Alternative Investment Portfolio Update  
Second Quarter 2002  

prepared for the  

LOS ANGELES CITY EMPLOYEES'  
RETIREMENT SYSTEM  

FYI  

AUG 13 2002
Introduction

Pathway Capital Management, LLC, ("Pathway") has assisted the Los Angeles City Employees' Retirement System ("LACERS") in committing $554.4 million to 42 alternative investment partnerships as of March 31, 2002.¹ LACERS' market value target allocation for its alternative investment portfolio is 5.0% of the total pension fund size. As of March 31, 2002, the alternative investment portfolio had a market value of $244.0 million, or 3.4% of LACERS' total pension fund's market value. This report contains an overview of the alternative investment environment and information regarding the investment activity of LACERS' portfolio during the first and second quarters of 2002.²

Portfolio Overview

Table 1 illustrates the first quarter activity for LACERS' alternative investment portfolio. For a breakdown by partnership, please refer to the Portfolio Summary included in this report.

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<td>March 31, 2002</td>
<td>42</td>
<td>$554.4</td>
<td>$313.2</td>
<td>$244.0</td>
<td>$110.5</td>
<td>$354.5</td>
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<td>Dec. 31, 2001</td>
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<td>$108.5</td>
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<td>Quarter Change</td>
<td>0</td>
<td>($11.3)</td>
<td>$13.5</td>
<td>$7.9</td>
<td>$2.0</td>
<td>$9.9</td>
<td>($3.6)</td>
<td>-1.3%</td>
</tr>
</tbody>
</table>

¹ As of June 30, 2002, LACERS had committed $554.9 million to 42 alternative investment partnerships. Of the $11.3 million decrease in total commitments during the first quarter of 2002, $11.1 million was due to two partnerships reducing their respective fund sizes.
² Commitments to non-U.S. partnerships are accounted for by multiplying the unfunded commitment amount by the quarter-ending exchange rate, added to cumulative capital contributions, causing LACERS' commitment to each partnership to fluctuate on a quarterly basis.
³ Includes management fees called outside of LACERS capital commitment.
⁴ The total value is equal to the market value plus cumulative distributions.
⁵ Quarterly return is not annualized.

1. While the date of this report is June 30, 2002, the most recent partnership financial data available is as of March 31, 2002.
2. In the course of preparing our report, we have relied, without independent verification other than as specifically described herein, upon the accuracy and completeness of financial and other information publicly available or provided to us by the general partners, their professional staffs, and others contacted by us. Our conclusions do not reflect an audit of any portfolio investment by us, and are based on conditions prevailing at the date of this report and known to us.

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Target Allocation

Figure 1  
LACERS’ Alternative Investment Portfolio  
Target Allocation as of March 31, 2002  
($ in millions)

Diversification

One of Pathway’s objectives is to create an alternative investment portfolio for LACERS that is diversified by investment strategy. Based on market values plus unfunded capital commitments as of March 31, 2002, acquisition-related strategies continued to make up the largest percentage of the portfolio, accounting for 50.2%, with venture capital strategies making up 31.6% of the portfolio.

Figure 2

Investment Strategy Diversification  
(% of Market Value plus Unfunded Capital Commitments)  
As of March 31, 2002

Note: Includes commitments made through June 30, 2002.
Performance

Due to the long-term nature of the alternative investment asset class, Pathway measures performance using a variety of methods, as illustrated in the following charts.

Returns and Benchmark

Figure 3 illustrates LACERS' quarterly, 1-, 3-, 5-year, and inception returns for its alternative investment portfolio as of March 31, 2002, along with the 3-, 5-year, and inception benchmark returns. As of March 31, 2002, LACERS' alternative investment portfolio generated a net IRR of 6.9% since inception, compared with the benchmark of 8.9%. The alternative investment portfolio as a whole generated a net IRR of -1.4% for the first quarter of 2002. Austin VII and WCAS VIII were the partnerships that had the largest negative impact on the portfolio during the quarter, returning -28.5% and -12.1%, respectively, while Apollo IV helped to offset those losses by generating a return of 7.2%.

Figure 3  Quarterly, 1-, 3-, 5-Year, Inception Net IRRs vs. LACERS' Benchmark
As of March 31, 2002

![Bar chart showing quarterly and annualized returns](chart)

NOTE: LACERS' custom benchmark is dollar-weighted by quarter based on the S&P 500 Index (for capital contributions more than three years old). A 400-basis-point premium is added to the S&P 500 benchmark component to account for the additional illiquidity and risk involved with alternative investments.

a Quarterly return is not annualized.

LACERS' Commitments, Contributions, and Distributions

Figure 4 illustrates the amount of capital that LACERS has committed and contributed to its 42 alternative investment partnerships, since the inception of the program in 1995 through March 31, 2002, as well as cumulative distributions received. As of March 31, 2002, LACERS received cumulative distributions totaling $110.5 million, representing 35.3% of the $313.2 million LACERS has contributed to date.

Figure 4  Total Capital Committed, Contributed, and Distributed
As of March 31, 2002
($ in millions)

![Line chart showing capital commitment and distribution](chart)
First Quarter 2002 Significant Events

• Austin VII
The value of LACERS’ investment in Austin VII declined by $2.3 million, representing the largest decrease in value during the first quarter of 2002. The fund’s portfolio dropped in value by 23.5% during the quarter, due to the general partner taking a number of discretionary write-downs on its investments. Most significantly, the value of the fund’s investment in Surgient Systems fell by $38.7 million or 48.9%, due to the general partner’s concerns regarding market conditions and the current performance of the company. Additionally, a discretionary valuation reserve of $40.0 million was established during the quarter, reflecting the general partner’s belief that a number of portfolio companies will have trouble raising money in the current economic environment and may be written down further.

