<thead>
<tr>
<th><strong>Miscellaneous Expenses</strong></th>
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<tbody>
<tr>
<td><strong>Checked Baggage Fees</strong></td>
</tr>
<tr>
<td>Such expenses are allowable when Trustee is charged for the first checked bag</td>
</tr>
<tr>
<td><strong>Laundry Service</strong></td>
</tr>
<tr>
<td>Such expenses are allowable if the duration of the trip, traveling conditions, or some other special circumstances dictate.</td>
</tr>
<tr>
<td><strong>City Business Telephone Calls</strong></td>
</tr>
<tr>
<td><strong>Personal Telephone Calls</strong></td>
</tr>
<tr>
<td>Such expenses are allowable for one call to the Trustee’s immediate family if they are located within the locale of their residence</td>
</tr>
<tr>
<td>If travel is in excess of three (3) days, one such call is permitted for each successive three (3) days thereafter</td>
</tr>
<tr>
<td>Each call should last a reasonable amount of time, such as 10 minutes per call</td>
</tr>
<tr>
<td><strong>Ground Transportation</strong></td>
</tr>
<tr>
<td>Transportation between the traveler’s residence and airport, and transportation between the airport and conference location</td>
</tr>
</tbody>
</table>

**III. NON-REIMBURSABLE TRAVEL EXPENSES**

A. Expenditures which are not substantive to LACERS business will not be reimbursed by LACERS, such as:
   1. Any expenses related to entertainment and recreational activities;
2. Auto repairs, replacement or towage to personal vehicle when such use has been authorized;
3. Flight insurance;
4. Flight upgrade fees for seats other than coach or economy:
5. Personal telephone calls (except as specified above);
6. Internet usage fees (unless the internet is used for City business);
7. Expenses incurred by persons other than the Board Member; and,
8. Any expenses related to alcohol and tobacco.

B. The Trustee must submit reimbursement for such expenditures paid by LACERS.
   If there are portions of the conference or seminar that are entertainment in nature and not business-related (e.g., golf tournaments, musical performances or concerts, etc.), the Board Member is required to reimburse LACERS for the cost of these recreational activities.

IV. OTHER RULES AND RESTRICTIONS

A. CASH ADVANCE
   Written requests for cash advance for lodging and per diem meal allowance are to be submitted by the Board Member to the CEA for General Manager approval at least thirty (30) days prior to the date of travel and must include a statement certifying that the traveler has no outstanding cash advance. The request must establish a need for the cash advance.

   A cash advance request will be denied if a Board Member has an outstanding cash advance for past travel with does not comply with the procedures.

B. REIMBURSEMENT PRIOR TO TRAVEL
   Requests for reimbursement may be processed in advance of the travel for expenditures such as registration fees, airfare and/or one-night hotel deposit. To ensure timely processing of the reimbursement, such requests along with supporting documents and proof of payment (credit card statement, etc.) must be submitted to the CEA, in writing, at least fifteen (15) working days before the date of travel.

C. PERSONAL PAYMENT OF CONFERENCE AND TRAVEL FEES PRIOR TO BOARD APPROVAL OF THE TRAVEL
   Board approval of travel is required prior to payment of any related fees. If a Trustee elects to personally incur travel-related fees prior to the Board’s approval, the Trustee assumes personal financial liability that his or her expenses may not be reimbursed.
APPENDIX D
LOS ANGELES CITY EMPLOYEES’ RETIREMENT SYSTEM (LACERS)
BOARD MEMBER EDUCATION EVALUATION FORM
Adoption Date: May 26, 2009

<table>
<thead>
<tr>
<th>Board Member Name:</th>
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<tr>
<td>Conference/Seminar Title</td>
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<td>Location (City/State)</td>
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<th>Conference/Seminar Category:</th>
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<th>Benefits (Retirement/Healthcare)</th>
<th>Legislative/Fiduciary Law</th>
<th>Corporate Governance</th>
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**SEMINAR CONTENT**
Please provide an evaluation on the quality of the conference or seminar and its relevance to you as a Board member.

1. What letter grade would you give to the overall educational value of the conference/seminar?  
   Rate seminar with A (excellent), B (very good), C (good), D (not beneficial).
   A [ ] B [ ] C [ ] D [ ]
   Comments: ____________________

2. Would you recommend your fellow trustees attend this conference?  
   Never [ ] At least Once [ ] Annually [ ]
   Every other year [ ] Other [ ]
   Comments: ____________________

3. Do you feel the conference was a good use of your time?  
   Yes [ ] No [ ]
   Why? ____________________

4. Are there other conferences addressing this subject area that you feel would be a better investment than this conference?  
   Yes [ ] No [ ]
   Please provide the name/title of the recommended conference: ____________________

Additional Comments:
______________________________________________________________________________
______________________________________________________________________________
Conflict Governance Policy

In the interest of maintaining the integrity of the LACERS and affirmatively embracing best practices that would be perceived as representing the highest fiduciary standards of conduct and thus enhance public trust of the Board’s decision-making process, the Board, in addition to its established Ethics Policy, adopts this Conflicts Policy to promote confidence in their governance and oversight of the management of the System.

Mindful of their fiduciary obligation to discharge their duties solely in the interest of the participants of the System and for the exclusive purpose of providing benefits to the participants of LACERS, the Board is committed to pursuing a course of conduct that insures full compliance with all applicable laws, transparency in the actions taken, and recognition that even appearances of bias may reflect negatively upon the System.

I. REQUIRED DISCLOSURE

The Board is cognizant of the complex nature of the statutory laws regarding financial conflicts of interest.

- Government Code section 1090, a broadly drafted conflict of interest statute, prohibits public officers and employees from being financially interested in any City contract that the officer or employee is involved in making. Section 1090 is concerned with financial interests that could prevent officers or employees from exercising absolute loyalty and undivided allegiance in furthering the best interests of LACERS. Any participation in the process by which the contract is developed, negotiated or approved, including making a recommendation on the contract, is a violation of Government Code section 1090 if the officer or employee has a financial interest in the decision. Also, if a commissioner has a financial interest in a contract, the commission of which he or she is a member may not act on the matter. However, there are some interests defined by the Government Code as “remote interests” which would disqualify the commissioner but not the entire commission.

- Government Code 87100 et. seq., the Political Reform Act, prohibits a City officer or employee from making, participating in making or attempting to use his or her official position to influence any governmental decision in which he or she has a “disqualifying economic interest” within the meaning of the Act. The Act defines a “disqualifying economic interest” by first determining whether there exists an economic interest, as defined in the Act, whether it is reasonably foreseeable that the decision will have a material financial effect on the economic interest, and whether the decision will affect that economic interest in a way that is distinguishable from its effect on the public generally or a significant segment of the public. The Act defines an economic interest broadly to include the officer’s or employee’s finances, those of members of his or her immediate family, investments in a business, interests in real property, sources of income or gifts, and management positions in businesses.

- In addition to State conflicts of interest laws, the City Charter contains its own conflict of interest provision. The standard for disqualification under the Charter is whether it is “not in the public interest” for the officer or employee to act in a particular matter, contract, sale, or
transaction. (Charter section 222). It is “not in the public interest” for an officer or employee to act on a matter if that person believes that he or she cannot act impartially or if the public might reasonably reach that conclusion. To be disqualified under this standard you do not need to have a conflict of interest within the meaning of State law; simply having any relation to the matter, even if financial interests are not involved, can be cause for recusal.

Recognizing the complexity of the provisions of State law governing conflicts of interest (Government Code sections 1090 and 87100, et seq) and City Charter section 222, the Board desires to act with the highest levels of integrity and transparency, always keeping the duty of loyalty to the System’s members and beneficiaries in the forefront of their actions. The Board embraces the obligation of each trustee to fully disclose at the earliest opportunity all potential conflicts for a determination by the City Attorney as to the course of action required under the law.

The Board recognizes that there may be instances where a relationship between a trustee and potential responder to a Request for Proposal or Qualifications is such that he or she could not act objectively or where the facts are such that there may be a perception that the trustee could not act objectively. Additionally, the Board recognizes that there may be instances wherein a trustee has a personal or special relationship with a person or entity appearing before the Board that may give the appearance of possible bias.

At a minimum, any matter that reasonably could be expected to interfere or be perceived to be interfering with a trustee’s obligation to discharge their duties with respect to the System in the interest of, and for the exclusive purpose of, providing benefits to participants and their beneficiaries, requires disclosure. Members of the Board are expected to act prudently and reasonably in providing the necessary information to the Office of the City Attorney for a determination of the course of action required under both State law and the City Charter.

II. POLICY REQUIREMENTS

A. To prevent even the appearance of bias, all Requests for Proposals or Requests for Qualifications issued by the Board, or recommendations from consultants, shall contain the requirement that all respondents affirmatively provide information regarding any personal or business relationship with any member of the Board or administrative staff of LACERS. All RFPs or RFQs, and due diligence reviews, will also require the disclosure by the respondents of any payments for placement services to any person, firm, or entity with respect to that contracting opportunity.

B. The Board intends to implement a Marketing Cessation Policy that will prohibit contact by any individual, firm, or entity that is identified as a potential respondent to a contracting opportunity with any member of the Board or with Department staff or consultants other than as specified in the policy or at group social events, educational seminars, conferences, or charitable events so long as there is no direct marketing or discussion about the potential contract or the process to award it. The policy will address the ability of firms who currently have contracts with LACERS who are seeking renewal of their contracts to continue to have contact with Department staff.
C. In the event that the City Attorney opines that any commissioner is disqualified from acting on a matter under the provisions of State law or the Charter, the Commissioner who is recused shall publicly state the reason for their recusal and shall not participate in, or seek to influence in any manner, the matter before the Board. In addition, the Board may disqualify from consideration the proposer or responding entity with whom the financial or other relationship exists, but only to the extent that is consistent with the Board’s fiduciary duty to the LACERS and to the participants and beneficiaries of the System.

D. *This section is under review by the City Attorney’s Office.*
Marketing Cessation Policy  
Adopted April 24, 2007

The purpose of this policy is to prevent, and avoid the appearance of, undue influence on the Board or any of its members in the award of investment related and other service contracts.

Notification of this policy will be sent to all firms considered by LACERS’s Staff or Consultant to be potential interview candidates for the award of contracts. From the time the potential candidates are notified until the search ends and a contract is awarded, all direct marketing contact by firms that are potential candidates for the award of the contract will be limited to communications and meetings as set forth in the solicitation, and to meetings at the request of the Consultant, information (other than enhancements to proposals or bids) sent to the Consultant or LACERS, written questions about the search directed to the Staff or Consultant, and one meeting with each potential firm as determined by Staff at LACERS’s office. In addition to all other applicable gift restrictions, Board members and Staff will accept no entertainment or gifts of any kind from any firm that is a potential candidate for award of the contract. This policy does not prohibit contact with potential candidates for award of a contract at group social events, educational seminars, conferences, or charitable events so long as there is no direct marketing, and there are no discussions about the contract or the process to award it.

Firms who currently have contracts with LACERS and who are potential candidates for the award of a contract or the renewal of the existing contract will be allowed to continue contact related to the performance of the existing contract with Staff, but they shall not have any discussions or communications with them or with Board members regarding the proposed contract or the process to award it, or regarding the renewal of the existing contract, other than as permitted by this policy, and they shall not provide any type of gift or entertainment to Board members or Staff during the specified period of time or during the three months prior to the renewal of the existing contract, whichever is longer.

Firms that are invited to interview with the Board will be required to submit a statement listing all contacts with Board members, Staff and Consultants during the search period.

Any violation of this policy shall result in automatic disqualification of the firm involved.

This policy shall be periodically reviewed by the Board and may be amended at any time.
Corporate Governance Actions Response Protocol

Adopted January 13, 2009

Upon receipt of a request for a Corporate Governance action, which is not directly addressed by existing Board policy, and for which there is not sufficient time in advance of the deadline to convene a Corporate Governance Committee or Board meeting to consider the matter, the General Manager or General Manager designee shall execute the action if one staff member plus one Board Member both agree that the subject to be voted/acted on falls within the letter or spirit of adopted Board policy.

For the purpose of implementing this policy, the Chief Investment Officer (CIO) shall serve as the designated staff member, and the Corporate Governance Committee Chairperson as the designated Board Member. In the absence of the CIO, the General Manager will act as the designated staff member, and in the absence of the Committee Chairperson, the Board President will act as the designated Board Member.
Third Party Marketer Compliance Policy
Revised December 14, 2010

This Policy supersedes any previously adopted policy and is effective immediately upon adoption.

Purpose

The purpose of this policy is to maximize transparency and avoid actual or perceived conflicts of interest when LACERS considers investment proposals in order to ensure that system investment decisions are made solely on the merits of the investment opportunity by individuals that owe a fiduciary duty to the system. This policy requires firms submitting proposals for consideration by LACERS to disclose the identity of all Placement Agents and/or individuals by whom the firm was referred to LACERS, and further indicate those so identified that stand to receive fees or other considerations in the event that a contract between the firm and LACERS is secured. This Policy is intended to apply broadly to all investment partners with whom LACERS does business, including, but not limited to, private equity funds, real estate funds, and infrastructure funds, as well as investment managers retained pursuant to a contract. The Board has determined, in good faith, that the adoption of this Policy is consistent with its fiduciary responsibilities as described in Section 17 of Article XVI of the California Constitution.

I. Disclosure of Payments Made to Placement Agents

Each External Manager shall provide to LACERS the required information listed below within 45 days of the time investment discussions are initiated by the External Manager or LACERS but in any event prior to the completion of due diligence. Any changes to the information provided to LACERS must be disclosed within 14 calendar days of the occurrence of the change in information. In the case of amendments to an existing agreement, this information is required prior to execution of the amendment.

A. A statement whether the External Manager, or any of its principals, employees, agents or affiliates has compensated or agreed to compensate, directly or indirectly, any person or entity to act as a Placement Agent in connection with any investment by LACERS.

B. A resume for each Placement Agent detailing the person’s education, professional designations, regulatory licenses, and investment and work experience. If any such person is a former LACERS Board member, employee or Consultant or the member of an immediate family of any such person, this fact shall be specifically noted. When an entity is retained as a Placement Agent, any officer, director or employee actively providing placement agent services with regard to LACERS or receiving more than 15% of the placement agent fees should provide information required by this subsection.

C. A description of any and all compensation of any kind provided, or agreed to be provided, to the Placement Agent, including the nature, timing and value thereof.
D. A description of the services to be performed by the Placement Agent and a statement as to whether the Placement Agent is utilized by the External Manager with all prospective clients or only a subset of prospective clients.
E. A statement whether the Placement Agent, or any of its affiliates, are registered with the Securities and Exchange Commission or the Financial Industry Regulatory Authority, or any similar regulatory agency in a country other than the United States, and the details of that registration or an explanation as to why no registration is required.
F. A statement whether the Placement Agent, or any of its affiliates, is registered as a lobbyist with the City of Los Angeles, State of California or national government.

II. Disclosure of Campaign Contributions by Placement Agent to the Board

A. Any Placement Agent, prior to acting as a Placement Agent in connection with any potential LACERS investment, shall disclose to the Board all campaign contributions made by the Placement Agent to any elected member of the Board during the prior 24-month period. Additionally, any subsequent campaign contribution made by the Placement Agent to an elected member of the Board during the time the Placement Agent is receiving compensation in connection with a system investment shall also be disclosed.
B. Any Placement Agent, prior to acting as Placement Agent in connection with any potential LACERS investment, shall disclose to the Board all gifts, as defined in Government Code Section 82028, given by the Placement Agent to any member of the Board during the prior 24-month period. Additionally, any subsequent gift given by the Placement Agent to any member of the Board during the time the Placement Agent is receiving compensation in connection with a system investment shall also be disclosed.

III. Definitions

A. Consultant refers to individuals or firms, and includes key personnel of consultant firms who are contractually retained or have been appointed to a pool by the system to provide investment advice to the system but who do not exercise investment decisions.
B. External Manager means either of the following:
   1. A person who is seeking to be, or is retained by LACERS to manage a portfolio of securities or other assets for compensation.
   2. A person who is engaged, or proposes to be engaged, in the business of investing, reinvesting, owning, holding, or trading securities or other assets and who offers or sells, or has offered or sold, securities to LACERS.
C. Person means an individual, corporation, partnership, limited partnership, limited liability company, or association, either domestic or foreign.
D. Placement Agent
   1. A person hired, engaged, or retained by, or serving for the benefit of or on behalf of, an External Manager, or on behalf of another Placement Agent, who acts or has acted for compensation as a finder, solicitor, marketer, consultant, broker, or other intermediary in connection with the offer or sale of the securities, assets, or
services of an External Manager to LACERS or an Investment Vehicle, either directly or indirectly.

2. Notwithstanding paragraph (1), an individual who is an employee, officer, director, equity holder, partner, member, or trustee of an External Manager and who spends one-third or more of his or her time, during a calendar year, managing the securities or assets owned, controlled, invested, or held by the External Manager is not a Placement Agent.

3. For the purpose of this section, an “Investment Vehicle” means a corporation, partnership, limited partnership, limited liability company, association, or other entity, either, either domestic or foreign, constituting or managed by an External Manager in which LACERS is the majority investor that is organized in order to invest with, or retain the investment management services of, other External Managers.

IV. Requirement of Placement Agent to File Reports and Comply with Requirements Imposed on Lobbyist

A. A person acting as a Placement Agent in connection with any potential system investment made by LACERS, shall file applicable reports and comply with any applicable requirements imposed on lobbyist under the Los Angeles Municipal Code Section 48.01 et seq.

B. This section does not apply to an individual who is an employee, officer, director, equity holder, partner, member or trustee of an External Manager who spends one-third or more of his or her time, during a calendar year, managing the securities or assets owned, controlled, invested or held by the External Manager.

V. Policy History

A. Adopted on June 8, 2010

B. Revised on December 14, 2010
LACERS Actuarial Funding Policy

Modified October 23, 2012

Goals of Actuarial Funding Policy

1. To achieve long-term full funding of the cost of benefits provided by LACERS;
2. To seek reasonable and equitable allocation of the cost of benefits over time; and,
3. To minimize volatility of the plan sponsor’s contribution to the extent reasonably possible, consistent with other policy goals.

Funding Requirement

LACERS annual funding requirement is comprised of a payment of the Normal Cost and a payment on the Unfunded Actuarial Accrued Liability (UAAL). The Normal Cost and the amount of payment on UAAL are determined by the following three components of this funding policy:

I. Actuarial Cost Method: the techniques to allocate the cost/liability of retirement or health benefit to a given period;

II. Asset Smoothing Method: the techniques that spread the recognition of investment gains or losses over a period of time for the purposes of determining the Actuarial Value of Assets used in the actuarial valuation process; and

III. Amortization Policy: the decisions on how, in terms of duration and pattern, to reduce the difference between the Actuarial Accrued Liability and the Actuarial Value of Assets in a systematic manner.

I. Actuarial Cost Method:

a. The Entry Age Normal method shall be applied for the existing and any future tiers of retirement or health benefit in determining the Normal Cost and the Actuarial Accrued Liability.

II. Asset Smoothing Method:

a. The gains or losses of each valuation period, as a result of comparing the Market Value of assets at the end of the period with what the Market Value would have been if the assumed rate of return on assets was realized during the period, shall be recognized in level amount over 7 years in calculating the Actuarial Value of Assets;

b. The Actuarial Value of Assets as determined above shall be limited to be within a corridor of 60% - 140% of the Market Value of assets.
III. Amortization Policy:

a. The Unfunded Actuarial Accrued Liability (UAAL), the difference between the Actuarial Accrued Liability and the Actuarial Value of Assets, shall be amortized over various periods of time, depending on how the unfunded liability arose;

b. For UAAL identified before the June 30, 2010 actuarial valuation:
   i. The UAAL as of June 30, 2005 shall be amortized over 30 years;
   ii. Actuarial gains or losses shall be amortized over 15 years;
   iii. Plan amendments, other than the City's Early Retirement Incentive Program of 2009-2010, shall be amortized over 30 years;
   iv. The City's Early Retirement Incentive Program of 2009-2010 shall be amortized over 15 years;
   v. Changes in actuarial assumptions and cost methods shall be amortized over 30 years;

c. For UAAL identified beginning from the June 30, 2010 actuarial valuation:
   i. Actuarial gains or losses shall be amortized over 15 years;
   ii. Plan amendments, other than Early Retirement Incentives, shall be amortized over 15 years;
   iii. Early Retirement Incentives shall be amortized over 5 years;
   iv. Changes in actuarial assumption and cost methods, other than those assumptions related with health benefit and reviewed annually by the Board, shall be amortized over 30 years;
   v. Changes in actuarial assumptions related with health benefit and reviewed annually by the Board shall be amortized over 15 years;
   vi. Actuarial funding surplus (an excess of Actuarial Value of Assets over Actuarial Accrued Liability) shall be amortized over 30 years;
   vii. All UAAL layers as of June 30, 2012 shall be combined and amortized over 30 years, except the layers created in 2004 and 2005 for GASB compliance and the layers created in 2009 as a result of the Early Retirement Incentive Program, which will maintain their original amortization schedules.
d. UAAL shall be amortized over "closed" amortization periods;

e. UAAL shall be amortized as a level percentage of payroll so that the amortization amount in each year during the amortization period shall be expected to be a level percentage of covered payroll, taking into consideration the current assumption for general payroll increase;

f. Layers generated by various sources of UAAL shall be combined and/or restarted when:

i. It is required to comply with the amortization standards set forth by the Governmental Accounting Standards Board (GASB); or

ii. The net result of amortization of each layer is an amortization credit which would offset the Normal Cost; or

iii. Other conditions arise so that the Board considers that it is appropriate to do so.
APPENDICES

I. Board Rules
II. Investment Policy
III. Geopolitical Risk Investment Policy
IV. Alternative Investment Policy
V. Specialized, Non-Traditional Alternative Investment Policy
VI. Real Estate Investment Policy
VII. Proxy Voting Policy
VIII. Securities Lending Investment Policy
IX. Manager Monitoring Policy
X. Investment Risk Management Policy
XI. Emerging Investment Manager Policy
XII. Credit Opportunities Strategy Statement
XIII. Real Assets Strategy Statement
XIV. Manager Search and Selection Policy
CALCULATION OF RETIREMENT ALLOWANCES (CLC)

The compensation earnable shall be and is hereby established as the total salary amount including the adjusted compensation (notes H, J, K, or N) as it appears on the department payroll.

(Resolution: 11; Adopted: August 11, 1964)

(Please note that the hard copy of this resolution could not be located/verified)

Final Compensation

(1) Final compensation shall be computed pursuant to Section 4.1010 of the Los Angeles Administrative Code on the basis of assumed full-time employment (i.e. 80 hours per biweekly payroll period) in the following situations:
   a) for periods of service subsequent to the effective date of this rule, or
   b) for periods of service prior to the effective date of this rule for which credit has been acquired pursuant to paragraphs C and/or D hereof, or
   c) for periods of service prior to the effective date of this rule for members who worked on a full-time basis immediately preceding said effective date.

(2) Final compensation for periods of service prior to the effective date of this rule for members who did not work on a full-time basis immediately preceding said effective date and for which no election was made by the member pursuant to Section D hereof, shall be computed by determining the final compensation in accordance with the foregoing Paragraph (1) above, such final compensation then to be multiplied by a fraction which has as its numerator the number of hours exclusive of overtime, for which the member was compensated (during the period used to determine such final compensation), and which has as its denominator 2,080 hours in 12-month periods with 26 payroll ending dates and 2,160 hours in 12-month periods with 27 payroll ending dates; provided, however, that said fraction shall not be less than $\frac{1}{2}$.

(Supersedes the language contained in Section E of Resolution 79121)

(Resolution: 81607; Adopted: May 26, 1981)

On and after December 13, 1994, in the determination of final compensation, the salary rates to be used shall be from records maintained by the City Employees Retirement System which are derived from the City payroll.

(Resolution: 95096; Adopted: December 13, 1994)

Computing Internal Revenue Code Section 415 Limits

The Board Adopts the GATT approved formula for computing the Internal Revenue Code Section 415 limits with the plan beginning July 1, 2000

(Resolution: 00164; Adopted: March 21, 2000)

The Yield of the thirty year Treasury Note for the month of May will be used in computing the limits.

(Resolution: 00164; Adopted: March 21, 2000)
The Yield of the thirty year Treasury Note for the month of May will be used in computing the limits
(Resolution: 00164; Adopted: March 21, 2000)

CERTIFICATION TO PLAN (CRT)

Employees Hired Under Emergency Appointment Authority
New appointments to City employment, hired under emergency payroll status will become eligible for membership upon receipt of certification from the appointing authority that the employment is regular, full time, and continuous and will probably extend for at least one year.
(Resolution: 91035; Adopted: August 14, 1990)

DEPARTMENTAL ADMINISTRATION (ADM)

Use of LACERS’ Address Files (Amendment of Address File Policy)
When a written request for distribution to the retired population, accompanied by a sample of the materials to be distributed, is received from an organization for which a payroll deduction option for retirees is available, staff shall, for the purpose of facilitating the distribution while maintaining the confidentiality of retired members’ addresses, assist the requesting organization(s) as follows:

1. In consultation with a requesting organization, staff may exercise one of the following options:
   a. Execute the distribution, manage all aspects, and recover all costs from the requesting organization; or
   b. Arrange, in coordination with the requesting organization, to have delivered to LACERS’ mailing house the appropriate number of packages/material to be distributed, and a sufficient quantity of envelopes to be supplied by LACERS that are designed to cause all undeliverable mail to be returned to LACERS only. The arrangements for postage payment and mailing house processing costs shall be transacted solely between the mailing house and the requesting organization, and LACERS shall recover, from the requesting organization, the cost of providing the electronic file and the return envelopes.

2. This policy to assist with distributions is for the purpose of protecting address information of retired members.
(Resolution: 01132; Adopted: March 1, 2001)
Petty Cash
The Petty Cash Fund authorization is to be increased to $500 and $300 be paid from the Office and Administrative Expense Account No. 601-01 and the Manager is authorized to draw the necessary demands to increase to authorized level.
(Resolution: 82483; Adopted: May 25, 1982)

Manager is authorized to establish at a local bank a checking account for the Petty Cash Fund, and that the authorized signatures for said checking account shall be those of the Manager and the two Assistant Managers.
(Resolution: 83163; Adopted: February 8, 1983)

Contracts
Manager shall be authorized to hire a private firm to investigate the possibility of fraud, and to pay costs incurred not to exceed $3,000.
(Resolution: 91047; Adopted: August 28, 1990)

1) Manager granted authority to approve and execute contracts in an amount not to exceed $20,000, when budgeted funds are available; 2) That the Board be periodically informed of all contracts that the Manager-Secretary enters into under this authority; and 2) that the scope of this authority is limited in that multiple contracts with any one vendor cannot exceed $20,000 in any fiscal year.
(Resolution: 01158; Adopted: May 8, 2001)

Note: This supercedes Resolution 01098; Adopted January 9, 2001

LACERS Employment
Practices Regarding the Employment of Relatives of Current Employees
1) No current employee shall participated in the decision to employ his or her relative
2) No employee shall supervise or evaluate the work performance of a relative.
3) No employee shall certify or audit the work of a relative
4) Relatives shall not be appointed if there is any reason to believe that the normal course of business in the office will be affected by such appointments.
5) Preferential treatment shall not be given to relatives or friends in hiring for temporary or permanent positions.
(Resolution: 81460; Adopted: March 10, 1981)

Board of Administration
Pursuant to Section 54957.2, Chapter 9 of the California Government Code (The Ralph M. Brown Act), the legislative body of a local agency may, by ordinance or resolution, designate a clerk or other officer or employee of the local agency who shall then attend each closed session of the legislative body and keep and enter in a minute book a record of topics discussed and decisions made at the meeting. The Executive Assistant to the Board of Administration be designated to serve in this capacity; and the Manager-Secretary be designated as the alternate.
(Resolution: 98053; Adopted: September 30, 1997)
Members of the Board shall be compensated for attendance at all Regular and Special meetings of the Board at a rate of $50 per meeting with a maximum of $250 per month, except when such Special meeting is concurrently scheduled as a meeting of a Committee of the Board.
(Resolution: 99248; Adopted: May 25, 1999)

The Board hereby approves the change of the official meeting time for regularly scheduled Board meetings to 9 a.m.
(Resolution: 06045; Adopted: September 13, 2005)

**DISABILITY RETIREMENT – GENERAL (DRG)**

**DRG 01:** All disability retirement applications shall be processed in a manner designed to protect the privacy rights of the applicant. All medical information shall be retrieved from Board members after each Board meeting. Board members not present at meetings during which an application for disability retirement is considered shall return all medical information to staff at the next regularly-scheduled meeting or dispose of the information in a manner that will protect the privacy rights of the applicant.
(Resolution: 05127; Adopted: June 14, 2005)

**DRG 02:** When a disability application is denied and the applicant returns to City employment, if the applicant received temporary disability payments from his or her contribution account pursuant to former Los Angeles Administrative Code Section 4.1055.1, staff shall establish the amount to be repaid to the applicant’s contribution account by mandatory payroll contributions. The total amount to be repaid shall include the interest, which would have accrued on the contributions from the date of the last temporary disability payment made. Should the member elect to repay the funds through biweekly payroll deductions, interest at a rate consistent with service credit purchases made through biweekly payroll deductions shall also be charged. The minimum biweekly payroll deduction shall be $25.00 and shall commence with the second full pay period following written notification to the member.
(Resolution: 05127; Adopted: June 14, 2005)

**DRG 03:** Los Angeles Administrative Code Section 4.1058.1 allows the Board to grant a disability retirement to an applicant who dies before three medical reports can be obtained. In these cases, a finding that the applicant was physically or mentally incapacitated since the discontinuance of service and incapable of performing the duties of his or her position may be made by the Board if (1) the cause of death, as shown on the death certificate, is attributable to the stated disability on the application for disability retirement or (2) if a different cause of death that would have incapacitated the member continuously from his or her discontinuance of service is shown on the death certificate. These findings can be made by the Board based on existing evidence on record at the time of death, if sufficient, or based on evidence obtained subsequent to the member’s death
(Resolution: 05127; Adopted: June 14, 2005)
DRG 04: The General Manager is authorized to select the regularly licensed, practicing physicians to whom disability applicants are to be sent for examinations as provided in Los Angeles Administrative Code Section 4.1058.  
(Resolution: 05127; Adopted: June 14, 2005)

The Board hereby approves a policy authorizing staff to pay, upon the treating physician request, the costs associated with the production of medical records regarding disability retirement applicants requested by LACERS in conjunction with a disability retirement application in an amount not to exceed $100 per treating physician request; and grant authority to staff to utilize the services of third party vendors to obtain medical records, in an amount not to exceed $200 per physician per applicant.  
(Resolution: 01089; Adopted: December 12, 2000)

The Board, pursuant to the Administrative Code requiring disability applicants to be examined by three physicians, hereby authorizes a maximum fee of $1,200 for medical examinations, plus the cost of laboratory and associated charges authorized by staff and a maximum fee for missed appointments of $200.  
(Resolution: 01089; Adopted: December 12, 2000)

DISABILITY RETIREMENT – PROCEDURES (DRP)

Pre-hearing Consideration by the Board

DRP 01: When LACERS staff has gathered all necessary information for the initial consideration by the Board; staff shall promptly schedule the matter before the Board.  
(Resolution: 05128; Adopted: June 14, 2005)

DRP 02: LACERS staff shall provide verbal and/or written notification to the applicant of the date of scheduled initial consideration by the Board.  
(Resolution: 05128; Adopted: June 14, 2005)

DRP 03: The applicant may request one continuance as a matter of right. After that, good cause must be shown before other continuances are granted. LACERS’ staff shall determine whether good cause exists. Good cause shall not include issues related to a workers’ compensation claim, including, but not limited to the status of a workers’ compensation claim and/or workers’ compensation physician reports.  
(Resolution: 05128; Adopted: June 14, 2005)

DRP 04: The applicant has the right to be present during the Board’s initial consideration of the case, but does not have to be present.  
(Resolution: 05128; Adopted: June 14, 2005)
DRP 05: The applicant has the right to be, but does not have to be represented by an attorney or other representative during the initial consideration by the Board.  
(Resolution: 05128; Adopted: June 14, 2005)

DRP 06: When a case is brought before the Board, for initial consideration, the Board may take one of three actions:
(A) Grant the disability retirement;
(B) Request staff to provide further information and bring the case back for further consideration; or
(C) Order a hearing, with or without a request to staff for further information.  
(Resolution: 05128; Adopted: June 14, 2005)

Rules for When a Hearing is Ordered by the Board

DRP 07: When the Board orders a hearing; staff shall promptly schedule the matter before the Board.  LACERS’ staff shall attempt to schedule the hearing on a mutually agreeable date, not more than 60 days after the Board’s initial consideration of the case.  
(Resolution: 05128; Adopted: June 14, 2005)

DRP 08: The applicant may request one continuance as a matter of right.  After that, good cause must be shown before other continuances are granted.  LACERS’ staff shall determine whether good cause exists.  Good cause shall not include issues related to a workers’ compensation claim, including, but not limited to the status of a workers’ compensation claim and/or workers’ compensation physician reports.  
(Resolution: 05128; Adopted: June 14, 2005)

DRP 09: Unless otherwise stipulated by all parties, notice of a hearing shall be given at least ten days before such hearing, and shall be given in person or by mail to each party and interested person(s).  
(Resolution: 05128; Adopted: June 14, 2005)

DRP 10: The applicant has the right to be, but does not have to be, represented by an attorney or other representative during the Board hearing.  
(Resolution: 05128; Adopted: June 14, 2005)

DRP 11: The applicant has the right to present written evidence.  To minimize delays in processing the case, the applicant is urged to provide any written evidence as early during the case processing as possible.  
(Resolution: 05128; Adopted: June 14, 2005)

DRP 12: The applicant has the right to present testimony at the hearing and to have other witnesses present testimony.  
(Resolution: 05128; Adopted: June 14, 2005)
DRP 13: The applicant has the right to question any witnesses who testify at the hearing.
(Resolution: 05128; Adopted: June 14, 2005)

DRP 14: The Board has the right to question the applicant and/or any applicant witnesses.
(Resolution: 05128; Adopted: June 14, 2005)

DRP 15: The Board may direct any person present at the hearing to testify whether or not such person was subpoenaed to testify.
(Resolution: 05128; Adopted: June 14, 2005)

DRP 16: The Board shall, within its authority, obtain the issuance of a subpoena for the attendance of a witness or the production of evidence upon request of a member of the Board or upon the written demand of any party. Applications for this purpose shall state the name and address of the proposed witness, specify the exact evidence sought and its materiality to the issues involved, and shall state that the witness has the desired evidence in his possession or under his control. For subpoenas requested by Board members, the Board shall also provide for the service of the subpoenas.
(Resolution: 05128; Adopted: June 14, 2005)

DRP 17: The General Manager of the Los Angeles City Employees’ Retirement System is authorized to request the City Clerk to issue subpoenas under the provisions of the Charter. LACERS’ staff is authorized to pay witness fees and mileage allowances for subpoenas requested by the Board and in accordance with the provisions of the appropriate City regulations. The applicant shall pay any witness fees, including expert witness fees, and mileage for witnesses subpoenaed by the applicant.
(Resolution: 05128; Adopted: June 14, 2005)

DRP 18: The Board may grant a re-hearing to reconsider its decision relative to a disability retirement application upon demonstration (A) that material evidence now exists which would have tended to affect the Board’s decision had it been available or obtainable at the time of said decision, or (B) that the Board’s previous decision was contrary to the evidence and clearly in error. Any request for the Board to reconsider a decision must be submitted in writing not more than 90 days following the date the Board’s Findings of Fact are mailed to the applicant and shall include: (A) copies of any additional written evidence, or a general description of the nature of any additional testimony, which it is proposed for the Board to consider; and/or (B) a statement setting forth the nature of the Board’s error in arriving at its decision.
(Resolution: 05128; Adopted: June 14, 2005)

DRP 19: The hearing need not be conducted according to the formal rules relating to evidence and witnesses.
(Resolution: 05128; Adopted: June 14, 2005)
DRP 20: The Board shall require maintenance of order in the hearing room, may order the exclusion of witnesses, may expel anyone who disturbs the hearing, and may secure the aid of the Chief of Police or security officer for such purpose. 
(Resolution: 05128; Adopted: June 14, 2005)

DRP 21: The Board may continue a hearing at any stage. 
(Resolution: 05128; Adopted: June 14, 2005)

DRP 22: The Board has the power to hear and determine all matters pertaining to the granting or termination of any disability retirement allowance. The determinations of the Board are final and conclusive. 
(Resolution: 05128; Adopted: June 14, 2005)

DRP 23: A hearing reporter shall record all proceedings. The hearing reporter’s notes may be transcribed and one copy procured at the request of any party or interested person, upon payment of the fee for such transcription. If notes are transcribed, the original transcript shall be placed on file in the office of the Board. Any other party or interested person may thereafter purchase additional copies of the transcript by paying the cost thereof. LACERS’ staff is authorized and directed to prepare the necessary demands for such payments. 
(Resolution: 05128; Adopted: June 14, 2005)

DRP 24: Petition for judicial review of the Board’s final decision must be made within the time limits specified in Section 1094.6 of the California Code of Civil Procedure, which has been adopted by the Board of Administration. Any such petition must be filed not more than 180 days after the Board’s Findings of Fact are mailed to the applicant, unless the applicant timely requests reconsideration, in which case the decision is final 90 days after the request for reconsideration is rejected. 
(Resolution: 05128; Adopted: June 14, 2005)

DISABILITY RETIREMENT – RE-EXAMINATION (DRR)

DRR 01: LACERS shall only initiate reexaminations to determine whether disability retirees remain disabled if the retirees are under age 55 and not more than five years have passed since the Board of Administration granted their disability retirements. 
(Resolution: 05032; Adopted: October 26, 2004)

DRR 02: Unless the Board specifies a shorter period of time or permanently precludes a disability retiree from reexamination, the reexamination shall be conducted five years after the date on which the disability retirement was granted. 
(Resolution: 05032; Adopted: October 26, 2004)
DRR 03: For reviews initiated by LACERS, the General Manager or his/her designee shall have the authority to make a finding to continue a disability retirement allowance if at least one examining physician opines that the retiree remains disabled.
*(Resolution: 05032; Adopted: October 26, 2004)*

DRR 04: If a disability retiree believes that he/she is no longer disabled, he/she may request to have his/her case reviewed. LACERS staff shall determine whether to review the case based on (1) the presence of medical evidence of a significant change in his/her condition and/or (2) the length of time since the last review.
*(Resolution: 05032; Adopted: October 26, 2004)*

**FAMILY DEATH BENEFIT INSURANCE PLAN (FDB)**

FDB 01: Membership in the Family Death Benefit Insurance Plan shall automatically continue during all temporary leaves of absence, including leaves pending retirement. Premiums should be collected at the termination of the leaves, by restoration to duty, death, retirement, or other separation.
*(Resolution: 05020; Adopted: July 27, 2004)*

FDB 02: Family Death Benefit Insurance Plan premiums received in error shall be refunded.
*(Resolution: 05020; Adopted: July 27, 2004)*

FDB 03: The Board authorizes the General Manager to waive collections of member premiums for the Family Death Benefit Insurance Plan for amounts of $25.00 or less.
*(Resolution: 05020; Adopted: July 27, 2004)*

FDB 04: Upon the death of a Family Death Benefit Plan Member who has completed at least 18 months of Death Benefit Plan Service:

(a) The widow/ widower of such member, having the care and custody of such member’s child or children under the age of 16, shall receive a monthly allowance as provided in LAAC Section 4.1063 for him/her self plus the child/children, until such time as he or she shall remarry.

(b) The widow/widower, natural parent or adoptive parent of a member’s child or children under the age of 18, having care and custody of such child/children, shall receive a monthly allowance for each child as provided in LAAC Section 4.1063.

(c) In the event there are surviving children under the age of 18, who are not in the care or custody of the member’s widow/ widower, or in the care or custody of the child’s natural or adoptive parent, there shall be paid to the legally appointed guardian of the member’s child or children a monthly allowance as provided in LAAC Section 4.1063.
The phrase “child or children under the age of 18” shall include, in addition to a child who has not attained its 18th birthday as of the date of the member’s death, any child who, before reaching the age of 22, has become unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death, or to be of long continued and indefinite duration.

The phrase “child or children under the age of 18” shall include any child who is 18 years of age and a full-time student in an elementary or secondary school.

The phrase “child or children” shall include adopted children. It shall also include grandchildren, stepchildren, and stepgrandchildren for whom the deceased member paid at least ½ of their necessary living expenses during the member’s last year of service. The children and grandchildren of a member’s domestic partner shall be considered the member’s stepchildren and stepgrandchildren provided the domestic partnership has been established under LAAC Section 4.1044.4.

The term “widow/ widower of such member” shall also include the domestic partner of the member on the date of the member’s death provided the domestic partnership has been established pursuant to LAAC Section 4.1044.4.

(Resolution: 05020; Adopted: July 27, 2004)

FDB 05: Disabled child benefits terminate the third month following the month in which the disability ceases.
(Resolution: 05020; Adopted: July 27, 2004)

FDB 06: Child benefits terminate the month preceding the month in which any of the following occurs: the child dies, marries, or reaches the age of 18 (except for disabled children and children in full-time elementary or secondary school).
(Resolution: 05020; Adopted: July 27, 2004)

FDB 07: Benefits to a child who is 18 years of age and full-time student in an elementary or secondary school shall be paid to the child and terminate on the earlier of the month before the first full month in which the child is not a full-time student or the month before the child attains the age of 19.
(Resolution: 05020; Adopted: July 27, 2004)

FDB 08: Upon the death of a Family Death Benefit Plan Member who has completed at least 120 months of Death Benefit Plan Service:

(a) Upon reaching age 60, a widow/widower of such member, if she or he has not remarried, shall be paid a monthly pension as provided in LAAC Section 4.1063.
Actuarially reduced widow/widower benefits may be paid to a qualified widow/widower who has attained age 50, but not age 60, and was disabled at least one month prior to the member’s death.

