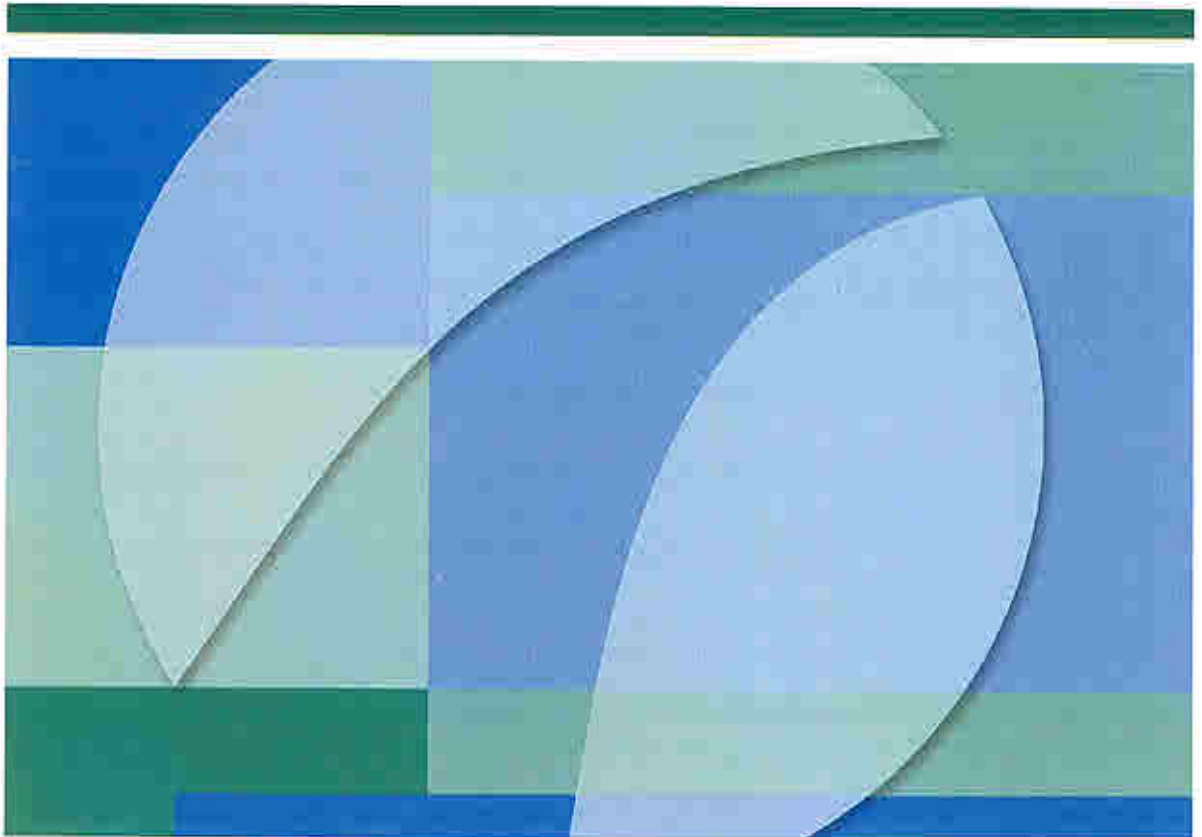


Private Equity Portfolio Update

Los Angeles City
Employees' Retirement System

2nd QUARTER | 2004



Confidential

Introduction

During the first quarter, the Los Angeles City Employees' Retirement System (LACERS) alternative investment portfolio continued the strong performance it demonstrated throughout 2003. The partnerships contributing to this strong performance will be discussed in the Performance and Significant Events sections of this report. During the first and second quarters, LACERS received \$27.2 million and \$27.6 million in distributions, respectively—the largest quarterly distributions received since the inception of the portfolio. LACERS committed \$11.0 million to one acquisition-focused partnership during the second quarter, bringing total commitments to \$781 million to 56 partnerships since the inception of LACERS' alternative investment program.

This report contains information regarding the investment activity of LACERS' portfolio during the first and second quarters of 2004, as well as an overview of the alternative investment environment.

NOTES: Although the date of this report is June 30, 2004, the most-recent partnership financial data available is through March 31, 2004.

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.