• TPG III
Petco Animal Supplies held its IPO on February 21, 2002, at $19.00 per share. In connection with the IPO, TPG III sold a portion of its holdings in the company, and continues to hold 14.3 million shares. LACERS received $0.8 million from the partial sale of Petco. The stock price increased to $23.59 per share on March 31, 2002, resulting in an undiscounted value of $336.8 million, or 47.4 times its cost basis.

• Apollo IV
Apollo IV experienced a significant increase in value during the first quarter of 2002, and as a result, LACERS’ investment in Apollo IV appreciated in value by approximately $376,000, compared with year-end 2001. Most significantly, Rent-A-Center’s value increased by $177.0 million, due to a 52.2% increase in its public stock price, which closed at $51.09 per share on March 31, 2002, versus a December 31, 2001, close of $33.57 per share. Apollo IV generated a net IRR of 8.8% at March 31, 2002, compared with 6.4% at December 31, 2001.

• WCAS VIII
LACERS’ investment in WCAS VIII declined in value by $1.5 million during the quarter. WCAS VIII’s investment in Centennial Communications declined in value due to a 64.8% decrease in its public stock price from its December 31, 2001, close of $10.24 per share. As a result, the non-discounted value of WCAS VIII’s investment in the company was $155.2 million at March 31, 2002, compared with a $441.7 million valuation at year-end 2001. Partially offsetting this decline was the performance of Alliance Data Systems, whose valuation rose 31.3% during the first quarter of 2002, resulting in an unrealized gain of $106.6 million for the fund.

Second Quarter 2002 Amendments and Consents

• Trident V
Date of Approval: April 5, 2002
Subject: The general partner proposed a reduction in fund size from $729.0 million to $518.7 million. According to the general partner, because of the recent slowdown in the venture capital investment environment and the significant reduction in the value of private companies, the general partner estimates it will be able to acquire similar positions in companies at approximately 70% of the cost it expected when it raised Trident V in 2000. The reduction will be applied pro rata to all limited partners, and as a result, LACERS’ commitment will be reduced from $15.0 million to $10.6 million. The general
partner will return the incremental management fees it has
taken to date on the portion of the fund to be scaled back. This
will be done through a reduction of future fees over the next
four years.

Reason for Approval: Pathway approved this amendment due to the slowdown in
venture capital investing and with the lower valuations of
companies, the general partner will be able to acquire
companies at a lower cost. This will also allow the general
partner to concentrate on industries and companies it is more
familiar with.

Alchemy
Date of Approval: June 5, 2002
Subject: The proposed amendment will require that 55% of the investors
in number and annual plan commitments consent to continue
the plan in the event Jon Moulton ceases to be involved prior
to June 30, 2004, or that 75% of the investors in number and
annual plan commitments in the case of both Jon Moulton and
Martin Bolland cease to be involved prior to June 30, 2004.

Reason for Approval: Pathway approved the amendment because it strengthened the
limited partner’s position when compared with the original
requirements of the Limited Partnership Agreement. This
amendment was the result of Pathway’s legal negotiations with
Alchemy.

VantagePoint IV
Date of Approval: June 14, 2002
Subject: The general partner has proposed two amendments pertaining
to management fees. Under Amendment No. 1, the general
partner has indicated that it expects to defer 50% of the fees
that would have been generated from July 1, 2002, through
December 31, 2003. Amendment No. 2 provides for an
exchange of 50% of the other management fees into an
equivalent interest in net profits, thereby putting that portion
of fees “at risk” to the general partner.

Reason for Approval: Pathway approved the amendments because both proposed
amendments will benefit the limited partners.

Austin VIII
Date of Approval: June 21, 2002
Subject: The general partner proposed a reduction in fund size from
$1.5 billion to $830 million. The general partner wants to
reduce the capital commitments due to the current economic
environment and the decrease in investment activity in Texas.
The reduction will reduce LACERS’ capital commitment from
$15.0 million to $8.3 million. As a result of the reduction, the
management fees paid by the limited partners currently exceed
what would have been due to the partnership had the fees been
calculated based on the revised commitment amounts. Austin
VIII will credit the overpayment against future management
fee payments until the excess amount is eliminated.
In addition, the general partner has proposed to have the option to fund a portion of its 1% capital commitment by waiving its management fees.

Reason for Approval: Pathway approved this amendment given the slowdown in the current investment environment, the general partner would not be able to invest the original aggregate commitment of $1.5 billion.

Alchemy
Date of Rejection: June 26, 2002
Subject: The proposed amendment would change Alchemy Partners, the fund’s investment advisor, from a limited partnership to a limited liability company. Under the current structure each partner in Alchemy Partners has joint and several liability. If the proposed amendment were approved, the partners of Alchemy Partners would be provided greater liability protection.

Reason for Rejection: Pathway did not approve the amendment because it is not in the best interest of the limited partners.

