



LACERS
LOS ANGELES CITY EMPLOYEES'
RETIREMENT SYSTEM

Investments Performance Review

Quarter Ending September 30, 2010



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Executive Summary

Performance Overview

- *LACERS investment portfolio closed the 3rd quarter valued at \$10.0 billion, approximately \$1 billion higher than the previous quarter. The Fund posted a gross return of 8.5% (8.4% net) for the quarter and 10.0% (9.8% net) over the past year.*
- *All asset classes produced positive returns in the 3rd quarter of 2010.*
- *The Total Fund underperformed the policy benchmark for the quarter. Publicly traded portfolio outperformed its respective benchmark, except for U.S. Equity.*
- *Real Estate continued to experience decline and Alternative Investments underperformed its benchmark for the quarter.*

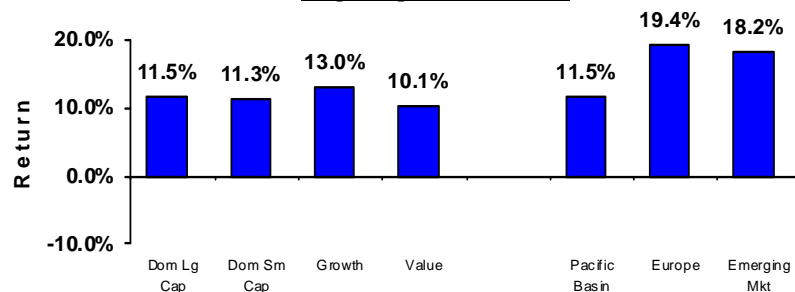
Market and Economic Review

Preliminary readings show that the U.S. economy expanded at an annualized rate of 2.0 percent during the third quarter of 2010. The increase in real GDP in the quarter primarily reflected positive contributions from personal consumption expenditures, private inventory investment, nonresidential fixed investment exports, and government spending, while a negative contribution from residential fixed investment represented a drag on GDP growth. The Consumer Price Index for All Urban Consumers (CPI-U) increased by 2.7 percent in the quarter on an annualized basis, after seasonal adjustment. Core CPI-U increased 0.7 percent for the quarter. Over the last 12 months, CPI-U increased 1.1 percent before seasonal adjustment. The U.S. economy lost 280,000 jobs in the quarter increasing the unemployment rate from 9.5 to 9.6 percent. The majority of the jobs lost were temporary Census workers and jobs from local government. Private sector employment gained modestly. Since the December 16, 2008 meeting, the Federal Reserve has maintained a target range for the Federal Funds rate of 0.00 to 0.25 percent.

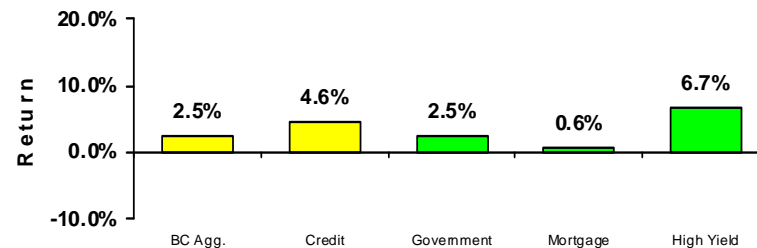
Equity Markets turned positive for the quarter as fears over European sovereign credit subsided and US corporations posted stronger than expected earnings...

... while Fixed Income rallied across the risk spectrum on expectations of additional quantitative easing by the Federal Reserve.

Equity Markets



Fixed Income





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Fund Overview

Fund Overview

LACERS' total portfolio was valued at \$10.0 billion at the end of the 3rd quarter. The total portfolio posted an 8.4% gain for the quarter and returned 9.8% over one year, net of fees. The total portfolio return produced mixed results compared to its policy benchmark over the quarter and the one-year periods. In a comparison to other public funds in TUCS (Trust Universe Comparison Service) with a market value greater than \$1 billion at September 30, 2010, LACERS performance was in the 60th percentile for the quarter and in the 67th percentile over the one year period.

