LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION
INVESTMENT POLICY STATEMENT

INTRODUCTION

This document provides the framework for the management of LACERA's assets (the Plan). The purpose of the Investment Policy is to assist the Board of Investments and Staff in effectively supervising and monitoring the LACERA assets. Specifically, it addresses the following issues:

- The general goals of the investment program.
- Specific asset class allocations, targets, and ranges.
- Performance objectives.
- The investment policies and structures for the management of the assets.
- Responsible parties and their duties.

The Board establishes this investment policy in accordance with applicable Local, State, and Federal laws. The Board members exercise authority and control over the management of the Plan, by setting policy which the Investment Staff executes either internally or through the use of external prudent experts. The Board oversees and guides the Plan subject to the following basic fiduciary responsibilities:

- Solely in the interest of, and for the exclusive purpose of providing economic benefits to, participants and their beneficiaries.
- With the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of a like character with like objectives.
- Diversify the investments of the Plan so as to minimize the risk of loss and to maximize the rate of return, unless under the circumstances, it is clearly prudent not to do so.

This policy statement is designed to allow for sufficient flexibility in the management oversight process to take advantage of investment opportunities as they arise while setting forth reasonable parameters to ensure prudence and care in the execution of the investment program.

Incorporated by reference and attached to this document are the following concise policy statements; for the Real Estate and Private Equity asset classes more detailed Objectives, Policies and Procedures are developed separately.
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Attachments

A Cash and Cash Equivalents Investment Policy
- *Enhanced Cash Investment*

B Fixed Income Investment Policy
- *Investment Guidelines: Core and Core Plus Bond Managers*
- *Investment Guidelines: High Yield Bond Managers*

C U.S. Equity Investment Policy
- *Investment Guidelines: U.S. Equity Manager*

D Non-U.S. Equity Investment Policy
- *Investment Guidelines: International Equity Manager*

E Corporate Governance Policy
- *Corporate Governance Principles*

F Hedge Fund Investment Policy

G Commodities Investment Policy

H Derivatives Investment Policy

I Private Equity Investment Policy

J Real Estate Investment Policy
- *Real Estate: Responsible Contractor Policy*

K Placement Agent Policy

L Emerging Manager Policy

M Manager Monitoring and Review Policy

N Securities Lending Policy

Finally, as an adjunct to this policy, LACERA's Board of Investments has also adopted an Investment Risk Management Policy Statement (IRMPS), which identifies financial, business, and operational risks.

INVESTMENT GOALS

The Plan's investment goals are broad in nature. The objective is to efficiently allocate and manage the assets dedicated to the payment of Plan benefits and administrative expenses. The following goals, consistent with the above described purpose, are adopted:

- The overall goal of LACERA's investment program is to provide the Plan participants with retirement benefits as promised. This will be accomplished through a carefully planned and executed long-term investment program.

- LACERA's assets will be managed on a total return basis. While LACERA 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 in the long term.
- The total portfolio return over the long term is directed toward achieving and maintaining a fully funded status for the Plan.

LACERA's Investment Policy has been designed to allow the Plan to achieve a long-term total return. Consequently, prudent risk-taking is warranted within the context of overall portfolio diversification to meet this goal. The investment activities are designed and executed in a manner that serves the best interests of the members and beneficiaries of the Plan

All transactions undertaken will be for the sole economic benefit of LACERA's members and beneficiaries and for the exclusive purpose of providing retirement benefits.

LACERA has a long-term investment horizon, and utilizes an asset allocation which encompasses a strategic, long-term perspective of capital markets. It is generally recognized that a strategic long-term asset allocation plan implemented in a consistent and disciplined manner will be the major determinant of the Plan's investment performance.

Investment recommendations and subsequent actions are expected to comply with "prudent expert" standards.

ASSET ALLOCATION POLICY

The asset allocation policy is predicated on a number of factors, including:

- A projection of actuarial assets, liabilities, benefit payments, contributions, and LACERA's actuarial rate of return.
- Historical behavior and expected long-term capital market risk, return and correlation forecasts.
- An assessment of future economic conditions, including inflation and interest rate levels.
- The current and projected funded status of the Plan.
- Various risk/return scenarios.
- Liquidity requirements.