Widows/widowers, who would otherwise be eligible for widow/widower benefits under the Family Death Benefit Insurance Plan except for having remarried, upon subsequently having that marriage end via dissolution, death, or annulment prior to age 60, shall again become eligible to receive benefits.

Widows/widowers, who are otherwise eligible for widow/widower Family Death Benefit Insurance Plan benefits, shall receive their benefits even if they remarry at, or after, age 60.

(b) In the event such member is not survived by a widow, widower or child who is eligible to receive Family Death Benefit Insurance Plan benefits, but is survived by a parent or parents who during the last year of the member’s service had received at least 1/2 of their necessary living expenses from such member, there shall be paid to each such parent a monthly pension as provided in LAAC Section 4.1063; provided, however, that no such payment shall be made to a parent who has remarried subsequent to the member’s death, nor shall such payments begin before the parent has reached age 62, nor shall any payment be continued to a parent who remarries.

In order to qualify for the benefit provided in Subparagraph (b) of this rule, the parent or parents, as the case may be, must within a period of six months following the member’s death, file with the Board of Administration a claim for such benefit payable at age 62, regardless of age at the time of such death, and establish to the satisfaction of said Board the fact of dependency as provided in said subparagraph.

The term “widow/widower of such member” shall also include the domestic partner of the member on the date of the member’s death provided the domestic partnership has been established pursuant to LAAC Section 4.1044.4.

(Resolution: 05020; Adopted: July 27, 2004)

FDB 09: Widow/widower benefits terminate the month preceding the month in which he/she remarries (prior to age 60 and stays married past age 60) or dies. If the widow/widower is receiving benefits as a disabled widow/widower the benefit shall continue through the third month following the month in which the disability ceases.

(Resolution: 05020; Adopted: July 27, 2004)
FDB 10: Disabled Family Death Benefit Insurance Plan recipients, whose disabilities are not determined to be permanent, shall be reviewed every 3 years in order to assess whether their disabilities continue to exist.
(Resolution: 05020; Adopted: July 27, 2004)

FDB 11: Dependent parent benefits terminate in the month preceding the month in which such parent dies or remarries.
(Resolution: 05020; Adopted: July 27, 2004)

FDB 12: The General Manager is authorized to administer an annual earnings test to Family Death Benefit Insurance Plan beneficiaries and enact reductions where applicable.
(Resolution: 05020; Adopted: July 27, 2004)

FDB 13: Rules for overpayment recovery:

1) When an overpayment is recovered through an offset against one or more monthly benefit payments, the offset will be limited to 25% of the monthly Family Death Benefit Insurance Plan benefit.

2) The General Manager may waive certain recovery of overpayments made to beneficiaries in instances where the person is without fault and if such recovery would defeat the purpose of the insurance plan or would be against equity and good conscience. “Without fault” shall mean the overpayment was not due primarily to the person’s lack of care in fulfilling his or her responsibilities under FDBIP.
(Resolution: 05020; Adopted: July 27, 2004)

GENERAL MANAGER AUTHORIZATIONS (GMA)

The Board hereby delegates authority to approve benefit payments to the Manager-Secretary. Additionally, the Board hereby declares that the date the Manager-Secretary approves the retirement benefit payment shall be deemed the date that the Board approves the retirement application for purposes of Los Angeles Administrative Code Sections 4.1066–4.1067 (Separate Accounts and Former Spouse Life Annuity).
(Resolution: 01030; Adopted: August 8, 2000)

The Manager-Secretary, upon receipt of appropriate (domestic relation) orders of the court, may make payments pursuant thereto to beneficiaries other than retired employees, and the Manager-Secretary is hereby authorized and directed to draw appropriate demands.
(Resolution: 84052; Adopted: September 13, 1983)

When LACERS staff can verify that a member has filed a Declaration of Domestic Partnership with the Employee Benefits Section of the Personnel Department of the City of Los Angeles, the date that Declaration was filed with the Employee Benefits Section
may be accepted by LACERS staff as the date of filing for the purpose of the member’s retirement benefits provided that the domestic partnership was not terminated subsequent to the Declaration date and that the member completes LACERS’ Declaration prior to his/her retirement effective date.

(Resolution: 04028; Adopted: September 23, 2003)

LARGER ANNUITY PROGRAM (LAP)

Cash payments by members to provide a larger annuity are not authorized when it is the stated intent of the member to shelter the funds from creditors.

(Resolution: 77147; Adopted: February 22, 1977)

…rules for administering the larger annuity benefit…shall be as follows:

1. Additional contributions for a larger annuity may be made by payroll deduction or by lump sum contribution.

2. Only one refund of additional contributions and accumulated interest is permitted during a term of membership.

(Resolution: 95193; Adopted: June 13, 1995)

(Changes to Larger Annuity Program)

1. Active members electing to participate in the Larger Annuity Program shall complete the Election to Participate in Larger Annuity Program form, designating the structure of the additional voluntary contributions from among the following three methods:
   a. Payroll deduction on an after tax basis; or
   b. Lump-sum payment on an after tax basis; or
   c. Direct transfer or rollover from a qualified plan on a pre-tax basis.

   Note: Larger Annuity contributions made on an after-tax basis are limited by Internal Revenue Code Section 415 (currently $40,000 for 2002). No limitation exists for contributions made on a pre-tax basis

2. Larger Annuity contributions will receive a return on investment. Participating members may elect to:
   a. Receive the same return and in the same manner as is posted for regular member contributions; or
   b. Receive a return based on investment earnings of the fund, to be determined as follows:
      i. The return shall be computed based on the return of the publicly-traded assets of LACERS. The custodian bank will compute the monthly return.
      ii. The monthly return shall be posted at the end of the month and applied to the balance at the beginning of each month. The rate of return could be positive or negative.
      iii. Participating members may change their investment option once a year effective the first working day of the month following the change request.
3. Upon a change in the investment option, the member’s entire Larger Annuity account shall be transferred to the new option.

4. At the time of retirement, participating members may elect to receive either a refund of their Larger Annuity account, or a Larger Annuity based on the selection of the following options:
   
a. Single Life with a cash refund feature;
   
b. Single Life annuity without a cash refund feature;
   
c. Joint and survivor at any percentage consistent with Internal Revenue Code Section 401(a)(9) continuance percentage restrictions) with a cash refund feature;
   
d. Joint and survivor annuity at any percentage consistent with Internal Revenue Code Section 401(a)(9) continuance percentage restrictions) without a cash refund feature.

(Resolution: 070724-B; Adopted: July 24, 2007, modified “4.” above)
(Resolution: 02094; Adopted: May 28, 2002, modified entire section)

LOAN PROGRAM FOR DISABILITY APPLICANTS (DLN)

DLN 01: The amount of the loan cannot exceed ½(one-half) of the amount of contributions and interest in the member’s LACERS account.
(Resolution: 03024; Adopted: September 10, 2002)

DLN 02: The term of the loan is 4 years.
(Resolution: 03024; Adopted: September 10, 2002)

DLN 03: The member may repay the loan early without a penalty.
(Resolution: 03024; Adopted: September 10, 2002)

DLN 04: The amount of the loan cannot exceed $50,000.
(Resolution: 03024; Adopted: September 10, 2002)

DLN 05: The amount of the loan cannot exceed more than 4 pay periods of salary.
(Resolution: 03024; Adopted: September 10, 2002)

DLN 06: The annual interest rate is 8%.
(Resolution: 03024; Adopted: September 10, 2002)

DLN 07: The payment schedule can be quarterly, monthly or biweekly depending on the member’s circumstances.
(Resolution: 03024; Adopted: September 10, 2002)

DLN 08: There is a 90-day grace period.
(Resolution: 03024; Adopted: September 10, 2002)

DLN 09: LACERS retains a security interest in the member’s LACERS account until the loan is repaid.
(Resolution: 03024; Adopted: September 10, 2002)
MEMBER ACCOUNTS (ACC)

The Board authorizes the Manager-Secretary to waive collection of member contributions of less than $25; and to waive refunds of less than $10.
(Resolution: 97161; Adopted: February 11, 1997)

The Manager-Secretary shall be authorized to use the following criteria to process over/unders:
1. Over-refund of $50 or less – write off the over refund immediately.
2. Over-refund of $50 or more – Written request to former member
3. Over-refund of $100 or more – Written request to former member. If no response, 2nd written request referencing City Attorney intervention.
4. Over-refund of $500 or more – If previous efforts are not successful, forward case to City Attorney.
(Resolution: 95107; Adopted: December 27, 1994)

SUBJECT: Approved the Beta Formula
In conformity with the requirements of said Section 4.1031, and as recommended in the report of the Board’s Consulting Actuaries, contribution rates for all members of this system entitled to the Beta Formula be and they are hereby were established effective October 25, 1975, and thereafter are as follows:

Members not entitled to the Beta Formula pursuant to said section 4.1021, those now or hereafter employed in one of the Civil Service classification listed below, shall, while so employed, contribute at the rates established be Resolution No. 112, adopted February 7, 1974, unless them become employed in a Civil Service classification the members of which are entitled to the Beta Formula, at which time they shall contribute in accordance with the provisions of the preceding paragraph thereof.
(Resolution: 76048; Adopted: September 26, 1975)

SUBJECT: Defrayal of Member Contribution

Ordinance 147686 adds Section 4.1031.1 to the Los Angeles Administrative Code. Ordinance No. 147,707 authorizes the City to defray one-half of members’ contributions except as to those members excluded by the provisions of Section 4.1021 of the Los Angeles Administrative Code; and

Section 4.1031.1 authorizes the Board to discount the amount defrayed to offset savings expected to accrue from employee terminations and withdrawals of accumulated contributions.

The Board’s Consulting Actuaries have computed this expected savings to be at the rate of 25.37% of the amount so defrayed;

In accordance with said Section 4.1031.1, the amount payable to the City Employees’ Retirement Fund from City funds shall be
Controller to pay to the CERS fund 74.63% of the amount of employee contributions so defrayed.

The Controller is hereby authorized and directed to reduce members’ contributions, save and except those of members employed in the Civil Service classifications listed below, by one-half, and to pay to the City Employees’ Retirement Fund 74.63% of the amount so defrayed.

(Resolution: 76049; Adopted: September 26, 1975)

SUBJECT: Contribution Rate Table for All Members Beg., Pay Period August 26, 1978

The firm of Towers, Perrin, Forster and Crosby, the Board’s Consulting Actuaries, has complied a contribution rate table for all members of this System entitled to the Beta Formula in conformity with the requirements of Section 4.1031 effective with the payroll period ending August 28, 1978.

(Resolution: 79017; Adopted: July 25, 1978)

Contribution rates established for an age at entry of 16 shall be applicable to members age 16 and under.

(Resolution: 79175; Adopted: January 9, 1979)

Member Contributions, Retirement Credit and Final Compensation

In the case of employment on a regular full-time basis, the established rate of contribution shall be applied to the rate of salary established for the position held at the close of each bi-weekly payroll period.

The first contribution shall be taken at the end of the first bi-weekly payroll period in the month in which membership begins.

In the case of members who terminate and elect a deferred service retirement, or who terminate by disability or service retirement or death, a full contribution shall be taken for the last payroll period, and full service credit granted for said period in which the member is compensated.

For service rendered prior to July 1, 1937, retirement credit shall be allowed on the basis of 1/24 of one year’s service for each semi-monthly payroll period provided, however that should all days of absence without pay in one calendar year exceed fifteen days in the aggregate, then any such aggregate number of days shall be deducted from the total amount of prior service credit at the rate of 1/24 of one year of service for each such fifteen days of absence without pay.

For service rendered subsequent to July 1, 1937 and prior to July 1, 1956, retirement credit shall be allowed on the basis of 1/24 of one year’s service for each semi-monthly payroll period for which the required contributions are on deposit at the time of retirement.

For service rendered on and after July 1, 1956, retirement credit shall be allowed on the bases of 1/26 of one year’s service for each bi-weekly payroll period for which the required contributions are on deposit at the time of retirement, provided, however, that in
those years in which there are 27 payroll periods, the retirement credit shall be allowed on the basis of 1/27 of one year of service for each bi-weekly payroll period.

For service on a regular full-time basis, or on a regular part-time basis of half-time or more, service credit shall accrue as follows for each payroll period in which a member receives compensation, whether the compensation earnable established for the position held is at an hourly, daily, weekly, monthly or annual rate.

In all calculations required for the determination of the amount of any retirement allowance, the respective fractions, 1/24, 1/26, and 1/27 shall be expressed as the decimal equivalent of one year whenever a fractional part of one year of service is involved.

(Supersedes Resolution 18, dated August 21, 1956)
(Resolution: 89322; Adopted: May 23, 1989)

SUBJECT: Crediting Of Member Accounts
Member accounts, constituting the contributions made by members and accumulated interest therein, shall be credited monthly with interest.

The interest rate to be credited shall be the monthly average rate for 5-year Treasury Notes based on the previous third month as provided by Bloomberg divided by twelve. This rate shall be applied to the prior month ending balance of the member accounts. No other interest shall be credited thereon to a member’s account.

(Supersedes Resolution 83014, dated July 13, 1982)
(Resolution: 97126; Adopted: December 23, 1996)

RECIROCITY (REC)
Reciprocity with the Department of Water and Power Employees Retirement Plan:
The City Council has passed and the Mayor has approved an ordinance amending Division 4 of the Los Angeles City Administrative Code by adding Section 4.1060 to Chapter 10 thereof so as to aid in the implementation of a reciprocal arrangement between the City Employees’ Retirement System and the Department of Water and Power Employees Retirement Plan

This Board establishes March 9, 1980 as the effective date of implementation of the Reciprocity Agreement, and:

Members of the Department of Water and Power Employees Retirement Plan who become members of the City Employees Retirement Plan subsequent to this effective date shall immediately begin making contributions based on the entry age established by the Department of Water and Power Retirement Plan or the earliest entry age applicable in accordance with existing Charter and Administrative code provisions, whichever is less, providing there has not been a break in service of more than 3 years and the employee meets all the requirements established by this ordinance and consistent with the Charter and other sections of the Administrative Code, if applicable,
Current members of the City Employees’ Retirement System who were formerly members of the Department of Water and Power Employees Retirement Plan and otherwise meet the requirements for reciprocity as established by this ordinance, may have their entry age adjusted as previously described, effective March 9, 1980; providing they make application to do so prior to December 31, 1980; otherwise the effective date of adjustment will be the earliest date administratively feasible after the application has been filed, and;

Members who qualify to participate in the reciprocity agreement and so avail themselves of this opportunity, shall qualify for benefits based upon total service credits in both the City Employees’ Retirement System and the Water and Power Employees Retirement Plan in accordance with the provisions of the ordinance and beginning with the aforementioned effective dates;

The resolution previously adopted by this Board establishing rules for the payment of back contributions shall be applicable to the purchase of “Death Benefit Plan Service” by members who participate in reciprocity and avail themselves of this opportunity, and;

The Manager-Secretary is hereby authorized to prescribe forms, transfer funds, and perform or assign all the administrative duties necessary to fully implement the reciprocity agreement describer in the ordinance.

(Resolution: 80307; Adopted: March 11, 1980)

Transfer of Funds between LACERS and the Water and Power Employees’ Retirement Plan:
1. When LACERS is notified a Member has transferred from WPERP to LACERS, staff shall request a transfer of the Member’s contribution account from WPERP without regard to the 7 month negative election period available to the member.

2. If the Member negatively elects reciprocity between LACERS and WPERP, staff shall remove any interest accredited to the transferred amount and reverse the transfer.

3. If LACERS receives a request from WPERP for a transfer of a Member’s contribution account on account the Member has transferred employment to the Department of Water and Power, staff shall process that transfer request without regard to the 7 month negative election period available to the member.

4. If the Member negatively elects reciprocity between WPERP and LACERS, staff shall request a reversal of the Member’s account balance from WPERP and upon receipt shall credit the account, together with any accrued interest as if the transfer had not taken place.

(Resolution: 03043; Adopted: October 22, 2002)

Reciprocity with Certain Other California Retirement Systems:
Two payroll periods of overlapping coverage of both employment dates and service credits will not disqualify a member from eligibility for reciprocity.
(Resolution: 00175; Adopted: April 11, 2000)

Any overlapping service credits beyond two payroll periods will be deducted and the corresponding contribution will be refunded.
(Resolution: 00175; Adopted: April 11, 2000)

For purposes of reciprocity, overlapping service between the Los Angeles City Employees’ Retirement System and a reciprocal agency will not disqualify a member from reciprocity as long as the member did not physically work for both agencies at the same time.
(Resolution: 03025; Adopted: September 10, 2002)

A member’s decision to participate in reciprocity is revocable.
(Resolution: 04029; Adopted: September 23, 2003)

If a member with reciprocity is participating in a Deferred Retirement Option Plan, LACERS will begin to pay the member a retirement allowance based on when the reciprocal system considers the member to be retired.
(Resolution: 04029; Adopted: September 23, 2003)

If a member with reciprocity is participating in a Deferred Retirement Option Plan, LACERS will determine his/her Final Compensation for the purpose of calculating his/her retirement allowance based on his/her highest twelve months of compensation prior to being considered as retired by the reciprocal system.
(Resolution: 04029; Adopted: September 23, 2003)

If a member is employed by a reciprocal entity for less than one year and wants LACERS to recognize that period for his/her Final Compensation, that period will be blended with the member’s other contiguous period of highest compensation to develop a twelve-month Final Compensation amount.
(Resolution: 04029; Adopted: September 23, 2003)

**REFUNDS (RFD)**

RFD 01: The General Manager of the Los Angeles City Employees’ Retirement System (LACERS) is hereby authorized and directed to refund accumulated contributions and interest pursuant to Los Angeles Administrative Code Sections 4.1051.1 and/or 4.1059 to members who execute and file written applications with LACERS.
(Resolution: 0626; Adopted: August 9, 2005)
RFD 02: When LACERS staff realizes that it has erroneously collected retirement contributions from members; staff shall refund the contributions collected in error along with any regular interest credited to those contributions.  
(Resolution: 0626; Adopted: August 9, 2005)

RETIREE HEALTH SUBSIDY (RHS)

Retired members who qualify for federally funded parts A and B of Medicare shall be reimbursed for the premium cost of Medicare part B and that amount of $15.50 be reimbursed to eligible members each month beginning with the retirement roll for the month of December 1984.

This reimbursement shall be paid in addition to the Health Insurance Subsidy provided under Resolution #84232 dated May 22, 1984.

Upon the death of the retired member, no further reimbursement for the premium cost of part B of Medicare be paid on behalf of such members, and that the provisions of this resolution shall remain in effect until modified or cancelled by subsequent action of the Board.  
(Resolution: 85087; Adopted: January 8, 1985)

The maximum health insurance premium subsidy, as described in Section 4.1103 of the Los Angeles Administrative Code, payable on behalf of retired members of the City Employees’ Retirement system and their eligible dependents (as such term is defined in the Board-approved health insurance plans), shall be $261.

Retired members of age 55 and above with 10 or more years of service and retired members who were compulsorily retired, who do not qualify for Part A of Medicare shall have paid to their respective approved health insurance carriers, on behalf of said members and their eligible dependents, a monthly health insurance subsidy of $10.44 for each whole year of City service; said subsidy to be applied first to that portion of that premium applicable to the retired members, with any remainder to be applied to the premium applicable to dependent or dependents of said member. Those covered by Part A of Medicare shall have paid to the health carrier a subsidy and dependents same as above. No subsidy is paid after member’s death.  
(Rescinds Resolution 86152, Adopted May 13, 1986)  
(Supersedes Resolution 96153)  
(Resolution: 87160; Adopted: May 12, 1987)

SERVICE CREDIT PURCHASES (SCP)

Re-deposits for Terminated Members Who Successfully Appeal Discharges

Retirement System members who are discharged from City employment and refunded their accumulated contributions, and who also appealed such discharge and had their appeal upheld, shall upon reinstatement to membership, have the right to redeposit their previously withdrawn accumulated contributions in accordance with City Charter Section 512A and Administrative Code Section 4.1051 (b).  
(Rescinds Resolution 79194, dated January 23, 1979)  
(Resolution: 89224; Adopted: February 28, 1989)
Calculating Back Contributions For Part-Time Service Credit
The methodology of calculating the cost is to use the calendar year ending pay period to
determine the total number of hours worked and the first pay period of the calendar year
to determine the salary rate for the prior year. For purposes of calculating the service
credit for use in determining medical subsidy entitlement the General Manager is
authorized to determine years of service credit based on work patterns of the civil service
class in order to preserve member entitlements to the health subsidy.
(Resolution: 99062; Adopted: September 22, 1998)

Upon electing a deferred retirement, a former member shall be entitled to make a lump
sum cash settlement of a contract to purchase past service at any time prior to Board
approval of an application for a retirement allowance; and
The amount of such lump sum cash payment shall include the regular interest which
would have been credited between the member’s termination date and the time that the
lump-sum payment is received.
(Resolution: 84248; Adopted: June 26, 1984)

For purposes of satisfying the vested right retirement eligibility requirements regarding
dates of LACERS membership only, the employment dates associated with service credit
purchased under the re-deposit and back contribution provisions contained in the Los
Angeles Administrative Code may be used to establish LACERS membership dates.
This will apply to re-deposits regardless of the length of the break in service.
(Resolution: 04030; Adopted: September 23, 2003)

Any member eligible to: (1) make up back contributions, (2) re-deposit contributions, (3)
buy back service credit, or (4) make up contributions for periods during which Workers’
Compensation was received, may make full or partial payment for these purposes by a
direct trustee-to-trustee transfer of funds from any eligible retirement plan as permitted
under current federal and State law or under these laws as amended in the future.
(Resolution: 03034; Adopted: October 8, 2002)

This case establishes a precedent with respect to all future members that apply to
purchase military service credit, that payments they may receive for said military service
shall not constitute retirement benefits as defined in the ordinance establishing the
Government Service Buyback program if such payments are 1) issued to the member by
the Veterans’ Administration irrespective of age or years of service, and 2) the member
does not receive retirement benefits from one of the armed forces.
(Resolution: 98208; Adopted: May 26, 1998)

Buyback of LACERA Plan E Under the Government Service Buyback Program
Active CERS members are entitled to buyback LACERA Plan E non-vested services
under the GSB program if they are ineligible for reciprocity. The cost of the buyback
will be the current CERS contribution rate times the current salary times the years
purchased.
(Resolution: 00112; Adopted: December 14, 1999)
Administrative Rules For Public Service Buyback
A member may elect to purchase or enter into an agreement to purchase retirement credit for any qualifying periods of service only once during a term of membership; and any refund prior to termination or retirement shall terminate the right to enter into additional contracts during that term of membership;

When a member’s retirement date differs from the projected date used in the original buyback calculation, the cost of the buyback will be recalculated using the actual retirement date and the same salary used in the original calculation, but current actuarial assumptions;

The same method of calculation will apply to any public service buyback contract applicable to any survivors’ benefits payable at the death or a member who is eligible to retire;

When adjustments are required as a result if the above calculations, the following options will apply:

1. If the recalculation results in excess contributions, a refund of the excess amount will be made.

2. If the recalculation results in a requirement for additional contributions, the member may make a lump sum payment of the additional amount due or receive pro-rata service credit for the amount paid.

A member is entitled to amend the original contract once to pay off the remaining balance and it shall be recalculated by the following method:

1. If a percentage of pay option was elected the member will receive pro-rata service credit for the amount paid;

2. The additional service credit to be paid on the contract shall be recalculated using the original salary and retirement date but current actuarial assumptions;

3. If a fixed payment method was elected the principal balance will be determined using standard amortization tables.

A member who transfers to the Department of Water and Power is entitled to amend the original contract to change from a percentage-of-payment method to a fixed-dollar-amount method and it shall be recalculated by the following method:

1. The member will receive pro-rata service credit for the amount paid;

2. The additional service credit to be paid on the contract shall be re-calculated using the original salary and retirement date but current actuarial assumptions.
Military service will be documented by a Department of Defense Form 214 (DD214); evidence of other qualifying service must be certified by the government agency for whom the service was rendered; it will be the member’s responsibility to provide the City Employees’ Retirement System with the name and address of the qualified agency; the agency must return the certification directly to the City Employees’ Retirement System.

(Resolution: 96197; Adopted: April 9, 1996)

SURVIVOR BENEFITS (SRV)

Manager authorized to refund survivor contribution upon the written request of a member or surviving spouse provided in Subsections C and D of Sec. 508.2.

(Resolution: 72; Adopted: March 14, 1967)
(Note: This Resolution could not be located so it is not known whether the wording above is the actual wording contained in the Resolution.)

The Manager-Secretary is hereby authorized to draw the demands necessary to pay beneficiaries the accumulated contributions, not exceeding $100, in the accounts of those deceased members whose accounts were intended to be fully liquidated at the time of the initial Board action after the member’s death.

(Resolution: 80097; Adopted: September 11, 1979)

Calculation for 508.2 refund shall be member’s accumulated contribution amount multiplied by the ratio which the member’s survivor contribution rate bears to member’s total contribution rate (ratio calculated to five decimals-no round off).

(Resolution: 21; Adopted: August 8, 1967)
(Note: This Resolution could not be located so it is not known whether the wording above is the actual wording contained in the Resolution.)

Administrative Code Section 4.1044.3 allows the surviving spouse of a deceased retired member to elect to participate in the 50% Continuance-To-Surviving Spouse benefit provided in Charter Section 508.2 if the deceased member did not elect to participate in that benefit. Such a spouse must pay the additional contributions the member would have paid if the member had elected this benefit.

1. The allowance provided to a surviving spouse under Administrative Code Section 4.1044.3 shall be calculated as though the deceased member had retired under Charter Section 508.2

2. Any unused contributions which remain at the member’s death shall be used to provide the annuity portion of the continuing allowance when a surviving spouse elects this benefit.

3. That the required additional contributions the surviving spouse must pay shall be calculated on the basis of what the member would have contributed up to the retirement date, including the interest which would have been credited to those
contributions, and further including such interest as would have been credited to those additional contributions between the retirement date and the date they are paid by the surviving spouse if they had been transferred to the Reserve for Annuities on the retirement date.

4. That allowances previously granted under Section 4.1044.3 shall be recalculated in accordance with the foregoing provisions and any necessary adjustment to the accounts shall be made, and the additional amount due retroactive to the effective date shall be paid to the surviving spouse. In such cases wherein unused contributions were refunded to a surviving spouse, the receipt of a recalculated allowance shall be contingent upon the redeposit of those contributions.

(Resolution: 84247; Adopted: June 26, 1984)

HEALTH BENEFITS ADMINISTRATION

HBA 1.0 Delegation of Authority
To the extent permitted by law, the Board may delegate authority to act on its behalf in accordance with Board policies to the General Manager, a health plan provider, a third party administrator, or to other such entities as it deems necessary or reasonable for the effective and efficient administration of its Retired Member health plans. However, nothing in this rule shall permit the Board to delegate its powers regarding the adoption of the health subsidy, plan design, or the selection of health plan providers. (LAAC 4.1101)

HBA 2.0 Enrolling a Retired Member or Eligible Surviving Spouse/Domestic Partner and Their Dependents

(a) A Retired Member or Eligible Surviving Spouse/Domestic Partner shall be eligible to enroll in a LACERS’ medical/dental plan if he or she is receiving a monthly retirement allowance from LACERS (LAAC 4.1100) and otherwise meets all additional eligibility requirements as stated in carrier contracts and administrative policy. Such individuals must file LACERS’ Medical and Dental Plan Enrollment Form (and any other required forms) within 60 days of the effective date of their retirement.

(b) At the time of the death of the Retired Member, an Eligible Surviving Spouse/Domestic Partner enrolled as a dependent may continue health plan coverage in the same plan(s). Enrollment must occur within 60 days of the Board approving the Eligible Surviving Spouse/Domestic Partner allowance.

(c) If a Member or an Eligible Surviving Spouse/Domestic Partner was not enrolled in a LACERS health plan at the time of the Retired Member’s death, he or she may enroll in a plan during an Open Enrollment period.

(d) Eligibility to enroll in a LACERS HMO plan requires that individuals reside in an authorized zip code service area. (Federal and State Rules)

(e) The Fund does not provide separate health plan coverage for dependents. (LAAC 4.1100) Should the Retired Member or Eligible Surviving Spouse/Domestic Partner become ineligible for enrollment or coverage, the LACERS health insurance plan(s) becomes null and void.
(f) At age 65 (or sooner if eligible for Medicare insurance), individuals must enroll in a LACERS Medicare plan. (LAAC 4.1103.2)

(g) New dependents must be added to the Retired Member’s or Eligible Surviving Spouse’s/Domestic Partner’s medical and/or dental plan within 30 days of becoming a Retired Member’s or Eligible Surviving Spouse’s/Domestic Partner’s dependent; if this requirement is not met, the next opportunity to enroll the dependent is the annual Open Enrollment period.

(h) Retired Members or Eligible Surviving Spouses/Domestic Partners whose medical coverage has been terminated due to a lapse in Medicare Part B enrollment may re-enroll themselves and their dependents in their LACERS medical plan within 30 days of re-establishing Medicare Part B enrollment.

(i) Medical plan dependents whose medical coverage is terminated due to a lapse in Medicare Part B coverage may be re-enrolled in the primary subscriber’s (Retired Member’s or Eligible Surviving Spouse’s/Domestic Partner’s) medical plan within 30 days of re-establishing Medicare Part B enrollment.

[Resolution: 120110-B; Adopted: January 10, 2012; added “(h), (i)” above]

HBA 3.0 Eligible Dependents (Health Plan Administrator, Health Plan Contracts)

Eligible Dependents include:

(a) Those of the living Retired Member or Eligible Surviving Spouse/Domestic Partner:
   (1) Lawful Spouse
   (2) Domestic Partner

(b) An unmarried child or children who are:
   (1) Under 19 years of age.
   (2) 19 to 25 years of age, attending an accredited educational institution as a full-time student (as defined by the accredited school) and primarily supported by the Retired Member or Eligible Surviving Spouse/Domestic Partner.
   (3) 19 years of age or older, and wholly unable to engage in any gainful occupation due to a mental or physical disability that existed prior to reaching age 19. Retired Member or Eligible Surviving Spouse/Domestic Partner must submit proof of the child’s disability to the health plan within 30 days after the date the child fails to qualify under items (a) or (b) above. Reevaluation of eligibility may be required, periodically.

(c) Grandchild provided the Retired Member or Eligible Surviving Spouse/Domestic Partner is the legal guardian or has legal custody of the grandchild, or the grandchild is the child of an enrolled dependent’s child.

(d) A child for whom the Retired Member or Eligible Surviving Spouse/Domestic Partner must provide health benefit coverage under the terms of a Qualified Medical Child Support Order.

HBA 4.0 Enrollment Periods

A member may enroll in a LACERS-sponsored medical/dental plan or the Medical Premium Reimbursement Plan:

- Within 60 days of the date the Member’s name is placed on the Retirement Roll
- During the Retiree annual open enrollment period
- Within 60 days of turning age 55 (City Retiree) or upon turning age 50 (City Retiree) and retired under the 50/30 retirement provision
• Within 60 days of turning age 65 (City Retiree)
• Within 30 days of relocation out of or into a LACERS HMO or Senior Plan authorized zip code service area not previously available
• Within 30 days of involuntary termination of a non-LACERS medical plan (proof required)
• Within 30 days of re-establishing his/her Medicare Part B after a lapse in Medicare Part B enrollment

(Resolution 120110-B; Adopted: January 10, 2012; modified first and last bullet points above)

HBA 5.0 Medical Premium Reimbursement Program

The Medical Premium Reimbursement Program (MPRP) is available to Retired Members and Surviving Spouses/Domestic Partners who are unable to access a LACERS HMO medical plan. (LAAC 4.1106) In addition to the requirements set forth in LAAC 4.1106, eligibility for reimbursement is subject to the following:

(a) Dental coverage is exempt from this program.
(b) Once Members begin participating in the MPRP, they may change their individual medical plan at any time provided that they furnish all enrollment/disenrollment/payment information to LACERS.
(c) Members may receive reimbursement for their supplemental Medicare Part D basic premium in order to maintain creditable coverage. Reimbursement for the supplemental Medicare Part D basic premium, when added to the reimbursement for the Member’s primary medical plan, will not exceed the maximum subsidy available to that Member.
(d) Provided they meet all the program qualifications, Members who are enrolled in one of the following types of plan, and are paying all or a portion of the premium, will be eligible for participation in the MPRP:
   1. a plan sponsored by an active employer
   2. a plan sponsored by a retirement system other than LACERS
   3. a partially subsidized health plan
(e) Members qualified for MPRP and enrolled in Medicare Parts A and B who receive health coverage premium-free will be eligible for Medicare Part B premium reimbursement.”
(f) Members may receive reimbursement for separate vision plan insurance if their existing medical plan does not provide vision coverage, or the vision services provided are not equivalent to LACERS vision benefits. Reimbursement for separate vision plan insurance, when added to the reimbursement for the Member’s primary medical plan and Medicare Part D, will not exceed the maximum subsidy available to that Member.

(Resolution: 090127-A; Adopted: January 27, 2009)
[Resolution: 110913-C; Adopted: September 13, 2011; modified “(c)” above]

HBA 6.0 Insufficient Funds for Premium Deductions

(a) Effective November 1, 2003, a Retired Member or Eligible Surviving Spouse/Domestic Partner may submit to LACERS the contribution shortage between their monthly deduction and the monthly premium owed for the next Plan Year, effective January 1. The total contribution shortage for the 12-month period
beginning January 1 of the following year is due to LACERS no later than November 30. LACERS shall send a notice of the contribution shortage amount to the Retired Member or Eligible Surviving Spouse/Domestic Partner at his or her last known address within 15 days of October 10 (dates are subject to change depending on when the Board adopts the next plan year’s health plan premium rates).

(b) If the member fails to make full payment by November 30 (regardless of whether a notice of contribution shortage is received by the member), the Retired Member/Dependent(s) shall not have coverage effective January 1 of the next Plan Year.

(c) Cancellation of the Member’s coverage pursuant to this rule shall not affect LACERS right to collect any and all contribution shortages from the beneficiary or the estate of the beneficiary.

HBA 7.0 Notice to the Fund (LACERS)/Recovery of Benefits

If an event occurs which makes a person ineligible for continued enrollment or coverage in the health plan(s) offered or sponsored by LACERS, the Retired Member, Eligible Surviving Spouse/Qualified Domestic Partner or their representative shall notify LACERS of the event as soon as is reasonable.

All such notices shall be in writing and shall be sent to LACERS. LACERS shall be entitled to seek recovery of any benefits that were provided to any person after an event that terminated the person’s enrollment or that otherwise made that person ineligible for continued enrollment in or coverage by the health plans offered or sponsored by LACERS. In seeking to recover benefits under this rule, the Fund shall have the right of offset, including without limitation, the right to recover amounts from and out of any and all future benefits payable to the person whose enrollment was terminated or who otherwise ceased to be eligible for continued enrollment or coverage in a LACERS health plan.

HBA 8.0 Authority of the General Manager to Waive Rule Provisions

Subject to statutory requirements and limitations, the General Manager may waive a Retired Member’s or Eligible Surviving Spouse’s/Qualified Domestic Partner’s compliance with any provision of these Board rules when it is determined that:

(a) Good cause exists for such a waiver;
(b) Strict enforcement of such provision would impose a manifest injustice upon the member who has substantially complied with these rules in good faith;
(c) Such waiver does not involve a significant increase in the obligations or liabilities of the Fund beyond that which would have been involved if the member had fully complied with these rules; and
(d) Such waivers do not conflict with existing health plan contract provisions.

The City Attorney must review any waivers that are contrary to Board policy. Each waiver by the General Manager must be in writing and include support documentation of the pertinent facts and grounds. Notice of each waiver shall be submitted to the LACERS Board.
HBA 9.0 Responsibilities of Retired Member or Eligible Surviving Spouse/Domestic Partner

Retired Member(s) or Eligible Surviving Spouse(s)/Domestic Partner(s) are responsible for:

(a) Providing current and accurate personal information.
(b) Paying the premium contributions in the amount or amounts required above any subsidy paid by LACERS for the applicable health benefit plan.
(c) Paying the premium contributions at the times and in the manner prescribed by LACERS.
(d) Complying with these Board Rules, Administrative Policies and Procedures and carrier contract provisions.
(e) Enrolling in all parts of Medicare for which they are eligible if enrolled in a LACERS health plan.

HBA 10.0 Required Proof of Medicare Insurance

Proof and/or assignment of Medicare is required for all individuals eligible for various Medicare insurance coverages regardless of the age of the individual(s) (LAAC 4.1103.2 and 4.1103.3). Members are eligible for Medicare at 65 years of age, but may become eligible before age 65 if they have a Medicare-qualifying disability (such as End Stage Renal Disease).

(a) Notwithstanding any other provision for these rules to the contrary, a Retired Member, Eligible Surviving Spouse/Domestic Partner or dependent who is eligible to enroll in Medicare (Parts A&B or Part B only) shall not be eligible for coverage under any health benefit plan offered or sponsored by LACERS until such individual enrolls in Medicare and submits proof to LACERS. “Proof” of Medicare enrollment shall be defined as a Medicare card or an eligibility printout from the Social Security Administration.

(b) The Board may require enrollment in other parts of Medicare to ensure the financial stability of its health plan offerings and to be in compliance with carrier contract provisions.

(c) The same Medicare insurance requirements apply to the Medical Premium Reimbursement Program (MPRP).

(d) The medical plan premiums of a LACERS Senior Plan will only include the Medicare Part D “basic” premium, which is that portion of the Medicare Part D premium that does not include any Income-Related Monthly Adjustment Amounts (IRMAAs).

(e) LACERS will not cover member costs or provide reimbursement for any Medicare premium-related IRMAAs.

[Resolution: 110913-C; Adopted: September 13, 2011; modified “(c), (d), (e)” above]

HBA 11.0 Reimbursement for Medicare Part B

LAAC 4.1104 and 4.1104.1 state that retired employees enrolled in Medicare Parts A and B who are participating in a LACERS medical plan or the MPRP be entitled to reimbursement of the Medicare Part B basic premium. To clarify, “basic” premium shall be defined as Medicare Part B’s monthly actuarial rate, which is 25% of the cost of the plan. It shall not take into account late enrollment penalties or Income Related Monthly Adjustment Amounts.
Reimbursements shall be paid to such eligible retirees once the following requirements have been met:
(a) Retiree submits current proof of enrollment in Medicare Parts A and B.
(b) Retiree submits all applicable Senior Plan Enrollment Forms.

Reimbursements shall become effective the same month the retiree’s senior plan (Medicare Advantage or Medicare Supplement) enrollment becomes effective.

HBA 12.0 Enforcement Actions
LACERS shall have the right and authority to file actions in any court, including but not limited to the courts of the State of California and United States of America to enforce the foregoing obligations and to collect premium contributions. Nothing in this rule is intended to limit or restrict the rights or remedies otherwise available to the Fund.

HBA 13.0 Improper Receipt of Benefits or Reimbursement
Any Retired Member or Eligible Surviving Spouse/Domestic Partner who receives benefits or reimbursement for themselves or their dependents from a LACERS-sponsored health plan or the Medical Premium Reimbursement Program, based on a false, deceptive or otherwise improper act will be billed for any subsidy or reimbursement paid for an ineligible dependent or claim. If payment is not received, LACERS may pursue legal action to collect any monies owed.

HBA 14.0 Appeals by Retired Member or Eligible Surviving Spouse/Domestic Partner
A Retired Member or Eligible Surviving Spouse/Domestic Partner may file an administrative appeal to the General Manager requesting relief from a decision regarding one of the following:
(a) A determination that the aggrieved person is not a Retired Member or Eligible Surviving Spouse/Qualified Domestic Partner, or the person is not eligible to enroll in or be covered by a health plan offered or sponsored by the Fund;
(b) A determination that the person cannot make a change in enrollment, a change in coverage, or a change in health plans;
(c) A cancellation or termination of the person’s enrollment in or coverage by a health plan, offered or sponsored by the Fund; or
(d) A refusal to reinstate the Retired Member’s, Eligible Surviving Spouse’s/Domestic Partner’s or dependent’s enrollment in or coverage by a health plan offered or sponsored by the Fund.

HBA 15.0 Eligible Surviving Spouse/Domestic Partner Maximum Monthly Subsidy
The Eligible Surviving Spouse/Domestic Partner health subsidy provided in Chapter 11, Article 7 of the Los Angeles Administrative Code shall only be used to pay the single-party premium cost for approved health insurance plans. Any unused subsidy amount cannot be received as cash compensation, nor can it be applied toward the cost of dependent coverage. This applies to Eligible Surviving Spouses/Domestic Partners who are enrolled in a LACERS medical plan or participate in the Medical Premium
Reimbursement Program (MPRP). In addition, for Eligible Surviving Spouses/Domestic Partners who are MPRP participants, the maximum reimbursement amount will not exceed the lesser of the maximum amount available to an Eligible Surviving Spouse/Domestic Partner enrolled in a LACERS plan, or the single-party cost of the plan the Eligible Surviving Spouse/Domestic Partner is enrolled in.