Second Quarter 2002 Significant Distributions

• GTCR V
On April 8, 2002, GTCR V distributed $2.2 million in proceeds to LACERS, resulting from the sale of American Medical Labs to Quest Diagnostics. Of the amount distributed, only $5,145 was considered cost. This brings cumulative distributions received by LACERS from GTCR V to $5.7 million as of June 30, 2002, representing 56.8% of its $10.0 million commitment to the fund.

• OCM III
During the second quarter of 2002, OCM III made two distributions to LACERS, totaling $2.0 million. These proceeds came from a variety of various portfolio companies. Of the amount distributed, $1.7 million was considered cost and $0.3 was income. As of June 30, 2002, LACERS has received $2.0 million in distributions from OCM III, representing 20.0% of its $10.0 million commitment to the fund.

• CVC II
On June 27, 2002, CVC II distributed $1.9 million to LACERS consisting of William Hill, Punch Tavern, and Collins Stewart proceeds. Of the $1.9 million distributed, $0.6 was considered gain. As of June 30, 2002, LACERS has received $3.5 million in distributions from CVC II, representing 35.1% of its $10.0 million commitment to the fund.

Second Quarter 2002 Update

• Madison Dearborn IV
Beginning April 1, 2002, the fund’s annual management fee of 1.5% will only apply to $3.0 billion of the $4.0 billion in capital commitments. The general partner based its decision on the fund’s slower-than-expected investment pace. The fund size will not be reduced, and each limited partner’s commitment amount will remain the same. LACERS’ commitment to the fund will remain at $25.0 million.

• Austin VIII
The limited partners of Austin VIII approved a reduction in the total fund size during the second quarter of 2002, reducing the total commitment amount from $1.5 billion to $830.0 million. LACERS’ commitment was reduced from $15.0 million to $8.3 million. As a result
of the reduction, the management fees paid by the limited partners currently exceed what would have been due to the partnership had the fees been calculated based on the revised commitment amounts. Austin VIII will credit the overpayment against future management fee payments until the excess amount is eliminated.

- **Trident V**
  Trident V’s investors approved a reduction in the total fund size during the second quarter. The fund was reduced to $518.7 million from the original fund size of $729.0 million. LACERS’ commitment was reduced from $15.0 million to $10.6 million. The reduction in fund size will result in a commensurate reduction in future management fees. In addition, $8.3 million in excess management fees paid to the partnership under the original commitment amount will be returned to the limited partners via an annual $2.1 million reduction in fees due over the course of four years.

- **VantagePoint IV**
  VantagePoint IV proposed and received the limited partners approval for two amendments involving future management fees. The first amendment will defer 50% of management fees accrued from July 1, 2002, through year-end 2003. The second amendment will authorize the general partners to forfeit the remaining 50% of management fees during the same period, and instead, receive an increased share of the fund’s profits equal to the amount of the forfeited fees.

**Recent Commitments**
There have been no commitments in the second quarter of 2002.

**Common Holdings**

<table>
<thead>
<tr>
<th>Company</th>
<th>Partnerships</th>
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<tr>
<td>Acertana</td>
<td>OCM III, OCM IV</td>
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<td>AFR Holdco, Inc.</td>
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<td>Alderwoods</td>
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<td>Alliance Data Systems, Inc.</td>
<td>WCAS VII, WCAS VIII</td>
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<td>Amatek</td>
<td>CVC, CVC II</td>
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<td>AntFactory Ltd.</td>
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<tr>
<td>APP International Finance, Co.</td>
<td>OCM II, OCM III</td>
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<tr>
<td>Big Bear Networks</td>
<td>Austin VII, Austin VIII, Menlo IX</td>
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<tr>
<td>Cementbouw Handel &amp; Industrie BV</td>
<td>CVCII, CVC III</td>
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<tr>
<td>Centennial Cellular Corp.</td>
<td>WCAS VII, WCAS VIII</td>
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<td>ClearSource, Inc.</td>
<td>Chisholm IV, J.H. Whitney IV</td>
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<tr>
<td>Conseco</td>
<td>OCM III, OCM IV</td>
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<tr>
<td>Cord Blood Registry</td>
<td>Essex IV, Essex V</td>
</tr>
<tr>
<td>Coordinated Care Solutions</td>
<td>Essex IV, Essex V</td>
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<tr>
<td>Control Delivery Systems</td>
<td>Essex IV, Essex V</td>
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<tr>
<td>Council Tree Hispanic Broadcasters</td>
<td>Madison Dearborn III, Madison Dearborn IV</td>
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<td>Crown Cork &amp; Seal</td>
<td>OCM III, OCM IV</td>
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<td>Egenera</td>
<td>Austin VII, Austin VIII</td>
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<td>Enron</td>
<td>OCM III, OCM IV</td>
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<td>Enron North America</td>
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<td>ePeople</td>
<td>Menlo VII, Menlo VIII</td>
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<td>Eurotunnel Finance Limited</td>
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Flow Engines
Global Knowledge Network
Grande Communications
GST Telecommunications
Headstrong
HealthMarket
InPhase Technologies
Integrated Health Services
Kappa Packaging
Lantern Communications, Inc.
Legerity, Inc.
Loewen Group International
Loews Cineplex Entertainment Corp.
Maidenform, Inc.
Mariner Post-Acute Network
Medcath Corporation
MEMX, Inc.
MetroPCS, Inc.
MSN Holdings
New ICO Global
New Lecta
Newisys, Inc.
nTelos (aka CFW Comm.)
Payless Cashways
Penn Traffic
Premium Standard Farms
PT Indah Kiat Pulp and Paper Corp.
Reeves Industries
Rinat Neurosciences
Risk Management Alternatives
Salix Pharmaceuticals, Inc.
SAVVIS Communications
Select Medical Corp.
Semiconductor Components
SHPS, Inc.
Silver Cinemas
SIMCALA
Spalding Holdings Corp.
Spinal Concepts
Sunbeam Corp.
Transaction Network Services, Inc.
Trump Atlantic
USG Corp.
Valor Telecommunications Southwest, LLC
Zhone Investors V, LLC
Austin VII, Austin VIII
WCAS VII, WCAS VIII
Austin VII, J.H. Whitney IV
OCM II, OCM III
WCAS VIII, WCAS IX
Chisholm IV, J.H. Whitney IV
Madison Dearborn III, Madison Dearborn IV
OCM II, OCM III
CVC II, CVC III
Madison Dearborn III, Menlo VIII
Austin VII, TPG III
OCM II, OCM III
OCM II, OCM III
OCM, OCM II
OCM II, OCM III
KKR 1996, WCAS VII
Austin VII, Austin VIII
J.H. Whitney IV, Whitney IV
Chisolm IV, Nautic V
OCM II, OCM III
CVC, CVC II
Austin VII, Austin VIII
WCAS VIII, WCAS IX
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OCM, OCM II
OCM, OCM II
OCM II, OCM III
OCM, OCM II
Essex IV, Essex V
GTCR V, GTCR VI
Essex IV, Essex V
WCAS VII, WCAS VIII
GTCR V & VI, Thoma, Cressey VI, WCAS VII
OCM III, OCM IV
WCAS VIII, WCAS IX
OCM II, OCM III
CGW III, OCM II
KKR 1996, OCM
Essex V, Richland III
OCM II, OCM III
GTCR VII, GTCR VII-A
OCM III, OCM IV
OCM III, OCM IV
WCAS VIII, WCAS IX
KKR 1996, Madison Dearborn III
Alternative Investment Environment