The asset allocation policy provides for diversification of assets in an effort to maximize the total return of the Plan consistent with market conditions and risk control. An asset liability study should be conducted every three to five years, or after a significant change in the liability structure or significant change in capital market assumptions. The asset allocation modeling process identifies asset classes the Plan 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. LACERA's investments in private equity and real estate are implemented gradually, recognizing their long-term nature. LACERA's Investment Staff will monitor and assess the actual asset allocation versus policy ranges and will evaluate any variation deemed significant.

The Board will implement the asset allocation policy through the use of active and passive investment managers, as well as internal Staff, who will invest the assets of the portfolios. All investments are subject to investment guidelines incorporated into the executed investment management agreements or the policies established by the Board[1]. The strategic asset allocation targets and ranges for the investments of the Plan's assets are shown below:

ASSET CLASS	BENCHMARK	TARGET ALLOCATION	ALLOCATION RANGE
U.S. Equity	Russell 3000	23.5%	
Non-U.S. Equity	MSCI ACWI ex U.S. IMI	25%	
TOTAL GLOBAL PUBLIC EQUITY:		**48.5%**	38.5% - 58.5%
Private Equity	Russell 3000 + 3 - 5% (rolling 10 year)	11%	8% - 15%
HEDGE FUNDS	**3 Month T-bill Index plus 5%**	3%	0% - 5%
U.S. Fixed Income	Barclay's Capital U.S. Universal Bond Index	22.5%	19.5% - 25.5%
Cash	Citi 6-month T-Bills Index	2%	0% - 4%
TOTAL FIXED INCOME:		**24.5%**	19.5% - 29.5%
Real Estate	NCREIF ODCE +400. bps	10%	7% - 15%
Commodities	DJ-UBS	3%	0% - 5%
TOTAL FUND		**100%**	

These ranges were established with Board approval as of August 8, 2012. A plan for Implementation of Asset Allocation changes may be found in a separate memo from Staff to the Board dated September 25, 2012.

Asset Allocation Rebalancing Policy

[1] General Investment Guidelines may be found in the attachments related to U.S. Equity Policy, International Equity Policy, and Fixed Income Policy. Through this Investment Policy Statement, Staff is authorized to implement Investment Guidelines specific to each portfolio within these constraints. Investment Guidelines falling outside these constraints require approval by the Chief Investment Officer, with notice to the Board.

The purpose of rebalancing back to asset class targets is to ensure that the Plan's actual asset allocation does not drift from the strategic asset allocation policy. The strategic asset allocation policy has been developed after a rigorous analysis of the Board's objectives and risk tolerance. Rebalancing ensures that the Plan's desired asset allocation policy is maintained consistently over time. It, therefore, ensures that a major policy decision of the Board is implemented effectively.

In the absence of any other considerations, the optimal strategy would be to rebalance continually back to the Board-approved target asset allocation. However, rebalancing involves costs such as brokerage and other trading costs.

It shall be the policy of the Board that:

- Cash flows, into and out of the fund, will be used to rebalance back to asset class targets whenever possible.
- The Fund's actual asset allocation should be reviewed at the end of each month when asset valuations become available. More frequent reviews may be undertaken, if appropriate. Rebalancing may take place if the weight to any asset class deviates materially from its Board-approved target weight. Rebalancing must take place when Board-approved ranges are breached. Rebalancing should be implemented by the most cost-effective means available and without market disruption.
- When rebalancing occurs, the portfolio will be rebalanced back toward the Board-approved asset allocation policy targets.

At least monthly, the Board shall be notified of any rebalancing that has taken place. Additionally, LACERA’s quarterly investment performance report will include a direct comparison of the portfolio’s actual asset allocation to the target allocation. The implementation of the rebalancing program will be undertaken by the Chief Investment Officer.