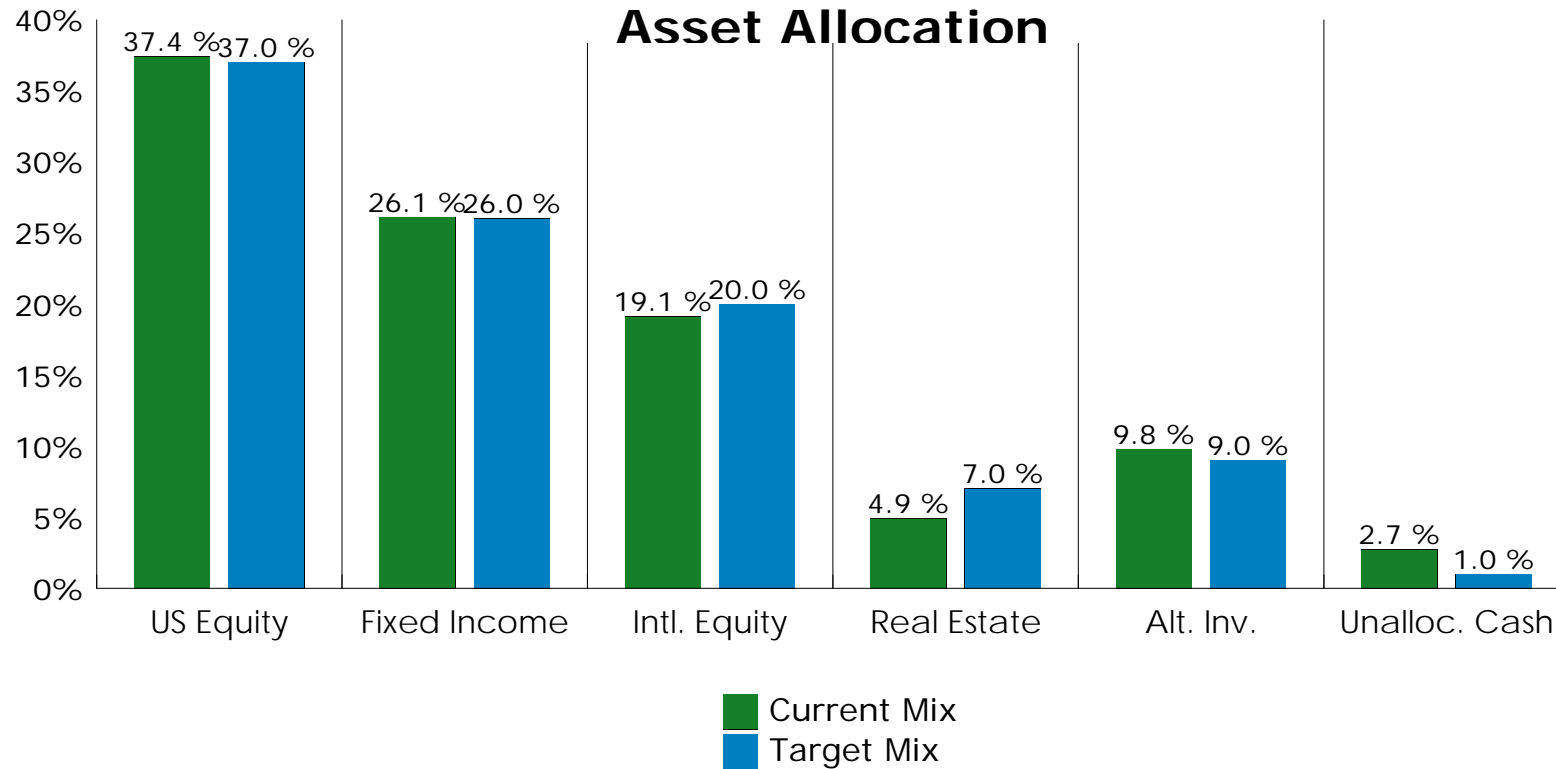
The U.S. equity portfolio underperformed its policy benchmark for the quarter, returning 11.1% compared to 11.5% due to underperformance of large cap growth. Small cap value managers outperformed the benchmark, while the small cap growth managers posted a mixed results compared to their benchmarks. Corporate governance managers produced mixed results and two of the three Manager of Emerging Managers underperformed its respective benchmarks. The portfolio provided a 10.9% return over the one-year period compared to the 11.0% return for the policy benchmark.

The international equity portfolio surpassed its policy benchmark for the quarter by 0.7% with a 17.3% return. The portfolio returned 9.1% for the one-year period, which was 1.5% higher than its policy benchmark.