U.S. Economy
The U.S. economy has shown initial signs of recovery despite the slide in U.S. stock markets; since year-end 2001, U.S. GDP has steadily increased, productivity has continued to rise, unemployment claims have stabilized and consumer spending remains strong. An important element to further recovery will be a resurgence in business technology spending, the absence of which largely contributed to the recession. Although business spending has remained depressed in comparison to previous years, it improved significantly during the first half of 2002. While recent scandals have highlighted necessary adjustments to U.S. business practices, the status and direction of the economy in light of the unprecedented events of the past year seem to validate the overall effectiveness and stability of U.S. financial systems.

U.S. IPO Market
Despite the volatility in the U.S. stock markets, 34 companies completed initial public offerings during the quarter, raising $5.7 billion. Though far below the record levels raised during the IPO-frenzied 1997–2000 period, the amount raised exceeded the results of the past six quarters. In spite of the rise, the market continues to be a challenging means for alternative investment managers to achieve liquidity as investors’ confidence has been continually shaken with new revelations of accounting and insider trading scandals, regulatory investigations, disappointing profit forecasts, and earnings announcements below targets. Therefore, investors have been more selective, and companies that completed IPOs tended to have lower risk associated with them in the form of profitability and relatively low offering prices. Additionally, IPOs were relatively small, with no company raising more than $500 million. Healthcare companies performed well in the aftermarket, many achieving double-digit returns (Quinton Cardiology Systems, CTI Molecular Imaging, and Medical Staffing Network Holdings). In contrast, the lowest returns were posted by technology companies such as Printcafe Software and Plumtree Software.

Figure 5 illustrates U.S. IPO issues on a quarterly basis over the past five years.

Figure 5

Quarterly U.S. IPO Issues

![chart showing quarterly U.S. IPO issues from 2Q97 to 2Q02]

Source: Bloomberg
Alternative Investment

In response to the challenging environment and complaints from investors regarding high management fees, more venture capital firms announced reductions in fund sizes during the second quarter. During the first half of 2002, 12 venture capital partnerships scaled back their funds by $3.9 billion in the aggregate. As illustrated in figure 6, this amount is nearly equivalent to the $4.0 billion raised by venture capital firms worldwide during the same period; however, it pales in comparison to the combined $225.0 billion raised in 2000 and 2001, the majority of which is still available for investment or being reserved for follow-on investments.

Figure 6  
Worldwide Venture Capital Fundraising  
($ in billions)

The reductions in fund sizes reflect the current environment’s slower investment pace. Venture capitalists have returned to the traditional three- to five-year investment phase, and venture capital disbursements have declined significantly by both amount invested and deal volume (figure 7). This trend mirrors the decrease in venture capital fundraising illustrated in figure 6. The majority of the funds that were scaled back were “mega” funds (partnerships with over $1 billion in capital commitments) that focused on early-stage venture capital. It has been especially hard for these funds to deploy large amounts of capital in attractive early-stage companies. In today’s market smaller amounts of capital are needed to purchase sizeable equity positions in early-stage firms, and the initial amount of capital needed by these companies has declined.
The percentage of fund size reduction ranges from 12% to 63% of the original fund size, with the average being 30% of total capital commitments. It has become difficult for managers to justify their management fees (based on larger fund sizes) while their investment paces have slowed and exit opportunities have diminished. In addition to the funds that released their investors from a portion of capital commitments, there are other funds that have adjusted management fees while leaving fund sizes unchanged. Some partnerships have excused management fees for a specified period of time, while others have reduced the percentage or the base that their management fee is calculated on.