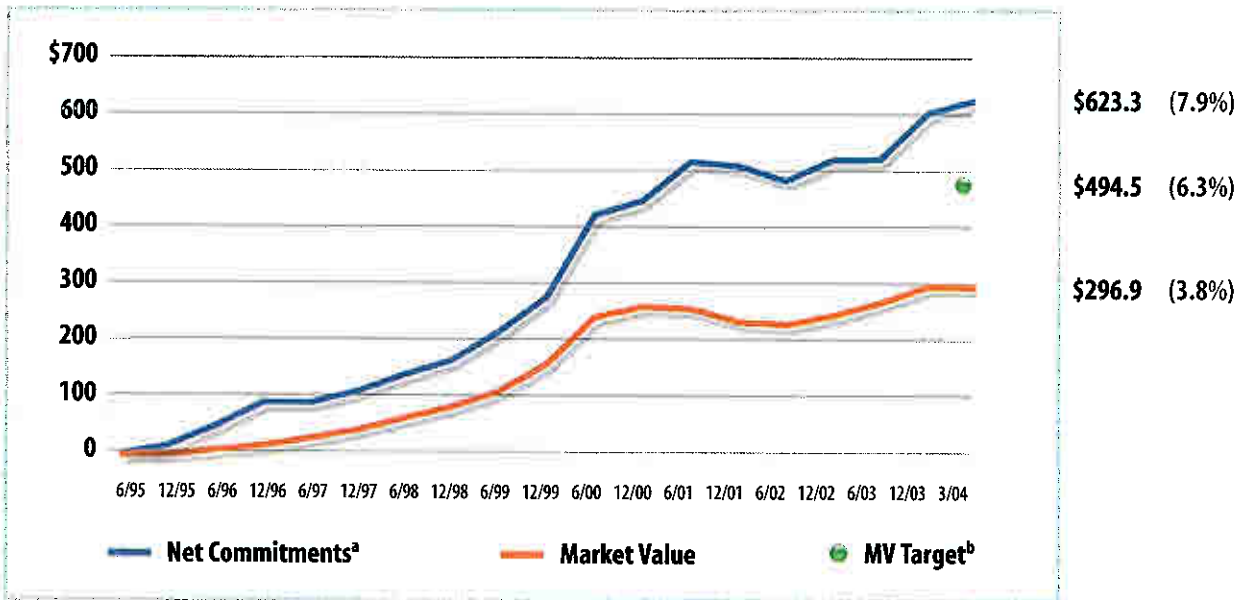
Target Allocation

As a result of the large amount of proceeds that were realized and distributed during the quarter, the market value of LACERS' alternative investment portfolio decreased slightly, from \$299 million to \$297 million. The portfolio was valued at a net gain of \$82.1 million at March 31, 2004, an increase of \$7.3 million from the previous quarter. The market value, as a percentage of the overall pension fund, stood at 3.8% at the end of the first quarter.

Figure 1.2

LACERS' Alternative Investment Portfolio Target Allocation

As of March 31, 2004
(\$ in millions)