HBA 16.0 Medicare Part D Late Enrollment Penalty
Retired Members or Eligible Surviving Spouses/Domestic Partners subject to a Medicare Part D Late Enrollment Penalty charged by the Centers for Medicare and Medicaid Services (CMS) shall have this penalty amount deducted from their monthly LACERS allowance. In addition, the Medicare Part D Late Enrollment Penalty charged for any covered dependents shall be deducted from the Retired Member’s or Eligible Surviving Spouse’s/Domestic Partner’s monthly LACERS allowance.

HBA 17.0 Determination of Total Annual Premium Cost for Discretionary Benefit Changes

In order to determine if a benefit change meets the one-half of one percent total annual premium cost threshold described in LAAC Section 4.1102.3, staff will use the following as source data and a benchmark to measure the cost impact related to discretionary health plan benefit changes:

- For a mid-year benefit change – staff will utilize the enrollment and premium cost data associated with the health plan premium renewal report adopted by the Board for the plan year in which the discretionary benefit change is being recommended;

- For a new plan year benefit change - staff will utilize the enrollment and premium cost data associated with the proposed final premiums that will be recommended to the Board for the upcoming new plan year in which the discretionary health plan benefit change is being recommended.

“Total annual premium cost” shall refer to the estimate annual premium cost of the Health and Welfare Program administered by the LACERS Board;

(Resolution: 110913-C; Adopted: September 13, 2011)
LIMITED TERM RETIREMENT PLAN – GENERAL (LTRP)

Limited Term Retirement Plan – Distribution Payments (DP)

LTRP DP 01: 2009 Required Minimum Distributions

A Participant or Beneficiary who would have been required to receive required minimum distributions for 2009 but for Code Section 401(a)(9)(H) ("2009 RMDs"), and who would have satisfied that requirement by receiving distributions that are (i) equal to the 2009 RMDs or (ii) one or more payments in a series of substantially equal distributions (that include the 2009 RMDs) made at least annually and expected to last for the life (or life expectancy) of the Participant, the joint lives (or joint life expectancy) of the Participant and the Participant's designated Beneficiary, or for a period of at least ten (10) years ("extended 2009 RMDs") will receive those distributions for 2009 unless the Participant or Beneficiary chooses not to receive such distributions. Participants and beneficiaries described in the preceding sentence will be given the opportunity to elect to stop receiving the distributions described in the preceding sentence. In addition, solely for purposes of applying the direct rollover provisions of L.A.A.C. § 4.1850(g), 2009 RMDs and Extended 2009 RMDs will be treated as eligible rollover distributions in 2009.
INVESTMENT POLICY

REVISED JUNE 24, 2008

COMMITTEE APPROVED: MAY 27, 2008
BOARD APPROVED: JUNE 24, 2008
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I. INTRODUCTION

This document provides a framework for the investment management of the assets of the Los Angeles City Employees’ Retirement System ("LACERS," and hereafter known as the “System”). Its purpose is to assist the Board of Administration (the “Board”) in effectively supervising and monitoring the investments of the System. Specifically, it will address:

A. The general goals of the investment program;
B. The policies and procedures for the management of the investments;
C. Specific asset allocations, rebalancing procedures, and investment guidelines;
D. Performance objectives; and
E. Responsible parties.

The System establishes this investment policy in accordance with Section 1106 of the Charter of the City of Los Angeles for the systematic administration of the City Employees' Retirement Fund. Since its creation, the Board's activities have been directed toward fulfilling the primary purpose of the System, as described in Section 1106:

“…to provide benefits to system participants and their beneficiaries and to assure prompt delivery of those benefits and related services; to minimize City contributions; and to defray the reasonable expenses of administering the system.”

The System is a department of the City government and is governed by a seven member Board of Administration and administrative general manager. In the formation of this investment policy and goal statement, a primary consideration of the Board has been its awareness of the stated purpose of the System. The Board’s investment activities are designed and executed in a manner that will fulfill these goals.

This policy statement is designed to allow for sufficient flexibility in the management oversight process to capture investment opportunities as they may occur, while setting forth reasonable parameters to ensure that prudence and care is taken in the execution of the investment program.

II. INVESTMENT GOAL STATEMENT

The System’s general investment goals are broad in nature. The following goals, consistent with the above described purpose, City Charter citations, and State Constitution are adopted:
1. The overall goal of the System’s investment assets is to provide plan participants with post-retirement benefits as set forth in the System documents. This will be accomplished through a carefully planned and executed investment program.

2. A secondary objective is to achieve an investment return that will allow the percentage of covered payroll the City must contribute to the System to be maintained or reduced, and will provide for an increased funding of the System's liabilities.

3. The System’s assets will be managed on a total return basis. While the System recognizes the importance of the preservation of capital, it also adheres to the principle that varying degrees of investment risk are generally rewarded with compensating returns. The Board’s Investment Policy has been designed to produce a total portfolio, long-term real (above inflation) return of 5%. Consequently, prudent risk-taking is warranted within the context of overall portfolio diversification. As a result, investment strategies are considered primarily in light of their impacts on total plan assets subject to the provisions set forth in Section 1106 the City Charter with consideration of the Board's responsibility and authority as established by Article 16, Section 17 of the California State Constitution.

4. The System’s investment program shall, at all times, comply with existing and future applicable city, state, and federal regulations.

5. All transactions undertaken will be for the sole benefit of the System’s participants and beneficiaries and for the exclusive purpose of providing benefits to them and defraying reasonable administrative expenses associated with the System.

6. The System has a long-term investment horizon and uses an asset allocation, which encompasses a strategic, long-run perspective of capital markets. It is recognized that a strategic long-run asset allocation plan implemented in a consistent and disciplined manner will be the major determinant of the System’s investment performance.

7. Investment actions are expected to comply with "prudent person" standards as described:

   "...with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent man acting in a like
capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims." ¹

The “standard of care” will encompass investment and management decisions evaluated not in isolation but in the context of the portfolio as a whole and as part of an overall investment strategy having risk and return objectives reasonably assigned. The circumstances that the System may consider in investing and managing the investment assets include any of the following:

A. General economic conditions;
B. The possible effect of inflation or deflation;
C. The role that each investment or course of actions plays within the overall portfolio;
D. The expected total return from income and the appreciation of capital;
E. Needs for liquidity, regularity of income, and preservation or appreciation of capital;
F. A reasonable effort to verify facts relevant to the investment and management of assets.

III. POLICIES AND PROCEDURES

The policies and procedures of the Board’s investment program are designed to maximize the probability that the investment goals will be fulfilled. Investment policies will evolve as the fund’s conditions change and as investment conditions warrant. The Board reviews the Asset Allocation Policy strategically approximately every three years and on a tactical basis more frequently.

A. Asset Allocation Policy

The Board adopts and implements an asset allocation policy that is predicated on a number of factors, including:

1. A projection of actuarial assets, liabilities, benefit payments, and required contributions;
2. Historical and expected long-term capital market risk and return behavior;

¹ERISA 404(a)(1) (B).
3. An assessment of future economic conditions, including inflation and interest rate levels; and

4. The current and projected funding status of the System.

This policy provides for diversification of assets in an effort to maximize the investment return of the System consistent with market conditions. Asset allocation modeling identifies the asset classes the System will utilize and the percentage that each class represents of the total fund. Due to the fluctuation of market values, positioning within a specified range is acceptable and constitutes compliance with the policy. It is anticipated that an extended period of time may be required to fully implement the asset allocation policy and that periodic revisions will occur. The Board will monitor and assess the actual asset allocation versus policy and will rebalance as appropriate.

The Board will implement the asset allocation policy using investment managers to invest the assets of the portfolios components subject to investment guidelines.

Equity managers may not hold more than 10% of the market value of their portfolios in cash without Board approval, unless otherwise specified in their manager guidelines. The long-term asset allocation targets and ranges for the investments of the System's assets are shown in Appendix One.

The Board will allocate segments of the System’s assets to each investment manager and specify guidelines, objectives and standards of performance, which are to apply to each manager's portfolio. These decisions will encompass allocating segments of the System assets, and segments of individual asset classes, between active and passive investment management, the active risk of the portfolio and to provide broad market exposure.

B. Risk Management

The Board implements its risk management policy by monitoring the portfolio’s compliance through the adoption of investment policies, guidelines, and procedures for determining the strategic management of investment risk, while allowing flexibility in capturing investment opportunities as they may occur and establishing reasonable risk parameters to ensure prudence and care in the management of the System's assets.
Staff reviews the portfolio performance and asset allocation on a daily basis, as determined by the Board for adherence to the policies and compliance guidelines. Staff also reviews the compliance alerts indicating a variance to the manager’s proscribed investment guidelines.

Each quarter, staff reviews a holdings-based methodology risk report supported by Barra’s Total Risk system. This analysis is based on the month-end positions in the individual portfolios and the manager’s assigned benchmarks. The key observations of this service monitor the total risk and active risk of the System’s portfolio versus its policy benchmark. The reports provide the expected volatility and Value at Risk ("VAR") of the System’s invested and policy portfolios. The analysis forecasts absolute levels of risk and risks relative to benchmarks.

C. Portfolio Component Definitions

The Board will utilize the following portfolio components to fulfill the asset allocation targets and total fund performance goals established in this document.

1. **Domestic Equities** – The Board expects that over the long run, total returns of equities will be higher than the returns of fixed income securities, but they may be subject to substantial volatility during shorter periods. There are nine components of the System’s equity holdings:

   a. **Index Funds/Core Stocks** – This portfolio will provide broadly diversified, core exposure through index funds to the U.S. equity market, primarily in large capitalization companies. Index funds provide primary liquidity for asset allocation.

   b. **Large Value Stocks** – As a more defensive portion of the equity portfolio, value stocks, covering the upper range of market capitalization, are expected to outperform the broad market during periods of flat or declining trends while underperforming during rising markets. Value stocks typically exhibit higher dividend yield, lower P/E ratios, and lower Price/Book ratios.

   c. **Large Growth Stocks** – The Board’s large growth stock allocation provides exposure to stocks of large capitalization whose valuations are more directly tied to future earnings prospects. Often, growth stocks sell at higher prices relative
to expected or historical earnings growth. Growth stock volatility tends to be higher than value stocks, although such stocks generally outperform during rising markets while trailing the market in flat or declining periods.

d. **Small Value Stocks** – The principal characteristic of the small value stock component is its emphasis in stocks with market capitalization generally ranging from $200 million to $1.5 billion, which are generally characterized by faster growth and higher long-term returns during periods of flat or declining trends. Value stocks typically exhibit higher dividend yield, lower P/E ratios, and lower Price/Book ratios.

e. **Small Growth Stocks** – The principal characteristic of the small growth stock component is its emphasis in stocks with market capitalization from $200 to $1.5 billion, which are generally characterized by faster growth and higher long-term returns during rising markets. Growth stock volatility tends to be higher than value stocks.

2. **Non-U.S. Equities**

a. **Index Funds/Core International Stocks** – This portfolio provides broadly diversified equity markets outside the U.S. and, consequently, plays a significant role in diversifying the Board’s portfolio. This segment will concentrate on larger companies in established equity markets around the world utilizing a macro approach.

b. **Asia Pacific Stocks** – This specialty segment concentrates on the equities from countries and companies located in the Pacific region. By segmenting this portion of the non-U.S. equity portfolio from the International Stock component, the System is able to benefit from increased specialization in the selection of stocks with smaller capitalization. Investments in both established and emerging markets in the Pacific region will be permitted.

c. **European Stocks** – This specialty segment concentrates on the equities from established and emerging countries and companies located in Europe. By segmenting this portion of the non-U.S. equity portfolio from the International Stock component, the System is able to benefit from increased
specialization in the selection of stocks with smaller capitalization.

d. **Emerging Markets** – This component is comprised of equity positions in companies located in emerging, rapidly growing countries around the world. Because these are countries that are typically in the early development stages of economic growth, the returns in these countries are higher and more volatile on a year-to-year basis.

3. **Fixed Income** – The primary role of the fixed income portfolio is to provide a more stable investment return and to generate income while diversifying the System’s investment assets. The fixed income holdings are comprised of three mandates.

a. **Core Plus Bonds** – This segment will provide core exposure to the U.S. fixed income market including Treasury and government agency bonds, corporate debt, mortgages, asset-backed securities and non-investment grade issues, and emerging market debt. The portfolio will be primarily comprised of issues with duration of plus or minus one year of the benchmark.

b. **Index Bonds** – This passive fixed income portfolio is intended to track the characteristics of the benchmark.

c. **Intermediate Term Bonds** – This mandate will be primarily comprised of issues with duration of between two and four years to shorten the duration of the overall bond portfolio.

d. **Opportunistic Fixed Income** – This strategy will take advantage of market mispricing and evaporating liquidity. Examples of investments are: bank loans; collateralized debt obligations; distressed and stressed high yield securities; mezzanine loans, subordinated commercial-backed securities;

4. **Real Estate**

a. **Real Estate** – This portfolio is expected to provide portfolio diversification and increase returns due to real estate’s low correlation with the returns from equities and fixed income.
The real estate policy is stated separately in the real estate investment objectives and investment policy.

b. **Alternative Investments** – This portfolio is expected to provide portfolio diversification and additional return to the Fund’s public markets portfolio. Examples of Alternative Investment holdings will include venture capital, leveraged buyouts, distressed debt, and special situations funds. The alternative investment policy is stated separately in the alternative investment policy statements.

IV. INVESTMENT POLICY

The Board will retain external investment managers to manage portfolios using a specific style and methodology. Managers will have authority for determining investment strategy, security selection, and timing subject to the Policy and Manager Guidelines and legal restrictions or other Board direction. Performance objectives will also be developed for each manager. The performance of the portfolio will be monitored and evaluated on a regular basis relative to each portfolio component's benchmark return and, if available, relative to a peer group of managers following similar investment styles.

Investment actions are expected to comply with "prudent person" standards. Each investment manager will be expected to know the rules of the Board and comply with those rules. It is each manager's responsibility to identify policies that have an adverse impact on performance and to initiate discussion toward possible improvement of the rules of the Board.

The Board will also review each investment manager's adherence to its investment policy and any material changes in the manager's organization (e.g., personnel changes, new business developments, etc.). The investment managers retained by the Board will be responsible for informing the Board of such material changes.

Investment managers under contract to the Board shall have discretion to establish and execute transactions with securities broker/dealer(s) as managers may select. The investment managers will attempt to obtain best execution with respect to every portfolio transaction. The following transactions will be prohibited: net short sales; selling on margin; writing options other than covered options; "prohibited transactions" as defined under the Employee Retirement Income Security Act (ERISA); and, transactions that involve a broker acting as a "principal," where such broker is also the investment manager making the
transaction. The investments of the Board’s assets will be subject to the following general policies.

A. **Manager Selection**

The selection of investment managers is accomplished in accordance with all applicable Local, State, and Federal laws and regulations. Each investment manager, consultant, and custodian functions under a formal contract that delineates responsibilities and appropriate performance expectations.

B. **Manager Authority**

The Board’s investment managers shall direct and manage the investment and reinvestment of assets allocated to its accounts in accordance with this document; Board rules or direction, applicable Local, State, and Federal statutes and regulations and individual management investment plans and executed contracts.

C. **Soft Dollars and Commission Recapture**

The Board requires that on a best effort basis, active equity managers direct brokerage transactions for System assets for soft dollar usage and commission recapture only when best execution can be assured. The Board also requires consideration be given to brokerage firms or managers that are doing business with minority and women owned brokerage firms. The Brokerage Policy is set out in a separate document. Soft dollars directed for LACERS’ benefits will be used to pay authorized fund expenses. Investment managers are requested to submit quarterly reports to monitor brokerage activity and transaction costs.

D. **Proxy Voting**

Proxy voting rights will be managed with the same care, skill, diligence, and prudence as is exercised in managing other assets. Proxy voting rights will be exercised in the sole interest of the System’s members and beneficiaries in accordance with all applicable statutes consistent with the Board proxy policy, which is a separate document from this policy statement.
E. **Securities Lending**

The Board has authorized the execution of a "Securities Lending Program," which will be performed by the Board’s custodian. The Board will monitor and review the program. This program is described in the Securities Lending Agreement of the custody contract. The initial collateral levels will not be less than 102% of the market value of the borrowed securities, or not less than 105% if the borrowed securities and collateral are denominated in different currencies. Marking to market is performed every business day, and the borrower is required to deliver additional collateral when necessary. Stringent cash and non-cash collateral guidelines specify eligible investments, credit quality standards, and diversification, maturity and liquidity requirements.

F. **Derivatives**

The Board’s investment managers may be permitted, under the terms of individual investment guidelines, to use derivative instruments as set forth in each manager’s investment guidelines to control portfolio risk. Derivatives are contracts or securities whose returns are derived or approved by the Board in writing. The returns are to be consistent with the manager’s mandate from the returns of other securities, indices, or allowable derivative instruments that include, but are not limited to, futures and forwards. Examples of appropriate applications of derivative strategies include hedging interest rates and currency risks, maintaining exposure to a desired asset class while effecting asset allocation changes, and adjusting portfolio duration for fixed income. In no circumstances can managers borrow funds to purchase derivatives. Managers must ascertain and carefully monitor the creditworthiness of any third parties involved in derivative transactions.

G. **Rebalancing**

The investment portfolio shall, on an ongoing basis in accordance with market fluctuations, be rebalanced to remain within the range of targeted allocations and distributions among investment advisors. The Board has a long-term investment horizon and utilizes an asset allocation that encompasses a strategic, long-run perspective of capital markets. It is recognized that a strategic long-run asset allocation plan implemented in a consistent and disciplined manner will be the major determinant of the System's investment performance.
The Board will not attempt to time the rise or fall in equity or bond markets by moving away from long-term targets because (1) market timing results in lower returns than buy-and-hold strategies, and (2) there is little or no evidence that one can adequately predict market returns and, subsequently, time the market.

Rebalancing will generally occur when the market values of asset classes (e.g., equities, fixed income, etc.) or sub-asset classes (e.g., large cap value, emerging markets, etc.) exceed their respective thresholds. At that time, rebalancing will be used to bring each applicable asset class or sub-asset class back to its target allocation.

V. GENERAL INVESTMENT OBJECTIVES AND GUIDELINES

The general investment objective is to outperform the overall policy portfolio benchmark. The overall policy portfolio benchmark consists of weighted asset class benchmarks for each asset class as determined by the Board. The Board has approved a long term policy benchmark which is scheduled to be met in 2009. Below is the interim 2008 target percentages that apply for the current policy benchmark:

<table>
<thead>
<tr>
<th>Target Allocations</th>
<th>Benchmark</th>
<th>Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed Income</td>
<td>Lehman Universal</td>
<td>24%</td>
</tr>
<tr>
<td>Cash</td>
<td>90 Day Treasury Bill</td>
<td>1%</td>
</tr>
<tr>
<td>US Equity</td>
<td>Russell 3000</td>
<td>43%</td>
</tr>
<tr>
<td>Non-US Equity</td>
<td>MSCI EAFE</td>
<td>20%</td>
</tr>
<tr>
<td>Real Estate</td>
<td>NCREIF</td>
<td>5%</td>
</tr>
<tr>
<td>Alternative Investments</td>
<td>Russell 3000+400 bps</td>
<td>7%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td>100%</td>
</tr>
</tbody>
</table>

The portfolio is monitored quarterly versus its policy benchmark and also compared to the actuarial return target of 8%.

A. Equity Portfolios

Equity investment managers retained by the Board will follow specific investment styles and will be evaluated against specific market indices that represent their investment styles. In addition, in the case of active managers, investment results may also be compared to returns of a peer group of managers with similar styles. The benchmarks for the various equity portfolios may include the following indices:
General equity guidelines for active managers include the following:

1. Domestic Equities
   a. No securities shall be purchased on margin or sold short.
   b. American Depository Receipts (ADRs) are permissible investments.
   c. Convertible securities can be held in equity portfolios and will be considered equity holdings.
   d. Managers shall not purchase the stock (or securities convertible into stock) of any single corporation if the purchase would cause this portfolio to include more than 5% of the outstanding voting stock of a company, or more than 2% in (market) value (assuming all shares are converted) of the assets of the Fund.
   e. Exchange listed futures and options on equity instruments may be used only if employed in a risk-reducing fashion.

2. Non-U.S. Equities
   a. Portfolios shall be comprised of cash equivalents, debt instruments convertible into equity securities, forward foreign exchange contracts, GDR’s, ADRs, and equity securities of companies domiciled outside the U.S. including established and emerging countries.
b. Non-U.S. equity managers will have discretion to hedge currencies of the countries in which their portfolio is invested to protect the value of the portfolio from currency risk. A manager’s hedge ratio may not exceed 100% of the portfolio’s value, at market, without obtaining prior approval from the Board.

c. No securities shall be purchased on margin or sold short.

Any exemption from the general equity guidelines requires prior written approval from the Board.

B. **Fixed Income Portfolios**

The fixed income portfolios will be managed on a total return basis, following specific investment styles and evaluated against specific market indices that represent a specific investment style or market segment. In addition, investment results may also be compared to returns of a peer group of managers investing with a similar style. The benchmarks for the various fixed income portfolios may include the following indices:

- U.S. Core Plus Fixed Income Lehman Brothers Universal Bond Index
- U.S. Index Bonds Lehman Brothers Aggregate Bond Index

General fixed income guidelines include the following:

1. **Core Fixed Income**

   a. The total portfolio’s average rating will be A or better by Moody’s or Standard&Poor’s.

   b. No more than 10% of any single portfolio will be invested in any one issuer, with the exception of U.S. Treasury or Federal Agency issues.

   c. No more than 20%, in aggregate, invested in non-dollar denominated bonds and non-investment grade bonds are permitted.

   d. U.S. dollar denominated issues of foreign governments, international organizations, and U.S. subsidiaries of foreign corporations are permitted up to 20% of any single portfolio.
e. No securities shall be purchased on margin or sold short.

C. **Selection Criteria for Investment Managers**

Criteria will be established for each manager search undertaken by the Board and will be tailored to the Board’s needs in such a search. In general, eligible managers will possess attributes including, but not limited to, the following criteria:

1. The firm must be experienced in managing money for institutional clients in the asset class/product category/investment style specified by the Board.

2. The firm must display a record of stability in retaining and attracting qualified investment professionals, as well as a record of managing asset growth effectively, both in gaining and in retaining clients.

3. The firm must have an asset base sufficient to accommodate the Board’s portfolio. In general, managers should have at least $100 million of discretionary institutional assets under management, and the Board’s portfolio should make up no more than 20% of the firm’s total asset base. Exceptions shall be made on a case-by-case basis.

4. The firm must demonstrate adherence to the investment style sought by the Board and adherence to the firm’s stated investment discipline.

5. The firm’s fees should be competitive with industry standards for the product category.

6. The firm must comply with the "Duties of the Investment Managers" outlined herein and conform to CFA Institute (formerly AIMR) standards for performance reporting.

D. **Criteria for Investment Manager Termination**

The Board reserves the right to terminate an investment manager for any reason. Grounds for investment manager termination may include, but are not limited to, the following reasons:

1. Failure to comply with the guidelines agreed upon for management of the Board’s portfolio, including holding restricted issues.
2. Failure to achieve performance objectives specified in the manager's guidelines.

3. Significant deviation from the manager's stated investment philosophy and/or process.

4. Loss of key personnel.

5. Evidence of illegal or unethical behavior by the investment management firm.

6. Lack of willingness to cooperate with reasonable requests by the Board for information, meetings or other material related to its portfolios.

7. Loss of confidence by the Board in the investment manager.

8. A change in the System's asset allocation program, which necessitates a shift of assets to another sector.

The Board will carefully review any one of these factors; however, the presence of any one of these factors may not necessarily result in an automatic termination.

VI. DUTIES OF RESPONSIBLE PARTIES

A. Duties of the Board or its Designate(s)

The Board has the responsibility for the administration of the Fund for the benefit of plan participants, although it is not the intent of the Board of Retirement to become involved in the day-to-day investment decisions. The Board or its designee(s) will adhere to the following procedures in the management of the Board’s assets:

1. The Board develops and approves policies and guidelines for the execution of the Board’s investment program. Only the Board in its sole discretion can delegate its decision-making authority regarding the investment program. Staff will be responsible for the implementation and administration of these decisions.

2. A formal review of the Board’s Investment Policy and investment structure, asset allocation, and financial performance will be
conducted annually or more frequently as the need arises. The review will include recommended adjustments to the long-term, strategic asset allocation to reflect any changes in applicable regulations, long-term capital market assumptions, actuarial assumptions, or the Fund’s financial condition.

3. The Board shall review investments quarterly, or as needed, to ensure that policy guidelines continue to be met. The Board shall monitor investment returns on both an absolute basis and relative to appropriate benchmarks, as well as peer group comparisons. The source of information for these reviews shall come from Staff, outside consultants, the custodian, investment managers, etc.

4. The Board may retain investment consultants to provide such services as conducting performance reviews, asset allocation, manager reviews, and investment research.

5. The Board shall be responsible for taking appropriate action if investment objectives are not being met or if policies and guidelines are not being followed. Reviews for separate portfolios managed by external managers will focus on the following areas:

a. Manager compliance to the Policy guidelines.

b. Material changes in the managers' organizations, such as investment philosophy, personnel changes, acquisitions or losses of major accounts, etc. The managers will be responsible for keeping the Board advised of any material changes in personnel, investment strategy, or other pertinent information potentially affecting performance.

c. Investment performance relative to each manager’s stated performance benchmark(s) as set forth in the manager's investment guidelines.

6. The Board shall expect Staff to administer the Fund’s investments in a cost-effective manner subject to Board approval. These costs include, but are not limited to, management, consulting and custodial fees, transaction costs, and other administrative costs chargeable to the Board.

7. The Board shall be responsible for selecting qualified investment managers, consultants, and custodian.
B. **Duties of the Staff**

The Board’s Investment Staff provides analysis and recommendations to the Board on a wide variety of investments and investment related matters. Additionally, the Investment Staff oversees and directs the implementation of Board policies and manages the Fund on a day-to-day basis. Furthermore, staff responsibilities include the following details:

1. Invests the Fund’s cash without requiring Board’s permission as set forth elsewhere in the Board’s Investment Guidelines.
2. Monitors investment managers for adherence to appropriate policies and guidelines.
3. Evaluates and manages the relationships with brokers, managers, consultants, and custodian(s) to the Fund to ensure that they are providing all of the necessary assistance to Board and to Staff.
4. Conducts the manager search process, as approved by the Board, with assistance from consultants as needed.
5. The Staff will manage Portfolio restructuring resulting from portfolio rebalancing or manager terminations with the assistance of consultants and managers, as needed.
6. The Staff and its designee(s) shall be responsible for organizing and/or participating in any special research for the Board.
7. The Staff shall ensure that Investment Managers conform to the terms of their contracts and that performance-monitoring systems are sufficient to provide the Board with the most timely, accurate, and useful information as possible.
8. The Staff shall advise and keep the Board apprised of any other events of investment significance.

C. **Duties of the Investment Managers**

The Investment Managers shall perform the following duties:
1. Contract by written agreement with the Board to invest within approved guidelines.

2. Provide the Board with proof of liability and fiduciary insurance coverage.

3. Be an SEC-Registered Investment Advisor under the 1940 Act or an authorized bank or trust, and be recognized as providing demonstrated expertise during a number of years in the management of institutional, tax-exempt assets within a defined investment specialty.

4. Adhere to the investment management style concepts and principles for which they were retained, including, but not limited to, developing portfolio strategy, performing research, developing buy, hold and sell lists, and purchasing and selling securities.

5. Obtain best execution for all transactions for the benefit of the System with brokers and dealers qualified to execute institutional orders on an ongoing basis at the best net cost to the System, and, where appropriate, facilitate soft dollar credits and the recapture of commissions for the System's benefit.

6. Reconcile monthly accounting, transaction and asset summary data with custodian valuations, and communicate and resolve any significant discrepancies with the custodian and the Board's Investment Staff.

7. Maintain frequent and open communication with the Board and Staff on all significant matters pertaining to the System, including, but not limited to, the following issues:

   a. Major changes in the Investment Manager's investment outlook, investment strategy, and portfolio structure;

   b. Significant changes in ownership, organizational structure, financial condition, or senior personnel;

   c. Any changes in the Portfolio Manager or other personnel assigned to the System;
d. Each significant client that terminates its relationship with the Investment Manager, within 30 days of such termination;

e. All pertinent issues that the Investment Manager deems to be of significant interest or material importance; and

f. Meet with the Board and/or Staff on an as-needed basis.

D. **Duties of the Master Custodian**

The Master Custodian shall be responsible to the Board for the following duties:

1. Provide complete global custody and depository services for the designated accounts.

2. Manage a Short Term Investment Fund (STIF) for investment of any un-invested cash, and ensure that all available cash is invested. If the cash reserves are managed externally, full cooperation must be provided.

3. Provide in a timely and effective manner a monthly report of the Investment activities implemented by the investment managers. Prepare a quarterly report containing absolute and relative investment performance.

4. Collect all income and realized principal realizable, and properly report it on the periodic statements.

5. Provide monthly and fiscal year-end accounting statements for the portfolio, including all transactions. The statements should be based on accurate security values for both cost and market. These reports should be provided within acceptable time frames.

6. Report situations where accurate security pricing, valuation, and accrued income are either not possible or subject to considerable uncertainty.

7. Assist the System to complete such activities as the annual audit, transaction verification, or unique issues as required by the Board.
8. Manage a securities lending program to enhance income if directed by the Board. If the securities lending program is managed externally, full cooperation must be provided.

E. **Duties of the General Investment Consultant**

The Investment Consultant shall be responsible for the following:

1. Review quarterly performance including performance attribution on the Board's managers and total assets, including a check on guideline compliance and adherence to investment style and discipline.

2. Make recommendations for Board presentation regarding investment policy and strategic asset allocation.

3. Assist the Board in the selection of qualified investment managers and in the review of existing managers, including monitoring changes in personnel, ownership and the investment process.

4. Assist the Board in the selection of a qualified custodian if necessary.

5. Provide topical research and education on investment subjects as requested by the Board or Investment Staff.
The long-term asset allocation targets and ranges for the investments of the System’s assets are shown in the following table.

LACER’S 2008
Asset Allocation Targets and Ranges

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Targets 2008</th>
<th>Threshold Ranges</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alternative Investments</td>
<td>7.0%</td>
<td>4.0% 10.0%</td>
</tr>
<tr>
<td>Real Estate</td>
<td>5.0%</td>
<td>3.0% 10.0%</td>
</tr>
<tr>
<td>Non-US Equities</td>
<td>20.0%</td>
<td>17.0% 23.0%</td>
</tr>
<tr>
<td>US Equities</td>
<td>43.0%</td>
<td>39.0% 49.0%</td>
</tr>
<tr>
<td>Fixed Income</td>
<td>24.0%</td>
<td>22.0% 28.0%</td>
</tr>
<tr>
<td>Cash</td>
<td>1.0%</td>
<td>1.0% 1.0%</td>
</tr>
</tbody>
</table>
VIII. APPENDIX 2: GLOSSARY

ASSET CATEGORIES

Alternative Investments: Traditionally those investments that do not trade publicly on an organized exchange. They may include private equity, venture capital, buyout, mezzanine financing, distressed securities, natural resources and hedge funds. These investments are frequently made in some pooled format, usually a limited partnership or limited liability corporation.

Cash/Cash Equivalent: Cash equivalent securities with a maturity less than or equal to fifteen months are considered to include interest bearing or discount instruments, money market funds, corporate issued commercial paper, bank issued Certificates of Deposit, bankers acceptances, fully collateralized repurchase agreements or participation in commingled (cash equivalents) funds managed by a bank, insurance company, or other professional cash equivalents investment manager. Both U.S. and foreign securities issued in U.S. markets are permissible.

Convertibles: A preferred stock or bond that can be exchanged for common stock of the issuing company. The conversion is at the investor’s option and usually must occur within a specified time limit. Convertibles may be considered fixed income or equity investments when calculating investment returns and determining asset allocation.

Direct Placements: Sale of securities to a long-term institutional investor such as a pension fund without the use of underwriters.

Equities: Shares that represent ownership of a corporation. Included in this category are publicly traded common stocks, rights, warrants, convertible securities and American and Global Depository Receipts.

Fixed Income: Debt instruments of corporations, government or agencies characterized by a fixed or variable interest rate and stated maturity date. Included are marketable bonds, cash equivalents and Rule 144A securities. Certain fixed income assets such as cash equivalents are often categorized separately.

Preferred Stock: A security which has preference over common stock (but not bonds) with regard to dividends and the distribution of assets in the event of a corporate liquidation. Preferred stock combines elements of both common stock and bond forms of investment.

Real Estate: Land and all physical property related to it, including buildings, landscaping, and all rights to the air above and earth below the property. Assets not directly associated with the land are considered personal property.
**Total Fund:** All assets of the fund including equities, fixed income, cash equivalents, cash and other securities.

**Treasury Inflation Protected Securities (TIPS):** Debt instruments of the U.S. Government that adjust monthly for changes in inflation as represented by the non-seasonally adjusted U.S. CPI-Urban. Similar to other fixed income instruments, TIPS have a fixed interest rate component and stated maturity.

**EQUITY TERMS**

**American Depository Receipts (ADRs):** Negotiable certificate issued by a U.S. bank for shares of stock issued by a foreign corporation. The securities are held in a custodial account, either at the issuing bank or an agent. ADRs are registered with the Securities and Exchange Commission, and give the holder the same benefits of ownership as shareholders. Two types of American Depository Receipts include sponsored ADRs, which are approved and promoted by the issuing corporation; and unsponsored ADRs, which are not backed by the issuer. ADRs are priced in U.S. dollars, and trade on stock exchanges and over-the-counter markets in the same fashion as U.S. issued securities.

**Debt-to-Equity:** Quantifies a firm's financial leverage. It is the long-term debt of the company divided by shareholder's equity. Higher levels of debt are often associated with earnings volatility.

**Dividend:** A payment to owners of common or preferred stock. Dividends are usually paid out of the current earnings of a corporation. On preferred stock shares, the dividend is usually a fixed amount. On common stock shares, the dividend will vary with the fortunes of the corporation. Dividends are usually declared and paid quarterly.

**Dividend Growth:** Measures the average percentage increase, over the trailing five years, of the per share dividend.

**Dividend Yield:** The annual per share dividend divided by the market price of the security. Higher dividend yields tend to support the price of the security.

**Global Depository Receipts (GDRs):** Negotiable certificate held in the bank of one country representing a specific number of shares of a stock traded on an exchange of another country. While American Depositary Receipts allow international companies to offer shares to U.S. citizens, GDR’s allow companies in Europe, Asia, the United States and Latin America to offer shares in markets around the world.

**Market Capitalization:** The number of common shares outstanding multiplied by the per share price of the stock which represents the market's valuation of a company.
**Price-Earnings (P/E) Ratio**: The market price of a share of common stock divided by the company's earnings per share.

**Price-to-Book**: The market price of a share of common stock divided by the company's per share book value.

**Return on Equity**: A firm's net profit divided by its shareholder's equity. It is one of two basic factors (the other being earnings retention ratio) that determine a firm's earnings growth rate.

**FIXED INCOME TERMS**

**Accrued Interest**: Interest accumulated on a bond since the last interest payment was made. The buyer of the bond pays the market price plus accrued interest.

**Asset Backed Bond**: Securities that are formed when similar assets or receivables, such as credit card receivables, auto loan receivables or home equity receivables, are pooled together and undivided interests in the pool are sold. The principal and interest payments are "passed-through" to the bondholders.

**Banking Demand (Demand Deposit)**: Checking account balances or other accounts, which, without prior notice to the bank, can be withdrawn or transferred.

**Bond**: An interest-bearing or discounted certificate of debt issued by corporations, municipalities, governments and governmental agencies that represent a loan to the issuer and obligates the issuer to pay the bondholder a specified sum of money, usually semiannually, and to repay the principal amount of the loan at maturity.

**Certificate of Deposit**: A receipt from a bank for funds deposited for a stated period of time and normally paying a stated rate of interest.

**Coupon**: Interest rate on a bond that the issuer agrees to pay to the bondholder until maturity, expressed as an annual percentage of face value. More simply, the periodic interest payment made to bond owners during the life of a bond.

**Debenture**: A promissory note backed by the general credit of a corporation -- usually not secured by a mortgage or lien on any specified property.

**Duration**: A calculation measuring the price sensitivity of a bond or other financial instrument to changes in interest rates while taking into consideration its coupon and maturity.
**Fed:** The seven-member governing board that oversees Federal Reserve Banks establishes monetary policy (interest rates, availability of credit, etc.) and monitors the economic health of the country.

**Federal Reserve Bank:** One of 12 regional banks in the Federal Reserve System. The role of each bank is to monitor the commercial and savings banks in their region to ensure they follow Federal regulations. The reserve banks also provide central bank services such as check collection, access to the Fed's wire network and credit advances from the Fed's discount window. Reserve banks act as depositories for banks in their region.

**Inflation:** The overall general upward price movement of goods and services in an economy, usually measured by the Consumer Price Index in the U.S. Inflation is one of the major risks to investors over the long term because it erodes the purchasing power of their investments.

**Interest Rate:** Cost of money or credit expressed as a percentage rate per period of time usually one year.

**Maturity:** The date on which a bond becomes due and the issuer redeems or pays the face value or principal.

**Mortgage-Backed Asset:** Securities that are formed when mortgages are pooled together and undivided interests in the pool are sold. The principal and interest payments are usually "passed-through" to the certificate holders.

**Sector Swap:** Exchange of one security or asset for another, often done to alter the quality, change the duration, or increase the yield to maturity.

**Bid-Ask Spread:** The difference between the price a buyer is willing to pay (bid) for a security and the price an owner is willing to receive for the security.

**Yield Curve:** A graph showing the relationship between yields and maturities of fixed income securities issued by the same or similar issuers having the same risk characteristics. Normally, the curve slopes upward and to the right because short-term investments have lower yields than long-term investments. From time to time, the curve may become inverted, when short-term yields are higher than long-term yields.

**DERIVATIVE TERMS**

**Cash Settlement Contract:** The feature of certain futures contracts or options that allows delivery or exercise to be conducted with an exchange of cash rather than the physical transfer of assets.

**Covered Option:** A strategy in which the writer sells options while simultaneously owning an equivalent position in the underlying security.
Credit Default Swap: A derivative instrument that transfers the credit risk from the buyer to the seller in exchange for a specified premium. The seller receives a quarterly payment from the buyers in exchange for absorbing the risk inherent in owning the credit. The buyer receives payment only when a credit event occurs such as: bankruptcy, failure to pay, obligation acceleration, restructuring or sovereign repudiation/debt moratorium.

Derivative: Instruments or contracts whose value is determined by the price of the asset to which the contract is tied.

Forward Contract: A customized transaction in which two parties agree to the purchase or the sale of a security, currency or commodity at some future time under such conditions as the two agree upon. Those who use forward contracts often expect to make or take physical delivery of the commodity or financial instrument.

Futures Contract: A standardized agreement between two parties to purchase or sell an asset or currency at a later date at a fixed price. The contract trades on a futures exchange and is subject to a daily mark-to-market procedure.

Interest Rate Swap: Agreements between two parties to exchange types of cash flows. They are derivative securities because their payoffs are determined by the price of the underlying financial security. Swaps trade in dealer markets or are directly negotiated.

Option: A contract that gives one party the right, but not the obligation, to buy or sell an asset, currency, or a futures contract for a fixed price over a specific period of time.

Naked (uncovered) Option: A short option position in which the writer does not own an equivalent position in the underlying security.

STATISTICAL TERMS

Active Risk: Annualized standard deviation of the difference between the portfolio return and its benchmark return. Used interchangeably with tracking error.

Alpha: A measure of risk adjusted return that represents that part of a return above or below a benchmark and is typically attributed to investment skill.

Basis Point: One one-hundredth of one percent, i.e., 100 basis points = 1%.

Beta: A measure of the extent to which the returns on a given stock or portfolio move with the stock market.
**Correlation:** A statistic describing the goodness of fit about a linear relationship between two variables (returns). It measures the degree to which two variables (assets) move in tandem, with -1 corresponding to perfect negative correlation (vary inversely) and +1 corresponding to perfect positive correlation (move together). A value of zero would indicate no relationship between the two variables.

**Information Ratio:** A measure of the level of reward per unit of risk. The information ratio is calculated by dividing the alpha (difference between the portfolio return and the benchmark return) by the standard deviation of the alpha.

**Mean:** The traditional average; it is calculated by adding up all the numbers and dividing the total by the number of observations.

**Mean Absolute Deviation:** The average value of differences from the mean, where the differences are evaluated without regard to sign. It is a measure of dispersion.

**Median:** The median is the 50th percentile. The median of the sample would be the rate of return that is greater than 50% of all the returns in the sample. Half the sample has a higher return and the other half a lower return.

**Negative Semi-variance:** This measure considers only downside dispersion. Since measures of dispersion are frequently used to measure risk in securities and portfolios, the amount of uncertainty as to future value is one definition of risk. Some investors find this definition difficult to accept because they feel that only below-average expectations represent risk.

**Range:** The difference between the minimum and maximum in a series.

**R-Squared (R2):** The proportion of a portfolio’s variability that is explained by the relation between the portfolio and the market.

**Standard Deviation:** This measure is the square root of the variance. The standard deviation is a useful and widely used measure because, for a normal, or bell-shaped, distribution, 68 percent of the observations fall within one standard deviation and 95 percent fall within two standard deviations. Since it is usually reasonable to suggest that distributions in finance are normal, a good estimate of the dispersion of a distribution around its average is provided by the standard deviation measure. In a portfolio context, the higher the standard deviation, the higher the risk associated with a given level of return on that portfolio.