As anticipated by Pathway, alternative investment fundraising also continued to decrease throughout the second quarter of 2002. Specifically, 132 alternative investment partnerships across the globe raised a total of $8.2 billion in capital commitments during the quarter, bringing total fundraising efforts to $23.4 billion for the first half of 2002. This represents decreases of 72.9% and 82.4% from the record levels raised in the first halves of 2001 and 2000, respectively. In fact, the $8.2 billion raised in the second quarter of 2002 represents the lowest quarterly total since the first quarter of 1995, when $4.6 billion was raised. Buyout firms accounted for the majority of fundraising with $19.3 billion, while venture capital commitments totaled $4.0 billion.
The continued reduction in commitments to the asset class during the second quarter was inevitable due to the record amount of capital raised in 2000, which has not yet been fully deployed, and the lack of attractive investment opportunities available in the current environment. As a result of this slowed investment pace (figure 9), many managers who would otherwise have been on track to raise new funds in 2002 currently have enough capital to postpone fundraising efforts. Additionally, as investors poured over $400 billion into the asset class over the past two years, many have seen their alternative investment portfolios reach or surpass their target allocations. This has also been magnified by a shrinking public equity portion of investors’ portfolios that have suffered from the declining stock markets.
Non-U.S. Alternative Investment
Throughout the first half of 2002, non-U.S. alternative investment firms raised more capital than U.S. firms, representing a combined 55.0% of all first half 2002 fundraising activity. Of the $12.9 billion raised outside of the United States, European alternative investment funds accounted for the largest portion, with $7.5 billion raised in the UK and $2.9 billion raised in continental Europe. Combined, these two regions account for 44.1% of total alternative investment fundraising in the first half of the year. Figure 10 illustrates the breakdown of 2002 alternative investment fundraising by geographic region.

Figure 10  Breakdown of Alternative Investment Fundraising by Region

European alternative investment funds raised $10.3 billion in the first half of 2002, down more than 50% from the amount raised in the equivalent period in 2001. European investors have become more selective in their approach and the market is seeing lower-quality managers turned away and higher-quality managers many times oversubscribed. Investment rates by European firms remain depressed though the braver firms are seeing opportunity in the current environment. Several high profile IPOs have been pulled and the environment for exits is generally poor. In the longer term, the growing and converging economies of Europe should provide a benign environment for alternative investment. The low amount of alternative investment being invested expressed in Europe versus the United States (as a percentage of GDP) suggests that there should be scope for increased activity in Europe over the coming years.

Pathway New Deal Activity
Fundraising levels for alternative investment continued to decrease throughout the second quarter of 2002. This was anticipated by Pathway due to the reduction in deal flow received in recent quarters. Figure 11 illustrates the number of new investment opportunities Pathway received, met with, and rejected by quarter since 2001.
During the second quarter of 2002, Pathway reviewed a total of 97 new investment opportunities, bringing the total number received during the first half of 2002 to 209. These 209 investments represent a decline of approximately 17% compared with the same period one year prior. Of the 209 deals reviewed, Pathway met with 103 partnerships. Because of the significant number of the investment opportunities Pathway reviews each quarter, and in order to make the most efficient use of time and resources, Pathway only meets with the partnerships that satisfy its basic investment criteria.

Pathway’s deal flow for the first half of 2002 has been diverse, consisting of funds with a variety of investment strategies. Venture capital partnerships accounted for the largest portion of first half deal flow at 37%, while acquisition funds represented 22%. In comparison to 2001 investment opportunities, the most noticeable differences are the decline in non-U.S. venture capital opportunities and the increase in distressed and recovery funds. Figure 12 illustrates the breakdown by investment strategy of Pathway’s deal flow for 2001 and the first half of 2002.
## LACERS' Alternative Investment Portfolio Summary

From Inception to March 31, 2002

($000s)

<table>
<thead>
<tr>
<th>Partnership</th>
<th>Fund Incept. Date</th>
<th>Fund Size (in Mil)</th>
<th>Commit.</th>
<th>Contrib.*</th>
<th>Market Value</th>
<th>Distrib.</th>
<th>Total Value</th>
<th>Gain/(Loss)</th>
<th>Inception IRR*</th>
<th>V. E. Median Q'tie*</th>
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</tr>
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<td>1 WCAS VII</td>
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<td>$13,885</td>
<td>$15,394</td>
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<td>6.7%</td>
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<tr>
<td>2 OCM</td>
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<td>5,924</td>
<td>11,000</td>
<td>16,924</td>
<td>5,924</td>
<td>10.9%</td>
<td>6.0%</td>
<td>18.6%</td>
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$26,000 | $26,000 | $19,810 | $26,394 | $46,204 | $20,204 | 15.9% | 6.4% | 18.6% |

| 1996 Generation | | | | | | | | | | | |
| 3 CVC European | 2/96 | $690.0 | $10,000 | $9,414 | $5,562 | $11,296 | $16,657 | $7,444 | 20.3% | 4.8% | 19.7% |
| 4 CGW Southeast III | 4/96 | 276.1 | 9,000 | 8,611 | 2,447 | 3,669 | 8,117 | (2,494) | -12.7% | 0.5% | 9.6% |