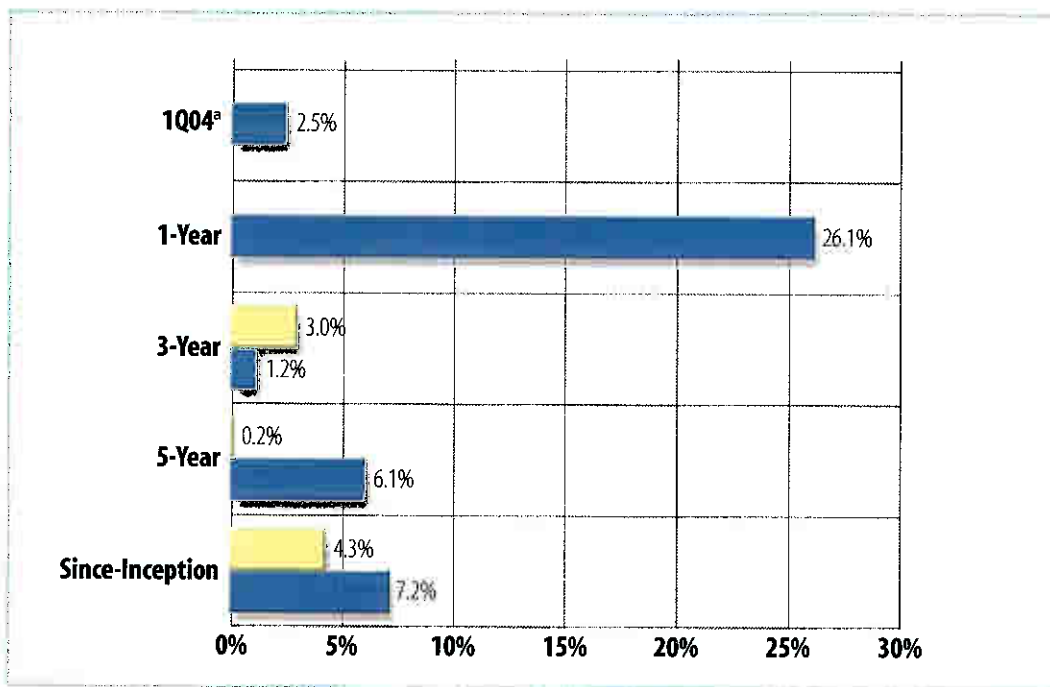


Performance

Returns and Benchmark

Figure 1.4 demonstrates the periodic returns for LACERS' portfolio as of March 31, 2004. As shown, LACERS' alternative investment portfolio generated a robust 1-year return of 26.1%. Additionally, the since-inception return increased from 7.0% at the end of 2003 to 7.2% at the end of the first quarter of 2004—outperforming LACERS' benchmark by nearly 3 percentage points. The partnerships that demonstrated significant increases in net gain during the first quarter were Menlo VIII, Onex Partners, Essex V, WCAS VII, and WCAS VIII.

Figure 1.4
Investment Returns Summary
As of March 31, 2004



^aQuarterly return not annualized.

NOTE: LACERS' benchmark is dollar-weighted by quarter based on the Russell 3000 (for capital contributions more than three years old.) A 400-basis-point premium is added to the Russell 3000 benchmark component to account for the additional illiquidity and risk involved with alternative investments.

Onex Partners—\$20.0 million commitment

- During the quarter, LACERS' investment in Onex experienced a \$1.2 million gain as a result of a sharp increase in the public stock price of a behavioral health services company that Onex acquired out of bankruptcy in 2004.
- The behavioral health company has performed ahead of expectations upon its emergence from bankruptcy. Onex values its investment at a 10% discount to the average public stock price over the last 10 days of the quarter.
- During the quarter, Onex announced the resignation of John Troiano, a managing director at the firm. Mr. Troiano's departure is not expected to have a significant impact; he had limited responsibility for the firm's prior investments. Onex currently has 11 managing directors who have an average tenure of 14 years.
- At the end of the first quarter of 2004, LACERS' investment in Onex Partners had a market value of \$2.4 million, or 1.7 times capital invested to date.

WCAS VII—\$15.0 million commitment

- LACERS' investment in WCAS VII experienced a \$0.9 million increase in market value during the quarter, primarily driven by the performance of two publicly traded portfolio companies. LACERS received stock distributions during the quarter from each of these portfolio companies.
- The partnership sold 3.29 million shares of stock from a company operating in the financial services industry, resulting in a realized gain of \$73.0 million. LACERS received 24,337 shares from the distribution, valued at \$759,071.
- The second distribution of stock came from a healthcare services company. The partnership earned a net gain of \$35.0 million and LACERS received 15,575 shares, valued at \$609,450.
- Since the inception of WCAS VII in 1995, LACERS has received distributions equal to 1.6 times its contributed capital.

Recent Commitments

Hellman and Friedman V

Partnership Name: Hellman & Friedman Capital Partners V, L.P.

LACERS' Commitment: \$11 million

Fund Size: \$3.5 billion

LACERS' Ownership: 0.3%

Partnership Closing Date: June 28, 2004

Investment Strategy: Acquisitions–Large

Industry Focus: Service

Geographic Focus: United States

Hellman & Friedman V will invest \$100 to \$300 million of equity in companies operating in the service sector of the economy, including media, financial services, professional services, and information services. H&F will continue to invest using a variety of structures, including buyouts, leveraged recapitalizations, financial restructurings, and buildups. H&F will also take non-control positions in strategic minority investments.