The fixed income portfolio was 1.0% above its policy benchmark for the quarter with a 3.9% return. Core fixed income managers outperformed their respective benchmarks, while opportunistic fixed income underperformed its benchmark. The portfolio returned 11.5% for the trailing one-year period besting its policy benchmark by 2.6%.

The real estate portfolio continued to struggle, returning 0.5% for the quarter compared to 3.3% for its benchmark. For the one-year period, the portfolio significantly underperformed by 12.1% with a -13.6% return.

The alternative investments portfolio returned 1.8% for the quarter trailing its benchmark by 10.7%. The portfolio provided a 17.6% return for the one-year period besting its benchmark by 2.6%.



	As of 9/30/2010	Target *	Minimum	Maximum
US Equity	37.4%	37.0%	33.0%	42.0%
Fixed Income	26.1%	26.0%	23.0%	29.0%
Intl Equity	19.1%	20.0%	17.0%	24.0%
Real Estate	4.9%	7.0%	4.0%	10.0%
Alternative Inv.	9.8%	9.0%	6.0%	12.0%
Unallocated Cash	2.7%	1.0%	0.0%	3.0%

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

LACERS Total Fund

(returns are gross of fees)

	Current Quarter	One Year	Two Years	Three Years	Five Years
LACERS Master Trust	8.5	10.0	4.1	-3.2	3.6
<i>Policy Benchmark</i>	9.7	9.6	4.7	-2.8	3.5
Excess Return	-1.2	0.4	-0.6	-0.4	0.1
US Equity	11.2	11.1	2.3	-6.7	0.8
<i>Russell 3000</i>	11.5	11.0	1.9	-6.6	0.9
Excess Return	-0.3	0.1	0.4	-0.1	-0.1
International Equity	17.4	9.6	8.4	-6.5	5.0
<i>MSCI ACWI ex US *</i>	16.6	7.6	6.7	-7.4	4.3
Excess Return	0.8	2.0	1.7	0.9	0.7
Total Fixed Income	3.9	11.7	14.6	8.5	7.1
<i>BC US Universal *</i>	2.9	8.9	9.9	7.3	6.3
Excess Return	1.0	2.8	4.7	1.2	0.8
Real Estate	0.5	-13.5	-27.8	-18.2	-5.1
<i>NCREIF Property</i>	3.3	-1.5	-11.0	-4.7	3.8
Excess Return	-2.8	-12.0	-16.8	-13.5	-8.9
Alternative Investments	1.8	17.6	-1.4	-0.5	10.5
<i>Russell 3000 plus 400 bps</i>	12.5	15.0	5.9	-2.6	4.9
Excess Return	-10.7	2.6	-7.3	2.1	5.6

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

LACERS Total Fund

(returns are net of fees)

	Current Quarter	One Year	Two Years	Three Years	Five Years
LACERS Master Trust	8.4	9.8	3.9	-3.4	3.4
<i>Policy Benchmark</i>	9.7	9.6	4.7	-2.8	3.5
Excess Return	-1.3	0.2	-0.8	-0.6	-0.1
US Equity	11.1	10.9	2.1	-6.9	0.6
<i>Russell 3000</i>	11.5	11.0	1.9	-6.6	0.9
Excess Return	-0.4	-0.1	0.2	-0.3	-0.3
International Equity	17.3	9.1	7.9	-6.9	4.6
<i>MSCI ACWI ex US *</i>	16.6	7.6	6.7	-7.4	4.3
Excess Return	0.7	1.5	1.2	0.5	0.3
Total Fixed Income	3.9	11.5	14.5	8.3	7.0
<i>BC US Universal *</i>	2.9	8.9	9.9	7.3	6.3
Excess Return	1.0	2.6	4.6	1.0	0.7
Real Estate	0.5	-13.6	-27.9	-18.3	-5.3
<i>NCREIF Property</i>	3.3	-1.5	-11.0	-4.7	3.8
Excess Return	-2.8	-12.1	-16.9	-13.6	-9.1
Alternative Investments	1.8	17.6	-1.4	-0.5	10.3
<i>Russell 3000 plus 400 bps</i>	12.5	15.0	5.9	-2.6	4.9
Excess Return	-10.7	2.6	-7.3	2.1	5.4

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