$19,000 | $18,024 | $5,000 | $14,965 | $22,574 | $4,950 | 8.6% | 2.8% | 15.0% |

| 1997 Generation | | | | | | | | | | | |
| 5 InterWest VI | 6/96 | $175.0 | $5,000 | $5,000 | $5,235 | $8,932 | $14,166 | $9,166 | 56.6% | 23.6% | 70.6% |
| 6 GTCR Fund V | 7/96 | 521.0 | 10,000 | 10,000 | 9,517 | 3,236 | 12,753 | 2,753 | 7.5% | 1.7% | 12.4% |
| 7 KKR 1996 Fund | 9/95 | 6,012.0 | 25,000 | 23,246 | 24,159 | 8,179 | 32,337 | 9,091 | 13.8% | 1.7% | 12.4% |
| 8 Manlio VII | 10/96 | 252.5 | 5,000 | 4,750 | 1,535 | 22,645 | 24,161 | 19,431 | 146.0% | 23.6% | 70.6% |
| 9 OCM II | 10/97 | 1,500.0 | 11,000 | 11,000 | 8,666 | 5,711 | 14,377 | 3,577 | 8.6% | 3.3% | 12.9% |

$56,000 | $33,996 | $49,111 | $48,703 | $97,814 | $43,818 | 26.4% | 6.0% | 23.0% |

| 1998 Generation | | | | | | | | | | | |
| 10 Thomas Lee IV* | 12/97 | $3,450.0 | $7,000 | $5,902 | $6,711 | $276 | $6,989 | $1,087 | 9.8% | -3.4% | 8.2% |
| 11 Kelso VI | 2/98 | 1,500.0 | 5,000 | 2,437 | 2,342 | 441 | 2,783 | 346 | 7.1% | -3.4% | 8.2% |
| 12 Apollo IV | 4/98 | 3,600.0 | 5,000 | 4,589 | 5,382 | 234 | 5,616 | 1,027 | 8.8% | 1.4% | 11.0% |
| 13 GTCR Fund VI | 4/98 | 870.0 | 10,000 | 9,904 | 4,635 | 5,474 | 10,109 | 205 | 1.6% | -3.4% | 8.2% |
| 14 Thoma Cressey VI | 5/98 | 450.0 | 5,000 | 4,675 | 3,313 | 251 | 3,564 | (1,111) | -13.7% | -3.4% | 8.2% |
| 15 CVC European II | 6/98 | 2,500.0 | 10,000 | 8,041 | 6,984 | 1,621 | 8,605 | 565 | 3.1% | 3.7% | 10.3% |
| 16 Essex Woodlands IV* | 6/98 | 137.4 | 4,000 | 3,354 | 3,398 | 1,862 | 5,260 | 1,906 | 31.9% | 13.1% | 31.7% |
| 17 WCAS VIII | 7/98 | 3,000.0 | 15,000 | 14,550 | 10,853 | 0 | 10,853 | (3,602) | -12.4% | -3.4% | 8.2% |

$61,000 | $53,452 | $43,618 | $10,161 | $53,779 | $3,277 | 0.3% | -0.8% | 10.9% |

| 1999 Generation | | | | | | | | | | | |
| 18 Madison Dearborn III | 1/99 | $2,173.0 | $16,000 | $13,308 | $12,932 | $560 | $13,493 | $185 | 0.8% | -9.4% | -6.2% |
| 19 CGW Southeast IV | 4/99 | 404.5 | 10,000 | 6,845 | 3,040 | 0 | 3,040 | (1,814) | -26.8% | -3.4% | -0.2% |
| 20 Chisholm IV | 5/99 | 275.0 | 9,000 | 6,948 | 4,201 | 174 | 4,375 | (2,573) | -28.0% | -9.7% | 2.0% |
| 21 Manlio VIII | 5/99 | 505.1 | 18,000 | 12,600 | 6,171 | 0 | 6,171 | (6,429) | -39.1% | 12.4% | 0.0% |
| 22 OCM III | 9/99 | 2,076.9 | 10,000 | 10,000 | 11,886 | 29 | 11,915 | 1,915 | 12.1% | -5.3% | 2.4% |
| 23 Richland III | 9/99 | 202.0 | 18,000 | 13,824 | 11,386 | 0 | 11,386 | (2,438) | -10.5% | 12.4% | 0.0% |
| 24 Vestar IV | 10/99 | 2,525.0 | 17,000 | 4,312 | 3,800 | 3 | 3,803 | (509) | 10.7% | -9.4% | -0.2% |
| 25 Austin VII | 10/99 | 825.0 | 17,000 | 8,418 | 6,179 | 0 | 6,179 | (2,270) | -20.8% | 12.4% | 0.0% |
| 26 J.H. Whitney IV | 11/99 | 1,003.0 | 25,000 | 21,375 | 12,465 | 842 | 13,308 | (8,067) | -25.0% | 12.4% | 0.0% |
| 27 Alchemy Investment Plan* | 12/99 | 425.0 | 18,524 | 11,400 | 8,756 | 2,952 | 11,709 | 229 | 2.0% | 0.0% | 5.4% |

$158,524 | $106,949 | $80,816 | $4,561 | $85,377 | ($21,572) | -13.9% | -9.6% | 0.9% |
# LACERS' Alternative Investment Portfolio Summary