**Tracking Error:** Annualized standard deviation of the difference between the portfolio return and its benchmark return. Used interchangeably with active risk.
Variance: The variance is a true measure of the width of the distribution. Variance relates each observation to the average by squaring each number (multiplying a negative number by itself produces a positive number).

**DESCRIPTION OF MANAGER STYLES**

**Equity Styles**

**Bottom Up:** A method of analysis that begins with fundamental factors at the company or micro economic level.

**Currency Overlay:** Strategy to use currency futures, forwards, and options as an overlay on existing international portfolios to protect against losses in currency movements.

**Enhanced Index:** In general, a manager utilizing this style attempts to outperform an index by analyzing quantifiable characteristics of a given stock or sector. The strategy is characterized by low to moderate levels of active risk.

**Growth:** Seeks investments whose future potential for growth is above the growth expectation for securities in general. From an analytical perspective, growth portfolios will generally exhibit the following characteristics:

- Projected Earnings Growth – greater than the index
- Price to Earnings Ratio – generally greater than the index
- Price to Book Ratio – generally greater than the index
- Five Year Earnings Growth Rate – greater than the index

**Index/Passive:** An index strategy would strive to match the return of the appropriate index by holding a portfolio of securities that closely tracks the index.

**International Equity Active Country and Sector/Passive Security Selection:** Through an overall review of economic, social, and political issues worldwide, decisions are made with respect to the allocation of investments among countries and sectors. The investment decisions are implemented through passive security selection.

**Large Capitalization Domestic Equity:** Investments in a portfolio of securities that approximate the average market capitalization of the Russell 1000 Index.

**Small Capitalization Domestic Equity:** Investments in a portfolio of securities that approximate the average market capitalization of the Russell 2000 Index.

**Top Down:** A method of analysis that begins with broad macro economic topics associated with an economy and industry.
**Value:** Investments in equities whose potential is temporarily unrecognized by other investors. Value stocks typically are companies whose assets, future cash flows, products or services are overly discounted relative to the broader market. Typically, value portfolios will exhibit the following characteristics:

- Price to Book Ratio – less than the index
- Price to Earnings Ratio – less than the index
- Dividend Yield – greater than the index

**Fixed Income Styles**

**Core:** Seeks investments in the large, more liquid sectors such as governments, mortgage-backs and investment grade corporates, that do not represent significant deviation from a given index in terms of sector, quality, coupon and maturity exposures. While some over/under weighting may occur in the portfolio, these will result from the manager’s security selection process and not represent a deliberate attempt to bias the portfolio.

**Core Plus:** A core plus manager has the latitude to invest the portfolio in core sectors as well as high yield (below investment grade) non-dollar denominated and/or the debt of emerging markets.

**Medium-Grade:** Seeks investments from the complete range of global fixed income sectors. The medium-grade manager has broad latitude to invest the portfolio’s assets in opportunistic sectors such as high-yield (below investment grade) non-dollar, emerging markets and convertible debt investments. The manager may use investment grade sectors as a defensive alternative to opportunistic sectors.

**Inflation Protected:** Invests in fixed instruments that have a real and inflation-linked return component. The securities are typically issued by government entities. An example would be the Treasury Inflation Protected Securities (TIPS) issued by the United States Government.

**RATES OF RETURN**

**Capital Appreciation (Depreciation):** Both realized and unrealized gains or losses in the market value of a portfolio from beginning to end of the time period being measured.

**Dollar-Weighted Return:** This rate is also called the internal rate of return (IRR). It is sensitive to the timing and size of cash flows. The rate of return for each sub-period such as a month or a quarter is weighted by the dollars invested in that period. Thus, the cash flows in the fund, as well as investment performance, will have an impact on calculated returns. The dollar-weighted return is important in measuring the actual growth of a fund over time.
**Income Return:** The rate of return attributable to interest and/or dividends.

**Market Value:** The market value of an asset is the realizable value at any point in time. In practice, publicly traded stocks are valued at the day's closing price and bonds are generally valued at the day's final bid price. Different pricing services can result in different market prices especially in the bond market.

**Real Rate of Return:** The rate of return earned from an investment's income/loss and appreciation/depreciation after being adjusted for inflation. The most common measure of inflation is the U.S. Bureau of Labor Statistics’ All Urban Consumer Price Index (CPIU).

**Time-Weighted Rate of Return:** The amount and timing of cash flows do not impact time-weighted rates of returns since the returns for each sub-period are equally weighted. Since investment managers have little control over cash flow, time-weighted returns are an appropriate method of analyzing the manager's performance.

**Total Fund Total Rate of Return:** The “overall” rate which reflects the combination of income as well as realized and unrealized appreciation or depreciation for all segments or portfolios in the total plan.

**TIME PERIODS**

**Annualized:** A rate of return for a time frame that is less than or greater than one year expressed as an average annual return.

**Compound Annual:** A compound average annual rate of return for a period greater than 1 year expressed in annual terms.

**Rolling Time Period:** A series of investment returns each covering a specified period of time with each new return in the series encompassing the most recent return of the period and dropping the oldest return of the period. For example, a rolling one-year return, calculated monthly would consist of the previous 12 monthly returns. The next return in the series would be calculated at the end of the following month. It would consist of the current monthly return and the previous 11 months (dropping the oldest return in the series).

**Trailing Period:** A time period that immediately precedes a specified date. For example, as of December 31, 20X1, the trailing 9 months would include the period April 1, 20X1 to December 31, 20X1.

**Unannualized:** A rate of return for a period of less than one year or greater than one year. An unannualized return that represents cumulative results that is for a month, quarter, five quarters or any other non-twelve month period.

**RELATIVE PERFORMANCE RANKING**
**Policy Index (Policy Portfolio):** A weighted combination of two or more indices. The Policy Index is constructed to match a fund by weighting the indices in the same ratio as the fund’s target commitment to the different asset classes such as equities, bonds, real estate, and cash.

**Median:** The median is the 50th percentile. The median of the sample would be the rate of return that is greater than 50% of all the returns in the sample. Half the sample has a higher return and the other half a lower return.

**Percentile Rank:** Time-weighted rates of return are percentile ranked against the Universe. For example, a fund’s rate of return may rank in the 20th percentile of the sample. This value indicates that 80% of the funds in the sample had worse performance. The highest percentile rank is 1 while the lowest is 100. Bar graphs may be divided by percentiles with the top of each bar denoting the tenth percentile followed by lines for the 25th, 50th, 75th and 90th percentiles.

**Quartiles:** Percentile rankings are divided by the first, second and third quartiles. The first quartile is the 25th percentile, the second is the 50th percentile (or median) and the third is the 75th percentile.

**Reasonable (as it pertains to a portfolio risk level relative to the Index):** A reasonable risk level relative to the Index means that, if portfolio risk is substantially above the risk of the Index, portfolio return should also be substantially above the return of the Index. Conversely, if portfolio return were substantially less than the Index, then portfolio risk would also be expected to be less than that of the Index. Under normal market conditions, reasonable means a combination of risk and return that yields a return to risk ratio for the portfolio that is equal to or greater than that of the Index which serves as the portfolio’s performance benchmark.

**Typical Market Cycle:** A typical market cycle is the recurrence of periods of significant appreciation and depreciation of asset values. One cycle extends from a price or market value baseline through one substantial rise and one decline and back to the base line. The length of a typical or fair market cycle varies across asset classes, depending on the frequency and duration of changes in those economic factors that drive the market value of the assets. For those assets that trade on auction markets and are sensitive to short-term business cycle activity, such as equity and fixed income securities, the typical market cycle has historically been approximately three years. For those assets whose market values are not based on quoted prices and which are sensitive to longer-term demographic changes, such as private real estate or private equity, the typical market cycle has historically been approximately seven to ten years.

**INDICES**

*Fixed Income*
**Lehman Brothers Aggregate:** An aggregate of the Government/Corporate Bond Index, the Mortgage-Backed Securities Index, and the Asset-Backed Securities Index. The index contains fixed rate debt issues with at least one-year maturity, $100 million par value outstanding, and investment grade ratings by Moodys, S&P or Fitch (in that order). Returns are market-value weighted inclusive of accrued interest.

**Lehman Universal:** This index contains the Lehman Aggregate index bonds plus approximately 10% of the remaining index includes U.S. High Yield, Eurodollar, Emerging Markets, 144A Private Placements, and CMBS bonds.

**Lehman U.S. Govt/Credit Intermediate:** This index is a sub-component of the Lehman Aggregate index. Bonds consist of the U.S. Treasury, U.S. Agency (non-MBS), and U.S. Investment-grade credit holdings with a maturity range of 1 to 10 years.

**Bond Rating Methodology:** Bond ratings are intended to characterize the risk associated with holding a particular bond or categories of bonds. These ratings are the risk assessed by the market and that the bond issuer must pay to attract purchasers to the bond. These ratings are expressed as a series of letters and sequences.

**Rating Categories in Descending Order:**

- **AAA:** The best quality rating, stable cash flows, very protective bond covenant, very low probability of default.

- **Aa:** The second best rating. Stable cash flows, less protective bond covenants, very low probability of default.

- **A:** Stable cash flows, less protective bond covenant, long-term probability of default is higher than AAA or Aa.

- **Baa:** Medium quality rating, reliable cash flows short term, less-reliable cash flows long term, bond covenants offer limited protection. Moderate probability of default. Downgrade to a lower rating is also possible. Baa bonds are the lowest rating still considered ‘investment grade.’

- **Ba thru B:** Highly speculative. Long-term assurance of cash flows and protective elements are low. Purchasers of these bonds generally specialize in assessing credit risk of specific bond issues. Much higher spreads versus investment grade bonds provide the incentive for purchasers. High default or downgrade risk.
**Caa thru C:** Poor standing. Either close to default or in default. Highly probable loss of principal.

**D:** Coupon payments were not paid on the due date which puts the bond in default. Unless both protective covenants and issuer assets are adequate (not likely), holder loses all likelihood of recovering principal.

**Equity**

**Down Jones Industrial Average:** This index is the price-weighted average of 30 actively traded blue chip stocks.

**NASDAQ:** A market value weighted index that measures all domestic and non-U.S. based securities, more than 4700 companies listed on the NASDAQ stock market.

**Russell Midcap Value:** Contains Russell Midcap stocks having less than average growth orientation and are included in the Russell 1000 Value Index.

**Russell 1000:** Consists of the 1000 largest securities in the Russell 3000 Index. The Russell 1000 is capitalization-weighted.

**Russell 1000 Growth:** Contains Russell 1000 stocks having greater than average growth orientation. Stocks tend to exhibit lower dividend yields and higher price-to-book ratios, price-earnings ratios and forecast growth values than the Value universe. The index is capitalization-weighted (as opposed to equal-weighted).

**Russell 1000 Value:** Contains those Russell 1000 securities with a less-than-average growth orientation. Securities in this index tend to exhibit lower price-to-book and price-earnings ratios, higher dividend yields and lower forecasted growth values than the Growth universe. Russell 1000 Value is capitalization-weighted.

**Russell 2000:** Contains the smallest 2,000 stocks in the Russell 3000 Index, representing approximately 11% of the Russell 3000 total market capitalization. The index is capitalization-weighted (as opposed to equal-weighted).

**Russell 2000 Growth:** Contains those Russell 2000 securities with a greater-than-average growth orientation. Securities in this index tend to exhibit higher price-to-book and price-earnings ratios, lower dividend yields and higher forecasted growth values than the Value universe.

**Russell 2000 Value:** Contains those Russell 2000 securities with a less-than-average growth orientation. Securities in this index tend to exhibit lower price-to-
book and price-earnings ratios, higher dividend yields and lower forecasted growth values than the Growth universe.

**Russell 3000:** Measures performance of the 3000 largest U.S. companies based on total market capitalization. This index represents approximately 98% of the investable U.S. equity market. The Russell 3000 is capitalization-weighted.

**Standard and Poor 500:** The S&P, which represents approximately 75% of NYSE market capitalization and 30% of NYSE issues, contains 500 industrial, utility, transportation and financial companies in the U.S. markets (mostly NYSE issues). The S&P is capitalization-weighted (as opposed to equal-weighted), calculated on a total return basis with dividends reinvested.

**FTSE All Share:** An arithmetic, market value-weighted average of approx. 680 securities representing 98-99% of the UK market capitalization, FTSE All-Share is the aggregation of the FTSE 100, FTSE 250 and FTSE Small Cap Indices.

**Morgan Stanley All Country World except USA:** An arithmetic, market value-weighted average of approx. 1800 securities from outside the United States. The index is calculated on a total return basis, including reinvestment of gross dividends before deduction of withholding taxes.

**Morgan Stanley Capital International Emerging Market Free:** Contains securities of the following counties which are available to all investors regardless of local status: Argentina, Brazil, Chile, Colombia, Greece, India, Indonesia, Israel, Jordan, Malaysia, Mexico, Pakistan, Peru, Philippines, Poland, Portugal, South Africa, Sri Lanka, Thailand, Turkey and Venezuela.

**Morgan Stanley Capital International EAFE:** An arithmetic, market value-weighted average of over 900 securities from Europe, Australia, and the Far East. The index is calculated on a total return basis, including reinvestment of gross dividends before deduction of withholding taxes. The following countries are represented: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Hong Kong, Ireland, Italy, Japan, Malaysia, Netherlands, New Zealand, Norway, Singapore, Spain, Sweden, Switzerland and the United Kingdom.

**Morgan Stanley Capital International Europe:** Includes companies representing 15 European countries: Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland and the United Kingdom.

**Morgan Stanley Capital International Pacific:** Includes companies representing 5 countries: Australia, Hong Kong, Japan, New Zealand and Singapore.
**Morgan Stanley Capital International Pacific x Japan:** Includes companies representing 4 countries: Australia, Hong Kong, New Zealand and Singapore.

**Morgan Stanley All Country Asia Pacific:** Includes companies representing 14 countries: Australia, China, Hong Kong, India, Indonesia, Japan, Malaysia, Pakistan, Philippines, Korea, New Zealand, Singapore, Thailand, and Taiwan. It is calculated on a total return basis with dividends reinvested.

**Real Estate**

**NCREIF Property Index:** The NPI contains investment-grade, non-agricultural, income-producing properties which may be financed in excess of 5% gross market value; were acquired on behalf of tax exempt institutions; and are held in a fiduciary environment. Data is collected quarterly from a membership of investment managers and plan sponsors. Returns are gross of fees; include income, realized gains/losses, and appreciation/depreciation; and are market-value weighted. Property values are determined by consistent appraisal methodology and sold properties are removed in the quarter of the sale (the historical data remains). Current quarter performance is preliminary.

**Cash**

**90-Day Treasury Bills:** An average of the last three 90-day treasury bill issues’ monthly return equivalents of yield averages, which are not marked to market. Month-end discount yields are converted to bond-equivalent yields, then a simple average is taken, and that number is decompounded to a monthly return using the actual number of days in the month and a 365-day year.

**Policy Benchmarks**

**Current:**

<table>
<thead>
<tr>
<th>Category</th>
<th>Benchmark</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Equity</td>
<td>43% Russell 3000</td>
</tr>
<tr>
<td>Non U.S. Equity</td>
<td>20% MS ACWI ex U.S. Net Div</td>
</tr>
<tr>
<td>Core Fixed Income</td>
<td>24% Lehman Universal</td>
</tr>
<tr>
<td>Real Estate</td>
<td>5% NCREIF</td>
</tr>
<tr>
<td>Alternative</td>
<td>7% Russell 3000 plus 400 bps annually.</td>
</tr>
<tr>
<td>Cash</td>
<td>1% 90 day Treasury Bill</td>
</tr>
</tbody>
</table>

**TOTAL:** 43% U.S. Equity; 20% NonU.S. Equity; 24% Core Fixed; 5% Real Estate; 7% Alternative; 1% Cash

**1/01/2007 through 6/30/2007:**

<table>
<thead>
<tr>
<th>Category</th>
<th>Benchmark</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Equity</td>
<td>44% Russell 3000</td>
</tr>
<tr>
<td>Non-U.S. Equity</td>
<td>20% MS ACWI ex U.S. GD</td>
</tr>
<tr>
<td>Core Fixed Income</td>
<td>25% Lehman Universal</td>
</tr>
<tr>
<td>Real Estate</td>
<td>4% NCREIF</td>
</tr>
</tbody>
</table>
Alternative 6% Russell 3000 plus 400 bps annually
(Calculated on a dollar-weighted basis, and holding cash flows at 0% return for the first 36 months.)
Cash 1% 90-day Treasury Bill
TOTAL: 44% U.S. Equity; 20% Non-U.S. Equity; 25% Core Fixed; 4% Real Estate; 6% Alternative; 1% Cash

3/31/2006 through 9/30/2006:
U.S. Equity 45% Russell 3000
Non-U.S. Equity 21% MS ACWI ex U.S. GD
Core Fixed Income 25% Lehman Universal
Real Estate 3% NCREIF
Alternative 5% Russell 3000 plus 400 bps annually
(Calculated on a dollar-weighted basis, and holding cash flows at 0% return for the first 36 months.)
Cash 1% 90-day Treasury Bill
TOTAL: 45% U.S. Equity; 21% Non-U.S. Equity; 25% Core Fixed; 3% Real Estate; 5% Alternative; 1% Cash

6/30/2001 through 3/31/2006:
U.S. Equity 40% Russell 3000
Non-U.S. Equity 18% MS ACWI ex U.S. GD
Core Fixed Income 27% Lehman Universal
Real Estate 7% NCREIF
Alternative 7% Russell 3000 plus 400 bps annually
(Calculated on a dollar-weighted basis, and holding cash flows at 0% return for the first 36 months.)
Cash 1% 90-day Treasury Bill
TOTAL: 40% U.S. Equity; 18% Non-U.S. Equity; 27% Core Fixed; 7% Real Estate; 7% Alternative; 1% Cash

01/01/2001 through 6/30/2001:
U.S. Equity 40% Russell 3000
Non-U.S. Equity 18% MS ACWI ex U.S. GD
U.S. Fixed 25% Lehman Universal
Non-U.S. Fixed 6% JP Morgan World Government Hedged
Real Estate 5% NCREIF
Alternative 5% “15%”
Cash 1% 90-day Treasury Bill
TOTAL: 40% U.S. Equity; 18% Non-U.S. Equity; 25% U.S. Fixed; 6% Non-U.S. Fixed; 5% Real Estate; 5% Alternative; 1% Cash

01/01/2000 through 12/31/2000:
U.S. Equity 43% Russell 3000
Non-U.S. Equity 21% MSCI EAFE
U.S. Fixed 25% Lehman Aggregate thru 6/30/00, Lehman Universal as of 7/1/00
Non-U.S. Fixed 6% JP Morgan World Government Hedged
Real Estate 2% NCREIF
Alternative 2% “15%”
Cash 1% 90-day Treasury Bill
TOTAL: 43% U.S. Equity; 21% Non-U.S. Equity; 25% U.S. Fixed; 6% Non-U.S. Fixed; 2% Real Estate; 2% Alternative; 1% Cash

Through 12/31/99:
U.S. Equity 40% consisting of 33.75% S&P 500; 35.0% Russell 1000 Value; 12.5% Russell 1000 Growth; 12.5% Russell 2000 Value; 6.25% Russell 2000 Growth
Non-U.S. Equity 20% consisting of 25% MSCI EAFE; 22.5% MSCI Pacific; 15% TOPIX; 12.5% MSCI Europe; 25% MSCI Emerging Markets Free x Malaysia
U.S. Fixed 25.5% consisting of 17.65% Lehman Intermediate Government Corporate; 11.76% Intermediate Government; 7.84% Lehman Long Government Corporate; 3.92% Lehman Long Government; 58.8% Lehman Aggregate
Non-U.S. Fixed 7% JPM World
Real Estate 3% NCREIF
Alternative 3% “15%”
Cash 1.5% 90-day Treasury Bills
TOTAL: 40% U.S. Equity; 25.5% Fixed Income; 20% International Equity; 7% JPM Global Hedged; 3% NCRIEF; 3% Alternative 15%; 1.5% Treasury Bills

1 Yr: One-year rate of return. The linked quarterly returns of the previous four quarters.

X Yr Ann: X year annualized rate of return. The one-year equivalent return of the X year cumulative return.

X Yr Cum: X year cumulative rate of return. The linked quarterly returns of the previous X years.

ASSET ALLOCATION

Market $: Net assets at market value including receivables, payables and accrued interest.

Market %: Market value as a percent of the total fund’s market value.
**Target %**: Investment policy.

**Invest %**: Market value excluding cash and equivalents as a percent of total market value.

### INVESTMENT PERFORMANCE

**Time**: The internal rate of return (accounting for daily cash flows) monthly based on trade-date, full accrual accounting, and using market values. For periods of greater than one month, a time series of linked monthly returns is maintained, introducing a time weighted effect. The private investment returns are lagged one quarter. The LACERS total fund return is dollar weighted to include private investments.

**Market at Target**: The weighted return made up of market returns weighted by LACERS' target allocation.

**Market at Actual**: The weighted return made up of market returns weighted by LACERS' actual allocation.

### UNIVERSE COMPARISON

All Universes are gross of fees. Universe breaks are at 10, 25, 50, 75 and 90 percentiles.

**TUCS Plan Universes**  
Are published on a quarterly basis using monthly observations. Over time, the plan population members will change due to new plans being introduced and other plans closing or leaving the universe.

**Public Funds**  
Includes the range of performance of all Public Funds greater than 1 billion dollars. Monitored by the Wilshire’s Trust Universe Comparison Services Group. Plans include state and municipal plans and systems.

**Manager Universes**  
Are created using the performance of managers used by sponsor subscribers to the Risk & Performance Services Group. Each occurrence of a manager is considered as an observation. The manager universes are used to describe the actual experience of plan sponsors use of the managers; no manager supplied representative portfolios or composites are used in the creation of the universes. All occurrences of a manager are included in the magnitudes they are used by the sponsors; no stratification or judgments are introduced by RPS to alter a manager’s representation. Manager portfolios are used from all market segments (ERISA, Public, Foundation & Endowments, and Wealth) since managers are hired to fulfill a specific policy objective that is not unique by plan type. Inclusion in a universe is based upon quantitative screening using the
criteria described; an RPS analyst determines the comparison of a manager to this style background for reporting purposes. The portfolio criteria are applied as the average of the values over the time period being observed and not simply the current point in time value.

**U.S. Fixed Income: Managers**
Includes all managers, active and passive, investing in U.S. Fixed Income, including high yield fixed income managers.

**Non-U.S. Fixed Income Managers**
Includes all managers investing in non-U.S. Fixed Income.

**U.S. Equity: Large Cap Value**
Includes portfolios with a portfolio average market capitalization greater than $10 billion. Portfolios will also display a significant value bias as represented by a Barra Price/Book score in the top 30% of all U.S. equity portfolios monitored by RPS. Most value portfolios display a below market beta and above market dividend yield.

**U.S. Equity: Large Cap Core**
Includes portfolios with a portfolio average market capitalization greater than $10 billion but not displaying any significant growth or value bias. The Barra Growth and Barra Book to Price risk factors are used to determine style orientation. Most of the portfolios also display a market-like beta.

**U.S. Equity: Large Cap Growth**
Includes portfolios with a portfolio average market capitalization greater than $10 billion. Portfolios will also display a significant growth bias as represented by a Barra Growth Risk Factor in the top 40% of all U.S. equity portfolios and a Barra Price/Book score in the bottom 70% of all U.S. equity portfolios monitored by RPS. Most growth portfolios display an above market beta.

**U.S. Equity: Small Cap Value**
Includes portfolios with a portfolio average market capitalization of less than $2 billion. Small Cap Value portfolios will also display a value bias as represented by a Barra Price/Book score in the top 27% and a Barra Growth factor score in the bottom 31% of all U.S. equity portfolios monitored by RPS.

**U.S. Equity: Small Cap Growth**
Includes portfolios with a portfolio average market capitalization of less than $2 billion. Small Cap Growth portfolios will also display a growth bias as represented by a Barra Growth Risk Factor in the top 31% of all U.S. equity portfolios monitored by RPS.
Non-U.S. Equity: Developed Managers
Includes all managers investing in developed markets outside of North America. The majority of the portfolios in this universe are EAFE-oriented but may contain an opportunistic allocation to emerging markets equity (extended EAFE). There are a few regional non-U.S. equity managers (Europe & Pacific Basin) also represented.

Non-U.S. Equity: Emerging Markets
Includes all managers investing in emerging markets. The universe includes emerging markets managers that are diversified across all emerging markets as well as specialists in regional emerging markets.

Program Universes
Are based on the aggregate performance of managers hired to manage within a specific asset class (such as domestic equity) as an observation for each plan in the All Funds Universe. Where manager universes are used to evaluate the ability of managers versus their peers, program universes compare the sponsors’ ability to select and implement managers compared to their peers. A Program Universe allows a sponsor to evaluate its ability to create a sector portfolio. It also helps the sponsor understand if any other plan sponsor has been able to create a program capable of beating the market (described using a passive index).

U.S. Equity: Program
Includes the aggregate performance of each plan’s domestic equity group as a single observation.

Non-U.S. Equity: Program
Includes the aggregate performance of each plan’s non-U.S. equity group as a single observation.

U.S. Fixed Income: Program
Includes the aggregate performance of each plan’s U.S. Fixed Income group as a single observation.

INVESTMENT IMPACT

Allocation: Market returns weighted by LACERS’ actual asset allocation less market returns weighted by LACERS’ target allocation.

Management: The difference between a) market returns weighted by LACERS’ sector allocation and b) market returns weighted by LACERS’ actual asset allocation; added to the difference between c) fund returns and d) market returns weighted by LACERS’ sector allocation.

Overall: Actual returns less market returns weighted by LACERS’ target allocation.
**RISK**

**Mean Rate of Return:** The geometric average of twenty quarterly returns, annualized.

**Standard Deviation:** The standard deviation (one sigma) of twenty quarterly returns, annualized.

**CHARACTERISTICS**

**Historic Beta:** The beta of stocks currently owned in the portfolio compared to the S&P 500. The security-level beta is vendor supplied and the index is predetermined. In the U.S., The S&P 500 is traditionally used in beta calculations; other indexes cannot be substituted in the beta calculation. When the index is other than the S&P 500, the index beta is also in comparison to the S&P 500.

**Return on Equity:** The Return on Equity calculation is After-Tax Net Income divided by Owners Equity. The return on equity relates a company's profitability to its shareholder's equity. A high ROE indicates that the portfolio is invested in companies that have been profitable. This measure is also impacted by financial leverage. The portfolio ROE is based on the combined ROE’s of all stocks in the portfolio.
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I. INTRODUCTION

This policy is intended to provide a framework to address such issues as social unrest, labor standards, human rights violations, and environmental concerns.

II. LACERS LEGAL AND STATUTORY FRAMEWORK FOR INVESTMENT DECISIONS

The legal and statutory framework for LACERS investment decisions are governed by the City Charter, Section 1106 and the California State Constitution, Article XVI, Section 17.

As cited in the LACERS Investment Policy Statement, the Board of Administration of the Los Angeles City Employees’ Retirement System establishes this investment policy in accordance with Section 1106, of the Charter of the City of Los Angeles for the systematic administration of the City Employees’ Retirement Fund (LACERS). Since the Board created the policy, the Board’s activities have been directed toward fulfilling the primary purpose of the System, as described in Section 1106:

“…to provide benefits to system participants and their beneficiaries and to assure prompt delivery of those benefits and related services; to minimize City contributions; and to defray the reasonable expenses of administering the system.”

III. LACERS BOARD’S FIDUCIARY RESPONSIBILITIES

Consistent with the California Constitution, the City Charter, and City Administrative Codes, and as set forth in the LACERS Investment Policy Statement, LACERS’ Board must follow the standards set for all retirement board members. The Constitution imposes fiduciary responsibility on the members of the Board to invest LACERS’ money, requires them to exercise a high degree of care, skill, prudence and diligence, requires them to diversify investments to avoid risk and maximize return, and specifically points out that their duty to LACERS’ members comes first, before any other duty.

As an institutional investor, LACERS has a fiduciary duty to act in the best long-term interests of the beneficiaries. In this fiduciary role, LACERS is sensitive to concerns that environmental, social, and corporate governance geopolitical issues may affect the performance of investment portfolios (to varying degrees across companies, sectors, regions, asset classes and through time). Importantly, LACERS’ ownership of securities in a corporation does not signify approval of all of a company’s policies, products, or actions. Furthermore, it is important to state that investments shall not be selected or rejected based solely
on the basis of Geopolitical risk factors. In fact, such risk factors can only be taken into consideration to the extent that such factors bear on the financial advisability of the investment; e.g., not investing in a corporation whose conduct has demonstrated a negative effect on the corporation’s financial viability.

As a fiduciary, it is necessary to have a policy that takes into consideration risk factors to the extent they impact investment performance.

This Policy is intended to address the geopolitical financial and administrative risks to the extent they impact investment performance. A company’s possible risky Geopolitical conduct can only be taken into consideration to the extent that the conduct has demonstrated a negative effect on the financial health of the company or to the extent that divestment of a prior investment (or a decision not to make a particular investment) on account of the company’s conduct will not hurt the Fund or that other similar investments would provide alternative/similar/better options without incurring the geopolitical risks identified or risk of loss to LACERS. This Policy identifies seven broad Geopolitical Risk Factors (see Section VI).

IV. PROCESS FOR IDENTIFYING CORPORATE GOVERNANCE GEOPOLITICAL RISKS TO THE LACERS PORTFOLIO

The LACERS Board and Staff will stay apprised of geopolitical specific problems/issues through educational forums, consultant studies, investment analysis, and input from the investment advisors and consultants, and take into account the actions of other prudent investors. The process of identifying issues may include staff and other interested parties and/or experts advising LACERS’ investment advisors and consultants of the Geopolitical Risk Factors adopted by LACERS.

Consistent with their fiduciary responsibility, the Board shall decide whether to address these issues in a particular case, based on 1) the size of the interest that LACERS’ holds in the business; and 2) how serious is the business’ violation of LACERS’ Geopolitical Risk Investment policies. As stated above, a company’s possible Geopolitical risky conduct can only be taken into consideration to the extent that the conduct affects the financial health of the company, or to the extent that divestment of a prior investment (or a decision not to make a particular investment) on account of the company’s conduct will not hurt the fund, or that other similar investments would provide alternative/similar/better options without the Geopolitical risks identified and without loss to the fund.
V. PROCESS FOR TAKING ACTIONS TO MITIGATE GEOPOLITICAL RISKS TO THE LACERS PORTFOLIO

Upon the Board determination that there has been a material threat to the LACERS’ investment portfolio, the Board shall promptly direct its investment staff to seek a change in the company’s behavior, using the actions described below.

LACERS will actively engage, in a constructive manner, corporate management whose actions are inconsistent with this Policy to seek a change in corporate behavior.

After Geopolitical risk to the investment portfolio has been identified, and after all reasonable efforts have been made to constructively engage management, LACERS may determine whether it is prudent to hold such investments or whether it is imprudent to sell such investments. At such time, working with the Fund consultant and fiduciary counsel, LACERS will determine a prudent course of action.

VI. GEOPOLITICAL RISK FACTORS

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<td>• Status of Child Labor Practices and Minimum Age for Employment</td>
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<td>• Acceptable Conditions of Work</td>
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<td>• War</td>
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ALTERNATIVE INVESTMENT POLICY

REVISED JULY 7, 2009

COMMITTEE APPROVED: JUNE 23, 2009
BOARD APPROVED: JULY 7, 2009
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Attachment 1       Third Party Marketing and Referrals Disclosure Policy
Attachment 2       Marketing Cessation Policy
I. Introduction

Included in the Los Angeles City Employees’ Retirement System ("LACERS") Investment Policy dated June 24, 2008 the Alternative Investment Guidelines Investment Policy ("Alternative Investments Policy"). This Policy sets forth enhanced guidelines that provide a general framework for selecting, building, and managing LACERS’s investments in private equity, including corporate finance/buyout, special situations (including distressed debt, distressed turnaround and mezzanine strategies), and venture capital partnerships.

II. Investment Objectives

A. Return

On a relative basis, the return objective for the Portfolio is 400 bps over the Russell 3000 Index net of fees, expenses, and carried interest.

LACERS understands that, for a given partnership, return can only be reliably measured over the life of the partnership (usually 10 or more years). Typically, the valuation methodology used by one general partner may differ from the valuation methodology used by another. Additionally, the IRR performance in the first few years of a partnership’s life is routinely negative due to the J-curve effect. During this period, partnerships are actively making investments and drawing management fees, which results in negative capital account balances.

B. Risk

LACERS understands that private equity investments are illiquid and will have a long-term holding period. When used with publicly traded assets, the asset class helps diversification and reduces risk at the total fund level. Nonetheless, LACERS expects that Hamilton Lane will take all appropriate measures to reduce risks that are not adequately compensated for by expected return. Such measures include, but are not necessarily limited to, diversification (as detailed in Section IV.C of the Alternative Investments Policy), due diligence, and governance activities.

III. Scope

LACERS has a target allocation of 8% to private equity in 2009. The alternative investment plan is split between the traditional “core” portfolio and the specialized non-traditional portfolio (“carve-out”) portfolio. The “carve-out” portfolio is covered under a separate policy.

Hamilton Lane was engaged by LACERS in January 2005 to select new investments, to monitor existing investments, and to provide advice in
accordance with the investment objectives for the traditional “core” alternative portfolio. This policy establishes the framework for the continued development of the alternative portfolio. Hamilton Lane will be evaluated annually as consultant and investment manager for LACERS traditional “core” portfolio based upon the following: portfolio performance; quality of analytical and technical work, and expertise in the private equity asset class; responsiveness to requests from the Board and staff; availability to attend Board meetings and meetings with staff with reasonable advance notice; consulting and advising on LACERS’ portfolio, including information on selected private equity related topics; identifying and mitigating risks; proactively informing staff of new investment opportunities or risks in the marketplace. The annual evaluation will be treated confidentially with open communication.

Hamilton Lane has full Discretion to buy, sell, or otherwise effect investment transactions “within a box,” for all new investments up to and including $25 million and for all existing investments up to and including $40 million (see Attachment 1). Recommendations that exceed those amounts must be presented by Hamilton Lane to LACERS staff and Board for approval.

IV. Investment Guidelines

A. Eligible Investments

LACERS will invest in Top Tier limited partnership interests of pooled vehicles covering the broad spectrum of private investments as follows:

1. Private equity partnerships – including corporate finance/buyout, special situations and venture capital. Special situation is a broad investment strategy, which includes mezzanine and distressed debt partnerships, fund-of-funds (both direct and secondary), industry-focused and multi-stage “generalist” partnerships;

2. Co-investments – direct investments made alongside a partnership;

3. Direct Secondary Purchases – purchases of existing partnership interest or pool of partnership interests from an investor;

4. Other investments that are deemed appropriate within LACERS’ risk profile.

B. Limitation on Percent of Partnership’s Total Commitment

LACERS’ commitment to any given partnership shall not exceed 20% of that partnership’s total commitments without the Board of Administration’s (“the Board’s”) approval.
C. **Diversification**

Hamilton Lane, on behalf of LACERS, will diversify the following sources of risk in the portfolio.

1. **Partnerships**

   a. No more than 15% of the portfolio’s total exposure (market value plus unfunded commitments) to private equity may be attributable to partnerships by the same manager at the time the commitment is made.

   b. Hamilton Lane shall diversify the portfolio across vintage years when possible.

   c. The geographic distribution of actual investments shall be monitored, and Hamilton Lane shall avoid excessive exposure to the economic conditions of any one locale.

   Hamilton Lane shall monitor investments with respect to industry. In the event that the current cost-basis associated with a single industry exceeds 25%, Hamilton Lane shall attempt to reduce this exposure by limiting future commitments to partnerships with an explicit focus on the industry in question and with the understanding that industry exposure at an investment level will be managed at the discretion of the general partner.

2. **Sub-asset Classes**

   a. Assets committed to venture capital shall be diversified across the stages of venture capital (e.g., early-stage, mid-stage, and late-stage).

   b. Assets committed to corporate finance/buyouts shall be diversified by target company size (e.g., mega, large, mid, and small).

   In addition to the Diversification criteria listed above, LACERS’ Board along with Hamilton Lane will adopt optimal sub-asset allocation targets, which will be updated periodically to reflect general changes in the economy.

   The current optimal sub-asset class allocation ranges and targets for LACERS’ private equity investments are as follows:

<table>
<thead>
<tr>
<th>Sub-Asset Class</th>
<th>Range</th>
<th>Long-term</th>
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LACERS Alternative Investment Policy

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### D. Prohibited Transactions

LACERS shall not make direct investments in any company. These investments will be done through a commingled partnership, in which LACERS is an existing limited partner.

### E. Illiquidity

By its nature, private equity investments are not designed to meet any short-term liquidity needs of LACERS. The investments in this asset class should be considered illiquid until the partnerships, at their discretion, sell investments and distribute proceeds.

### F. Distribution

Hamilton Lane is not responsible for investing or disposing of distributions from partnerships.

### V. REVIEW OF INVESTMENT GUIDELINES

Hamilton Lane will notify LACERS if the Guidelines would impede LACERS' investment performance. In this regard, Hamilton Lane may consider the guidelines and other relevant information adopted by its other clients who invest in alternative investments. Hamilton Lane will also review the guidelines annually and present a strategic plan to the Board.

### VI. HAMILTON LANE SERVICES

#### A. Monitoring

Hamilton Lane has developed a proactive investment-monitoring program, permitting it to take an "activist" role in representing its clients' interests. The program consists of frequent and regular phone calls with the general partner groups, periodic visits to their offices (or requests to have them visit Hamilton Lane’s offices), attendance at annual meetings, and attendance at advisory board meetings.

Hamilton Lane currently sits on more than 110 advisory boards on behalf of its clients. As a member of an advisory board for a fund in which LACERS invests, Hamilton Lane shall pursue the overall best interests of
its clients, collectively, with investments in the fund. Any relevant information arising from LACERS’ funds advisory board meetings will be shared on a confidential basis. In serving as a member of an advisory board for a fund in which LACERS invests, Hamilton Lane at all times will have due regard for its contractual and fiduciary duties to all clients invested in the fund. Hamilton Lane will not favor or disfavor, consistently or consciously, any client or class of clients in relation to LACERS. An advisory board position can provide significant insight into the activities and philosophy of a general partner group. It can also be useful to ensure that the general partner recognizes the concerns and interests of institutional clients. While it may be beneficial for an institutional investor to hold advisory board positions, it is not always possible due to the desire to limit the seats to a small number of investors. Hamilton Lane is viewed as a conduit to multiple investors and is often requested to serve on these boards, providing significant added value to its clients. Generally, an advisory board approves the valuation methodology of the partnership on a periodic basis. Hamilton Lane also advises the general partner in its capacity as an advisory board member and thereby helps protect its clients’ interests.

B. Reporting

Hamilton Lane takes a customizable approach that takes into consideration the needs of each client. Hamilton Lane does have a core service offering that includes the day-to-day monitoring and reporting upon information made available to the underlying general partner, but the needs or requirements of a client dictate the services it provides.

Reports are prepared on a quarterly basis and include various performance and diversification analytics, as well as a summary of all portfolio activity. Standard analytics include strategy and vintage year diversification analyses, geographic and industry diversification analyses, performance return calculations, and attribution on a since-inception and point-to-point basis. Hamilton Lane can also measure these returns against public and private equity benchmarks. The content of the reports is largely customizable to meet each client’s individual needs.

Additionally, Hamilton Lane has a proprietary Web-based reporting system to provide clients with 24/7 online access to their portfolios. The Hamilton Lane Portfolio Reporting System (“PRS”) allows clients to view information via the Internet through a secure site maintained in Hamilton Lane’s server environment. PRS provides point and click access to partnership and portfolio company information and allows the user to generate various reports that may be downloaded into Excel for analysis and Board presentations.
Clients also have access to ClientLink, our proprietary web-based document delivery and storage portal, which provides clients with access to much of the information that Hamilton Lane delivers via email and mail. It serves as an online file cabinet for information pertaining to a client’s portfolio, stored in a PDF format, and available through an easily navigated Website. The ClientLink application resides alongside PRS on a secure platform accessible via the Hamilton Lane Website. Clients can log into both ClientLink and PRS simultaneously and toggle between the two systems with ease.

C. Due Diligence

Hamilton Lane’s due diligence process is multi-tiered and places significant emphasis on those elements of risk and financial analysis that distinguish private equity from the more conventional asset classes. The same thorough and time-tested process is utilized for every opportunity regardless of prior investments with the general partner. Hamilton Lane’s due diligence approach ensures that every important area of analysis is thoroughly reviewed and also provides the flexibility to discover new and/or unique areas of potential concern and opportunity. Whenever possible, Hamilton Lane will invite LACERS’ staff to join Hamilton Lane for on-site due diligence events for funds that are being considered for LACERS’ account.

Hamilton Lane’s due diligence process has five basic steps with its Investment Committee involved in each step. The five steps are as follows:

1. **Screening**: An initial screening of the PPM identifying potential merits and issues of the partnership is created and presented to the Investment Committee. It is important to note that all PPMs received are screened and presented to the Investment Committee.

2. **Initial GP Meeting**: A meeting is held with the fund manager in Hamilton Lane’s offices, allowing members of the investment team to ask questions regarding the group’s investment philosophy, process, and view of the market opportunity. Meeting notes are presented to the Investment Committee.

3. **Questionnaire**: If Hamilton Lane elects to move forward, a detailed questionnaire is issued to the general partner for completion. The response to the questionnaire will form the basis of the full due diligence report.