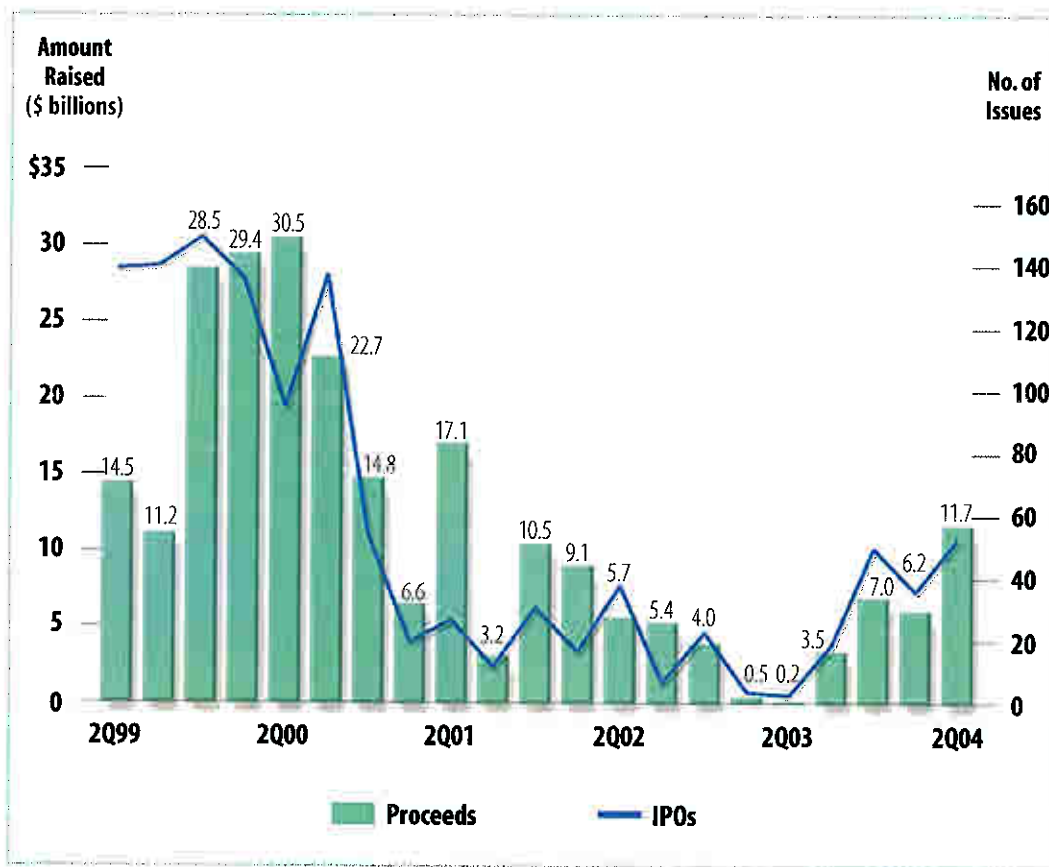
Alternative Investment Environment



second quarter, raising just over \$3.1 billion. Of that amount, companies backed by U.S. venture firms accounted for 27 deals and \$1.8 billion. Healthcare IPOs dominated the second quarter landscape, with more than two-thirds of the offerings being affiliated with a healthcare company, according to information from VentureOne. Prominent private equity-backed IPOs during the quarter include CB Richard Ellis and Salesforce.com. Figure 2.1 shows quarterly U.S. IPO issuance for the past five years.

Figure 2.1

Quarterly U.S. IPO Issuance



SOURCE: Bloomberg, SDC, and Thomson Financial.

Buyout firms have been active in the satellite industry over the past year. Permira and Apax started the trend late last year with their \$1.5 billion purchase of Inmarsat, the UK-based satellite operator. In the first quarter of 2004, Spectrum Equity Partners and Texas Pacific Group bought France-based Eutelsat. KKR made the largest acquisition in the sector, winning a \$3.5 billion auction of U.S.-based PanAmSat and subsequently syndicating a portion of its investment in the company to two other alternative investment firms, Providence Equity Partners and The Carlyle Group. Most recently, The Blackstone Group agreed to take over Netherlands-based New Skies Satellites. Similar to the telephone directories businesses that attracted significant private equity investment in the past few years, satellite companies typically represent slow growth businesses that have strong and stable cash flows. Other buyout firms are expected to make additional acquisitions within the satellite industry over the next year.