From Inception to March 31, 2002  
($000s)

<table>
<thead>
<tr>
<th>Partnership</th>
<th>Fund Incept. Date</th>
<th>Fund Size (In Mil)</th>
<th>Commit.</th>
<th>Contrib.*</th>
<th>Market Value</th>
<th>Distrib.</th>
<th>Total Value</th>
<th>Gain/(Loss)</th>
<th>Inception IRR*</th>
<th>Inception Median Q'tile*</th>
<th>V. E. Upper Q'tile*</th>
</tr>
</thead>
<tbody>
<tr>
<td>28 TPG III</td>
<td>12/99</td>
<td>$3,488.7</td>
<td>$25,000</td>
<td>$10,628</td>
<td>$6,041</td>
<td>$837</td>
<td>$8,876</td>
<td>($1,750)</td>
<td>-13.1%</td>
<td>-20.0%</td>
<td>-7.6%</td>
</tr>
<tr>
<td>29a GTCR Fund VII</td>
<td>1/00</td>
<td>$3,516.5</td>
<td>$18,750</td>
<td>$12,034</td>
<td>$9,721</td>
<td>3,227</td>
<td>12,948</td>
<td>854</td>
<td>7.3%</td>
<td>N.M.</td>
<td>N.M.</td>
</tr>
<tr>
<td>30 VantagePoint IV</td>
<td>4/00</td>
<td>$1,600.0</td>
<td>$15,000</td>
<td>$2,400</td>
<td>$1,166</td>
<td>0</td>
<td>1,166</td>
<td>(1,232)</td>
<td>N.M.</td>
<td>N.M.</td>
<td>N.M.</td>
</tr>
<tr>
<td>31 Weston Presidio IV</td>
<td>4/00</td>
<td>$1,352.3</td>
<td>$15,000</td>
<td>$3,000</td>
<td>$2,406</td>
<td>0</td>
<td>2,406</td>
<td>(509)</td>
<td>N.M.</td>
<td>N.M.</td>
<td>N.M.</td>
</tr>
<tr>
<td>32 Thomas Lee V</td>
<td>4/00</td>
<td>$6,114.0</td>
<td>$15,000</td>
<td>$2,049</td>
<td>$1,740</td>
<td>0</td>
<td>1,740</td>
<td>(309)</td>
<td>N.M.</td>
<td>N.M.</td>
<td>N.M.</td>
</tr>
<tr>
<td>33 WCAS IX</td>
<td>6/00</td>
<td>$3,900.0</td>
<td>$15,000</td>
<td>$3,750</td>
<td>$2,686</td>
<td>0</td>
<td>2,686</td>
<td>(1,060)</td>
<td>N.M.</td>
<td>N.M.</td>
<td>N.M.</td>
</tr>
<tr>
<td>34 Nautic V</td>
<td>6/00</td>
<td>$1,082.7</td>
<td>$15,000</td>
<td>$1,697</td>
<td>$985</td>
<td>13</td>
<td>997</td>
<td>(700)</td>
<td>N.M.</td>
<td>N.M.</td>
<td>N.M.</td>
</tr>
<tr>
<td>35 Essex Woodlands V</td>
<td>7/00</td>
<td>$280.4</td>
<td>$10,588</td>
<td>$2,850</td>
<td>$2,593</td>
<td>0</td>
<td>2,593</td>
<td>(257)</td>
<td>N.M.</td>
<td>N.M.</td>
<td>N.M.</td>
</tr>
<tr>
<td>36 Trident V*</td>
<td>8/00</td>
<td>$519.0</td>
<td>$10,588</td>
<td>$1,572</td>
<td>$721</td>
<td>0</td>
<td>721</td>
<td>(851)</td>
<td>N.M.</td>
<td>N.M.</td>
<td>N.M.</td>
</tr>
<tr>
<td>37 Madison Dearborn IV</td>
<td>11/00</td>
<td>$4,036.0</td>
<td>$25,000</td>
<td>$2,093</td>
<td>$1,623</td>
<td>0</td>
<td>1,623</td>
<td>(470)</td>
<td>N.M.</td>
<td>N.M.</td>
<td>N.M.</td>
</tr>
</tbody>
</table>

N.M.  N.M.  N.M.