4. **Site Visit**: Hamilton Lane will conduct a site visit at the fund manager’s office to go through, in detail, its track record, portfolio
companies, and investment strategy/philosophy. Furthermore, this allows Hamilton Lane to meet and evaluate the entire team.

5. **Final Investment Report**: This report is the culmination of all preceding efforts and provides detail on the manager's performance, merits, issues, and extensive portfolio analytics. This report is presented to Hamilton Lane’s Investment Committee for the final approval or rejection of the investment opportunity.

Additionally, extensive reference calls are made as part of the due diligence process, including calls to senior executives from current and former portfolio companies and sources not listed by the general partners. Reference calls allow Hamilton Lane to develop an understanding of the character of the individuals that comprise the general partner. Hamilton Lane maintains a large number of industry contacts that help, further, insight into a general partner; including previous investors and other general partner groups. As part of LACERS due diligence process Hamilton Lane will adhere to LACERS Disclosure Policy (see Attachment 2).

During the due diligence process the General Partnership will be advised of LACERS Marketing Cessation Policy (see Attachment 3).

Upon completion of each step of the due diligence process, the partnership is presented to the Committee for approval or rejection before moving to the next stage of due diligence. This process provides the Committee with a very broad market perspective of partnerships in all different strategies of the private equity market. The process also allows for consensus building that addresses issues or concerns that may arise from Committee members as the potential investment makes its way through the process. A final approval of an investment requires majority approval from the Committee; hence, this procedure reduces the chance that any issues are not addressed before making it to the final stage of approval.

D. **Legal**

Hamilton Lane commits significant time negotiating all investment and legal terms in the partnership documents on behalf of its clients. Hamilton Lane has a full-time in-house legal team with extensive experience in partnership negotiations that reviews economic and legal terms of new investments in comparison with the most recent standard market terms. Hamilton Lane, through the negotiation process, focuses on the management fee and partnership expenses, certain investment diversification and concentration terms, priority of distributions and carried interest (including the general partner’s clawback and credit support),
limitations on a general partner’s authority, no-fault divorce and “for cause” termination rights, and key man terms. Additionally, Hamilton Lane scrutinizes client-specific issues such as FOIA disclosure, ERISA, and unrelated business taxable income. Hamilton Lane looks for opportunities to enhance limited partnership positioning for each of their representative clients.

Since many of the key partnership negotiations occur prior to the first closing, an important aspect of the negotiation process is active participation at that time. Because of the scale of Hamilton Lane’s investments on behalf of its clients, it is often a significant participant in first closing negotiations. Based on that position and on its knowledge, persistence, and attention to detail, Hamilton Lane usually is able to improve partnership terms for its clients.
VII. GLOSSARY OF TERMS

The following is a list of commonly used terms in Alternative Investments and their respective definitions.

ADDITIONAL FEES: The amount of capital an investor pays into a fund/investment that does not count against the investors’ commitment. Additional fees typically consist of management fees or late-closing interest expenses.

CAPITAL COMMITTED: An investor’s financial obligation to provide a set amount of capital to the investment.

CAPITAL CONTRIBUTED: Capital contributed from an investor’s capital commitment to fund partnership investments, organizational expenses and management fees and partnership expenses.

CAPITAL DISTRIBUTED: Cash or stock disbursed to the investors of an investment.

CO- INVESTMENT: A co-investment is a direct investment made alongside a partnership.

CORPORATE FINANCE/BUYOUT: Partnerships seeking to make controlling and non-controlling investments in established companies that have the potential to achieve greater value through improved performance.

COST BASIS: Capital contributions less return of principal.

DIRECT INVESTMENT: A direct investment is a purchased interest of an operating company.

FUND-OF-FUNDS: An investment vehicle that invests in other private equity partnerships.

FUND/INVESTMENT SIZE: The total amount of capital committed by investors to a fund.

INVESTMENT CATEGORY: Used to identify investments in one of the following categories: co- investments, direct investments, fund-of-funds, primary funds, secondary fund-of-funds, or secondary purchases.

INVESTMENT STRATEGY: A sub-classification of a partnership’s investment type, such as co-investment, direct investment, corporate finance/buyout, mezzanine, real estate, special situation, or venture capital.
LIFE CYCLE PERIOD: The current stage of a partnership depending on the percentage contributed to date. Life cycle periods are investment and realization.

MEZZANINE: An investment strategy involving the purchase of subordinated debt. These securities exist between the senior debt and equity of a holding's capital structure. Subordinated debt carries a lower level of risk than pure equity structures because they generate current income and have a more senior position in the company's capital structure.

NET INTERNAL RATE OF RETURN ("IRR"): The discount rate that equates the net present value of the partnership’s cash outflows with its inflows and residual value at the time of calculation. The calculation is net of management fees and the general partner’s carried interest.

ORIGINATOR: The institution responsible for recommending a client commit to an investment.

OWNERSHIP PERCENTAGE: The investor’s percent of ownership as measured by capital committed divided by fund or investment size.

PAID-IN CAPITAL: The amount of capital an investor has contributed to a partnership, which includes capital contributions and additional fees.

POOLED AVERAGE IRR: An IRR calculation that aggregates cash flows (paid-in capital and capital distributed) and the reported market values of each investment within a portfolio to create one portfolio investment and return.

PORTFOLIO HOLDING EXPOSURE: The limited partner’s pro-rata allocation to an underlying investment based on its ownership percentage of the partnership.

PRIMARY FUND: Defines when the investor acquired an interest in the partnership. Primary fund is the investment category when an investor participates in a closing at the inception of the partnership.

PRIVATE EQUITY PARTNERSHIP: A professionally managed pool of capital that generally invests in unlisted companies or securities. Common investment strategies include corporate finance/buyout, mezzanine, special situations, and venture capital.

REALIZED MULTIPLE: Ratio of cumulative distributions to paid-in capital.

RETURN ON INVESTMENT ("ROI"): A calculation based on the total value (market value plus distributions) divided by paid-in capital for an investment.
REPORTED MARKET VALUE: The investment’s capital account balance at quarter end, which includes the general partner’s reported value of the underlying holdings and other assets and liabilities.

SECONDARY FUND-OF-FUNDS: A private equity vehicle formed to purchase active partnership interests from an investor.

SECONDARY PURCHASE: A purchase of an existing partnership interest or pool of partnership interests from an investor.

SPECIAL SITUATION: Partnerships that make investments using a unique strategy. Examples include distressed and turnaround, industry focused and multi-stage partnerships.

TOP TIER FUND: A fund managed by a general partner that has a demonstrated track record of superior performance measured against its peers by its given strategy or a fund managed by a general partner that, based on Hamilton Lane’s extensive expertise, has the requisite skill set and market opportunity to prospectively produce superior performance compared to its peers by a given strategy.

TOTAL EXPOSURE: Calculated by the summation of market value and unfunded commitments.

VENTURE CAPITAL: An investment strategy that provides start-up or growth capital to companies in the early stages of development. Venture investments generally involve a greater degree of risk, but have the potential for higher returns.

VINTAGE YEAR: The year in which a partnership makes its first capital call for an investment into a portfolio company/holding.
# LACERS – Alternative Investment Policy – Discretion in a Box (Rev. 7-7-09)

<table>
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<th>Role of Board</th>
<th>Role of Staff</th>
<th>Role of Hamilton Lane</th>
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| **Strategy/Policy** | • Select alternative investments consultant.  
• Approve asset class funding level.  
• Annually review, provide input, and adopt investment policies, procedures, guidelines, allocation targets, ranges, and other assumptions. | • With Hamilton Lane and PCA, develop policies, procedures, guidelines, allocation targets, ranges, assumptions for recommendation to the Board. | • With staff and PCA, develop policies, procedures, guidelines, allocation targets, ranges, assumptions for recommendation to the Board. |
| **Investment Selection** | • Review investment analysis reports.  
• Interview and approve investments in new management groups of amounts greater than $25 million prior to investment.  
• Interview and approve investments in follow-on partnerships of amounts greater than $40 million prior to investment. | • Refer investments to Hamilton Lane for preliminary screening.  
• Conduct meetings with potential new investments prior to recommending to the Board, if practical.  
• In conjunction with Hamilton Lane, invest up to $25 million for new partnerships, and up to $40 million for follow-on funds without Board approval. If staff opposes, refer to Board for decision.  
• In conjunction with Hamilton Lane, make recommendations to Board for approval for investments over $25 million in new partnerships, or over $40 million in follow-on funds.  
• Execute agreements. | • Conduct extensive analysis and due diligence on investments.  
• Recommend for Board approval investments over $25 million for new managers, or over $40 million in follow-on funds.  
• With staff concurrence, approve investment of up to $25 million for new partnerships, and up to $40 million in follow-on funds.  
• Provide investment analysis report for each new investment.  
• Communicate with staff regarding potential opportunities undergoing extensive analysis and due diligence.  
• Coordinate meetings between staff, Board, and general partner upon request.  
• Negotiate legal documents. |
| **Investment Monitoring** | • Review quarterly, annual, and other periodic monitoring reports. | • Review quarterly, annual and other periodic monitoring reports prepared by Hamilton Lane.  
• Conduct meetings with existing Hamilton Lane.  
• Attend annual partnership meetings when appropriate.  
• Fund capital calls and distributions.  
• Review Hamilton Lane’s recommendations on amendments.  
• Execute amendments to agreements. | • Maintain regular contact with existing managers in the portfolio to ascertain significant events within the portfolio.  
• Recommend amendments to staff for approval.  
• Provide quarterly, annual, and other periodic monitoring reports. |
This policy supersedes any previously adopted policy and is effective immediately upon adoption.

Purpose

The purpose of this policy is to maximize transparency and avoid actual or perceived conflicts of interest when LACERS considers investment proposals in order to ensure that system investment decisions are made solely on the merits of the investment opportunity by individuals that owe a fiduciary duty to the system. This policy requires firms submitting proposals for consideration by LACERS to disclose the identity of all Placement Agents and/or individuals by whom the firm was referred to LACERS, and further indicate those so identified that stand to receive fees or other considerations in the event that a contract between the firm and LACERS is secured. This Policy is intended to apply broadly to all investment partners with whom LACERS does business, including, but not limited to, private equity funds, real estate funds, and infrastructure funds, as well as investment managers retained pursuant to a contract. The Board has determined, in good faith, that the adoption of this Policy is consistent with its fiduciary responsibilities as described in Section 17 of Article XVI of the California Constitution.

I. Disclosure of Payments Made to Placement Agents

Each External Manager shall provide to LACERS the required information listed below within 45 days of the time investment discussions are initiated by the External Manager or LACERS but in any event prior to the completion of due diligence. Any changes to the information provided to LACERS must be disclosed within 14 calendar days of the occurrence of the change in information. In the case of amendments to an existing agreement, this information is required prior to execution of the amendment.

A. A statement whether the External Manager, or any of its principals, employees, agents or affiliates has compensated or agreed to compensate, directly or indirectly, any person or entity to act as a Placement Agent in connection with any investment by LACERS.

B. A resume for each Placement Agent detailing the person’s education, professional designations, regulatory licenses, and investment and work experience. If any such person is a former LACERS Board member, employee or Consultant or the member of an immediate family of any such person, this fact shall be specifically noted. When an entity is retained as a Placement Agent, any officer, director or employee actively providing placement agent services with regard to LACERS or receiving more than 15% of the placement agent fees should provide information required by this subsection.
C. A description of any and all compensation of any kind provided, or agreed to be provided, to the Placement Agent, including the nature, timing and value thereof.

D. A description of the services to be performed by the Placement Agent and a statement as to whether the Placement Agent is utilized by the External Manager with all prospective clients or only a subset of prospective clients.

E. A statement whether the Placement Agent, or any of its affiliates, are registered with the Securities and Exchange Commission or the Financial Industry Regulatory Authority, or any similar regulatory agency in a country other than the United States, and the details of that registration or an explanation as to why no registration is required.

F. A statement whether the Placement Agent, or any of its affiliates, is registered as a lobbyist with the City of Los Angeles, State of California or national government.

II. Disclosure of Campaign Contributions by Placement Agent to the Board

A. Any Placement Agent, prior to acting as a Placement Agent in connection with any potential LACERS investment, shall disclose to the Board all campaign contributions made by the Placement Agent to any elected member of the Board during the prior 24-month period. Additionally, any subsequent campaign contribution made by the Placement Agent to an elected member of the Board during the time the Placement Agent is receiving compensation in connection with a system investment shall also be disclosed.

B. Any Placement Agent, prior to acting as Placement Agent in connection with any potential LACERS investment, shall disclose to the Board all gifts, as defined in Government Code Section 82028, given by the Placement Agent to any member of the Board during the prior 24-month period. Additionally, any subsequent gift given by the Placement Agent to any member of the Board during the time the Placement Agent is receiving compensation in connection with a system investment shall also be disclosed.

III. Definitions

A. Consultant refers to individuals or firms, and includes key personnel of consultant firms who are contractually retained or have been appointed to a pool by the system to provide investment advice to the system but who do not exercise investment decisions.

B. External Manager means either of the following:
   1. A person who is seeking to be, or is retained by LACERS to manage a portfolio of securities or other assets for compensation.
   2. A person who is engaged, or proposes to be engaged, in the business of investing, reinvesting, owning, holding, or trading securities or other assets and who offers or sells, or has offered or sold, securities to LACERS.
C. **Person** means an individual, corporation, partnership, limited partnership, limited liability company, or association, either domestic or foreign.

D. **Placement Agent**
   1. A person hired, engaged, or retained by, or serving for the benefit of or on behalf of, an External Manager, or on behalf of another Placement Agent, who acts or has acted for compensation as a finder, solicitor, marketer, consultant, broker, or other intermediary in connection with the offer or sale of the securities, assets, or services of an External Manager to LACERS or an Investment Vehicle, either directly or indirectly.
   2. Notwithstanding paragraph (1), an individual who is an employee, officer, director, equity holder, partner, member, or trustee of an External Manager and who spends one-third or more of his or her time, during a calendar year, managing the securities or assets owned, controlled, invested, or held by the External Manager is not a Placement Agent.
   3. For the purpose of this section, an “Investment Vehicle” means a corporation, partnership, limited partnership, limited liability company, association, or other entity, either domestic or foreign, constituting or managed by an External Manager in which LACERS is the majority investor that is organized in order to invest with, or retain the investment management services of, other External Managers.

IV. **Requirement of Placement Agent to File Reports and Comply with Requirements Imposed on Lobbyist**
   A. A person acting as a Placement Agent in connection with any potential system investment made by LACERS, shall file applicable reports and comply with any applicable requirements imposed on lobbyist under the Los Angeles Municipal Code Section 48.01 et seq.
   B. This section does not apply to an individual who is an employee, officer, director, equity holder, partner, member or trustee of an External Manager who spends one-third or more of his or her time, during a calendar year, managing the securities or assets owned, controlled, invested or held by the External Manager.

V. **Policy History**
   A. Adopted on June 8, 2010
   B. Revised on December 14, 2010
MARKETING CESSATION POLICY

The purpose of this policy is to prevent, and avoid the appearance of, undue influence on the Board or any of its members in the award of investment related and other service contracts.

Notification of this policy will be sent to all firms considered by LACERS’s Staff or Consultant to be potential interview candidates for the award of contracts. From the time the potential candidates are notified until the search ends and a contract is awarded, all direct marketing contact by firms that are potential candidates for the award of the contract will be limited to communications and meetings as set forth in the solicitation, and to meetings at the request of the Consultant, information (other than enhancements to proposals or bids) sent to the Consultant or LACERS, written questions about the search directed to the Staff or Consultant, and one meeting with each potential firm as determined by Staff at LACERS’s office. In addition to all other applicable gift restrictions, Board members and Staff will accept no entertainment or gifts of any kind from any firm that is a potential candidate for award of the contract. This policy does not prohibit contact with potential candidates for award of a contract at group social events, educational seminars, conferences, or charitable events so long as there is no direct marketing, and there are no discussions about the contract or the process to award it.

Firms who currently have contracts with LACERS and who are potential candidates for the award of a contract or the renewal of the existing contract will be allowed to continue contact related to the performance of the existing contract with Staff, but they shall not have any discussions or communications with them or with Board members regarding the proposed contract or the process to award it, or regarding the renewal of the existing contract, other than as permitted by this policy, and they shall not provide any type of gift or entertainment to Board members or Staff during the specified period of time or during the three months prior to the renewal of the existing contract, whichever is longer.

Firms that are invited to interview with the Board will be required to submit a statement listing all contacts with Board members, Staff and Consultants during the search period.

Any violation of this policy shall result in automatic disqualification of the firm involved.

This policy shall be periodically reviewed by the Board and may be amended at any time.
SPECIALIZED, NON-TRADITIONAL ALTERNATIVE INVESTMENT POLICY

REVISED JULY 14, 2009

COMMITTEE APPROVED: JUNE 23, 2009
BOARD APPROVED: JULY 14, 2009
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Attachment 1  Designated Responsibilities and Tasks
Attachment 2  Marketing Cessation Policy
Attachment 3  Third Party Marketing and Referrals Disclosure Policy
I. Introduction

This document sets forth the investment policy (“the Policy”) for the Los Angeles City Employees’ Retirement System’s (“LACERS” or “the System”) Specialized Alternative, Non-Traditional Investment Program, (“the Program”). This Policy is designed to ensure that managers, consultants, or other Program participants selected by LACERS are prudently selected and monitored to ensure the highest probability of the Program’s success. This Policy provides assurance that there is sufficient flexibility in controlling the investment risks and returns associated with this segment of the portfolio.

The Program is designed to identify and to participate in alternative investment opportunities that are outside of its traditional private equity program.

II. Strategic Objective

The strategic objective of the Specialized Alternative Investment Program is to broaden the opportunity set of the System’s investment portfolio to include opportunities not available in traditional private equity investments. Specialized alternative investments are expected to achieve attractive risk-adjusted returns that complement LACERS’ traditional private equity program. Specialized alternatives may include, but are not limited to: emerging managers (i.e., smaller partnerships or experienced investment teams having worked together as a team i.e. lift out or a spin out of a larger investment firm raising their first institutional fund), funds focused on underserved markets (primarily defined by demographics: minority populations or lower income markets or geography: urban/inner city or rural), demographically targeted partnerships, geographically targeted investments, etc. These types of strategies are not represented in the traditional private equity portfolio. These types of opportunities may also exhibit a higher level of complexity or be a concept that is novel to the institutional marketplace.

Specialized alternative investments shall be considered solely in the interest of the System’s participants and their beneficiaries in accordance with applicable law, and shall be selected to accomplish the following:

A. Enhance the System’s long-term risk-adjusted return.
B. Hedge against long-term liabilities.
C. Provide added diversification to the System’s overall investment program.

III. Investment Objectives

A. Return

The long-term (5-10 years) expected performance objective of the Program shall be 500 bps over the Russell 3000 Index net of fees, expenses, and carried interest. Use of the Russell 3000 Index reflects the
opportunity cost of investing in alternative investments versus publicly traded common stocks. The Program is expected to outperform the traditional alternative investment portfolio by 100 bps over the long term (5-10 years).

B. Risks
Private equity investments, by definition, possess a higher degree of risk with a higher return potential than publicly traded investments. Accordingly, total rates of return from private equity investments are expected to be greater than those that might be obtained from conventional public equity or debt investments. The Board believes that there may be opportunities to achieve greater risk-adjusted returns through the investment in “specialized” alternative investment opportunities.

IV. Scope
Within the private equity asset classification the Specialized Alternative, Non-Traditional Investment (“carve-out”) Program, has targeted 10% of the overall private equity allocation.

Pension Consulting Alliance, Inc. (“PCA”) was engaged by LACERS in June 2005 as a non-discretionary advisor to source and review opportunities, perform due diligence and recommend new investments, to monitor existing investments, and to provide advice in accordance with the investment objectives for the carve-out portfolio. This policy establishes the framework for the continued development of the carve-out portfolio.

- PCA will be evaluated annually as a consultant and investment advisor for LACERS carve-out program based upon the following: portfolio performance; quality of analytical, technical work and recommendations, and expertise within their arena; responsiveness to requests from the Board and staff; availability to attend Board meetings and meetings with staff with reasonable advance notice; evaluating and making recommendations to LACERS including white papers on selected topics; identifying and mitigating risks, proactively informing staff of new ideas of risks in the marketplace.

V. Responsibilities and Delegations
A. The Board’s Investment Committee (“Committee”) shall recommend the approval and amendment of Investment Policy, Strategic Plan, Investment Plan, and investment opportunities to LACERS Board. In addition, the Board shall oversee program performance.

B. Staff shall manage day-to-day operations.
VI. Investment Approaches and Parameters

A. General Approach
Under the Program, LACERS shall consider specialized, non-traditional investments utilizing a specialized management strategy that shall be disciplined and opportunistic. Opportunities shall be sought with specific criteria appropriate to partnership investments. Strategic assessments shall identify portfolio weightings and identify the most attractive segments of the market for opportunistic investing. Based on these assessments, LACERS and PCA shall proactively seek out attractive investment opportunities, while maintaining appropriate diversification.

B. Program Strategy
The Program Strategy shall be revised periodically as appropriate.

The Strategy shall contain the following elements:
1. Program goals and objectives;
2. Structure of the program;
3. Strategic approach to the asset class.

The Committee and Board shall review the program annually via the Investment Plan prepared by Staff and PCA. The Investment Plan shall be based upon broad economic structural analysis, market conditions, and a review of the existing portfolio. The Strategic Plan, which is a long-term view, shall detail tactical priorities, strategy enhancements, and other objectives.

Partnerships shall be continually reviewed in the following areas:
1. Fit with the Investment Plan;
2. Pace and timing of investment commitments, funding and return of capital;
3. Diversity of sectors (industry, geographical, investment style, and others as appropriate);
4. Targeted performance according to stated objectives specific to the investment;
5. Key personnel turnover.

C. Quality Control Processes
The Program shall employ a quality control process, which includes both the Staff and PCA to monitor Program activity, track investment performance, and control risk.

1. **Process Monitoring** - Staff and PCA shall monitor transaction processing to insure timely decision making and an effective process.
2. **Monitoring Portfolio Performance** - Actual returns will be compared to the benchmark(s) as appropriate, and to the expected return for the investment.
3. **Risk Control** - Documented due diligence activities.

D. **Specific Risk Parameters**
The Program will be exposed to specific risk parameters that are associated with investing in alternative investments, including, but not limited to:

1. **Financial Risk**: Alternative investments often employ a greater use of leverage (borrowing), which may lead to a greater volatility in returns.
2. **Operating and Business Risk**: Certain alternative investments entail above average operating and business risk.
3. **Liquidity Risk**: Alternative investments lack liquidity and typically have time horizons of 5-to-10 years. Secondary markets for such investments are very limited; and, often, there is no current income.
4. **Country Risk**: Political, economic, and currency risks associated with investing outside of the U.S.
5. **Structural Risk**: Specific fundamental rights and protections are negotiated, which include mechanisms for taking remedial action. These basic protections may include advisory committee participation and specific termination provisions in partnership transactions.
6. **Valuation Risk**: Partnerships shall be evaluated to determine if the general partner employs an appropriate valuation discipline.
7. **Strategy Risk**: Proposed investment strategies are expected to include newer, niche strategies that may be less proven than more traditional approaches.
8. **Organizational Risk**: Firms included in the portfolio may be representing newer firms with less history of working together, increasing risks of personnel turnover or other organizational instability.

E. **Guidelines for Evaluating Proposals**
Proposed partnership opportunities shall be evaluated relative to their fit with the Program's Investment Policy and Investment Plan. Guidelines for initial partnership evaluation are listed below:
1. **Organization**: Firms considered for this Program may include recently formed organizations that are raising their first institutional investment vehicle. Alignment of interests (including ownership, compensation, general partner commitment, etc.) will be important factors in the proposed investment opportunities. A preliminary review of these key factors should be considered in the initial evaluation.

2. **Investment Experience**: The general partners are expected to have significant investment experience and expertise relevant to their investment strategy. However, greater emphasis should be placed on the experience of the team rather than the firm as a whole as many opportunities may be teams splitting from more established firms (“emerging managers”) raising their first institutional fund. This also pertains to analyzing track records. The track records of the team members may need to be examined on each member’s own merit rather than requiring a track record representative of the entire firm. The team should demonstrate that they are specifically qualified to pursue the proposed strategy in the market in which they propose to work.

3. **Staffing**: The organization must have sufficient investment professionals and support staff to implement the proposed strategy. The principals shall dedicate the majority of their time and effort to the proposed opportunity and make, within the context of the particular investment, a meaningful personal financial commitment. The amount of targeted capital commitments, average investment size and anticipated number of transactions should be reviewed to assess the appropriate staffing level.

4. **Investment Strategy**: The proposed strategy and business plan shall be set forth in sufficient detail to permit substantive and meaningful review of the opportunity, verification of the investment concept, and of the risk factors. The proposed strategy and business plan shall provide reasonable assurance that the investment opportunity can produce the required return. The investment strategy of potential investment opportunities are expected be differentiated primarily in two ways: i) a traditional investment strategy with a specialized focus or ii) a “cutting edge” investment strategy that is relatively new to the institutional marketplace; but the risk/reward trade-off in the particular investment strategy and/or market should be attractive and based on reasonable assumptions and not competitive with existing investments.

5. **Focus**: Potential investments may include a very specific investment focus that differentiates the opportunity from more traditional opportunities. These opportunities may be focused on investing in “underserved markets”, emphasize investments that impact a particular demographic or possibly specify a designated
geographic region for investment. These are only examples and the specific focus on any particular opportunity may be out of the above-mentioned areas of focus.

6. **Fund size:** The majority of potential opportunities are expected to be targeting commitments at the smaller end of the spectrum (i.e. less than $500 million). The target commitment for these funds can vary greatly, but given LACERS program size and the desire to minimize LACERS proportional ownership in a specific partnership, a potential candidate should raise at least $100 million, excluding LACERS commitment. LACERS commitment shall not represent more than 10% of the overall fund size.

7. **Type of Investments:** Opportunities to be reviewed for the Program are expected to span private equity segments, including: buyout/corporate restructuring, expansion capital, venture capital, energy/natural resources, distressed securities, international, and special situations.

8. **Terms:** At a minimum, partnership terms are expected to be “in-line” with industry norms. However, it is anticipated that LACERS (through PCA) should be able to negotiate various terms, particularly governance terms, to be “limited partner friendly” in order to compensate LACERS for the unique risks associated with investing in these types of opportunities.

9. Additional factors may include, as appropriate:
   a. Fit with the Program Strategy, Investment Policy and Investment Plan, and within the overall Program;
   b. A unique strategy that is not competitive with existing investments;
   c. Integrity of the general partner, its employees, and other investors;
   d. Quality of overall partnership governance, management of the partnership, including controls and reporting systems;
   e. Specific objectives;
   f. Relationship with the relevant parts of the investment community;
   g. Relationship with limited partners;
   h. Nature of value added involvement;
   i. Past financial performance of the individual investment professionals;
   j. Reasonable ratio of portfolio companies per partner;
   k. Reasonable ratio of committed capital per partner;
   l. Appropriateness of terms and conditions and alignment of interests with limited partners;
   m. Capital at risk;
   n. Fund size sufficient to cover management expenses;
   o. Principals dedicate the majority of their time to the partnership.
10. Extensive due diligence will be completed by Staff and PCA and shall include but not be limited to the following:
   a. Discussions with principals of the proposed investment;
   b. Review and analysis of all pertinent offering documents including: offering memorandums, subscription agreements, and private placement memorandums;
   c. Consideration of potential conflicts of interest, if any, posed by the proposed investment and prior investments and activities of the principals;
   d. Review and analysis of the investment concept, including entry and exit strategies and terms including fees, principal participation, and structure;
   e. Review and analysis of the fit within the Program, including fit with the Investment Plan, other constraints and guidelines, and compliance with applicable investment policies;
   f. Review of news articles, principals, prior investments, and concepts;
   g. Reference checks of principals;
   h. Review and analysis of track record including performance of prior and current investments;
   i. Consideration of relative size of the proposed investment;
   j. Investigation of special terms and side letter agreements with past or present investors;
   k. Review of any lawsuits, litigation involving the general partner, its principals, employees and prior funds;
   l. Due diligence visit to the Partner's offices;
   m. Adherence to LACERS Marketing Cessation Policy (see Attachment 2) and LACERS Disclosure Policy (see Attachment 3);
   n. Direct general partners to address workforce composition either through completion of the Workforce Composition form or through a letter addressing their internal policy.

11. Legal Constraints
   Legal provisions to be considered include, but are not limited to:
   a. Unrelated Business Taxable Income (UBTI): Partnerships are structured to minimize UBTI;
   b. Registered Investment Advisor (RIA): Investment advisors retained by the Board are so registered or comparable procedure is established;
   c. Regulatory (i.e. FCC, SEC, FTC);
   d. Bankruptcy or other material litigation;
   e. Appropriate alignment of interests.

F. Types of Investments
   Partnerships with expected risk/return superior to traditional private equity investment opportunities or that enhance portfolio diversification, and are
not otherwise prohibited by the System will be considered for the Program. Partnerships shall generally fall within the categories defined below but will have specialized features that differentiate the opportunity. Such specialized features may include being an “emerging manager” or targeting “underserved markets” (specific demographics, or geographic region), for example. When all else is considered equal regarding performance, strategy, personnel, philosophy and other critical criteria, between top tier investment managers, preference may be given to Los Angeles based managers.

1. **Buyout and Corporate Restructuring Capital**: Investments in leveraged buyouts, management buyouts, equity buyouts, employee buyouts, buy-and-build, other acquisition strategies and restructurings, and related uses of capital.

2. **Expansion Capital**: Investments in established companies for the purpose of growing their businesses.

3. **Venture Capital**: Investments in relatively small, rapidly growing, private companies in various stages of development.

4. **Energy and Natural Resources**: Investments in the exploration, extraction, accumulation, generation, movement or sale of energy (e.g., oil, gas, coal, electricity), and other natural resources and related service companies.

5. **Distressed Securities**: Debt or equity securities investments in troubled companies, under the assumption that the securities will appreciate in value following a restructuring of the company’s obligations. This includes, but is not limited to, investments in companies that are insolvent or unable to pay their debts as they come due. This may include companies subject to the Bankruptcy Reform Act, specifically Chapter 7 (Liquidation) and Chapter 11 (Reorganization), and companies under-going restructurings outside of Bankruptcy Court.

6. **Turnarounds**: Investments in companies experiencing financial or operating difficulties. These companies may or may not be insolvent.

7. **International**: Investments that are located in foreign countries or have significant portions of their operations outside of the United States. International investments shall also be considered with respect to their specific type (e.g., corporate restructuring, venture capital, and so forth).

8. **Special Situations**: This includes all other types of investments, e.g., mezzanine strategies, active minority positions, hedge funds, secondary investments, governance strategies, industry specific strategies, and unconventional investments.

### G. Reporting and Monitoring

**Reporting**

1. Reports received from investment managers
- Staff shall require periodic reports (i.e. quarterly) from investment partners to facilitate monitoring.

2. Monitoring Investments
- Staff and PCA shall monitor individual partnerships and the portfolio as a whole. Monitoring includes diversification across alternative investment types to assure an appropriate mix reducing risk in the Program’s investments. Given the focused nature of the Program, specific areas may be emphasized over the short-term with the long-term goal of developing a diversified program.

The following types of diversification should be monitored, including, but not limited to:

a. Economic Sector Diversification- Alternative investments should be diversified among sector groups;

b. Form of Investment - Alternative investments should be diversified throughout various forms and categories of investment (e.g., LBO's, venture capital, distressed, mezzanine etc.);

c. Payback Diversification - Alternative investments can take significant time to pay back capital. LACERS should attempt to invest in partnerships across a spectrum of payback scenarios;

d. Geographic Diversification- LACERS should consider geographical diversification in investment selection; and

e. Time Diversification - LACERS should endeavor to invest in a consistent manner when appropriate risk adjusted return opportunities are available.

3. Performance
The System shall assess the performance of partnerships relative to the following areas:

a. Objectives established by the partnership;

b. Risk undertaken;

c. The long-term performance objective, with appropriate interpretation if applied to the short-term;

d. Vintage year peer comparisons.

4. Board Reports
Quarterly and annual reports shall be provided to the Committee and/or Board. These reports include, but shall not be limited to, reviews of investments and their performance, and a semi-annual partnership commentary.
DESIGNATED RESPONSIBILITIES AND TASKS

RESPONSIBILITIES OF LACERS’ BOARD
Selection of a Consultant
- Monitor the performance of the consultant
Policy and Strategy Development
- Approve:
  - Investment Policy
  - Strategic Plan
Due Diligence
- Review due diligence report prepared by Consultant, reviewed by staff, and Investment Committee recommendation
- Approve or reject proposed investment opportunity
Performance Monitoring
- Receive and review performance reports from Consultant

RESPONSIBILITIES OF LACERS’ INVESTMENT COMMITTEE
Policy and Strategy Development
- Review/recommend approval and amendment of:
  - Investment Policy
  - Strategic Plan
Due Diligence
- Review due diligence report prepared by Consultant with staff concurrence or if non-concurrence, noted
- Interview management teams of proposed investments
- Recommend to Board the individual investments
Performance Monitoring
- Receive and review performance reports from Consultant

Investment Referrals
Identify and refer partnerships to staff and/or Consultant for review.

RESPONSIBILITIES OF LACERS’ STAFF
Recommendations to the Committee
- Develop recommendations regarding Investment Policies, Strategies, Guidelines
Investment Opportunity Sourcing
- Receipt of partnership referrals from Board members, Consultant, for further review
- Perform initial gatekeeper functions by meeting with groups, reviewing the investment documentation including the Private Placement Memorandums and Offerings documents
- Conduct joint due diligence meetings with consultant on prospective partnerships
- May perform preliminary due diligence prior to referring to consultant for further review, detailed analysis, and due diligence
Due Diligence
- Forward contact information and materials to Consultant for opportunities meeting the initial evaluation criteria
• Initiates Desk Review to be performed by Consultant/Staff
  o Review consultant Desk Review
    ▪ Determine if continued due diligence is warranted
• Full Due Diligence Review conducted by Consultant and staff
  o Initiates outside legal review
  o Communicate status of legal review to Consultant
  o Legal counsel completes legal review and opines as to its acceptability; include recommendation to LACERS
• Review consultant due diligence reviews, analysis, and recommendations for qualitative and quantitative reasonableness;
  o Recommend to the Committee if appropriate;

Investment Administration
• Board approved partnerships are executed by staff
  o Reviews and approves contracts, modifications, and other documentation;
  o Manages day to day LACERS operations including setting up communications, setting up the appropriate custodial accounts, data requirements and standard wire instructions
  o Makes capital calls
  o Receives and processes distributions
  o Reviews and processes a variety of reports from managers

Performance Monitoring
• From Partnerships
  o Receives and reviews quarterly reports
• From Consultant
  o Receives and review reports
    ▪ Quarterly: one-page status report per manager
    ▪ Semi-Annual: full performance report
    ▪ Annual: market overview, Investment Policy and Investment Plan
    ▪ Ad hoc review of consultant data base as needed

RESPONSIBILITIES OF THE CONSULTANT

Deal Flow Management
• Sourcing
  o Receive and review opportunities forwarded from LACERS
  o Document referral of investment opportunities
  o Meet and interview potential investment management teams
  o Evaluate opportunities presented outside of the LACERS relationship for appropriateness of the Program
  o Maintain a database of opportunities considered for the Program
• Desk Review, initiated by LACERS:
  o Provide Marketing Cessation Policy
  o Review due diligence questionnaire, offering memorandum, limited partnership agreement, marketing materials, etc.
  o Analyze:
    ▪ Market opportunity
    ▪ Investment strategy
    ▪ General Partner background and experience
    ▪ Track record
- Terms
  - Alignment of interest
    o Upon completion, review findings with LACERS and recommend review or rejection
- Full Due Diligence Review:
  o Conduct reference checks
  o Conduct onsite visit as appropriate
  o Extensively review economic and business terms of legal documents
  o Disclosure of involvement of any placement agent compensation/or other consideration
  o Communicate status of Full Due Diligence Review to LACERS
  o Upon completion, prepare and issue report to LACERS with recommendation for investment or rejection; include appropriate supporting documentation with the report
  o Arrange meeting to review materials and recommendation
- Terms Negotiation:
  o Negotiate specific partnerships terms, if appropriate

Performance Monitoring
- Consultant
  o Receives copies of all notices of capital calls and cash distributions
  o Receives copies of all financial reports and other communications
  o Calculates performance and reconciles same with the manager and master custodian, as needed
  o Prepares periodic reports
    - Quarterly: one-page status report listing:
      - Partnership
      - Commitment
      - Contributions
      - Distributions
      - Fair Market Value
      - IRR
    - Semi-Annual: full performance report
      - Containing brief market overview
      - Performance by manager, vintage year and segment
      - Review portfolio exposures/diversification
      - Provide manager specific data/updates
    - Annual: market overview, Investment Policy and Investment Plan review
      o Interface quarterly with Traditional Alternative Investment Consultant to integrate status of the Program into the traditional portfolio
MARKETING CESSATION POLICY

The purpose of this policy is to prevent, and avoid the appearance of, undue influence on the Board or any of its members in the award of investment related and other service contracts.

Notification of this policy will be sent to all firms considered by LACERS’s Staff or Consultant to be potential interview candidates for the award of contracts. From the time the potential candidates are notified until the search ends and a contract is awarded, all direct marketing contact by firms that are potential candidates for the award of the contract will be limited to communications and meetings as set forth in the solicitation, and to meetings at the request of the Consultant, information (other than enhancements to proposals or bids) sent to the Consultant or LACERS, written questions about the search directed to the Staff or Consultant, and one meeting with each potential firm as determined by Staff at LACERS’s office. In addition to all other applicable gift restrictions, Board members and Staff will accept no entertainment or gifts of any kind from any firm that is a potential candidate for award of the contract. This policy does not prohibit contact with potential candidates for award of a contract at group social events, educational seminars, conferences, or charitable events so long as there is no direct marketing, and there are no discussions about the contract or the process to award it.

Firms who currently have contracts with LACERS and who are potential candidates for the award of a contract or the renewal of the existing contract will be allowed to continue contact related to the performance of the existing contract with Staff, but they shall not have any discussions or communications with them or with Board members regarding the proposed contract or the process to award it, or regarding the renewal of the existing contact, other than as permitted by this policy, and they shall not provide any type of gift or entertainment to Board members or Staff during the specified period of time or during the three months prior to the renewal of the existing contract, whichever is longer.

Firms that are invited to interview with the Board will be required to submit a statement listing all contacts with Board members, Staff and Consultants during the search period.

Any violation of this policy shall result in automatic disqualification of the firm involved.

This policy shall be periodically reviewed by the Board and may be amended at any time.
This policy supersedes any previously adopted policy and is effective immediately upon adoption.

Purpose

The purpose of this policy is to maximize transparency and avoid actual or perceived conflicts of interest when LACERS considers investment proposals in order to ensure that system investment decisions are made solely on the merits of the investment opportunity by individuals that owe a fiduciary duty to the system. This policy requires firms submitting proposals for consideration by LACERS to disclose the identity of all Placement Agents and/or individuals by whom the firm was referred to LACERS, and further indicate those so identified that stand to receive fees or other considerations in the event that a contract between the firm and LACERS is secured. This Policy is intended to apply broadly to all investment partners with whom LACERS does business, including, but not limited to, private equity funds, real estate funds, and infrastructure funds, as well as investment managers retained pursuant to a contract. The Board has determined, in good faith, that the adoption of this Policy is consistent with its fiduciary responsibilities as described in Section 17 of Article XVI of the California Constitution.

I. Disclosure of Payments Made to Placement Agents

Each External Manager shall provide to LACERS the required information listed below within 45 days of the time investment discussions are initiated by the External Manager or LACERS but in any event prior to the completion of due diligence. Any changes to the information provided to LACERS must be disclosed within 14 calendar days of the occurrence of the change in information. In the case of amendments to an existing agreement, this information is required prior to execution of the amendment.

A. A statement whether the External Manager, or any of its principals, employees, agents or affiliates has compensated or agreed to compensate, directly or indirectly, any person or entity to act as a Placement Agent in connection with any investment by LACERS.

B. A resume for each Placement Agent detailing the person’s education, professional designations, regulatory licenses, and investment and work experience. If any such person is a former LACERS Board member, employee or Consultant or the member of an immediate family of any such person, this fact shall be specifically noted. When an entity is retained as a Placement Agent, any officer, director or employee actively providing placement agent services with regard to LACERS or receiving more than 15% of the placement agent fees should provide information required by this subsection.
C. A description of any and all compensation of any kind provided, or agreed to be provided, to the Placement Agent, including the nature, timing and value thereof.

D. A description of the services to be performed by the Placement Agent and a statement as to whether the Placement Agent is utilized by the External Manager with all prospective clients or only a subset of prospective clients.

E. A statement whether the Placement Agent, or any of its affiliates, are registered with the Securities and Exchange Commission or the Financial Industry Regulatory Authority, or any similar regulatory agency in a country other than the United States, and the details of that registration or an explanation as to why no registration is required.

F. A statement whether the Placement Agent, or any of its affiliates, is registered as a lobbyist with the City of Los Angeles, State of California or national government.

II. Disclosure of Campaign Contributions by Placement Agent to the Board

A. Any Placement Agent, prior to acting as a Placement Agent in connection with any potential LACERS investment, shall disclose to the Board all campaign contributions made by the Placement Agent to any elected member of the Board during the prior 24-month period. Additionally, any subsequent campaign contribution made by the Placement Agent to an elected member of the Board during the time the Placement Agent is receiving compensation in connection with a system investment shall also be disclosed.