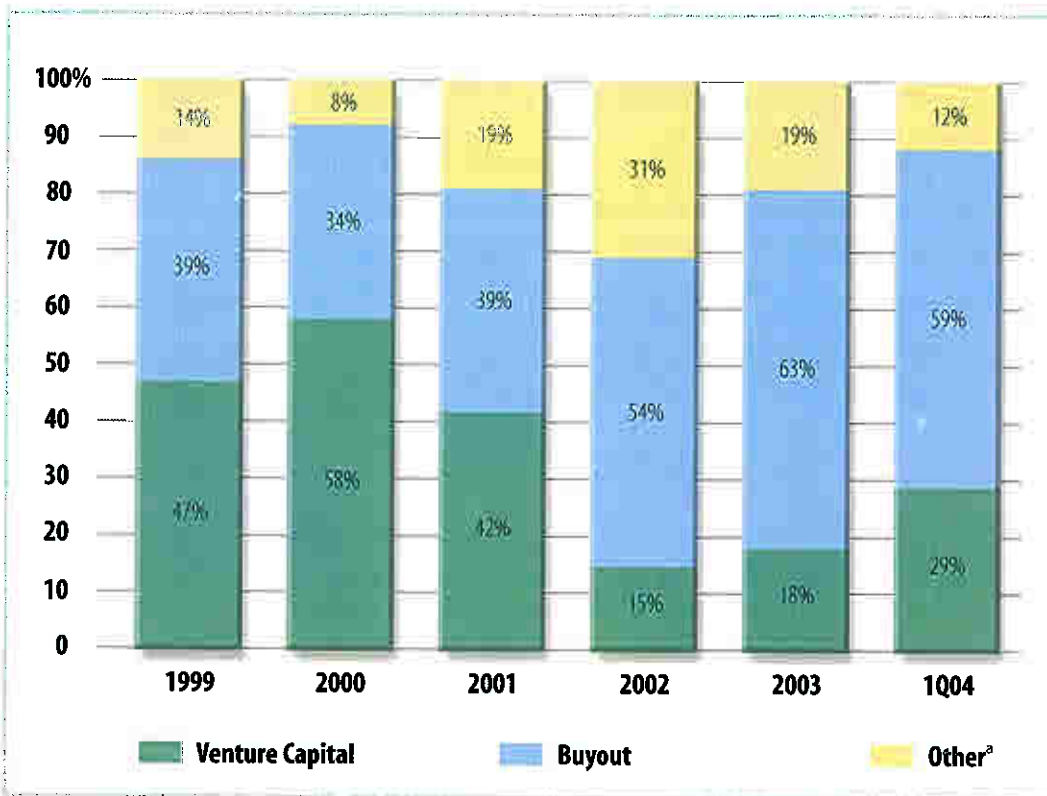
Alternative Investment Fundraising

During the three months ending March 31, 2004, worldwide alternative investment firms raised a total of \$11.6 billion—roughly one-third the amount raised in the previous quarter. This significant decline is typical for the period following the year-end quarter, when many general partners accommodate investors' preference to make their commitments prior to year-end. Venture capital firms raised almost 30% of this total, which is the highest proportion since the fourth quarter of 2001. Aiding the relative increase of venture capital in the fundraising totals is the continued interest in healthcare-focused venture funds. According to *The Private Equity Analyst*, healthcare-focused venture firms have raised approximately \$1.3 billion through March, an increase over the \$750 million raised by healthcare-focused venture firms during the same period in 2003.¹ The three

1. April 2004, Volume XIV, Issue 4.

successfully raised \$930 million for its BDC in April of this year. Since then, there have been 13 different BDC IPO filings seeking to raise over \$6.7 billion in total, mostly sponsored by established buyout firms. Aside from Apollo's BDC, there have not been any other private equity-sponsored BDCs that have actually begun trading. As a result, there is a wide range of views on how significant a market this can be and what it may mean for alternative investment fundraising in general. Interestingly, the amount of capital Apollo raised with its BDC represents 133% of the total capital raised by mezzanine funds in the first quarter of 2004. Figure 2.4 shows the breakdown among venture capital, buyout, and other fundraising over the past five years.