<table>
<thead>
<tr>
<th>Partnership</th>
<th>Fund Incept. Date</th>
<th>Fund Size (In Mil)</th>
<th>Commit.</th>
<th>Contrib.*</th>
<th>Market Value</th>
<th>Distrib.</th>
<th>Total Value</th>
<th>Gain/(Loss)</th>
<th>Inception IRR*</th>
<th>Inception Median Q'tile*</th>
<th>V. E. Upper Q'tile*</th>
</tr>
</thead>
<tbody>
<tr>
<td>29b GTCR VII-A</td>
<td>7/00</td>
<td>$483.5</td>
<td>$6,250</td>
<td>$1,922</td>
<td>$1,469</td>
<td>$1,673</td>
<td>$3,142</td>
<td>$1,220</td>
<td>N.M.</td>
<td>N.M.</td>
<td>N.M.</td>
</tr>
<tr>
<td>38 Menlo IX</td>
<td>7/00</td>
<td>$1,515.2</td>
<td>20,000</td>
<td>3,000</td>
<td>2,397</td>
<td>0</td>
<td>2,397</td>
<td>(603)</td>
<td>N.M.</td>
<td>N.M.</td>
<td>N.M.</td>
</tr>
<tr>
<td>39 Austin VIII</td>
<td>1/01</td>
<td>$60.0</td>
<td>$6,300</td>
<td>$1,250</td>
<td>$880</td>
<td>0</td>
<td>880</td>
<td>(370)</td>
<td>N.M.</td>
<td>N.M.</td>
<td>N.M.</td>
</tr>
<tr>
<td>40 Whitney V</td>
<td>1/01</td>
<td>$1,116.4</td>
<td>$10,000</td>
<td>2,273</td>
<td>2,115</td>
<td>3</td>
<td>2,118</td>
<td>(155)</td>
<td>N.M.</td>
<td>N.M.</td>
<td>N.M.</td>
</tr>
<tr>
<td>41 CVC III</td>
<td>1/01</td>
<td>$3,450.0</td>
<td>$15,000</td>
<td>573</td>
<td>453</td>
<td>1</td>
<td>453</td>
<td>(220)</td>
<td>N.M.</td>
<td>N.M.</td>
<td>N.M.</td>
</tr>
<tr>
<td>42 OCM IV</td>
<td>12/01</td>
<td>$2,124.8</td>
<td>$10,000</td>
<td>3,500</td>
<td>3,506</td>
<td>0</td>
<td>3,506</td>
<td>5</td>
<td>N.M.</td>
<td>N.M.</td>
<td>N.M.</td>
</tr>
</tbody>
</table>

**Total: $69,550, $12,518, $10,819, $1,676, $12,496, ($123)**  
N.M.  N.M.  N.M.

<table>
<thead>
<tr>
<th>Period</th>
<th>LACERS' Alternative Investment Portfolio Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inception</td>
<td>6.9%</td>
</tr>
</tbody>
</table>
Notes to the Portfolio Summary

* Capital contributions may exceed capital commitments due to the inclusion of outside management fees.
* IRRs are net of fees, expenses, and general partner carried interest.
* Preliminary industry median and upper quartile IRR reported by Venture Economics as of March 31, 2002, except for CVC, CVC II, and Alchemy, which are being compared with Venture Economics European 12/30/01 final performance data. The benchmark is particular to the investment strategy of each partnership.
* Blended performance benchmark calculations: [(presp. contributed capital/generation contributed capital) * preliminary industry median (upper) IRR].
* Pathway has reduced the Thomas Lee IV and Essex IV market values to reflect values that are net of the General Partners' carried interest.
* LACERS' is scheduled to commit $4.2 million each year over a three-year period. Commitment amounts are accounted for by multiplying the remaining unfunded commitment in foreign currency by the prevailing exchange rate at the time of the report, added to cumulative capital contributions at the time of the report. As a result, commitment amounts will fluctuate slightly on a quarterly basis.
* Trident V's fund size was reduced from $729.0 million to $518.7 million. As a result, LACERS' commitment was reduced from $15.0 million to $10.8 million.
* Austin VIII's fund size was reduced from $1.5 billion to $890 million. As a result, LACERS' commitment was reduced from $15.0 million to $8.3 million.

N.M. - Not Meaningful
## LACERS' Alternative Investment Portfolio Summary
### Second Quarter Activity
**as of June 30, 2002**
($000s)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>29b GTCR VII-A</td>
<td>$6,250</td>
<td>$1,469</td>
<td>$0</td>
<td>$0</td>
<td>$1,469</td>
<td>$1,922</td>
<td>$1,673</td>
</tr>
<tr>
<td>38 Menlo IX</td>
<td>20,000</td>
<td>2,397</td>
<td>1,000</td>
<td>0</td>
<td>3,397</td>
<td>4,000</td>
<td>0</td>
</tr>
<tr>
<td>39 Austin VIII*</td>
<td>8,300</td>
<td>880</td>
<td>100</td>
<td>0</td>
<td>980</td>
<td>1,350</td>
<td>0</td>
</tr>
<tr>
<td>40 Whitney V</td>
<td>10,000</td>
<td>2,115</td>
<td>84</td>
<td>0</td>
<td>2,199</td>
<td>2,357</td>
<td>3</td>
</tr>
<tr>
<td>41 CVC III</td>
<td>15,000</td>
<td>453</td>
<td>347</td>
<td>0</td>
<td>643</td>
<td>1,020</td>
<td>1</td>
</tr>
<tr>
<td>42 OCM IV</td>
<td>10,000</td>
<td>3,505</td>
<td>2,500</td>
<td>0</td>
<td>6,005</td>
<td>6,000</td>
<td>0</td>
</tr>
<tr>
<td><strong>6/30/02 Total</strong></td>
<td>$55,550</td>
<td>$10,819</td>
<td>$4,031</td>
<td>$0</td>
<td>$14,694</td>
<td>$16,549</td>
<td>$1,676</td>
</tr>
</tbody>
</table>

* Capital contributions may exceed capital commitments due to the inclusion of outside management fees.
* Includes outside contributions except outside management fees.
* Trident V's fund size was reduced from $729.0 million to $518.7 million. As a result, LACERS' commitment was reduced from $15.0 million to $10.6 million.
* Austin VIII's fund size was reduced from $1.5 billion to $630 million. As a result, LACERS' commitment was reduced from $15.0 million to $8.3 million.