B. Any Placement Agent, prior to acting as Placement Agent in connection with any potential LACERS investment, shall disclose to the Board all gifts, as defined in Government Code Section 82028, given by the Placement Agent to any member of the Board during the prior 24-month period. Additionally, any subsequent gift given by the Placement Agent to any member of the Board during the time the Placement Agent is receiving compensation in connection with a system investment shall also be disclosed.

III. Definitions

A. Consultant refers to individuals or firms, and includes key personnel of consultant firms who are contractually retained or have been appointed to a pool by the system to provide investment advice to the system but who do not exercise investment decisions.

B. External Manager means either of the following:
   1. A person who is seeking to be, or is retained by LACERS to manage a portfolio of securities or other assets for compensation.
   2. A person who is engaged, or proposes to be engaged, in the business of investing, reinvesting, owning, holding, or trading securities or other assets and who offers or sells, or has offered or sold, securities to LACERS.
C. **Person** means an individual, corporation, partnership, limited partnership, limited liability company, or association, either domestic or foreign.

D. **Placement Agent**
   1. A person hired, engaged, or retained by, or serving for the benefit of or on behalf of, an External Manager, or on behalf of another Placement Agent, who acts or has acted for compensation as a finder, solicitor, marketer, consultant, broker, or other intermediary in connection with the offer or sale of the securities, assets, or services of an External Manager to LACERS or an Investment Vehicle, either directly or indirectly.
   2. Notwithstanding paragraph (1), an individual who is an employee, officer, director, equity holder, partner, member, or trustee of an External Manager and who spends one-third or more of his or her time, during a calendar year, managing the securities or assets owned, controlled, invested, or held by the External Manager is not a Placement Agent.
   3. For the purpose of this section, an “Investment Vehicle” means a corporation, partnership, limited partnership, limited liability company, association, or other entity, either domestic or foreign, constituting or managed by an External Manager in which LACERS is the majority investor that is organized in order to invest with, or retain the investment management services of, other External Managers.

IV. **Requirement of Placement Agent to File Reports and Comply with Requirements Imposed on Lobbyist**

   A. A person acting as a Placement Agent in connection with any potential system investment made by LACERS, shall file applicable reports and comply with any applicable requirements imposed on lobbyist under the Los Angeles Municipal Code Section 48.01 et seq.
   B. This section does not apply to an individual who is an employee, officer, director, equity holder, partner, member or trustee of an External Manager who spends one-third or more of his or her time, during a calendar year, managing the securities or assets owned, controlled, invested or held by the External Manager.

V. **Policy History**
   A. Adopted on June 8, 2010
   B. Revised on December 14, 2010
REAL ESTATE INVESTMENT POLICY

REVISED MARCH 31, 2010

COMMITTEE APPROVED: MARCH 31, 2010
BOARD APPROVED: APRIL 27, 2010
# Los Angeles City Employees’ Retirement System Real Estate Investment Policy

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Appendix A  Glossary of Terms
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.

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.

<table>
<thead>
<tr>
<th>LACERS’ Real Estate Portfolio Risk/Return Diversification Guidelines</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk/Return Strategy</td>
</tr>
<tr>
<td>Core</td>
</tr>
<tr>
<td>Value</td>
</tr>
<tr>
<td>Opportunistic</td>
</tr>
</tbody>
</table>

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.

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.
Los Angeles City Employees' Retirement System
Real Estate Investment Policy

LACERS' Real Estate Portfolio
Property Diversification Guidelines

<table>
<thead>
<tr>
<th>Property Types</th>
<th>Policy Ranges</th>
</tr>
</thead>
<tbody>
<tr>
<td>Residential</td>
<td>Up to 40%</td>
</tr>
<tr>
<td>Industrial</td>
<td>Up to 35%</td>
</tr>
<tr>
<td>Office</td>
<td>Up to 40%</td>
</tr>
<tr>
<td>Retail</td>
<td>Up to 40%</td>
</tr>
<tr>
<td>Hotel</td>
<td>Up to 15%</td>
</tr>
<tr>
<td>Other Real Estate</td>
<td>Up to 30%</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Geographic Regions</th>
<th>Policy Range</th>
</tr>
</thead>
<tbody>
<tr>
<td>West¹</td>
<td>Up to 50%</td>
</tr>
<tr>
<td>South²</td>
<td>Up to 40%</td>
</tr>
<tr>
<td>Midwest³</td>
<td>Up to 40%</td>
</tr>
<tr>
<td>East⁴</td>
<td>Up to 50%</td>
</tr>
<tr>
<td>International</td>
<td>Up to 40%</td>
</tr>
</tbody>
</table>

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.
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.
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 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 co-investor(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.

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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 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.

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Additionally, the Consultant shall monitor the Portfolio’s leverage to evaluate compliance with the above stated guidelines through the quarterly performance report.
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.

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:
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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.


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.

13. Provide ongoing real estate education information and seminars 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.

**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.
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**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.

**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.
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Introduction

As good corporate governance practices are widely believed to increase shareholder value, public retirement systems across the country are becoming more active in encouraging good corporate governance practices among companies in which they own stock.

As such the core objectives of LACERS Proxy Policy are:

1. Manage proxy voting rights with the same care, skill, diligence and prudence as is exercised in managing other assets.
2. Exercise proxy voting rights in the sole interest of the System’s members and beneficiaries in accordance with all applicable statutes consistent with the Board proxy policy.
3) Provide a framework for voting shares responsibly and in a well reasoned manner.
4) Align the interests of shareowners and corporate management to build long-term sustainable growth in shareholder value for the benefit of LACERS portfolio.

These primary objectives shall be considered whenever the Board and/or Corporate Governance Committee considers policy, reviews proxy voting issues, recommends corporate governance investment activities, or takes other corporate governance-related actions.

Statement of Purpose

The LACERS Board of Administration (Board) has formulated this policy to provide a guideline for proxy voting. This policy is set forth in the best interest of LACERS investment program to support sound corporate governance practices that maximize shareholder value.

All applications of this policy are executed by an outside proxy voting agent. The policy will be reviewed on a bi-annual basis. The proxy voting agent provides quarterly voting reports summarizing all votes cast during that time period. These reports are reviewed for compliance with the proxy policy.
1. BOARD OF DIRECTORS
Electing directors is the single most important stock ownership right that shareholders can exercise. Shareholders can promote healthy corporate governance practices and influence long-term shareholder value by electing directors who share shareholder views. In evaluating proxy items related to a company’s board, director accountability, independence and competence are of prime importance to ensure that directors are fit for the role and best able to serve shareholders’ interests.

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<td>1.1</td>
<td>ELECTION OF DIRECTORS IN UNCONTESTED ELECTIONS</td>
<td>LACERS supports company management in principle</td>
<td>It is prudent to vote for the prescribed full slate of directors as long as the slate of directors will conduct themselves in the best interest of the shareholders. Director nominees should be evaluated based on accountability, responsiveness to shareholders, independence from company management, competence and performance.</td>
</tr>
<tr>
<td>1.2</td>
<td>BOARD INDEPENDENCE</td>
<td>FOR</td>
<td>At a minimum, a majority of the board should consist of directors who are independent. Corporate boards should strive to obtain board composition made up of a substantial majority (at least two-thirds) of independent directors.</td>
</tr>
<tr>
<td>1.3</td>
<td>MAJORITY THRESHOLD VOTING FOR THE ELECTION OF DIRECTORS</td>
<td>LACERS supports this issue in principle</td>
<td>Under a plurality system, a board-backed nominee in an uncontested election needs to receive only a single affirmative vote to claim his or her seat in the boardroom. Even if holders of a substantial majority of the votes cast “withhold” support, the director nominee wins the seat. Under the majority vote standard, a director nominee must receive support from holders of a majority of the votes cast in order to be elected (or re-elected) to the board. In contested elections where there are more nominees than seats, a carve-out provision for plurality should exist.</td>
</tr>
<tr>
<td>1.4</td>
<td>SEPARATE CHAIR AND CEO</td>
<td>LACERS supports this issue in principle</td>
<td>A CEO who also heads a board is less accountable than one who must answer to an independent chairman as well as fellow directors. However, there could be times when it makes sense for one person to wear two hats. On balance, there appears to be more gained and less lost from separating the two jobs at major companies. The Board generally favors the separation of the chairman and CEO. However, the Board believes it may be in the best interests of a corporation and the shareholders to have one person fulfilling both positions in smaller companies.</td>
</tr>
<tr>
<td>1.5</td>
<td>LIMITING BOARD SIZE</td>
<td>FOR</td>
<td>Proposals that allow management to increase or decrease the size of the board at its own discretion are often used by companies as a takeover defense. Shareholders should support management proposals to fix the size of the board at a specific number of directors, thereby preventing management (when facing a proxy contest) from increasing the size of the board without shareholder approval.</td>
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<td>1.6</td>
<td>COMMITTEE INDEPENDENCE</td>
<td>LACERS supports this issue in principle</td>
<td>The key board committees – audit, compensation, and nominating committees – should be composed exclusively of independent directors if they currently do not meet that standard. The company’s board (not the CEO) should appoint the committee chairs and members. Committees should be able to select their own service providers to assist them in decision making.</td>
</tr>
<tr>
<td>1.7</td>
<td>DIRECTOR QUALIFICATIONS AND RESTRICTIONS</td>
<td>AGAINST</td>
<td>Establishing a minimum amount of stock ownership could preclude very qualified candidates from sitting on the board. Tenure limits and age restrictions could force out experienced and knowledgeable board members.</td>
</tr>
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<td>1.8</td>
<td>LIABILITY AND INDEMNIFICATION OF OFFICERS AND DIRECTORS</td>
<td>CASE-BY-CASE</td>
<td>This indemnifies corporate officers and directors against personal liability suits as a result of their official status. However, officers’ and directors’ liability should not be limited or fully indemnified for acts that are serious violations of fiduciary obligations such as gross negligence or intentional misconduct.</td>
</tr>
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<td>1.9</td>
<td>OBLIGATION OF BOARDS TO ACT ON SHAREHOLDER PROPOSALS RECEIVING MAJORITY SUPPORT</td>
<td>LACERS supports this issue in principle</td>
<td>Boards are responsible for ensuring that the voices of the owners of the firm are heard. If the majority of shareholders have indicated they desire a particular governance change, the board should support the proposal in question.</td>
</tr>
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<td>1.10</td>
<td>DIRECTOR REMOVAL BY SHAREHOLDERS</td>
<td>FOR</td>
<td>Shareholders should have the right to remove directors or fill director vacancies. Lack of such a policy could allow management to protect themselves from various shareholder initiatives.</td>
</tr>
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<td>1.11</td>
<td>SHAREHOLDER ADVISORY COMMITTEES</td>
<td>LACERS supports this issue in principle</td>
<td>It is often difficult for directors to communicate to and hear from shareholders, because shareholders tend to be numerous, unidentified, dispersed, and silent. This proposal establishes committees of shareholders to make communication easier and more effective. However, establishment of such committees can be time consuming and expensive. The Board prefers the establishment of such committees where there is no other available mechanism to communicate with the company boards.</td>
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<td>1.12</td>
<td>PROXY CONTESTS</td>
<td>CASE-BY-CASE VOTING AGENT'S DISCRETION</td>
<td>A proxy contest is a strategy that involves using shareholders' proxy votes to replace the existing members of a company's board of directors. By removing existing board members, the person or company launching the proxy contest can establish a new board of directors that is better aligned with their objectives. Proxy contests should be examined on a case-by-case basis considering factors such as the company's performance relative to peers, strategy of incumbents vs. dissidents, experience of director candidates, current management's track record, etc.</td>
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<td>1.13</td>
<td>REIMBURSEMENT OF PROXY SOLICITATION EXPENSES</td>
<td>CASE-BY-CASE VOTING AGENT'S DISCRETION</td>
<td>Most expenditures incurred by incumbents in a proxy contest are paid by the company. In contrast, dissidents are generally reimbursed only for proxy solicitation expenses, if they gain control of the company. Dissidents who have only gained partial representation may also be reimbursed in cases where the board and a majority of shareholders approve. In successful proxy contests, new management will often seek shareholder approval for the use of company funds to reimburse themselves for the costs of proxy solicitation.</td>
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2. AUDIT-RELATED
Shareholders must rely on company-produced financial statements to assess company performance and the values of their investments. External auditors play an important role by certifying the integrity of these financial reports provided to shareholders. To ensure that an external auditor is acting in shareholders’ best interest, the auditor must be independent, objective, and free of potential conflicts of interest.

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<td>2.1</td>
<td>RATIFYING AUDITORS</td>
<td>LACERS supports this issue in principle VOTING AGENT’S DISCRETION</td>
<td>The Board generally supports a company’s choice of audit firms unless an auditor has a financial interest in or association with the company and is therefore not independent; there is reason to believe that the independent auditor has rendered an inaccurate opinion of the company’s financial position; or fees are excessive as defined by ISS (Non-audit fee &gt; audit fees + audit related fees + tax compliance/preparation fees).</td>
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<td>2.2</td>
<td>LIMITING NON-AUDIT SERVICES BY AUDITORS</td>
<td>FOR</td>
<td>Auditor independence may be impaired if an auditor provides both audit-related and non-audit related services to a company and generates significant revenue from these non-audit services. The Board believes that a company should have policies in place to limit non-audit services and prevent conflicts of interest.</td>
</tr>
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<td>2.3</td>
<td>ROTATION OF AUDITORS</td>
<td>LACERS supports this issue in principle VOTING AGENT’S DISCRETION</td>
<td>A long-standing relationship between a company and an audit firm may compromise auditor independence for various reasons including an auditor's closeness to client management, lack of attention to detail due to staleness and redundancy, and eagerness to please the client. Enron and Anderson is a prime example of this situation. The Board believes it may be prudent to rotate auditors every 5 to 7 years.</td>
</tr>
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<td>2.4</td>
<td>ELECTION OF THE AUDIT COMMITTEE</td>
<td>LACERS supports this issue in principle VOTING AGENT’S DISCRETION</td>
<td>Companies with significant material weaknesses identified in the Section 404 disclosures potentially have ineffective internal financial reporting controls, which may lead to inaccurate financial statements, hampering shareholder's ability to make informed investment decisions, and may lead to the destruction in public confidence and shareholder value. The Audit Committee is ultimately responsible for the integrity and reliability of the company’s financial information, and its system of internal controls, and should be held accountable.</td>
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### 3. COMPENSATION

The Board endorses executive compensation plans that align management and shareholders’ interest. Executive pay programs should be fair, competitive, reasonable, and appropriate. Pay-for-performance plans should be a central tenet of executive compensation and plans should be designed with the intent of increasing long-term shareholder value. Executives should not be incentivized to take excessive risks that could threaten long-term corporate viability and shareholder value.

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<td>3.1</td>
<td>EXECUTIVE COMPENSATION APPROVED BY THE BOARD OF DIRECTORS</td>
<td>FOR</td>
<td>While some corporations allow compensation issues to be left to management, it is more prudent to have a compensation committee, composed of independent directors, approve, on an annual basis, executive compensation, including the right to receive any bonus, severance or other extraordinary payment. If a company does not have a compensation committee, then executive compensation should be approved by a majority vote of independent directors. The Board normally prefers to support the company’s recommendation of executive compensation issues.</td>
</tr>
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<td>3.2</td>
<td>INDEPENDENT COMPENSATION CONSULTANT</td>
<td>LACERS supports this issue in principle</td>
<td>A company’s board and/or compensation committee should have the power to hire an independent consultant – separate from the compensation consultants working with corporate management – to assist with executive compensation issues to avoid conflicts of interest. Disclosure should be provided about the company’s, board’s, and/or compensation committee’s use of compensation consultants, such as company name, business relationship(s) and fees paid.</td>
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<td>3.3</td>
<td>PAY FOR PERFORMANCE</td>
<td>LACERS supports this issue in principle</td>
<td>A significant portion of an executive's pay should be tied to performance over time through the use of short and long-term performance-based incentives to align management and shareholders' interests. From a shareholders’ perspective, performance is gauged by the company's stock performance over time. The attainment of executives' incentive goals should ultimately translate into superior shareholder returns in the long-term. Standard stock options and time-vested restricted stock are not considered performance-based since general market volatility alone can increase their value.</td>
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<td>3.4</td>
<td>ADVISORY VOTES ON COMPENSATION (SAY ON PAY) – SHAREHOLDER PROPOSALS</td>
<td>FOR</td>
<td>A non-binding “say on pay” vote would encourage the board’s compensation committee to be more careful about doling out unduly rich rewards that promote excessive risk-taking. It also would be a quick and effective way for a board to gauge whether shareowners think the company’s compensation practices are in their best interests.</td>
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<td>3.5</td>
<td>ADVISORY VOTES ON COMPENSATION (SAY ON PAY) — MANAGEMENT PROPOSALS</td>
<td>CASE-BY-CASE VOTING AGENT’S DISCRETION</td>
<td>The advent of &quot;say on pay&quot; votes for shareholders in the U.S. is providing a new communication mechanism and impetus for constructive engagement between shareholders and managers/directors on pay issues. In general, the management say on pay (MSOP) ballot item is the primary focus of voting on executive pay practices — dissatisfaction with compensation practices can be expressed by voting against MSOP rather than withholding or voting against the compensation committee.</td>
</tr>
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<td>3.6</td>
<td>SAY ON PAY BALLOT FREQUENCY</td>
<td>FOR</td>
<td>The Board supports an annual MSOP for many of the same reasons it supports annual director elections rather than a classified board structure: because it provides the highest level of accountability and direct communication by enabling the MSOP vote to correspond to the information presented in the accompanying proxy statement for the annual shareholders' meeting. Having MSOP votes only every two or three years, potentially covering all actions occurring between the votes, would make it difficult to create meaningful and coherent communication that the votes are intended to provide.</td>
</tr>
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<td>3.7</td>
<td>STOCK OPTION PLANS</td>
<td>LACERS supports this issue in principle VOTING AGENT’S DISCRETION</td>
<td>Stock options align the interests of management with the interests of shareholders. The Board prefers that options should be issued at or above fair market value. There should be no re-pricing of underwater options (stock options with little or no value due to poor performance), nor should there be a replenishment feature (automatic increases in the shares available for grant each year). Management must monitor the amount of dilution that stock options create. The total cost of the stock option plan should be reasonable relative to peer companies. The Board normally supports the use of stock options as a part of executive and management compensation.</td>
</tr>
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<td>3.8</td>
<td>HOLDING PERIOD FOR EQUITY COMPENSATION AWARDS</td>
<td>LACERS supports this issue in principle VOTING AGENT’S DISCRETION</td>
<td>Executives should be required to hold a substantial portion of their equity awards, including shares received from option exercises, while they are employed at a company or even into retirement. Equity compensation awards are intended to align management interests with those of shareholders, and allowing executives to sell or hedge these shares while they are employees of the company undermines this purpose.</td>
</tr>
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<td>3.9</td>
<td>EXCLUDING PENSION FUND INCOME</td>
<td>FOR</td>
<td>Earnings generated by a pension plan should not be included for executive compensation purposes.</td>
</tr>
<tr>
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<td>3.10</td>
<td>CLAWBACK OF INCENTIVE PAY</td>
<td>FOR</td>
<td>A company should recoup incentive payments made to executives and former executives if it is determined that the incentives were calculated from erroneous data, such as fraudulent or misstated financial results, and these incentive payments would not have been earned if correctly calculated.</td>
</tr>
<tr>
<td>3.11</td>
<td>GOLDEN PARACHUTES</td>
<td>LACERS opposes this issue in principle</td>
<td>Golden parachutes can have a number of positive results: they can reduce management resistance to change, they help attract and retain competent talent, and they provide appropriate severance. Excessive golden parachutes not offered to other employees can damage their morale and can have a dilutive effect on shareholder wealth. A general rule is that the parachute should not exceed three times base salary. The Board is opposed to the payment of excessive executive compensation. Therefore, golden parachute agreements should be submitted to shareholders for ratification.</td>
</tr>
<tr>
<td>3.12</td>
<td>CHANGE OF CONTROL TRIGGERING UNJUSTIFIED ACCRUAL OF BENEFITS</td>
<td>LACERS opposes this issue in principle</td>
<td>A change of control event should not result in an acceleration of vesting of all unvested stock options or lapsing of vesting/performance requirements on restricted stock/performance shares, unless there is a loss of employment or substantial change in job duties for an executive.</td>
</tr>
<tr>
<td>3.13</td>
<td>GOLDEN COFFINS</td>
<td>LACERS opposes this issue in principle</td>
<td>Golden coffins are death-benefit packages awarded to the heirs of high ranking executives who die during employment with a company. Benefits awarded can include, but are not limited to, unearned salary and bonuses, accelerated stock options and perquisites. The Board is against excessive executive compensation, but recognizes that offering golden coffin benefits may be necessary to attract top talent.</td>
</tr>
<tr>
<td>3.14</td>
<td>SUPPLEMENTAL EXECUTIVE RETIREMENT PLANS (SERPS)</td>
<td>LACERS opposes this issue in principle</td>
<td>SERPs are executive-only retirement plans designed as a supplement to employee-wide plans. These plans may be structured to contain special provisions not offered in employee-wide plans such as above market interest rates and excess service credits. Incentive compensation may also be used in calculating retirement benefits, resulting in better benefit formulas than employee-wide plans and increased costs to the company. The Board supports SERPs if these plans do not contain excessive benefits beyond what is offered under employee-wide plans.</td>
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<td>3.15</td>
<td>PROPOSALS TO LIMIT EXECUTIVE COMPENSATION OR OTHER BENEFITS</td>
<td>AGAINST</td>
<td>Executive pay should not have a blanket limit such as being capped at a specified multiple of other workers’ pay. There should not be an absolute limit to retirement benefits, nor a mandate that stipulates that there be salary reductions based on corporate performance.</td>
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<td>No.</td>
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| 3.16 | DIRECTOR COMPENSATION                                                | LACERS supports company management in principle  
VOTING AGENT’S DISCRETION | This is normally automatically approved unless the program is exceptional or abusive. Directors should be compensated with a mix of cash and stock, with the majority, but not all, of the compensation in stock to align their interests with shareholders. There should be no blanket limits on directors’ compensation, but pay should be commensurate with expected duties and experience. The Board normally prefers to support company management’s decision. The Board prefers that compensation issues be decided by a majority vote of the independent directors. |
| 3.17 | NON-EMPLOYEE DIRECTOR RETIREMENT BENEFITS                            | AGAINST                               | Since non-employee directors are elected representatives of shareholders and not company employees, they should not be offered retirement benefits, such as defined benefit plans or deferred stock awards, nor should they be entitled to special post-retirement perquisites. |
| 3.18 | DISCLOSURE OF EXECUTIVE COMPENSATION                                  | FOR                                   | The Board supports shareholder proposals seeking additional disclosure of executive compensation.                                                                                                        |
| 3.19 | EMPLOYEE STOCK OWNERSHIP PROGRAMS                                    | LACERS supports this issue in principle  
VOTING AGENT’S DISCRETION | On one hand, ESOPs have the potential for motivating and rewarding employees. On the other hand, there is concern about their use as management entrenchment devices and their potential dilutive effects on existing shareholder value. The Board believes that future purchasers must bear the same risk as current shareholders. Employee wealth obtained through stock ownership should be tied to shareholder value. The Board prefers no retroactive compensation. The Board supports the use of ESOPs. |
| 3.20 | 401(K) EMPLOYEE BENEFIT PLANS                                         | FOR                                   | A 401(k) plan provides a highly visible benefit to employees that can be used to attract and retain quality personnel. The Board supports proposals to implement a 401(k) savings plan for employees. |
| 3.21 | OMNIBUS BUDGET RECONCILIATION ACT (OBRA) OF 1993 - RELATED COMPENSATION PROPOSALS | LACERS supports this issue in principle  
VOTING AGENT’S DISCRETION | IRS Section 162(m) of OBRA, prohibits a company from deducting more than $1 million of an executive’s compensation for tax purposes unless certain prescribed actions are taken to link compensation to performance such as establishment of performance goals by a compensation committee of outside directors and shareholder approval of the compensation plan. The Board generally supports proposals to approve new compensation plans or amend existing compensation plans to comply with Section 162(m) if the company can obtain tax benefits and increase shareholder value, and the plans do not result in excessive executive compensation. |
4. SHAREHOLDER RIGHTS AND TAKEOVER DEFENSES

Companies should feature shareholder rights in their corporate governance principles to allow shareholders the opportunity to participate directly in monitoring management. A 2003 study by the National Bureau of Economic Research found that "firms with weaker shareholder rights earned significantly lower returns, were valued lower, had poor operating performance, and engaged in greater capital expenditure and takeover activity."8

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<tr>
<td>4.1</td>
<td>ACCESS TO PROXY PROCESS</td>
<td>FOR</td>
<td>Access proposals allow shareholders who own a significant number of shares to access management’s proxy material to evaluate and propose voting recommendations on proxy proposals and director nominees, and to nominate their own candidates to the board. These proposals are based on the belief that shareholder access rights provide for increased corporate accountability and healthy communication.</td>
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<tr>
<td>4.2</td>
<td>ADVANCE NOTICE REQUIREMENTS</td>
<td>LACERS supports this issue in principle.</td>
<td>Advance notice bylaws, holding requirements, disclosure rules and any other company imposed regulations on the ability of shareholders to solicit proxies beyond those required by law should not be so onerous as to deny sufficient time or otherwise make it impractical for shareholders to submit nominations or proposals and distribute supporting proxy materials.9</td>
</tr>
<tr>
<td>4.3</td>
<td>CLASSIFIED BOARDS AND STAGGERED BOARDS</td>
<td>LACERS opposes this issue in principle.</td>
<td>Although shareholders need some form of protection from hostile takeover attempts, and boards need tools and leverage in order to negotiate effectively with potential acquirers, a classified board tips the balance of power too much toward incumbent management at the price of potentially ignoring shareholder interests.</td>
</tr>
<tr>
<td>4.4</td>
<td>CONFIDENTIAL VOTING</td>
<td>FOR</td>
<td>Shareholders over whom management have some power (for example, employee shareholders, money managers who stand to gain or lose company business, banks, insurance companies and companies with interlocking boards) may be deterred from voting against management if they know their votes will become known to management. Companies that can discover who is voting in which way prior to the meeting also have an advantage not enjoyed by any shareholder supporting or opposing any issue on the ballot, and in targeting those shareholders who vote against management and pressuring them to change their votes.</td>
</tr>
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<td>4.5</td>
<td>CUMULATIVE VOTING</td>
<td>FOR</td>
<td>Cumulative voting enhances shareholders’ abilities to elect a single director or a small number of directors, thus increasing their ability to have a voice on the board even when they lack the voting power to affect change-in-control or other major decisions. Some fear that allowing cumulative voting can allow or encourage disruptive or predatory shareholders.</td>
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<td>4.6</td>
<td>SHAREHOLDER’S RIGHT TO ACT INDEPENDENTLY OF MANAGEMENT – CALLING SPECIAL MEETINGS AND ACTING BY WRITTEN CONSENT</td>
<td>FOR</td>
<td>These include giving shareholders the ability to call a special meeting of shareholders without management’s consent, and the ability to act by written consent (saving the costs and difficulties of holding a meeting). Most corporations support the retention, restoration, or creation of these rights. Shareholders need realistic mechanisms to protect their interests in situations where their interests are not aligned with management interest.</td>
</tr>
<tr>
<td>4.7</td>
<td>SUPERMAJORITY PROVISIONS</td>
<td>AGAINST</td>
<td>Sets a level of approval for specified actions that is higher than the minimum set by state law. These requirements often exceed the level of shareholder participation at a meeting, making action that requires a supermajority all but impossible.</td>
</tr>
<tr>
<td>4.8</td>
<td>LINKED (BUNDLED) PROPOSALS</td>
<td>LACERS opposes this issue in principle</td>
<td>Linked proposals often include “sweeteners” to entice shareholders to vote for a proposal (that includes other items) that may not be in the shareholders’ best interest. The Board normally opposes linked proposals where one or more of the linked proposals is in opposition to the Board’s proxy position.</td>
</tr>
<tr>
<td>4.9</td>
<td>VOTES TO ABSTAIN MEANS A CASTED VOTE</td>
<td>FOR</td>
<td>Counting abstained votes in the total pool of all votes cast.</td>
</tr>
<tr>
<td>4.10</td>
<td>BROKER VOTING RESTRICTIONS</td>
<td>FOR</td>
<td>Broker non-votes and abstentions should be counted only for purposes of a quorum.</td>
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<td>4.11</td>
<td>FAIR PRICING</td>
<td>FOR</td>
<td>Fair price provisions prevent two-tier tender offers in which a buyer offers a premium price for only enough shares to obtain a controlling interest. It is unfair to pay some shareholders (those that did not tender in the first group) less than other shareholders.</td>
</tr>
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<td>4.12</td>
<td>GREEN MAIL</td>
<td>AGAINST</td>
<td>A vote of the holders of a majority of the outstanding shares of common stock, regardless of class, shall be required to approve any corporate decision related to the finances of a company which will have a material effect upon the financial position of the company and the position of the company’s shareholders.</td>
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<td>4.13</td>
<td>POISON PILLS</td>
<td>LACERS opposes this issue in principle</td>
<td>Poison pills can consist of a wide variety of provisions adopted by boards without shareholder approval, designed to make it financially unattractive – indeed, often financially devastating – for a shareholder to purchase more than a small percentage of the company’s stock, often by triggering the creation of a large number of new stocks or warrants that dilute the offending shareholder’s interest to the point of making it virtually valueless. The Board is normally opposed to the use of poison pills.</td>
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<td>4.14</td>
<td>NET OPERATING LOSS (NOL) POISON PILLS</td>
<td>CASE-BY-CASE VOTING AGENT’S DISCRETION</td>
<td>NOLs may be used to reduce future income tax payments and have become valuable assets to many corporations. If a corporation experiences an ownership change as defined by Section 382 of the tax code, then its ability to use a pre-change NOL in a post-change period could be substantially limited or delayed. NOL pills are adopted as a takeover deterrent to preserve the tax benefit of NOLs.</td>
</tr>
<tr>
<td>4.15</td>
<td>POISON PILLS – ALLOW FOR SHAREHOLDER VOTE</td>
<td>FOR</td>
<td>Since poison pills ultimately impact the wealth of shareholders, the Board supports voting measures that allow for the shareholders to vote on matters pertaining to the use of poison pills.</td>
</tr>
<tr>
<td>4.16</td>
<td>RE-INCORPORATION</td>
<td>LACERS supports company management in principle VOTING AGENT’S DISCRETION</td>
<td>Corporations may wish to reincorporate in another state to take advantage of favorable corporate law, while providing maximized shareholder values and operational flexibility. On the other hand, reincorporation laws of other states could be such as to limit shareholder rights or reduce shareholder wealth. The Board normally supports company management’s decisions on re-incorporation matters.</td>
</tr>
<tr>
<td>4.17</td>
<td>STATE ANTI-TAKEOVER LAWS</td>
<td>CASE-BY-CASE VOTING AGENT’S DISCRETION</td>
<td>State anti-takeover laws seek to deter hostile takeover attempts of state-based corporations with the intent of keeping target companies locally based and preserving jobs. These laws may also complicate friendly mergers and impose great costs and delays on shareholders and stakeholders in the corporation. Most state anti-takeover provisions allow companies to “opt in” or “opt out” of coverage via shareholder vote.</td>
</tr>
<tr>
<td>4.18</td>
<td>TARGETED SHARE PLACEMENTS</td>
<td>LACERS supports company management in principle VOTING AGENT’S DISCRETION</td>
<td>Targeted share placements (or “White Squire” placements) occur when a company puts large blocks of stock or convertible securities into the hands of a friendly investor or group of investors. This is often an inexpensive method of raising cash for a company. The Board prefers that company management seeks authorization before establishing a targeted share placement but supports this corporate action.</td>
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5. CAPITAL STRUCTURE
Corporate financing decisions can have a significant impact on shareholder value, particularly when these decisions may result in common share dilution. As a result, shareholders must analyze all management proposals to modify capital structure to determine whether these financing decisions are in their best interests.

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</table>
| 5.1 | INCREASES IN THE NUMBER OF AUTHORIZED SHARES OF STOCK                | LACERS supports this issue in principle  
VOTING AGENT’S DISCRETION | Companies need the flexibility of issuing additional shares for stock splits, stock dividends, financings, acquisitions, employee benefit plans and general corporate purposes. The Board prefers that increases should not exceed three times the number of existing outstanding shares and that the company specify a purpose for the proposed increase. |
| 5.2 | ONE SHARE, ONE VOTE                                                 | FOR                                  | The right to vote is inviolate and may not be abridged by any circumstances or by any action of any person. Each share of common stock, regardless of its class, shall be treated equally in proportion to its relative share in the total common stock equity of the corporation, with respect to any dividend, distribution, redemption, tender or exchange offer. In matters reserved for shareholder action, procedural fairness and full disclosure are required. |
| 5.3 | PAR VALUE ADJUSTMENT OF COMMON STOCK                                | FOR                                  | In extraordinary cases when a stock price falls below its par value, a company wishing to issue additional stock would be unable to do so without reducing par value. Companies may also propose reductions in par value to conform to state legislative changes in the required minimum level of par value.11 |
| 5.4 | PREEMPTIVE RIGHTS                                                  | AGAINST                              | Preemptive rights require a company issuing new shares to offer them to their existing shareholders first, in proportion to their existing holdings. This gives current shareholders the ability to maintain their relative equity position as a shareholder. Preemptive rights generally have limited importance, given the increase in the size and liquidity of the secondary market and their potential for abuse. |
| 5.5 | DEBT RESTRUCTURING                                                 | CASE-BY-CASE  
VOTING AGENT’S DISCRETION | As part of a debt restructuring plan, a company may propose to increase and issue common and/or preferred shares. These proposals should be evaluated considering dilution to existing shareholders, potential changes in company control, the company's current financial position, terms of the offer, whether bankruptcy is imminent and alternatives. |
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<tr>
<td>5.6</td>
<td>CONVERSION OF SECURITIES</td>
<td>CASE-BY-CASE VOTING AGENT'S DISCRETION</td>
<td>Proposals to convert securities, such as converting preferred stock to common shares, should be evaluated based on the dilution to existing shareholders, the conversion price relative to market value, financial issues, control issues, termination penalties, and conflicts of interest.</td>
</tr>
<tr>
<td>5.7</td>
<td>SHARE REPURCHASES</td>
<td>FOR</td>
<td>The Board normally favors of share repurchase plans if the company boards feel that the stock is undervalued or there is a legitimate corporate purpose.</td>
</tr>
<tr>
<td>5.8</td>
<td>REVERSE STOCK SPLITS</td>
<td>FOR</td>
<td>A reverse stock split reduces the number of shares owned and increases the share price proportionately. A reverse stock split has no effect on the value of what shareholders own. Companies often reverse split their stock when they believe the price of their stock is too low to attract investors to buy their stock or to avoid being delisted. If the number of authorized shares is not proportionately reduced with a reverse stock split, then LACERS treats these proposals as a request to increase authorized shares.</td>
</tr>
<tr>
<td>5.9</td>
<td>BLANK CHECK PREFERRED STOCK</td>
<td>AGAINST</td>
<td>There is the potential for abusing this kind of stock by the board.</td>
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<td>Blank check preferred stock is authorized stock over which the board has complete discretion to set voting rights, dividend rates, and redemption and conversion privileges.</td>
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<td>Although some guidelines note that blank check preferred stock gives management great flexibility, and this might be valuable and in the corporate interest, in general it is felt that this kind of flexibility, free of shareholder control, is insufficient justification for the creation of this type of stock.</td>
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### 6. CORPORATE RESTRUCTURINGS

Corporate restructurings, such as mergers and leveraged buyouts, can have a major effect on shareholder value. Many of these transactions require shareholder approval and must be examined carefully to determine whether they are in the best financial interests of the shareholders.

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<td>6.1</td>
<td>ASSET SALES</td>
<td>LACERS supports this issue in principle</td>
<td>Asset sales should be evaluated based on the impact on the balance sheet/working capital, value received for the asset, and potential elimination of inefficiencies. The Board generally supports management decisions to sell assets.</td>
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<td>VOTING AGENT’S DISCRETION</td>
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<td>6.2</td>
<td>GOING PRIVATE TRANSACTIONS (LEVERAGED BUYOUTS AND MINORITY SQUEEZEOUTS)</td>
<td>CASE-BY-CASE</td>
<td>Going private transactions such as leveraged buyouts and minority squeezes should be evaluated on a case-by-case basis taking into account the following: offer price and imbedded premium, fairness opinion, how the deal was negotiated, conflicts of interest, other alternatives/offers considered, and the risk to shareholders if the attempt to take the company private fails.</td>
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<td>VOTING AGENT’S DISCRETION</td>
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<td>6.3</td>
<td>LIQUIDATIONS</td>
<td>CASE-BY-CASE</td>
<td>Liquidation proposals are generally bad news for long-term investors. They usually occur after a prolonged period of declines in earnings and share prices. However, liquidation may be an attractive option if the sale of the firm's assets on a piece-meal basis can be accomplished at a higher-than-market price. Liquidation proposals should be evaluated based on management's efforts to pursue other alternatives, appraised value of assets, the compensation plan for executives managing the liquidation, and the likelihood of bankruptcy if the liquidation proposal is not approved.13</td>
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<td>VOTING AGENT’S DISCRETION</td>
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<tr>
<td>6.4</td>
<td>MERGERS AND ACQUISITIONS</td>
<td>LACERS supports this issue in principle</td>
<td>Case-by-case votes are recommended on mergers or acquisitions since the circumstances by which they arise are unique. The Board supports the company management’s decision on mergers and acquisitions when such decision is based upon the findings of a thorough due diligence process and is in the best interest of the shareholders.</td>
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<td>VOTING AGENT’S DISCRETION</td>
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<td>6.5</td>
<td>SPIN-OFFS</td>
<td>CASE-BY-CASE</td>
<td>Corporations may seek to streamline their operations by spinning off less productive or unrelated subsidiary businesses. The spun-off companies are expected to be worth more as independent entities than as parts of a larger business. Spin-offs are evaluated case-by-case depending on the tax and regulatory advantages, planned use of sale proceeds, managerial incentives, valuation of spinoff, fairness opinion, benefits to the parent company, conflicts of interest, corporate governance changes, and changes in the capital structure.</td>
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<td>VOTING AGENT’S DISCRETION</td>
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## 7. MISCELLANEOUS CORPORATE GOVERNANCE

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<tr>
<td>7.1</td>
<td>ANNUAL MEETING DATE AND LOCATION</td>
<td>LACERS supports company management in principle</td>
<td>Mandatory rotation of the annual meeting would not significantly increase stockholders’ access to management since there are convenient alternatives available to interested stockholders. It would decrease the company’s flexibility without a material benefit to stockholders. The Board normally supports company management’s decision on this issue.</td>
</tr>
<tr>
<td>7.2</td>
<td>CORPORATE NAME CHANGE</td>
<td>FOR</td>
<td>A company may seek a name change to better portray its strategic image or re-brand itself. The Board supports company management’s decision on this issue.</td>
</tr>
<tr>
<td>7.3</td>
<td>CORPORATION CHARTER AND BYLAW AMENDMENTS</td>
<td>LACERS supports this issue in principle</td>
<td>Charters and bylaws should not be amended without shareholder approval unless the changes are of a housekeeping nature such as minor corrections or updates.</td>
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</table>
8. SOCIAL AND ENVIRONMENTAL

On November 13, 2007, the Board adopted the United Nations Principles for Responsible Investment ("Principles"), a policy of global best practices for environmental, social, and governance ("ESG") investing. LACERS current proxy voting agent, Institutional Shareholder Services, ("ISS"), is a signatory to the Principles and incorporates them into its proxy analysis process. Therefore, when considering how to vote on most ESG proposals, investment staff relies on the research expertise and voting recommendations of ISS.