Figure 2.4
Worldwide Alternative Investment Fundraising by Strategy



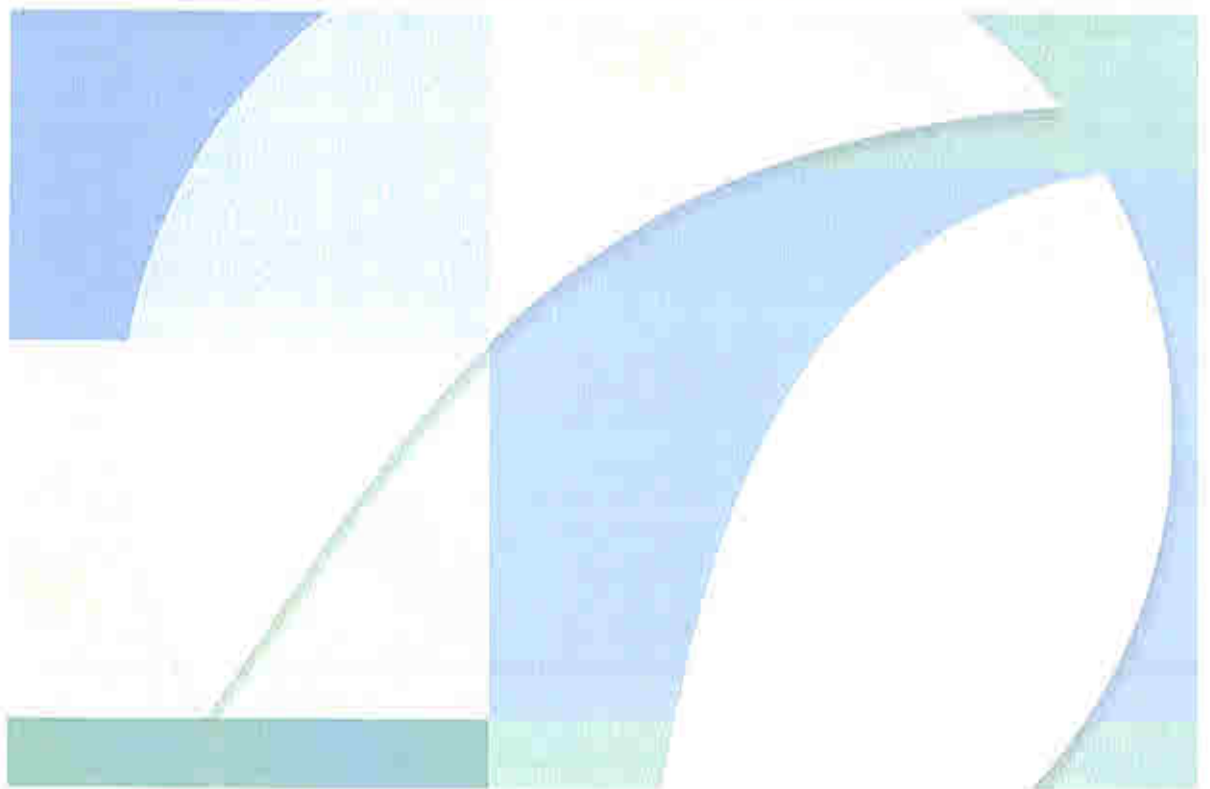
SOURCE: Venture Economics.

NOTE: Fundraising amounts are based on net amounts raised, which adjusts for fund downsizing.

^aIncludes mezzanine, distressed debt, and other strategies.



Appendix A—Portfolio Summary



LACERS' Alternative Investment Portfolio Summary

From Inception to March 31, 2004

(\$000s)

Partnership	Fund	Fund Size (in mil.)	Commit. (\$)	Contrib. (\$)	Mkt. Val. (\$)	Distrib. (\$)	Total Val. (\$)	Gain/(Loss) (\$)	Since- Inception IRR ^b	Private Equity Benchmarks	
	Incept. Date									Median IRR ^{c, d}	Upper Q'tile IRR ^{c, d}
1995 Generation											
1 WCAS VII	10/95	1,426	15,000	15,000	6,359	24,037	30,397	15,397	17.8%	7.5%	17.2%
2 OCM	10/95	671	<u>11,000</u>	<u>11,000</u>	<u>2,262</u>	<u>14,759</u>	<u>17,020</u>	<u>6,020</u>	<u>10.0%</u>	<u>5.8%</u>	<u>17.2%</u>
			26,000	26,000	8,621	38,796	47,417	21,417	14.4%	6.8%	17.2% *
1996 Generation											
3 CVC European	2/96	630	10,000	9,753	6,508	16,080	22,587	12,835	23.9%	12.6%	25.5%
4 CGW Southeast III	4/96	278	<u>9,000</u>	<u>8,614</u>	<u>3,510</u>	<u>3,914</u>	<u>7,424</u>	<u>(1,190)</u>	<u>-3.8%</u>	<u>5.0%</u>	<u>11.0%</u>
			19,000	18,367	10,018	19,994	30,012	11,645	13.6%	9.0%	18.7% *
1997 Generation											
5 InterWest VI	6/96	175	5,000	5,000	4,458	9,318	13,776	8,776	50.0%	18.9%	59.7%
6 GTCR Fund V	7/96	521	10,000	10,000	6,408	8,590	14,998	4,998	9.4%	1.6%	9.8%
7 KKR 1996 Fund	9/96	6,012	25,000	26,307	16,409	24,774	41,184	14,877	13.3%	1.6%	9.8%
8 Menlo VII	10/96	253	5,000	4,750	1,146	22,729	23,874	19,124	144.6%	18.9%	59.7%
9 OCM II	10/97	1,500	<u>11,000</u>	<u>11,000</u>	<u>4,986</u>	<u>8,351</u>	<u>13,337</u>	<u>2,337</u>	<u>4.7%</u>	<u>2.2%</u>	<u>10.5%</u>
			56,000	57,057	33,407	73,762	107,169	50,112	22.3%	4.7%	18.5% *
1998 Generation											
10 Thomas Lee IV	12/97	3,450	7,000	6,130	4,757 ^f	692	5,449	<u>(681)</u>	<u>-2.7%</u>	2.8%	10.6%
11 Kelso VI	2/98	1,500	5,000	4,107	3,704	1,735	5,439	1,332	11.6%	2.8%	10.6%
12 Apollo IV	4/98	3,600	5,000	4,726	4,876	1,549	6,425	1,699	7.8%	2.7%	13.0%
13 GTCR Fund VI	4/98	870	10,000	9,904	3,669	7,658	11,326	1,422	5.9%	2.8%	10.6%
14 Thoma Cressey VI	5/98	450	5,000	4,845	2,881	1,126	4,007	<u>(838)</u>	<u>-5.2%</u>	2.8%	10.6%
15 CVC European II	6/98	2,500	10,000	9,105	7,420	7,582	15,003	5,898	15.7%	0.5%	10.5%
16 Essex Woodlands IV	6/98	137	4,000	3,674	2,643 ^f	1,982	4,624	950	10.1%	3.4%	16.1%
17 WCAS VIII	7/98	3,000	<u>15,000</u>	<u>14,850</u>	<u>11,723</u>	0	<u>11,723</u>	<u>(3,127)</u>	<u>-5.6%</u>	<u>2.8%</u>	<u>10.6%</u>
			61,000	57,342	41,672	22,324	63,996	6,654	3.3%	2.5%	11.1% *

LACERS' Alternative Investment Portfolio Summary
From Inception to March 31, 2004
(\$'000s)

Partnership	Fund	Fund Size (in mil.)	Commit. (\$)	Contrib. (\$)	Mkt. Val. (\$)	Distrib. (\$)	Total Val. (\$)	Gain/(Loss) (\$)	Since- Inception IRR ^b	Private Equity Benchmarks		
	Incept. Date									Median IRR ^{c, d}	Upper Q'tile IRR ^{c, d}	
2002 Generation												
43 Resolute Fund	9/02	1,500	<u>20,000</u>	<u>3,988</u>	<u>3,365</u>	1	<u>3,366</u>	(623)	N.M.	N.M.	N.M.	
			20,000	3,988	3,365	1	3,366	(623)	N.M.	N.M.	N.M.	
2003 Generation												
44 GTCR VIII	12/02	2,000	20,000	2,050	1,823	0	1,823	(227)	N.M.	N.M.	N.M.	
45 Nordic V ^h	12/02	€1,500	13,379	319	(118)	0	(118)	(337)	N.M.	N.M.	N.M.	
46 Olympus IV	7/03	758	7,000	1,340	1,258	0	1,258	(82)	N.M.	N.M.	N.M.	
48 TPG IV	10/03	5,426	25,000	2,299	2,171	1	2,172	(127)	N.M.	N.M.	N.M.	
47 Weston Presidio IV - Secondary	10/03	1,353	2,826	1,162	1,087	196	1,283	121	N.M.	N.M.	N.M.	
49 Onex Partners	11/03	1,655	20,000	1,435	2,352	0	2,352	916	N.M.	N.M.	N.M.	
50 Trident V - Secondary	12/03	519	<u>3,406</u>	<u>1,484</u>	<u>1,466</u>	<u>112</u>	<u>1,578</u>	<u>94</u>	<u>N.M.</u>	<u>N.M.</u>	<u>N.M.</u>	
			91,611	10,090	10,139	310	10,448	358	N.M.	N.M.	N.M.	
2004 Generation												
51 Permira Europe III ^h	7/03	€5,076	20,750	958	692	0	692	(267)	N.M.	N.M.	N.M.	
52 TCV V	12/03	900	19,500 ⁱ	0	0	0	0	0	N.M.	N.M.	N.M.	
53 Kelso VII	12/03	1,750	18,000 ^j	0	0	0	0	0	N.M.	N.M.	N.M.	
54 Essex VI	1/04	264	15,000	360	275	0	275	(85)	N.M.	N.M.	N.M.	
55 First Reserve X	1/04	2,240	<u>20,000</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>N.M.</u>	<u>N.M.</u>	<u>N.M.</u>	
			93,250	1,318	967	0	967	(351)	N.M.	N.M.	N.M.	
Total			768,925	437,429	296,864	222,671	519,535	82,106	7.2%			

NOTE: Amounts may not foot due to rounding.

^a Contributions may exceed capital commitments due to fees that are charged in addition to the capital commitment.

^b IRRs are net of fees, expenses, and general partner carried interest.

^c Preliminary median and upper quartile IRR reported by Venture Economics as of March 31, 2004. The benchmark is particular to the investment strategy of each partnership.