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<tr>
<td>8.1</td>
<td>DIVERSIFICATION OF BOARDS</td>
<td>LACERS supports this issue in principle</td>
<td>Women and minorities have played major and responsible roles not only in government, higher education, law and medicine, but also in communications, electronics, and finance. The Board normally prefers to support diversification on company boards. However, the Board recognizes that such a mandate carried out without regard to the selection of the most highly qualified candidates might not be in the best interest of these companies.</td>
</tr>
<tr>
<td>8.2</td>
<td>CORPORATE BOARD MEMBERS SHOULD WEIGH SOCIO-ECONOMIC, LEGAL AND FINANCIAL FACTORS WHEN EVALUATING TAKEOVER BIDS</td>
<td>CASE-BY-CASE BASIS. VOTING AGENT’S DISCRETION</td>
<td>While broad social and environmental issues are of concern to everyone, institutional shareholders acting as representatives of their beneficiaries must consider, specifically, the impact of the proposal on the target company. A decision on whether to support or oppose such proposals shall focus on the financial aspects of social and environmental proposals. If a proposal would have a negative impact on the company's financial position or adversely affect important operations, LACERS would oppose the resolution. Conversely, if a proposal would have a clear and beneficial impact on the company's finances or operations, LACERS would support the proposal.</td>
</tr>
<tr>
<td>8.3</td>
<td>INDEPENDENT REVIEW OF COMPANY OR PLANT OPERATIONS</td>
<td>AGAINST</td>
<td>An independent review of company or plant operations which will be provided at company expense to the shareholders to consider the cost of and alternatives to the present or proposed projects on the primary operation. This process would be costly and time-consuming.</td>
</tr>
<tr>
<td>8.4</td>
<td>DISCLOSURE OF OFFICERS, DIRECTORS AND INVOLVED OUTSIDERS’ GOVERNMENTAL AFFILIATIONS</td>
<td>AGAINST</td>
<td>Miscellaneous issues include disclosures of lists of officers, directors and involved outsiders who have served in any governmental capacity during the previous five years. In addition, disclosure includes the lists of law firms employed by the companies, rundowns on fees and the revelation as to whether any elected or appointed official have partnership interest in the retained law firms. To the extent that potential conflicts of interest cannot be controlled by corporate procedures, professional ethics, and law, these disclosures will make no difference.</td>
</tr>
<tr>
<td>8.5</td>
<td>CORPORATE AFFIRMATION OF ITS NON-COERCIVE POLITICAL PRACTICES</td>
<td>AGAINST</td>
<td>This affirmation is intended to ensure that the corporation avoids a number of coercive political practices such as distribution of contribution cards in favor of one political party. Since these practices are illegal, the issue is moot.</td>
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<tr>
<td>8.6</td>
<td>LIMITING CORPORATE PHILANTHROPY</td>
<td>AGAINST</td>
<td>These proposals place restrictions and additional reporting obligations upon management’s right to make corporate contributions to charitable, educational, community or related organizations. Most companies give money to charity. Because most companies must compete, those that do not contribute to charity risk damaging their good names.</td>
</tr>
<tr>
<td>8.7</td>
<td>STAKEHOLDERS’ INTEREST BEFORE OR EQUAL WITH SHAREHOLDERS’ INTEREST</td>
<td>ABSTAIN</td>
<td>Stakeholders include customers, suppliers, employees, communities, creditors and shareholders. Stakeholders are important to the success of the corporation and therefore the interests of each must be considered by directors and management. However, boards should not put the non-shareholder/stakeholder interests ahead of or on an equal footing with shareholders in terms of the corporation’s ultimate purpose.</td>
</tr>
<tr>
<td>8.8</td>
<td>ALL OTHER ESG ISSUES</td>
<td>VOTING AGENT’S DISCRETION</td>
<td>Investment staff relies on the research expertise and voting recommendations of ISS for other ESG issues not addressed by this policy.</td>
</tr>
</tbody>
</table>
### 9. ISSUES NOT ADDRESSED BY POLICY

For proxy issues not addressed by this policy that are market specific, operational or administrative in nature, and likely non-substantive in terms of impact, LACERS gives ISS discretion to vote these items.

Substantive issues not covered by this policy and which may potentially have a significant economic impact for LACERS shall be handled accordingly:

1. ISS shall alert investment staff of substantive proxy issue not covered by policy as soon as practicable;
2. Investment staff and/or the General Manager make shall determine whether the item requires Corporate Governance Committee (“Committee”) and/or Board of Administration (“Board”) consideration;
3. If the issue does not require Committee and Board consideration, then staff will vote the issue based on available research;
4. If the issue requires Committee and Board consideration, then the item will be prepared and presented to the Committee and Board for consideration. Following Committee and Board action, staff will then have the issue voted accordingly.
5. If time constraints prevent a formal gathering of the Committee and Board, then LACERS Board approved Corporate Governance Actions Protocol, as reprinted below, shall apply and staff will then have the issue voted accordingly.

**CORPORATE GOVERNANCE ACTIONS POLICY**

Board Adopted December 2008

From time to time LACERS receives requests from other pension funds or from affiliated organizations for support of various corporate governance actions. Many of the actions requested, such as requests to sign action letters, would otherwise appear to be consistent with existing Board policy. However, occasionally there is not adequate time to convene a Committee or Board meeting in advance to consider the matter.

The proposed Corporate Governance Actions Policy requires that one staff member plus one Board member both agree that the subject to be voted/acted on falls within the letter or spirit of adopted Board policy. If both agree, the measure will be executed by the General Manager or her designee.

The designated staff person will be the Chief Investment Officer (CIO). The designated Board member will be the Chair of the Corporate Governance Committee. In the absence of the CIO, the General Manager will become the designated staff member. In the absence of the Chair of the Corporate Governance Committee, the Board Chair will become the designated Board member.
APPENDIX A. REFERENCES


7 Council of Institutional Investors. Corporate Governance Policies. 22.


SECURITIES LENDING
INVESTMENT POLICY

REVISED FEBRUARY 24, 2011

COMMITTEE APPROVED:  MARCH 22, 2011
BOARD APPROVED:  APRIL 12, 2011
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I. INTRODUCTION

LACERS has participated in Securities Lending since 1991. Currently, Northern Trust serves as LACERS’ master custodian and acts as LACERS’ Securities Lending agent (“Agent”) as well as the investment manager for the Custom Cash Collateral Account (CCCA). This policy statement and program overview is meant to summarize key aspects of the Program.

II. OBJECTIVES

The primary goal of LACERS’ Securities Lending Program (the Program) is to generate income for the System and its beneficiaries by lending securities owned by LACERS to qualified borrowers. The program is designed as a low risk investment function to enhance the portfolio return without interfering with the overall investment strategy.

III. SCOPE

As LACERS’ Securities Lending agent, Northern Trust is responsible for locating creditworthy securities borrowers, facilitating securities lending transactions, providing daily mark-to-market and acting in a fiduciary capacity in carrying out its lending duties on behalf of LACERS. As LACERS’ collateral investment portfolio co-manager, Northern Trust manages the portfolio with the goal to maximize income to the extent consistent with safety of principal, maintenance of liquidity and the investment standards set forth in the Investment Manager Objectives and Guidelines included in the February 18, 2010 agreement. (See Attachment No. 1)

At the inception of this program, the lendable securities were managed through Northern Trust’s commingled strategy. Later to enhance the lending revenues, the program was expanded to a Custom Cash Collateral Account based on LACERS guidelines and consisted originally of the following four investment vehicles: 1) separate account for purchase of high quality securities authorized by LACERS; 2) a core collateral fund, which was a commingled cash collateral pool, (Northern Trust vehicle); 3) global core cash collateral fund (Northern Trust investment vehicle); 4) Short-Term Investment Fund (STIF) (Northern Trust investment vehicle). Later the investment options were streamlined resulting in the elimination of the core collateral fund and the STIF.

The current composition of LACERS custom cash collateral account with the most recent guidelines consists of investments proscribed by LACERS Custom
Cash Collateral Account (See Attachment 1), which includes as an authorized investment Units of NTGI Collective Short Term Investment Fund (See Attachment 2) and investments authorized by the Global Core Collateral Section (See Attachment 3).

Non-cash collateral is held in a separate account established expressly for LACERS.

IV. SECURITIES LENDING NET INCOME SPLIT

LACERS and Northern Trust, the Lending agent, split the net income earned from the Program, with LACERS receiving 85% and Northern Trust receiving 15%.

V. POTENTIAL RISKS

LACERS acknowledges the following primary risks of its securities lending activities:

- **Counterparty Risk**: This is the risk that a borrower fails to return LACERS’ securities on loan. Attachment No. 4 lists Northern’s approved counterparty list. This risk is mitigated by the fact that borrowed securities are over-collateralized (102-105%) and marked to market on a daily basis by Northern Trust. Moreover, Northern Trust provides indemnification in the event of a borrower default where there is a shortfall in collateral. Northern Trust can exercise the term in the Borrowing Agreement with the borrower to apply the collateral to purchase the failed-to-be-delivered securities and pay for any related expenses as a way of indemnifying LACERS against the borrower default. LACERS can restrict lending of its securities to any borrower at any time.

- **Settlements/Corporate Actions/Dividends and Interest**: LACERS’ securities lending program is carried out with the goal of not interfering with the investment management process. Trade settlement/operational risks associated with securities lending are generally the same as those inherent in normal trading activities. Corporate actions such as voting rights remain with the security and so will become the right of the borrower when the security is lent out. LACERS can still vote proxies for those shares not on loan or may instruct Northern Trust to return shares so any specific proxy can be voted. Dividends and interest, on the other hand, belong to the lender and will continue to be credited to the lender’s account when the security is on loan via a “Substitute Payment” from the borrower for distributions made by the issuer of the borrowed securities during the loan term.

- **Investment Risk**: Investment risk affecting the reinvestment of cash collateral posted by borrowers is the primary risk of securities lending. This risk arises when the investment in the collateral option becomes impaired or decreases in value. Typically the lenders (e.g., LACERS) accept all principal losses in a lending program.
• **Interest Rate Risk:** This is the risk that the rebate rate that LACERS pays to the Borrowers exceeds the return on the cash collateral investments. Northern Trust monitors and manages the interest rate exposure of the cash collateral pool versus Northern’s current interest rate forecast by using statistical analysis. Any negative earnings that occur as a result of interest rate risk will be shared between LACERS and Northern Trust at the same percentage as the fee arrangement (85/15).

**VI. RESPONSIBLE PARTIES**

**LACERS Staff** shall be responsible for the following with respect to Securities Lending:

- Reporting to the Board and/or the Investment Committee at least annually on the operations and earnings of the System’s Securities Lending Program.
- Overseeing the performance of the lending agent and the cash collateral investment manager in carrying out the objectives of LACERS’ Securities Lending Program and complying with pre-determined guidelines.
- LACERS has the ability to limit the amount of securities lending with Northern Trust. This limit shall be established and reviewed regularly by the appropriate Investment Officer. LACERS Staff shall report on any limit on lending to the Board and/or Investment Committee during its periodic reports on the System’s Securities Lending Program.

The Northern Trust, the **Securities Lending agent**, shall be responsible for:

- Ensuring that entities that borrow LACERS’ securities (counterparties) are qualified. (See Attachment No. 4)
- Indemnifying LACERS against borrower default.
- Reporting in writing to LACERS within 24 hours or less on any borrower default.
- Providing reports on the volume and lending spreads for securities lending on a monthly basis in a format acceptable to LACERS. Total income received by LACERS and by the agent, respectively, for borrowing activity shall also be reported over relevant time frames, including one month and longer periods.
- Providing reports on a monthly basis on the investment risk characteristics of the collateral investment portfolio including sector allocation, quality exposures, maturity exposures, borrower exposures, average days’ liquidity, etc.
- Reporting in writing to LACERS at least quarterly on trends in the securities lending marketplace.
- Investing collateral according to collateral investment guidelines agreed upon with LACERS.
- Reporting in writing to LACERS within 24 hours or less on any violations of guidelines with a plan for correction.
- Reporting to LACERS Staff in writing on its investment management activities and returns on a monthly basis in a format acceptable to LACERS.
VII. OVERVIEW OF INVESTMENT GUIDELINES

Guidelines for the cash collateral account are provided in detail in Attachment No. 1 to the Securities Lending Authorization Agreement with Northern Trust dated February 18, 2010.
ATTACHMENT NO. 1

ANNEX 1 TO SECURITIES LENDING AUTHORIZATION AGREEMENT BETWEEN THE BOARD OF ADMINISTRATION OF THE CITY EMPLOYEES’ RETIREMENT SYSTEM OF THE CITY OF LOS ANGELES AND THE NORTHERN TRUST COMPANY – INVESTMENT MANAGER OBJECTIVES AND GUIDELINES FOR CUSTOM CASH COLLATERAL ACCOUNT / COLLATERAL ACCOUNT
ANNEX 1 TO SECURITIES LENDING AUTHORIZATION AGREEMENT
(the "Agreement")
BETWEEN THE BOARD OF ADMINISTRATION OF THE CITY EMPLOYEES'
RETIREMENT SYSTEM OF THE CITY OF LOS ANGELES ("System")
AND THE NORTHERN TRUST COMPANY ("Agent")

INVESTMENT MANAGER OBJECTIVES AND GUIDELINES
FOR CUSTOM CASH COLLATERAL ACCOUNT / COLLATERAL ACCOUNT
("THE SHORT TERM INVESTMENT ACCOUNT")

INVESTMENT OBJECTIVE

To seek to maximize current income to the extent consistent with safety of principal, maintenance of liquidity and the investment standards set forth below. The Short Term Investment Account (the "Fund") is intended as a separate account for the investment of U.S.-dollar based cash Collateral received by Agent under the attached Agreement that would otherwise be invested in the pooled U.S. cash Collateral fund of the Global Core Collateral Section (as defined in the Agreement). Upon the effective date of these guidelines, the Lender and Agent hereby acknowledge that there may be certain assets in the Fund that would not meet these guidelines if newly purchased at this time ("Transition Assets"), though these assets were in compliance with the relevant guidelines at the time of purchase. The Lender and Agent hereby agree that Agent may, at its sole discretion, hold Transition Assets until maturity, unless otherwise directed by Lender.

Cash Collateral Guidelines

Listed below are the cash Collateral guidelines specifying eligible investments, credit quality standards, and diversification, maturity and liquidity requirements. Subject to the above, all requirements, including diversification, listed in these guidelines are effective at the time of purchase of any security or instrument as a cash Collateral investment. Agent will make use of market standard settlement methods for cash investments including the use of a tri-party custodian as approved by Agent’s appropriate risk committee. Settlement through a tri-party custodian may result in cash collateral.

INVESTMENT GUIDELINES

1. Eligible Investments:

(a) Obligations issued or guaranteed by the U.S. Government, its agencies or instrumentalities and custodial receipts with respect thereto.
(b) Obligations of domestic or foreign commercial banks, including Agent, (or branches thereof where deposits with branches are general obligations of the parent bank) and bank holding companies, including, but not limited to, commercial paper, bankers' acceptances, certificates of deposit, time deposits, notes and bonds.

(c) Obligations of U.S. and foreign corporations, including, but not limited to, commercial paper, asset backed commercial paper, notes, bonds and debentures. Asset backed commercial paper must carry 100% liquidity support.

(d) Obligations issued by foreign governments or political subdivisions thereof, and their agencies or instrumentalities.

(e) Units of the NTGI Collective Short Term Investment Fund.

(f) Repurchase agreements with counterparties approved by the Agent's appropriate credit committee at the time of purchase where the Collateral is held by Agent or for the account of Agent by an agent or subcustodian of Agent or a central bank, depository, or a third party custodian, and which is fully collateralized by investments described in paragraph (a) above and having a market value, including accrued interest, equal to or greater than the amount invested in the repurchase agreement. Initial collateralization will be at 102%.

(g) In the case of each investment (a) through (f) above: (i) All investments shall be denominated in U.S. dollars, and (ii) investments may include variable and floating rate instruments. Variable and floating rate instruments will be limited to those securities with reference indexes of Federal Funds Effective, Federal Funds Open, 1 Month LIBOR and 3 Month LIBOR and which are structured such that the spread relationship between the security coupon rate and index reference rate is constant.

2. Credit Quality:

(a) With respect to commercial paper and other short-term obligations, investments and reinvestments shall be limited to obligations rated (or issued by an issuer that has been rated) at the time of purchase in the highest rating category (within which there may be sub-categories or gradations indicating relative standing) by any two of the Nationally Recognized Statistical Rating Organizations ("NRSROs") that have assigned a rating to such security (or issuer).

(b) With respect to bonds and other long-term obligations, investments and reinvestments shall be limited to obligations rated at the time or purchase in one of the two highest rating categories (within which there
may be sub-categories or gradations indicating relative standing) by the NRSROs that have assigned a rating to such security.

(c) Notwithstanding (a) and (b) above, Agent may invest assets of the Fund in the NTGI Collective Short Term Investment Fund which is deemed to be of equal or superior credit quality.

3. Diversification:

(a) Except for repurchase agreements and obligations issued or guaranteed by the U.S. Government, its agencies or instrumentalities, a maximum of 3% of the value of the total assets of the Fund may be invested in securities of any one issuer. With respect to the NTGI Collective Short Term Investment Fund, holdings in excess of 3% of the value of total assets of the Fund are permitted, but should not exceed 50% without written permission from the client.

(b) A maximum of 15% of the value of the total assets of the Fund may be invested in repurchase agreements with one counterparty.

(c) A maximum of 15% of the value of the total assets of the Fund may be exposed to the risks of any one foreign country and a maximum of 25% of the value of the total assets of the Fund may be exposed to the risks of non-U.S. entities. This limitation is applicable to the obligations of all foreign issuers. Only entities domiciled in large industrialized and politically stable countries which have been assigned A or B country rating by the Agent’s appropriate risk committee may be used.

(d) Except for the banking industry, a maximum of 25% of the value of the total assets of the Fund may be invested in obligations of issuers having their principal business in the same industry. For such purposes, personal and business finance companies are considered to be in separate industries. Finance companies which are wholly-owned will be considered to be in the industries of their parents if their activities are primarily related to financing the operations of their parents.

(e) Compliance with the credit quality and diversification requirements of these guidelines shall be determined on the basis of values or ratings at the time of acquisition of any security.

4. Liquidity/Maturity:

(a) A minimum of 20% of the value of the assets of the Fund should mature daily. Holdings of the NTGI Collective Short Term Investment Fund will be included in this calculation.
(b) A minimum of 35% of the value of the assets of the Fund will mature within one month.

(c) The interest rate sensitivity of the Fund will be limited to a maximum of 60 days.

(d) The maximum final or average maturity of any variable or floating rate security will be two years. The maximum final or average maturity of a fixed rate security will be 13 months. The maximum weighted average maturity (as herein defined) will be limited to 180 days.

(e) A maximum of 25% of each of the Fund may be invested in securities or instruments which have a maturity (as herein defined) exceeding 97 days.

(f) Compliance with the liquidity and maturity requirements of these guidelines shall be determined on the basis of values or ratings at the time of acquisition of any security.

(g) For the purposes of this Annex 1, the "maturity" of a security or instrument shall be defined as the date when final payment is due, with these exceptions: (a) instruments issued or guaranteed by the U.S. Government or any agency or instrumentality thereof which have a variable rate of interest shall be deemed to have a maturity equal to the period remaining until the next readjustment of the interest rate, (b) variable rate instruments (other than those described in (a) above) shall be deemed to have a maturity equal to the longer of the period of time remaining until either, (i) the next readjustment of the interest rate or (ii) the principal amount can be recovered through demand or maturity, (c) floating rate instruments which incorporate a demand feature shall be deemed to have a maturity equal to the period of time remaining until the principal amount can be recovered through demand, (d) a repurchase agreement shall be deemed to have a maturity equal to the period of time remaining until the date on which the repurchase is scheduled to occur, or, if no date is specified but the agreement is subject to demand, the notice period applicable to a demand for the repurchase of the securities.

(h) For the purposes of this Annex 1, the "interest rate sensitivity" of a security or instrument shall mean (a), in the case of a fixed rate security or instrument (i) the date on which final payment is due or (ii) the principal amount can be recovered through demand (if applicable) or (b) in the case of a floating or variable rate security or instrument, the shorter of the period of time remaining until either (i) the next readjustment of the interest rate or (ii) the principal amount can be recovered through demand (if applicable).
5. Trading Policy

Although the Fund will generally not engage in short-term trading, the Fund may dispose of any portfolio security prior to its maturity if, on the basis of a revised credit evaluation of the issuer or other considerations, Agent believes such disposition is advisable. Subsequent to its purchase, a portfolio security or issuer thereof may be assigned a lower rating or cease to be rated. Such an event would not necessarily require the disposition of the security, if the continued holding of the security is determined to be in the best interest of the fund. In any event, Lacers will be notified within 5 business days when any security is downgraded below the minimum requirements set forth in these investment guidelines.

Dated: 2/18/10

BOARD OF ADMINISTRATION OF THE
CITY EMPLOYEES' RETIREMENT
SYSTEM OF THE CITY OF

LOS ANGELES

By: ____________________________
Name: SALLY CHOI
Title: GENERAL MANAGER
ACCEPTED:

THE NORTHERN TRUST COMPANY

By: ____________________________
Name: J.CHRISTOPHER D'AGLI
Title: SENIOR VICE PRESIDENT
NTGI Collective Short Term Investment Fund

Fund Declaration

Northern Trust Investments, N.A., as Trustee under the Northern Trust Global Investments Collective Funds Trust (the "Declaration of Trust), hereby adopts this Fund Declaration with respect to the NTGI Collective Short Term Investment Fund (the "Fund"). Unless otherwise indicated, all capitalized terms used herein shall have the meaning given to them in the Declaration of Trust.

The Trustee declares that it shall hold and administer all property that may be transferred to or received by it from time to time as Trustee of the Fund in accordance with the terms and conditions of the Declaration of Trust, which is incorporated herein by this reference, subject to this Fund Declaration.

1. The Fund: The Fund is maintained as a short term investment fund, the assets of which are valued on a cost, rather than market value basis for purposes of admissions and withdrawals. The Fund is composed of high-grade money market instruments with short maturities.

2. Investment Objective: The investment objective of the Fund is to maximize current income to the extent consistent with the preservation of capital and maintenance of liquidity.

3. Authorized Investments: In order to achieve the foregoing objective, the Trustee may invest and reinvest the assets of the Fund in the following investments:

a.) Obligations issued or guaranteed by the U.S. Government, its agencies or instrumentalities and custodial receipts with respect thereto.

b.) Shares of approved money market portfolios of regulated investment companies that determine net asset values based on Rule 2a-7 under the Investment Company Act of 1940.

c.) Obligations of domestic or foreign commercial banks, including The Northern Trust Company ("Northern") (or branches thereof where deposits with branches are general obligations of the parent bank) and bank holding companies, including, but not limited to, commercial paper, bankers' acceptances, certificates of deposit, time deposits, notes and bonds.

d.) Obligations of domestic or foreign corporations, including, but not limited to, commercial paper, notes, bonds and debentures.

e.) Obligations issued or guaranteed by foreign governments or political subdivisions thereof, and their agencies or instrumentalities.

f.) Mortgage and other asset backed securities, including, but not limited to, collateralized mortgage and debt obligations.

g.) Repurchase agreements collateralized fully by investments described in paragraph (a) – (f) above, which have a market value, including accrued interest, of at least 102% of the amount invested in the repurchase agreement.

h.) Guaranteed investment contracts issued by insurance companies rated A by A.M. Best & Company.

i.) In the case of any investment under a. through h. above:

(1) All investments shall be denominated or synthetically denominated in U.S. dollars;

(2) Investments may include variable and floating rate instruments

4. Maturity: The Fund shall maintain a dollar-weighted average portfolio maturity of 90 days or less (as defined below). Maximum
final maturity for all investments shall be limited to 18 months. Each asset of the Fund shall be held until maturity under normal circumstances.

a.) For purposes of determining the maturity of each eligible investment, (a) instruments which have an adjustable rate of interest shall be deemed to have a maturity equal to the period remaining until (i) the next readjustment of the interest rate or (ii) the principal amount can be recovered through demand or optional put (if applicable), and (b) a repurchase agreement shall be deemed to have a maturity equal to the period of time remaining until the date on which the repurchase is scheduled to occur, or, if no date is specified but the agreement is subject to demand, the notice period applicable to a demand for the repurchase of the securities.

b.) Fixed rate mortgage and other asset backed securities will be deemed to have a final maturity equal to such security's weighted average life at the time of purchase which thereafter may be affected by prepayments on the underlying instruments.

5. Credit Quality:

a.) With respect to commercial paper and other short-term obligations, investments and reinvestments shall be limited to obligations rated (or issued by an issuer that has been rated) at the time of purchase in the two highest rating categories (within which there may be sub-categories or gradations indicating relative standing) by the nationally recognized statistical rating organizations ("NRSROs") provided however, that a maximum of 15% of the value of the total assets of the Fund may be invested in commercial paper and other short-term obligations which are rated (or issued by an issuer that has been rated) at the time of purchase only in the second highest rating category by two or more NRSROs which rate the security (or issuer).

b.) With respect to bonds and other long-term obligations, investment and reinvestment shall be limited to obligations rated at the time of purchase in one of the three highest rating categories (within which there may be sub-categories or gradations indicating relative standing) by the NRSROs which rate the security (or issuer).

c.) Any unrated investments will be, in the judgment of the Trustee, of equal or superior credit quality to eligible rated investments.

6. Diversification:

a.) Except for obligations issued or guaranteed by the U.S. government, its agencies or instrumentalities and repurchase agreements, a maximum of 5% of the value of the total assets of the Fund may be invested in securities of any one issuer.

b.) A maximum of 25% of the value of the total assets of the Fund may be invested in repurchase agreements with one counterparty.

c.) Except for the banking industry, a maximum of 25% of the value of the total assets of the Fund may be invested in obligations of issuers having their principal business in the same industry. For such purposes, personal and business finance companies are considered to be in separate industries. Finance companies which are wholly-owned will be considered to be in the industries of their parents if their activities are primarily related to financing the operations of their parents. Asset backed securities may be considered to be in different industries.

d.) Compliance with the diversification requirements of these guidelines shall be determined on the basis of values immediately after the acquisition of any security.

7. Valuation: The Fund shall be valued at each of the following times: (a) on each day that the relevant bond market and/or the Federal Reserve are open (b) at such other times as the Trustee deems appropriate (each such day being referred to as a "Valuation Date"). The principal value of the Fund shall be equal to the cost of all securities then held in the Fund, plus the amount of any un-invested principal cash or less the amount of any principal overdraft as the case may be. An investment purchased, the purchase price of
which shall not have been paid, shall be included for valuation purposes as a security held, and the cash account shall be adjusted by the deduction of the net purchase price. An investment sold but not delivered pending receipt of the proceeds shall be valued at the net sale price. The difference between cost and anticipated principal receipt on maturity must be accrued on a straight-line basis. The computations described shall be completed no later than the close of business on the first business day after the day as of which such computations are being made.

8. **Treatment of Income:** The net income shall be determined as of each day whether or not a Valuation Date. The computations shall be completed no later than the close of business on the first business day after the day as of which such computations are being made. The net income shall be allocated daily among the units into which the Fund is divided and shall be distributed as of the last calendar day of each month except that the actual distribution may be made within a reasonable period not to exceed five business days following such date.

9. **Notification of Deadlines:** Admission requests received in good order and accepted by the Trustee by 3:00 P.M. Central time on any Valuation Date shall be executed on the same day they are received at that day’s unit value provided that payment in federal or other immediately available funds is received by close of business on the Valuation Date. Withdrawal requests received in good order and accepted by the Trustee by 3:00 P.M. Central time on any Valuation Date shall be executed on the same day they are received at that day’s unit value. Payment shall be made on the Valuation Date. Income is earned through and including the day prior to the day of withdrawal. The Trustee requests that an institution give advance notice by 11:00 A.M. Central time if it intends to deposit or withdraw funds of $5 Million or more on a Valuation Date. The Trustee reserves the right to reject any admission or withdrawal requests. The Trustee reserves the right to change any of its admission or withdrawal procedures. The Trustee may implement alternative admission and withdrawal procedures with respect to cash that is swept into the Fund.

The information set forth in this Fund Declaration is intended solely for the benefit of the plan sponsor (the “Sponsor”) and other appropriate fiduciaries of an eligible employee benefit plan for purposes of determining whether or not any such plan should become a Participating Trust with respect to the Fund. Accordingly, this Fund Declaration does not contain a complete description of the risks associated with the investments described herein and is not intended to constitute investment advice for participants in any such employee benefit plan. All determinations regarding the scope and content of any materials or other information which may be distributed to such participants are solely the responsibility of the Sponsor acting in its fiduciary capacity.

Investments in the Fund are not deposits or obligations of, or guaranteed by, Northern Trust Investments, N.A. or any of its affiliates and are not insured by the Federal Deposit Insurance Corporation or any other agency of the U.S. Government. Investment in the Fund involves the possible loss of principal.

Date: May 31, 2007

NORTHERN TRUST INVESTMENTS, N.A.

BY:

[Signature]

NAME: John Krieg

TITLE: Senior Vice President
ATTACHMENT NO. 3

THE NORTHERN TRUST COMPANY
SECURITIES LENDING COLLATERAL SCHEDULE
–
GLOBAL CORE COLLATERAL SECTION
GLOBAL CORE COLLATERAL SECTION

Purpose

The Global Core Collateral Section is available to certain clients of The Northern Trust Company ("Agent") participating in the Securities Lending Program. Participating Lenders in the Global Core Collateral Section receive cash, letters of credit, or eligible instruments (described below) as Collateral for loans of their securities to approved borrowers. The purpose of the Collateral Section is to identify eligible Collateral and, in the case of cash Collateral, the opportunity for a market rate of return consistent with allowed investment latitude and thereby seek to generate positive program spreads.

Upon the effective date of this Collateral Schedule, Lender and Agent hereby acknowledge that (i) the terms contained herein will apply to new purchases from such effective date; (ii) there may be certain assets held within the Collateral Section that complied with the requirements of the collateral schedule then in effect at the time of purchase of such assets, but that may not meet the terms of this Collateral Schedule (such assets termed “Prior Purchased Assets”); and (iii) such Prior Purchased Assets will continue to impact the overall Collateral Section accordingly. Agent may, at its sole discretion, hold such Prior Purchased Assets until maturity, or as otherwise determined by it.

Capitalized terms used in this Collateral Schedule and not defined shall have the meanings given to them in the Agreement.

Collateralization Levels

Initial Collateral levels will not be less than 102% of the Market Value of the Borrowed Securities, or not less than 105% if the Borrowed Securities and the Collateral are denominated in different currencies. Marking to market is performed every business day, subject to de minimis rules of change in value, and the borrower is required to deliver additional Collateral when necessary so that the total Collateral held by Agent for all loans to the Borrower of all Participating Lenders will at least equal the Market Value of all the Borrowed Securities of all Participating Lenders loaned to the Borrower. Where the Borrowed Securities and the initial Collateral are denominated in the same currency, additional Collateral may be denominated in a currency different from that of the original Collateral, but Collateral levels shall be maintained throughout the loan as if all Collateral were denominated in the same currency as the Borrowed Securities.

Cash and Non-Cash Collateral Guidelines

Listed below are the cash and non-cash Collateral guidelines specifying eligible investments, credit quality standards, and diversification, maturity and liquidity requirements. Other than in respect of Prior Purchased Assets, all requirements listed in these guidelines are effective at the time of purchase of any security or instrument as a cash Collateral investment and at the time of...
receipt of any non-cash Collateral. Standard settlement periods and market conventions may be incorporated when calculating issuer exposure and liquidity percentages at the time of purchase for cash Collateral. Agent will make use of market standard settlement methods for cash investments and non-cash collateral including the use of a tri-party custodian as approved by Agent’s appropriate risk committee. Settlement through a tri-party custodian may result in cash collateral being held on deposit at the tri-party custodian.

**Cash Collateral Funds (Global Core Open Cash Collateral)**

**Investment Objectives**

Cash Collateral of the Global Core Collateral Section is invested to seek to maximize current income to the extent consistent with the preservation of capital and maintenance of liquidity by investing cash Collateral of this section in accordance with the guidelines stated below. Cash Collateral investments emphasize liquidity and principal preservation as prime objectives. There can be no assurance that these objectives will be attained. Within quality, maturity, and market sector diversification guidelines, investments are made in those securities with the most attractive yields.

**Investment Guidelines**

A separate cash Collateral fund will be maintained for each currency, subject to the eligibility rules below. Cash Collateral may be denominated in the following currencies: U.K. Sterling, U.S. Dollars, and the Euro. Funds available for investment of the cash Collateral of the Global Core Collateral Section shall be invested in securities or instruments managed under the following guidelines.

**Eligible Investments:**

- Obligations issued or guaranteed by OECD (Organization for Economic Cooperation and Development) member states or their local governments, agencies, or authorities

- Obligations of U.S. and non-U.S. commercial banks, including but not limited to commercial paper, banker's acceptances, certificates of deposit, time deposits, notes and bonds.

- Obligations of U.S. and non-U.S. corporations, including but not limited to, commercial paper, notes, bonds and debentures.

- Asset-backed commercial paper, excluding structured investment vehicles (SIV) or extendable commercial notes (ECN) and liquidity notes (LN), with a maturity (as herein defined) no longer than 97 days.

- Fully Collateralized repurchase agreements with counterparties approved by the Agent's appropriate credit committee where the Collateral is held by Agent or for the account of Agent by an agent or sub-custodian of Agent or a central bank, depository, or a third party custodian. Collateral shall be subject to certain issuer and market diversification requirements established by the Agent’s appropriate credit committee based upon Collateral type, from time to time. All repurchase agreements shall be collateralized at a margin of 102% or higher depending upon the Collateral type, as established by such committee from time to time. Collateral types will include the following security types:
• OECD government securities or their local governments, agencies or authorities

• Commercial paper and certificates of deposit (A1/P1 or higher)

• Investment grade or high yield corporate debt

• Equity securities, which are part of a major U.S. or non-U.S. equity index, such as the S&P 500 or Russell 1000, or any other equity index approved by Agent’s appropriate credit committee

• Units or shares of registered or unregistered money market funds or institutional cash funds, global liquidity funds or other pooled investment vehicles, which seek to maintain a constant dollar net asset value, including those funds in which the Agent or its affiliates acts as investment advisor, custodian, sponsor, administrator, transfer agent or similar capacity.

• Floating and variable rate securities or instruments will be limited to those securities or instruments whose rates are reset based upon the following reference indices: LIBOR, Fed Funds, Treasury Bills, Certificate of Deposit Composite, Commercial Paper Composite, or other appropriate money market indexed composites which are generally used within the local markets. In all instances, the spread relationship between the security coupon rate and index reference rate must be constant. Step up securities are acceptable as long as the spreads are known at time of purchase. Otherwise eligible securities or instruments with an interest rate cap that is based on the reference index (LIBOR, Fed Funds, etc.) are expressly prohibited.

• End of day residual cash balances, which cannot be invested in the market place, will be swept into a short-term investment with The Northern Trust Company or any of its worldwide branches or affiliated U.S. or non-U.S. banks or bank holding companies.

Credit Quality

• With respect to commercial paper and other short-term obligations, investments and reinvestments shall be limited to Tier One Securities. For purpose of this paragraph, “Tier One Securities” shall mean short-term obligations rated (or issued by an issuer that is rated with respect to a class of short-term obligations, or a comparable short-term obligation) at the time of purchase in the highest rating category (within which there may be sub-categories or gradations indicating relative standing) by at least two Nationally Recognized Statistical Rating Organizations ("NRSROs"). If there are more than two ratings by NRSROs, then all must be in the highest rating category.

For purposes of determining credit quality, a “short-term obligation” shall mean any eligible security or instrument (other than a repurchase agreement) which has a maturity (as defined in this Schedule) of 397 days or less at the time of issuance or has a put or demand feature that entitles the holder to receive the principal amount at specified intervals not exceeding 397 days.

• Repurchase agreement counterparties which are unrated must have a parent with a rating at time of purchase that matches the short term rating requirement noted above.

• With respect to bonds and other long-term obligations, investments and reinvestments shall be limited to obligations rated (or issued by an issuer that is rated with respect to a class of long-term obligations, or a comparable long-term obligation) at the time of purchase in one of
the two highest rating categories (within which there may be sub-categories or gradations indicating relative standing) by at least two NRSROs. If there are more than two ratings by NRSROs, then all must be in the two highest rating categories.

For purposes of determining credit quality, a “long-term obligation” shall mean any eligible security or instrument (other than a repurchase agreement) which has a maturity (as defined in this Schedule) of greater than 397 days at the time of issuance and is not subject to a put or demand feature in 397 days or less.

- Obligations of non-U.S. issuers shall be limited to obligations of entities domiciled in countries which have a sovereign long-term rating at the time of purchase of AA- (or the equivalent) or higher by any NRSRO.

**Maturity/Liquidity**

- The “maturity” of a security or instrument (or “maturities” for more than one security or instrument) shall be defined as follows:
  i. The shorter of the date on which the principal amount is ultimately required to be paid or the put date under a demand feature, or
  ii. Variable rate eligible government obligations shall have a maturity equal to the date of the next readjustment of the interest rate, or
  iii. The maturity of a pooled investment fund shall be the number of days required to liquidate an investment in the fund under normal market conditions.

- A minimum of 60% of each of the cash Collateral funds shall be invested in securities which have a maturity (as herein defined) of 97 days or less.

- A minimum of 20% of each of the cash Collateral funds shall be available each business day. This may be satisfied by maturities (as herein defined), or demand features.

- The rate sensitivity or weighted average maturity, as measured to the shorter of the remaining time until the interest rate reset (if applicable) or maturity, of each of the cash Collateral funds will be limited to 60 days.

- The weighted average maturity, as measured by maturity (as herein defined), of each of the Cash Collateral funds shall not exceed 120 days.

- Floating rate and variable rate investments must have interest rates that may be reset at least every 97 days.

- Except for asset-backed commercial paper and variable rate eligible government securities, the maturity of investments may not exceed 13 months from the date of purchase. The maturity of asset-backed commercial paper shall not exceed 97 days. The maturity of variable rate eligible government securities may not exceed 762 days.

**Diversification**

- Subject to the following exceptions, a maximum of 5% of the Collateral Section may be invested in securities or instruments of any one issuer or obligor. The following are exceptions to the foregoing:
  - 100% of the Collateral Section may be invested in obligations issued or guaranteed by eligible OECD member states or their local authorities
- 25% of the Collateral Section may be invested with any one counterparty in repurchase agreements collateralized by securities issued by OECD member states or their local governments, agencies or authorities
- 10% of the Collateral Section may be invested with any one counterparty in repurchase agreements collateralized by securities not issued by OECD member states or their local governments, agencies or authorities

- Notwithstanding the foregoing, Agent may temporarily suspend the diversification requirements during any period where the cash Collateral funds within the Collateral Section are less than $500,000,000 (U.S.). In such event, the term 25% will be substituted for 5% and 10% above.

- Except for the banking industry, a maximum of 25% of the Collateral Section may be invested in obligations of issuers having their principal business in the same industry. For such purposes, personal and business finance companies are considered to be in separate industries. Finance companies, which are wholly owned, will be considered to be in the industries of their parents if their activities are primarily related to financing the operations of their parents. For purposes of industry diversification, asset backed commercial paper will be designated with an industry that reflects the source or structure of the underlying cash flows (e.g. Single Seller ABCP, Multi-Seller ABCP, etc.). As to utility companies, the gas, electric, water and telephone businesses are considered separate industries. Industry will be assigned at the issuer level.

- For repurchase agreements collateralized by securities issued by non-OECD member states or their local governments, agencies or authorities, no more than 10% of the Collateral Section may be invested in each type of repo collateral. No more than 25% of the Collateral Section may consist of repurchase agreements collateralized by securities issued by non-OECD member states or their local governments, agencies or authorities.

- Asset-backed commercial paper shall comprise no more than 10% of the Collateral Section.

- A maximum percentage of the Collateral Section which may be exposed to the risks of any one country shall be established from time to time by Agent.

**Cash Collateral Invested Separately**

Cash Collateral may be invested separately in any permitted currency in connection with “Term Loans,” which are loans collateralized by cash where the agreed date of maturity of the loan or the date of renegotiation of the rebate rate for the loan is greater than one business day. Investments of Term Loan cash Collateral are not a part of any cash Collateral fund but are held as separate assets of the Collateral Section. A Term Loan investment must be selected so that its rate sensitivity matches closely with the agreed date of maturity or renegotiation of the underlying Term Loan. Cash Collateral invested separately will meet all investment guidelines specified above for the cash Collateral funds, with these exceptions: (a) greater than 40% of such Collateral may be invested in securities which have a maturity exceeding 3 months, (b) less than 20% of such Collateral may be available each business day, and (c) the rate sensitivity of such Collateral may exceed 60 days.

**Non-Cash Collateral**

**Eligible Instruments**

- Obligations issued or guaranteed by OECD (Organization for Economic Cooperation and Development) member states or their local governments, agencies or authorities.
• Irrevocable letters of credit issued by banks approved by Agent's appropriate credit committee.

• Certificates of Deposit issued by banks approved by Agent’s appropriate credit committee.

• Equity securities which match the currency of the borrowed securities and are part of any of the following indices, or part of any other indices approved by the Agent’s appropriate credit committee at the time of receipt:
  
  - German DAX 30
  - France CAC 40
  - Japan NIKKEI 225
  - United Kingdom FT 100
  - United States S&P 500.

• Corporate debt securities, including convertible securities, the ratings of which, or the issuers of which, conform to the applicable Credit Quality standards specified above for the cash Collateral funds at the time of receipt and which match the currency of the borrowed securities.

Credit Quality

• All government obligations issued or guaranteed by any eligible OECD member state or their local governments, agencies or authorities must have a long-term rating at time of receipt of AA- (or the equivalent) or higher by any NRSRO.

• All letter of credit issuers and certificates of deposit shall be subject to the same credit quality guidelines as issuers of short-term investment securities.

Diversification

• Obligations issued or guaranteed by any eligible OECD member state or its local governments, agencies or authorities may be accepted without limit.

• Irrevocable letters of credit and certificates of deposit are subject to the same issuer and country limits as cash Collateral investments.

• Equity and convertible securities may only be accepted (interchangeably) as Collateral for equity and convertible securities loans. Corporate debt securities, other than convertible securities, may only be accepted as Collateral for loans of corporate debt securities (other than convertible securities). No corporate debt, equity or convertible security may be added to the Collateral within the Collateral Section that would cause more than 10% of the Collateral Section, determined at the time of such addition, to consist of securities of a single issuer or obligor.

• Notwithstanding the foregoing, Agent may temporarily suspend the above percentage diversification requirements during any period where the Collateral Section is less than $500,000,000 (U.S.). In such event, the term 25% will be substituted for 10% above.

Operation of the Collateral Section

I. Income
Income earned from the investment of cash Collateral, net of (i) expenses, including but not limited to, transaction accounting and reporting expenses, auditing fees, brokerage fees and other commissions, and any miscellaneous expenses, (ii) any applicable payment or withholding of tax, (iii) loan rebate fees paid or accrued to the borrowers, and (iv) any adjustments to provide for regular returns as provided below, together with loan fees for loans Collateralized by non-cash Collateral, is distributed to Participating Lenders of the Collateral Section on a monthly basis in the currency in which the income was earned.

Lender may engage Agent to convert Lender’s net income from securities lending into Lender’s base currency. Such transaction shall occur on the 5th business day of the month to coincide with the monthly period close. Conversion proceeds shall be credited to Lender’s account by the fifteenth day of each month (or the next following business day if the fifteenth is not a business day). The Agent, acting as principal, or an affiliate of the Agent, may be a counterparty in foreign exchange transactions and may retain any profits earned thereby as long as the terms of the transaction are competitive with terms then available in the relevant market for similar transactions.

On a monthly basis, a portion of the income earned by a Participating Lender on a loan within the cash Collateral funds on any business day may be withheld by Agent and transferred to income earned on a different loan within the account for that Lender on any other business day if on that day one or more rebates due or accrued to borrowers with respect to one or more loans should exceed the income earned from the cash Collateral supporting those loans. If, despite such transfers, during any month total rebates payable exceed total revenues with respect to any loan or loans of a Participating Lender, the net shortfall shall be charged against positive undistributed earnings from other loans of the same Lender to the extent thereof, and any remaining shortfall shall be allocated between the Participating Lender and the Agent in the same proportions as positive securities lending revenues. Any amounts thereby payable by the Participating Lender shall be the personal obligation of that Lender and shall be due and payable upon the Lender’s receipt of Agent’s invoice for such amounts. Agent may withhold (and each Participating Lender is deemed to grant to Agent a lien upon) future loan revenues, and any other property of the Participating Lender then or thereafter in the possession of Agent, to secure the payment of such obligation. Notwithstanding the foregoing, however, losses of Collateral principal shall not be shared between a Participating Lender and the Agent to any extent but shall be allocated as provided in the Agreement or this Collateral Schedule.

Incidental expenses, (e.g., negative float due to payment advances) incurred in the administration of the Collateral section are recovered against incidental receipts, (e.g., positive float from pending balances) similarly arising and any remaining balance is added to the lending revenues for the benefit of all Participating Lenders within the Collateral Section. Net realized short-term capital gains or losses (if any) will be distributed at least annually.

II. Net Asset Value

The cash Collateral funds will value investments at acquisition cost as adjusted for amortization of premium or accretion of discount in order to maintain a constant net asset value of $1.00 per unit (or a net asset value of one unit of the relevant currency in the case of non-dollar funds). In the case of Term Loans, a new Participating Lender may be substituted during the term of the loan for another Participating Lender. If that happens, the new lender will participate in the existing Collateral investment, which is recorded at amortized cost.

The cash Collateral funds intend to maintain a constant net asset value within minimum tolerances established by Agent’s senior management. There is no guarantee, however, that the
cash Collateral funds will be able to attain that objective. The funds are not registered under the Investment Company Act of 1940 as money market funds, are not subject to regulation by the Securities and Exchange Commission and do not comply with federal regulations governing registered money market mutual funds.

Periodically or as needed the net asset value of the fund determined under the amortized cost method will be compared with the current market value of the fund. In the event that the current market value of a fund should fall below the permitted range of value on any business day for any reason, Agent may, at its option, without prior notice to any Participating Lender, (1) reduce or fail to declare a dividend for one or more business days, (2) borrow money at market rates from any source (including Agent individually) at the expense of the funds in order to meet liquidity needs of the funds or (3) take other reasonable steps to meet its obligations to borrowers. In addition, should any Collateral Deficiency (as that term is used in the Agreement) occur within the funds due to a specific investment of cash Collateral, Agent may transfer the deficient asset or assets to a sub-fund for the benefit of the Participating Lenders of the Collateral Section with loans then outstanding (in the proportions specified in the Agreement), each of whom shall then be obligated to repay to the funds, upon the demand of Agent therefor, such Lender’s pro rata share of the total value that the deficient assets would have contributed to the funds had the Collateral Deficiency not occurred (and shall be deemed to grant to Agent a lien upon any property of or due such Lender then or thereafter in the possession of Agent to secure the payment of such obligation). In no event shall Agent be personally liable to restore any loss within the cash Collateral funds, unless the loss was directly caused by the negligence or intentional misconduct of Agent.

III. Trading Policy

Although the cash Collateral funds will generally not engage in short term trading, the fund may dispose of any portfolio security prior to its maturity if, on the basis of a revised credit evaluation of the issuer or other considerations, Agent believes such disposition is advisable. Subsequent to its purchase, a portfolio security or issuer thereof may be assigned a lower rating or cease to be rated. Such an event would not necessarily require the disposition of the security, if the continued holding of the security is determined to be in the best interest of the fund and the Participating Lenders of the Collateral Section.

IV. Effecting Changes

Agent shall effect Lender’s initial selection of a Collateral Section, and any subsequent election by Lender to convert from one Collateral Section to another, as promptly as possible after Agent's receipt of a properly executed Collateral Section Option Form, giving due regard to operational requirements and the best interests of the funds as a whole. Lender may change the designation of a particular Collateral Section no more than two times in any calendar year by completing and signing a new Collateral Section Option Form and returning it to Agent.

Agent reserves the right to add additional Collateral Sections (with corresponding Collateral Schedules), to divide or discontinue existing Collateral Sections, to limit participation in any Collateral Sections or to change any of the essential characteristics of any Collateral Section; provided, however, that each Participating Lender shall be given at least 30 days’ advance written notice of any material change in a Collateral Section. Agent may also at its discretion provide unique options for separate investment of cash Collateral to particular Participating Lenders, who will participate in the loan allocation system but may not participate in any Collateral Section.
ATTACHMENT NO. 4

NORTHERN TRUST SECURITIES LENDING
BORROWER LIST (COUNTERPARTY)
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|               |                      |               | Fitch F1+/A+** |
| ABN AMRO SECURITIES (USA) LLC | ABN AMRO BANK N.V. | United States | S&P A1/A**
|               |                      |               | Moody's P1/Aa3**
|               |                      |               | Fitch F1+/A+** |
| ABBEY NATIONAL TREASURY SERVICES PLC | BANCO SANTANDER SA | United Kingdom | S&P A1+/AA**
|               |                      |               | Moody's P1/Aa2**
|               |                      |               | Fitch F1+/AA** |
| ABBEY NATIONAL TREASURY SERVICES PLC, STAMFORD | BANCO SANTANDER SA | United States | S&P A1+/AA**
|               |                      |               | Moody's P1/Aa2**
|               |                      |               | Fitch F1+/AA** |
| BANCO SANTANDER SA | BANCO SANTANDER SA | Spain         | S&P A1+/AA**
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** Parent Level Rating Applied

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Moody's P1/A1**  
Fitch F1+/AA-** | THE ROYAL BANK OF SCOTLAND GROUP PLC | United States |
| THE ROYAL BANK OF SCOTLAND GROUP PLC | S&P A1/A**  
Moody's P1/A1**  
Fitch F1+/AA-** | THE ROYAL BANK OF SCOTLAND GROUP PLC | United Kingdom |
| THE ROYAL BANK OF SCOTLAND N.V., CANADA BRANCH | S&P A1/A+  
Moody's P1/A2  
Fitch F1+/AA- | THE ROYAL BANK OF SCOTLAND GROUP PLC | Canada |
| THE ROYAL BANK OF SCOTLAND N.V., LONDON BRANCH | S&P A1/A+  
Moody's P1/A2  
Fitch F1+/AA- | THE ROYAL BANK OF SCOTLAND GROUP PLC | United Kingdom |

** Parent Level Rating Applied

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Moody's P1/A2  
Fitch F1+/AA- | THE ROYAL BANK OF SCOTLAND GROUP PLC | United States |
| THE ROYAL BANK OF SCOTLAND PLC | S&P A1/A+  
Moody's P1/Aa3  
Fitch F1+/AA- | THE ROYAL BANK OF SCOTLAND GROUP PLC | United Kingdom |
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Moody's P1/Aaa**  
Fitch F1+/AA-** | THE TORONTO-DOMINION BANK | United States |
| TD SECURITIES INC. | S&P A1+/AA-**  
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** Parent Level Rating Applied

Northern Trust
WELLS FARGO SECURITIES, LLC    WELL'S FARGO & CO.    United States

S&P A1+/AA-**
Moody's P1/A1**
Fitch F1+/AA-**

Total Borrowers  151
# TABLE OF CONTENTS

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<td>II. Monitoring and Evaluating</td>
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<td>III. Newly-Hired Managers</td>
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<td>IV. Managers “On Watch”</td>
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<td>V. Quantitative Factors</td>
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MANAGER MONITORING POLICY

I. PURPOSE

The purpose of this policy is to:

- establish general guidelines for monitoring the effectiveness of implementing the investment strategies for which the investment managers are retained
- provide a detailed framework and criteria for placing a manager “On Watch” status
- provide a systematic, consistent, and objective framework for recommending or electing to retain or terminate a manager

LACERS’ objective is to determine the likelihood of future success of the strategy; therefore, it is important that retention/termination decisions focus on qualitative aspects of each manager’s investment philosophy, strategy and process, as well as quantitative assessment of past and current performance.

It is also important to consider that each manager’s situation is unique, and must be analyzed on an individual basis, taking into account any unique circumstances affecting the manager and its relationship with LACERS.

II. MONITORING AND EVALUATION

Investment managers will be monitored in the following areas:

1. Investment performance relative to a specific benchmark and an appropriate peer group;
2. Investment risk relative to specific benchmark and an appropriate peer group;
3. Performance per unit of risk relative to specific benchmark and an appropriate peer group (information ratio);
4. Adherence to the investment manager’s philosophy, process, and stated investment style/strategy;
5. Organizational and personnel continuity;
6. Compliance with Investment Manager Guidelines and Investment Policy.

LACERS’ Staff and the General Fund Consultant will review and evaluate investment managers, quantitatively and qualitatively, using the following procedures:

1. Quarterly quantitative review of performance and risk relative to its specific benchmark and an appropriate peer group of active managers over various measurement periods (normally 3 – 5 years);
2. Quarterly review of portfolio characteristics, performance trends, style consistency, and risk expectations (standard deviation and tracking error);
3. Annual due-diligence meeting at LACERS’ office;
4. Every three years (generally) conduct due diligence meeting at the investment manager’s office, unless significant organizational change warrants immediate evaluation;
5. More frequent, detailed and formal review of investment managers “On Watch” (see Section IV).
Following any evaluation, Staff and General Fund Consultant will classify investment managers into one of two categories:

1. **Good Standing**
   An investment manager is in “Good Standing” status if it:
   - Outperforms its specific benchmark, net of fees, over rolling three and five year periods;
   - Produces a rolling information ratio (i.e., risk-adjusted return) of 0.2 or higher over three and five year periods;
   - Is in the top 50th percentile (gross of fees) relative to its peer group (also measured in gross of fees) for the 5-year period and “Since Inception” (subject to data availability);
   - Meets performance objectives, as stated in its Investment Manager Agreement, over a market cycle (defined as five years).

2. **On Watch**
   An investment manager is placed in “On Watch” status if it fails to meet two or more quantitative and/or qualitative factors as listed in Section V and VI.

**III. NEWLY-HIRED MANAGERS**

Quantitative factors will be evaluated quarterly, but shall not cause a manager to be placed “On Watch” until three years or more after inception, unless the manager demonstrates performance that is materially inconsistent with expectations or experiences organizational issues.

**IV. MANAGERS “ON WATCH”**

LACERS shall notify investment managers in writing of their status should they placed “On Watch”. Typically, “On Watch” status applies for one year from the initial placement date. However, the review period can be extended beyond the one year period, depending upon LACERS' satisfaction with the progress the investment manager is making or until the investment manager meets the criteria for “Good Standing”.

The Board is updated on a quarterly basis of all managers' performance, status, and “On Watch”.

Managers “On Watch” will receive no additional funding from rebalancing, contributions or other sources. However, funds may be withdrawn for rebalancing or liquidity needs.
## V. QUANTITATIVE FACTORS

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<td>Annualized <strong>net</strong> performance relative to its benchmark for trailing 3-years</td>
<td>Underperforms (net of fees) in 8 of 12 previous quarters</td>
<td>Place “On Watch” and notify manager</td>
</tr>
<tr>
<td>Annualized <strong>net</strong> performance relative to its benchmark for trailing 5-years</td>
<td>Underperforms (net of fees)</td>
<td>Place “On Watch” and notify manager</td>
</tr>
<tr>
<td>Moving average tracking error (TE) for 3-years</td>
<td>Greater than two standard deviations from ‘Since inception’ mean TE(^1)</td>
<td>Place “On Watch” and notify manager</td>
</tr>
<tr>
<td>Moving average tracking error (TE) for 5-years</td>
<td>Greater than two standard deviations from ‘Since inception’ mean TE(^2)</td>
<td>Place “On Watch” and notify manager</td>
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<tr>
<td>Moving average <strong>net</strong> Information Ratio trailing 5-year relative to its benchmark</td>
<td>Falls below 0.20.</td>
<td>Place “On Watch”, if fails another quantitative factor</td>
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**PASSIVE MANDATES**

| Annualized **net** performance relative to its benchmark for trailing 1-year | Underperforms (net of fees) in trailing 1 year | Place “On Watch” and notify manager            |

---

\(^1\) Or over at least a 5-year period using pre-hire data if inception less than five years.

\(^2\) Or over at least a 10-year period using pre-hire data if inception less than ten years.
VI. QUALITATIVE FACTORS

A significant and potentially adverse event related to, but not limited to, any of the following qualitative issues or events may result in placing the investment manager on the “On Watch” status or an immediate termination.

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Factor</th>
<th>Action</th>
</tr>
</thead>
<tbody>
<tr>
<td>Organization</td>
<td>Change in firm ownership and/or structure</td>
<td>Place “On Watch”, if determined that change might detrimentally affect performance and strategy</td>
</tr>
<tr>
<td></td>
<td>Loss of one or several key personnel, specifically personnel on LACERS portfolio product</td>
<td>Place “On Watch”, if determined the turnover will impair the firm’s investment capabilities</td>
</tr>
<tr>
<td></td>
<td>Significant loss of clients and/or assets under management</td>
<td>Place “On Watch”, if there is a high client turnover and high volume of outflows</td>
</tr>
<tr>
<td>Strategy and Risk Control</td>
<td>Significant and persistent lack of responsiveness to LACERS requests</td>
<td>Place “On Watch”, if service deterioration inhibits ability to monitor</td>
</tr>
<tr>
<td></td>
<td>Regulatory agencies’ investigation and/or material litigation</td>
<td>Place “On Watch”, if nature, seriousness, and likely impact of charges on the firm and investment product warrant</td>
</tr>
<tr>
<td>Strategy and Risk Control</td>
<td>Deviation from stated investment philosophy, style and process</td>
<td>Place “On Watch” if deviation persists for more than 4 quarters. Terminate if no longer consistent with LACERS objective</td>
</tr>
<tr>
<td></td>
<td>Risk management controls and procedures</td>
<td>Place “On Watch” for repeated guideline or policy violations</td>
</tr>
</tbody>
</table>
VII. COURSES OF ACTION

After placing an investment manager “On Watch” status the following steps will be taken:

1. Staff will contact the investment manager and formally inform them of their status in writing. Notification shall indicate the reasons why the firm is “On Watch” and request the investment manager to explain and to provide plan of action to remove itself from “On Watch” status;
2. Staff and/or General Fund Consultant will meet with the investment manager, either in person or telephonically, following receipt of a written response from them;
3. Staff, with input from the General Fund Consultant, shall determine whether the manager should be retained “On Watch” or terminated;
4. Staff shall monitor the progress of the investment manager’s implementation of the plan of action;
5. After the initial one year period, Staff and General Fund Consultant shall determine whether to remove the manager from “On Watch” status, continue the “On Watch” status, or terminate the investment manager;
6. Staff and General Fund Consultant shall present the supporting rationale and provide a recommendation to the Board.

If deemed necessary, the Board may request the investment manager to appear before the Board to explain the situation. Non-compliance with respect to the Board request shall be cause for an immediate termination recommendation by Staff to the Board.

VIII. TERMINATION

The Board reserves the right to terminate an investment manager for any reason. Grounds for investment manager termination may include, but are not limited to, the following reasons:

1. Failure to comply with the guidelines agreed upon for management of the Board’s portfolio, including holding restricted issues;
2. Failure to achieve performance objectives specified in the manager’s guidelines;
3. Significant deviation from the manager’s stated investment philosophy and/or process;
4. Loss of key personnel;
5. Evidence of illegal or unethical behavior by the investment management firm;
6. Lack of willingness to cooperate with reasonable requests by the Board for information, meetings or other material related to its portfolios;
7. Loss of confidence by the Board in the investment manager;
8. A change in the System’s asset allocation program, which necessitates a shift of assets to another sector.

Staff is authorized by the Board to notify the investment manager in writing that trading on the account must cease immediately. Staff will inform the Board of such action. A termination recommendation for ratification will be scheduled for the next Board meeting.
The Board will carefully review any one of these factors; however, the presence of any one of these factors may not necessarily result in an automatic termination.

All of LACERS investment management contracts allow LACERS to terminate the manager, with or without cause, after 30 days’ written notice.

IX. PRIVATE MARKET MANAGERS

The private market portfolio consists of private equity, private real estate, corporate governance, and opportunistic fixed income. This portfolio is made up of individual partnerships that generally last from 10 to 12 years, with provisions for possible extensions beyond the original term. The interim performance of a partnership investment (anything prior to the termination of a partnership) may not always be indicative of the final results for a particular partnership.

The interim valuations of a partnership’s underlying investments reflect a high degree of subjectivity. As a partnership’s underlying investments are disposed of, either at a gain or at a loss, the interim performance begins to become more indicative of the partnership’s final performance level.

The ultimate measure of a partnership’s performance is calculated from the total amount of cash that is contributed (paid-in) to the partnership compared to the timing and amount of cash returned to LACERS. The most common measurement tool is calculating a net compound annual internal rate of return (net IRR), which is a discounted cash flow analysis of the cash flows to and from the partnership over the life of the partnership.

Following each quarter end, Staff and Consultant will evaluate each private market managers’ for the five criteria articulated in Section II. Managers who fail any of the areas for three consecutive years shall be placed in the “On Watch” status.
EXHIBIT

NOTIFICATION LETTER SAMPLE

[Date]

[Investment Manager]
[Address]]

Re: Notice of Placement on “On Watch” Status

Dear [Investment Manager Contact Person]:

This is to advise you that, pursuant to its Manager Monitoring Policy, the Board of Administration of the Los Angeles City Employees' Retirement System placed [Investment Manager Firm] in “On Watch” status. Firms are placed in “On Watch” status when their investment performance is below expectations, investment risk is outside of reasonable expectations, changes occur in their investment style, or changes within their organization cause the Board concern.

The purpose of LACERS Manager Monitoring Policy is to ensure the highest levels of performance by the investment managers. The process requires regular evaluations of manager performance against specific standards as stated in the Policy (enclosed for your reference).

[Investment Manager Firm] has been placed in “On Watch” status due to [reason, i.e. performance, organization, etc.] [any additional narratives may be added here].

LACERS Staff and/or LACERS General Fund Consultant, Wilshire Associates, will be contacting you to discuss the specifics and your plans for improvement. If deemed necessary, the Board may request you to make a presentation.

During this evaluation period, the [Investment Manager Firm] will not receive any additional funding; however, funds may be withdrawn for rebalancing or liquidity needs. Should the Board continue to be dissatisfied with your portfolio’s performance, changes in your investment style, or changes within your organization, the Board may, in the best interests of the Fund, decide to terminate your contract. The Board retains the right to terminate a manager’s contract at any time during the contract term for any cause or allow the contract to expire, including while a firm is in “On Watch” status.

Should you have any questions or require further information, please do not hesitate to contact me at (213)473-7124.

Sincerely,
[CIO name]
Chief Investment Officer

cc: Eileen Neill, Wilshire Associates

Ver.080911
INVESTMENT RISK MANAGEMENT POLICY

BOARD APPROVED: DECEMBER 27, 2011
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<td>III. Risk Guidelines</td>
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INVESTMENT RISK MANAGEMENT POLICY

I. PURPOSE

A successful investment process fully integrates practical risk management concepts into a comprehensive framework that applies to all parties that monitor or manage assets on behalf of the plan, including the Board of Administration, General Fund Consultant (Consultant), Staff, asset managers, and other third parties involved in the investment of plan assets. Investment risk management is essential to prudent investment of pension plan assets because it improves the likelihood that the Fund is adequately compensated for the risks taken, and helps to avoid unexpected and unintended investment risk.

The purpose of this Policy is to provide a comprehensive framework for the management of investment risk of the Fund assets in support of the fiduciary obligations of the Board and consistent with governing principles and other policies of the plan. It specifically defines responsibilities, objectives, processes, and risk measures pertinent to investment risks incurred when investing plan assets to meet or exceed stated pension goals and objectives.

This Policy is dynamic and expected to be updated periodically with LACERS plan objectives, technology, and regulatory and/or market environment changes.

II. POLICY ROLES AND RESPONSIBILITIES

The Investment Risk Management Policy is reviewed and adopted by LACERS Board of Administration. Consultant and Staff are responsible for the risk management process described herein, which includes monitoring the sources, levels, and trends of aggregate investment risks relative to risk targets and budgets set in this policy. Consultant and Staff will recommend risk management actions and propose revisions to this policy as needed.

Risk objectives are effective when they relate to the specific investment decisions within the domain of the Board. Therefore, this Policy highlights the key investment decisions as outlined in LACERS Investment Policy Statements (“IPS”):

1. The Board adopts and implements the long-term investment strategy through the Fund’s asset allocation policy. This decision drives the long term performance, exposures, and risk of the Fund. The asset allocation decision provides the basis for monitoring strategic (“beta”) investment risk.

2. The Board is also responsible for structuring investment managers within asset classes. This decision drives the long term excess performance and excess risk of the Fund. The manager selection decision provides the basis for monitoring active (“alpha”) investment risk.
The risk management processes and guidelines established below determine the amount of risk the Board may use to implement these key decisions. Consultant and Staff will establish monitoring standards and periodically update these standards as conditions warrant.

III. RISK GUIDELINES

Strategic Risk Target
The most important decision that the Board must make is the strategic asset allocation decision. This decision explains most of the long-term performance and risk (defined as the annualized standard deviation of policy benchmark returns) of a Fund. The Board selects its asset allocation policy objective via the industry standard methodology of mean variance optimization to determine the optimal allocation of multiple asset classes having varying risk and correlation assumptions. The Board selects the policy based on an assets/liabilities valuation process provided by its Consultant, its risk tolerance (based upon the combination of variability of investment returns, particularly downside or “tail” risk and the risk of funding shortfall), and considerations from Staff. The selected policy provides long-term return and risk expectations for the Fund. As new asset allocation policies are adopted in the course of periodic review, or as economic or other conditions of the Fund change, new return and risk expectations may be set.

Framework for Policy Implementation
For the purposes of setting explicit strategic risk targets, we define expected strategic risk as the projected annualized standard deviation of the Fund’s asset class and policy returns. These expectations are based on the most recent strategic asset allocation study.

Asset Class Risk Budgets
The second most important strategic decision the Board must make after the establishment of the System’s asset allocation policy objective is the asset class structure decision. While the asset allocation policy is responsible for the majority of the Fund’s return and risk experience, the next greatest driver of the Fund’s return and risk is the asset class structure. Asset class structure decisions involve setting the active versus passive exposure, determining which strategies will be included within the asset class, and what the allocations to these strategies will be. A “risk budget” represents the amount of active risk the Board is willing to take for each asset class. As fiduciaries, the Board recognizes the need to manage and monitor risk at the asset class level in addition to the total fund and individual manager/strategy levels. Additionally, the Board is aware it is considered a best practice to set risk limits at all relevant measurement levels (i.e., total fund, asset class, and individual manager). The Board has adopted a risk budgeting approach to constructing, measuring, and monitoring public markets asset classes. The Board believes that this approach provides an objective and systematic yet flexible means of constructing asset classes in a way which will maximize the probability of meeting long term asset class objectives while managing the risk of its public markets asset classes in a proactive manner.
**LACERS’ Risk Budgeting Process**

In order to arrive at the optimal risk budget objective for each asset class, the Board will engage in an objective, disciplined process that will be uniformly applied to all public markets asset classes. This process will involve a mean variance optimization approach which will employ the following inputs for each strategy under consideration by the Board:

1. Expected excess return over the asset class benchmark
2. Expected excess risk over the asset class benchmark
3. Expected correlations between strategy excess returns
4. Constraints to ensure prudent exposures to strategies and risk factors

The objective of this mean variance optimization exercise is to arrive at a target excess risk (i.e., the risk budget) which will maximize the excess return desired by the Board. The risk budget will reflect the amount of excess risk the Board is willing to take for that desired excess return.

**Expected Excess Return**

The expected excess return (i.e., “alpha”) is the excess return a strategy should produce over a market cycle net of fees. This excess return will be forward looking based upon the following criteria:

1. Market efficiency
2. Manager’s historical information ratio
3. Strategy characteristics
4. Peer universe historical excess return

**Expected Excess Risk**

The expected excess risk (i.e., “tracking error”) is the excess risk of a strategy as measured by standard deviation of the excess return. This excess risk assumption can be either forward looking or based upon historical actual excess risk as produced by the strategy under consideration versus the asset class benchmark. In order for historical excess risk to be employed in the risk budgeting process, the strategy must have at least 60 months of data points. If the strategy under consideration does not have 60 months of data points, then a forward looking expected excess risk assumption will be employed. This assumption can be arrived at risk models (detailed in the next section, “Measurement and Monitoring of LACERS’ Risk Guidelines”) from two different sources: either from Consultant / Staff or be based upon the target excess risk for the strategy as articulated by the manager. The latter should only be used as a basis for this assumption in the event there is insufficient strategy history (i.e., < 60 months of data) or if Consultant and Staff are unable to independently model the strategy excess risk using their respective risk analytics.

**Expected Excess Correlations**

Correlation is a measure of the degree to which asset class returns move together. In structuring asset classes, the Board seeks to avoid having too much exposure to common factor risks and to maximize the diversification potential of the strategies ultimately employed within the asset class. Expected excess correlations will be
calculated using historical excess (versus the asset class benchmark) returns when available. If an insufficient excess return history exists (i.e., less than 60 months of data), then Consultant or Staff will employ their respective risk analytics to determine a reasonable excess correlation on a forward looking basis.

**Framework for Policy Implementation**

The risk budgeting process outlined above will be conducted in conjunction with the Board’s asset/liability valuation process. The frequency of this process will be at least every three years or sooner if warranted based upon changes in market conditions or benefits to plan participants. The Board may choose at that time to revise or retain its existing risk budget as a result of this process.

The risk budgeting process will also be conducted at any time a strategy or manager change is contemplated as a result of manager/strategy termination or otherwise so that alternative strategies or managers can be evaluated in the context of the entire asset class structure to determine the impact on the Board’s asset class risk budget. This will be done in order to objectively evaluate alternatives in a disciplined, holistic fashion. The Board may choose to revise its risk budget target as a result of this evaluation process. Additionally, the risk budgeting process will be conducted when actual excess risk has been outside of the target risk budget range for four rolling 60-month periods in order to determine whether strategy/manager allocations should be altered or replaced altogether.

**IV. MEASUREMENT AND MONITORING OF LACERS RISK GUIDELINES**

The Board will periodically monitor actual strategic and active asset class risks versus the Board’s respective risk target and asset class risk budgets. The Board will also be provided periodically a Fund Risk Report which will be used to analyze, evaluate, and detail exposures and drivers of Fund risks.

The focus of the Board’s monitoring activity will be rolling 60-month periods. The Consultant and Staff will independently measure and monitor strategic and active asset class expected risk and return on a quarterly basis, but with a focus on rolling 60-month periods, and report to the Board its findings, including the key drivers of risk and return, as part of the quarterly performance report.

The risk model employed by Staff will be holistic and thus analyze risk measurements for both public and non-public asset classes. Public equity and fixed income risk will be modeled directly from holdings data at the manager level. Private equity and real estate risk will be proxied using public market equivalent exposures or indices. For private equity, a broad base of small market capitalization stocks (between $5 and $250 million) will be utilized to replicate the actual economic sector weightings of the private equity portfolio. For real estate, a broad REIT index will serve as the basis for mirroring the actual segment weightings within the real estate portfolio. Risk measurement for additional non-public asset classes will incorporate the same methodology as outlined above.
NOTE: Below are examples of risk targets and ranges which will be completed upon the January 2012 asset allocation review and established risk budget.

Summary of Strategic Targets
Currently, the long-term expected strategic risk target of the Fund is approximately X%. Exhibit 1 summarizes the current target asset allocation, expected returns, standard deviation, and Return/Risk ratios for all asset classes in which LACERS invests:

Exhibit 1
Summary of Strategic Risk Targets

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Target Asset Allocation</th>
<th>Target Expected Return</th>
<th>Target Standard Deviation</th>
<th>Target Value Added (Return/Risk)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic Equities</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>International Equities</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Global Fixed Income</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Domestic Fixed Income</td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>International Fixed Income</td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Credit Opportunities</td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Alternatives</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Real Estate</td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TOTAL FUND</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Summary of Active Risk Budget Targets and Ranges

Exhibit 2 summarizes the current active risk budget targets and ranges for the public markets asset classes in which LACERS invests.

### Exhibit 2
Summary of Active Risk Budget Targets and Ranges

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Risk Budget Target</th>
<th>Minimum</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic Equities</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>International Equities</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Global Fixed Income</td>
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<tr>
<td>Domestic Fixed Income</td>
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<tr>
<td>International Fixed Income</td>
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<tr>
<td>Credit Opportunities</td>
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<td></td>
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<tr>
<td>Alternatives</td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Real Estate</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL FUND</strong></td>
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</table>
EMERGING INVESTMENT MANAGER POLICY
PUBLIC MARKETS

BOARD APPROVED: FEBRUARY 14, 2012
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</table>
EMERGING INVESTMENT MANAGER POLICY
Public Markets

Objectives and Goals
The objective of this Emerging Investment Manager Policy ("Policy") is to identify investment firms with the potential to add value to the LACERS investment portfolio ("Fund") that would otherwise not be identified by the standard LACERS institutional investment manager search process. The Board of Administration ("Board") believes that smaller investment management organizations may generate superior performance returns because of the increased market flexibility associated with smaller asset bases. The Policy provides an opportunity for LACERS to identify skillful investment management organizations in their early business stages.

Consistent with the Board’s fiduciary responsibility, the goal of this Policy is to locate and fund emerging investment managers with successful histories of generating positive alpha at an appropriate level of active risk. LACERS may consider an emerging investment manager mandate as part of any investment manager search undertaken by the Board, after staff and the General Fund Consultant have determined that the emerging manager return and risk characteristics of the mandate under consideration are no less favorable than comparable, non-emerging investment manager opportunities available for that mandate.

The Board recognizes that emerging investment managers do not possess the organizational depth and resources of larger investment management firms, and thus represent a greater business risk. The Board also recognizes that prudent management of the Fund requires that emerging investment managers, once retained, will manage significantly smaller amounts of Fund assets than larger investment management firms. Each of these issues will result in greater oversight and administrative responsibilities for Fund staff, and will consequently be part of the evaluation whenever emerging investment managers are being considered for inclusion in a manager search.

Managers hired pursuant to this Emerging Investment Manager Policy will be held to the same performance, reporting and retention standards as all other LACERS investment managers.

Emerging Investment Manager Minimum Criteria
The Board has approved the following minimum criteria for any firm being considered for an emerging investment manager mandate:

1. The firm will have no more than $2 billion in total firm assets under management.
2. The firm must have a minimum of $50 million under management in the product being considered and LACERS portfolio size shall not exceed 20% at the time of hire.
3. The firm must have been in existence for a minimum of one year.
4. The portfolio manager must have a minimum of five years verifiable experience managing the particular investment product.
5. No person or entity, other than the principals and/or employees of the firm, shall own more than forty-nine percent (49%) interest of the firm.

**Provisions for Post-Emerging Firms**

LACERS expects that successful emerging investment management firms will grow beyond the maximum $2 billion in assets under management required to be categorized as an emerging investment manager. An emerging investment manager under contract to LACERS that successfully grows its assets under management so that the firm no longer meets the criteria for an emerging manager may be considered for a larger mandate, and will be given preference for larger mandates versus other investment managers, if the following conditions are generally met:

1. The product under consideration must have a minimum track record of five years, all acquired at that firm. An exception to this is if the portfolio manager has a clearly established track record from a previous firm.
2. The manager’s five-year, net-of-fees performance must exceed the passive market benchmark for the LACERS mandate.
3. The manager’s five-year, gross-of-fees performance must rank above median in an appropriate peer universe comparison.
4. The manager’s rolling 36-month return over the most recent sixty months must exceed the LACERS mandate benchmark for 60% of the available period observations.
5. The manager’s most recent three-year performance history must be built on an asset base that is equivalent to the proposed size of the LACERS mandate.
6. The key individuals responsible for developing the track record must still be active in the investment management process.
7. A representative portfolio for the product under consideration must have fundamental characteristics which reflect the LACERS mandate for which the manager would be bidding.
Los Angeles City Employees’ Retirement System (“LACERS”)
Credit Opportunities Strategy Statement

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.

**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**

<table>
<thead>
<tr>
<th>Credit Opportunities Strategy</th>
<th>Strategy Allocation Target</th>
<th>Strategy Allocation Range</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. and Non-U.S. High Yield</td>
<td>55%</td>
<td>45% - 65%</td>
</tr>
<tr>
<td>Emerging Markets Debt</td>
<td>35%</td>
<td>30% - 40%</td>
</tr>
<tr>
<td>Leveraged Loans</td>
<td>10%</td>
<td>0% - 15%</td>
</tr>
<tr>
<td>Distressed Debt/Opportunistic Bonds</td>
<td>0%</td>
<td>0% - 5%</td>
</tr>
</tbody>
</table>

**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.

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.
Los Angeles City Employees’ Retirement System ("LACERS")
Real Assets Strategy Statement

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.

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.

**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: Real Assets Portfolio Strategy Target Allocations

<table>
<thead>
<tr>
<th>Real Asset Strategy</th>
<th>Strategy Allocation Target</th>
<th>Strategy Allocation Range</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private Real Estate</td>
<td>50%</td>
<td>40% - 60%</td>
</tr>
<tr>
<td>REITs</td>
<td>5%</td>
<td>0% - 10%</td>
</tr>
<tr>
<td>Inflation-Linked Bonds</td>
<td>30%</td>
<td>25% - 35%</td>
</tr>
<tr>
<td>Commodity/Natural Resources</td>
<td>10%</td>
<td>5% - 15%</td>
</tr>
<tr>
<td>Timber/Farmland</td>
<td>0%</td>
<td>0% - 3%</td>
</tr>
<tr>
<td>MLPS</td>
<td>0%</td>
<td>0% - 2%</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>0%</td>
<td>0% - 2%</td>
</tr>
<tr>
<td>Oil and Gas Partnerships</td>
<td>0%</td>
<td>0% - 2%</td>
</tr>
<tr>
<td>Multi-Asset Real Asset/Return Strategies</td>
<td>5%</td>
<td>0% - 10%</td>
</tr>
</tbody>
</table>

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.

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.
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<td>4</td>
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</tbody>
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MANAGER SEARCH AND SELECTION POLICY

I. Purpose

The purpose of this Policy is to provide a comprehensive framework for the manager search and selection decision making process. It specifically defines responsibilities and processes for the LACERS Board, Staff and Investment Consultant. This Policy is dynamic and expected to be updated periodically with LACERS’ plan objectives, technology, and regulatory and/or market environment changes.

II. Policy Roles and Responsibilities

A. Board

The Manager Search and Selection Policy is reviewed and adopted by the LACERS' Board. The decision whether to initiate a search rests with the LACERS Board. The Board will review and adopt the LACERS' active and passive public manager minimum qualifications, as articulated in Section IV below, based upon the written recommendation provided by LACERS' Staff and Investment Consultant (“Consultant”). The Board will also review and approve additional minimum qualifications as recommended by Staff and the Consultant. Further, the Board will maintain decision making authority as to approval of the active management finalist firm(s) recommended for hire by LACERS Staff and Consultant. The Board will interview recommended active management finalist candidates prior to approval for hire. With respect to passive investment managers, the Board will authorize and sign the contract for the firm selected for hire by Staff and the Consultant.

B. Staff

Staff is responsible for the implementation of the manager search and selection process described herein. They will recommend actions and propose revisions to this policy as needed. Staff, with input from the Consultant, will recommend mandates for hire by the Board. As part of the search initiation recommendation, Staff will develop, with the assistance of the Consultant, a written set of minimum qualifications for approval by the Board if it is deemed prudent to adopt unique minimum qualifications outside of the pre-approved minimum qualifications set forth in Section IV below.

Staff will review and conduct due diligence on the semi-finalist firms recommended by the Consultant for each search. Staff and the Consultant will provide the Board a written investment manager candidate evaluation report which will summarize how the list of semi-finalists was arrived at from the initial candidate list produced based upon LACERS' minimum qualifications. Upon completion of the semi-
finalist due diligence review activity, Staff will recommend a single finalist, unless the case is that more than one manager is required to fulfill a search mandate. In the case of passive investment managers, per Section III below, Staff and the Consultant will provide the Board a written investment manager candidate evaluation report for information purposes only, which will summarize the search process and hire decision.

C. Investment Consultant
The Consultant will work with staff to develop a manager search initiation recommendation. If deemed necessary outside of LACERS’ pre-approved minimum qualifications, the Consultant will jointly develop with Staff additional written minimum qualifications for Board approval. The Consultant will apply LACERS’ pre-approved minimum criteria, and any additional Board-approved criteria, to its manager databases in order to arrive at an initial list of search candidates. The Consultant will then employ its manager evaluation process to arrive at a list of semi-finalists for Staff to then review and conduct due diligence upon. The manager evaluation process will be conducted as summarized below.

<table>
<thead>
<tr>
<th>Evaluation Criteria</th>
<th>Weighting</th>
</tr>
</thead>
<tbody>
<tr>
<td>Qualitative Assessment</td>
<td>70%</td>
</tr>
<tr>
<td>Organization/People</td>
<td>30%</td>
</tr>
<tr>
<td>Investment Process</td>
<td>40%</td>
</tr>
<tr>
<td>Risk Management</td>
<td>30%</td>
</tr>
<tr>
<td>Quantitative Assessment (&quot;WHIP&quot;)</td>
<td>20%</td>
</tr>
<tr>
<td>Expected Fees</td>
<td>10%</td>
</tr>
</tbody>
</table>

III. Passive Investment Management
Passive investment management lacks active return and risk components and is essentially an operational decision. There are only two key criteria on which to focus in the evaluation of a passive manager: tracking error and fees. Given that passive management is a beta-only decision, the LACERS’ Board has delegated authority to select the optimal passive investment manager to staff. The Board retains authority to initiate a passive investment manager search and the ability to contract with the selected passive investment manager, per Section II.A

1 A product’s performance will be evaluated using the Wilshire Historical Investment Performance or “WHIP” methodology, which is an objective quantitative calculation of varying metrics described more fully in the white paper, “Wilshire Historical Investment Performance (WHIP) Score: A Quantitative-Based Methodology for Summarizing a Manager’s Past Returns”, October 29, 2009.
IV. **Manager Search and Selection Criteria**

**A. Active Investment Managers**

Minimum qualifications will be sufficiently broad but will focus on the key characteristics required by the LACERS Board and Staff for a candidate firm to receive serious consideration for hire. The following minimum qualifications will be used for all active, public markets investment manager searches and will **not** be among the criteria that may require Board approval prior to each search.

1. (Evidence of fiduciary status) Firm is registered investment advisor under the Investment Advisors Act of 1940 possesses bank exemption;
2. (Evidence of product viability) Must have a proven and verifiable track record of at least five (5) years as of the most recent quarter end;
3. Must conform to CFA Institute’s Global Investment Performance Standards (“GIPS”);
4. (Evidence of risk-adjusted value-adding skill) At least 60% of rolling four (4) quarter information ratios (i.e., excess return divided by excess risk) must be positive versus a mandate-appropriate benchmark, gross of fees, for the last five (5) years (12 of 20 quarters);
5. (Evidence of business risk) Firm AUM must be of sufficient size that LACERS’ expected mandate size would not comprise more than 20% of the proposed product assets.

Staff and the Investment Consultant will submit revised and/or additional minimum qualifications for each active, public markets investment manager search as deemed appropriate given mandate and asset class.

**B. Passive Investment Managers**

The following minimum qualifications will be used for all passive, public markets investment manager searches and will **not** be among the criteria that may require Board approval prior to each search.

1. (Evidence of fiduciary status) Firm is registered investment advisor under the Investment Advisors Act of 1940 or possesses bank exemption;
2. (Evidence of product viability) Must have a proven and verifiable track record of at least five (5) years as of the most recent quarter end;
3. Must conform to CFA Institute’s Global Investment Performance Standards (“GIPS”);
4. (Evidence of business risk) Firm AUM must be of sufficient size that LACERS’ expected mandate size would not comprise more than 20% of the proposed product assets.
V. Emerging Managers

The recommendation by Staff and the Investment Consultant to initiate a search will include the expected number of firms that may meet LACERS' investment management search minimum criteria segregated by emerging and non-emerging investment managers. Emerging managers, as defined by LACERS' Emerging Manager Policy, will be highlighted in the active investment management candidate evaluation summary report to the Board.