^d Return calculations and benchmark comparisons are not meaningful in the early years of a partnership's life; therefore, performance is not reported until after the third anniversary of the first drawdown.

^e Blended performance benchmark calculations: ((psp. contributed capital/generation contributed capital) times industry median [upper] IRR).

^f Market values reduced to reflect values that are net of the general partners' carried interest.

^g LACERS is scheduled to commit £4.2 million each year over a three-year period.

^h Commitment amounts are accounted for by multiplying the remaining unfunded commitment in foreign currency by the prevailing exchange rate at the end of the respective quarter, added to cumulative capital contributions at the end of the respective quarter. As a result, commitment amounts will fluctuate slightly on a quarterly basis.

ⁱ An additional commitment of \$1.0 million was made to TCV V in the first quarter of 2004.

^j An additional commitment of \$500,000 was made to Kelso VII in the second quarter of 2004.

N.M. - Not Meaningful

LACERS' Alternative Investment Portfolio Summary
Second Quarter Activity
as of June 30, 2004
(\$000s)

<u>Partnership</u>	<u>Commit.</u>	<u>Actual</u> <u>3/31/2004</u>			<u>Currency</u> <u>Impact</u>	<u>Estimated</u> <u>6/30/2004</u>		
		<u>Market</u> <u>Value</u>	<u>2nd Qtr</u> <u>Contrib.</u>	<u>2nd Qtr</u> <u>Distrib.</u>		<u>Market</u> <u>Value^a</u>	<u>Cum.</u> <u>Contrib.^b</u>	<u>Cum.</u> <u>Distrib.</u>
1999 Generation								
18 Madison Dearborn III	16,000	13,263	0	1,094	N/A	12,169	15,118	6,160
19 CGW Southeast IV	10,000	4,724	100	0	N/A	4,824	7,553	27
20 Chisholm IV	9,000	4,470	0	241	N/A	4,229	8,100	433
21 Menlo VIII	18,000	4,529	0	216	N/A	4,313	15,300	3,453
22 OCM III	10,000	6,058	0	1,294	N/A	4,764	10,000	8,312
23 Richland III	18,000	6,990	0	0	N/A	6,990	14,724	3,564
24 Vestar IV	17,000	8,664	185	445	N/A	8,403	10,440	3,685
25 Austin VII	17,000	9,455	515	0	N/A	9,970	14,115	2,122
26 J.H. Whitney IV	25,000	5,118	0	0	N/A	5,118	22,448	1,916
27 Alchemy Investment Plan ^c	<u>29,762</u>	<u>18,887</u>	1,665	1,501	(194)	<u>18,856</u>	<u>22,821</u>	<u>8,401</u>
	169,762	82,158	2,464	4,791	(194)	79,637	140,620	38,072
2000 Generation								
28 TPG III	25,000	18,441	829	384	N/A	18,886	19,002	8,603
29a GTCR Fund VII	18,750	13,625	703	1,711	N/A	12,617	16,500	4,938
30 VantagePoint Ventures IV	15,000	4,114	900	250	N/A	4,764	7,050	384
31 Weston Presidio IV	15,000	5,364	675	0	N/A	6,039	7,500	967
32 Thomas Lee V	15,000	7,234	(3)	409	N/A	6,822	7,256	1,118
33 WCAS IX	15,000	7,331	300	0	N/A	7,631	9,450	2,864
34 Nautic V	15,000	4,063	1,595	324	N/A	5,334	7,095	340
35 Essex Woodlands V	10,000	4,575	600	0	N/A	5,175	6,250	1,399
36 Trident V	10,588	4,104	529	0	N/A	4,633	5,807	374
37 Madison Dearborn IV	<u>25,000</u>	<u>4,630</u>	4,135	212	N/A	<u>8,552</u>	<u>10,648</u>	<u>1,911</u>
	164,338	73,481	10,264	3,291	N/A	80,455	96,557	22,899
2001 Generation								
29b GTCR VII-A	6,250	1,826	0	0	N/A	1,826	1,922	1,673
38 Menlo IX	20,000	6,935	1,000	0	N/A	7,935	10,000	0
39 Austin VIII	8,300	3,049	650	0	N/A	3,699	3,650	594
40 Whitney V	10,000	6,863	0	513	N/A	6,349	7,326	2,754
41 CVC III	15,000	7,962	128	1,352	(61)	6,677	7,839	2,440
42 OCM IV	<u>10,000</u>	<u>6,402</u>	0	2,000	N/A	<u>4,402</u>	<u>10,000</u>	<u>11,000</u>
	69,550	33,036	1,778	3,865	(61)	30,888	40,736	18,461