PERFORMANCE OBJECTIVES

The long-term performance objective of LACERA's total fund is to exceed its Policy benchmark by 10 to 15 basis points net of fees with a tracking error (volatility of the excess return) of less than two percent. Liquid asset class returns will be reviewed over rolling five-to-seven year periods by an amount appropriate to the amount of risk assumed. Illiquid asset class performance evaluation requires a longer time horizon (e.g. five-to-ten years) due to the nature of the asset class.

INVESTMENT PROGRAM POLICIES

The policies of LACERA's investment program are designed to maximize the likelihood that the investment goals will be achieved. Investment policies will evolve as fund conditions change and as investment conditions warrant. In addition, legislative modifications, as adopted by Local, Federal or State Governments, will be adhered to.

Portfolio Components

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

Cash and Cash Equivalents Investment Policy
It is recognized that cash equivalents are part of LACERA's strategic asset allocation. Cash equivalents will be invested in short-term investments as described in **Attachment A**. The key objectives of the Cash allocation are to preserve principal as well as provide a source of liquidity for making benefit payments and for portfolio rebalancing.

Fixed Income Investment Policy
The primary role of the fixed income portfolio is to provide a stable investment return and to generate income, while diversifying LACERA's investment portfolio. The asset class includes an opportunistic investment component that is expected to generate higher income and total return than core strategies, but which will be subject to greater volatility. The fixed income investment policy is contained in **Attachment B**.

U.S. Public Equity Investment Policy and Non-U.S. Public Equity Investment Policy- LACERA anticipates that total returns to equities will be higher than total returns to fixed income securities over the long run, but may be subject to greater volatility. Public equity is allocated between two liquid asset classes: U.S. equities and non-U.S. equities. Policies for these asset classes are contained in **Attachments C** and **D**, respectively.

Hedge Fund Investment Policy
The primary objective of the hedge fund program is reducing the volatility of the Fund without materially decreasing Fund returns. Hedge fund strategies differ from those in LACERA's traditional public market asset classes because the managers generally have the discretion to use short-selling, leverage, and derivatives and to invest across asset classes. The hedge fund policy is included as **Attachment F**.

Commodities Investment Policy
The primary objective of the commodities allocation is to diversify the total Fund's risk. A secondary objective of commodities is to provide an inflation hedge. Commodities market benchmarks measure the performance of commodity futures–not the underlying physical commodities. Therefore, LACERA's managers will use derivative instruments such as futures and swaps to implement their strategies, and at no time will the managers take physical delivery of commodities. LACERA's commodities policy is included as **Attachment G**.

Private Equity Investment Policy

Private Equity, an illiquid equity asset class, provides a significant source of investment return by investing in private equity opportunities. The Private Equity portfolio will include investments in a variety of commingled/partnership and direct investment vehicles including, but not limited to, venture capital, buyout, turnaround, mezzanine, distressed security, and special situation funds. The Private Equity portfolio is recognized to be long-term in nature and highly illiquid. Because of their higher risk, private equity investments are expected to provide substantially higher returns than publicly traded equity securities. **Attachment I** contains the policy document for Private Equity Investments.

Real Estate Investment Policy
LACERA primarily utilizes separate accounts to invest in a broad array of property types diversified throughout the U.S. LACERA may also invest in non-U.S. real estate. The portfolio is designed to provide a stable level of income combined with potential for price appreciation, particularly in periods of unexpected inflation. LACERA recognizes the illiquid, long-term nature of its real estate investment portfolio and its role in diversifying the other asset classes. The real estate policy is included as **Attachment J**.

SUPPLEMENTAL INVESTMENT POLICIES

Corporate Governance Policy
LACERA acknowledges that the ownership of equities includes rights for proxies to be voted. The Plan commits to managing its proxy voting rights with the same care, skill, diligence and prudence as is exercised in managing its other assets. As responsible fiduciaries, the Board and designated Staff will exercise proxy voting rights in the sole interest of the System's members and beneficiaries in accordance with all applicable statutes. The Corporate Governance Principles statement is included in **Attachment E**.

Derivatives Investment Policy
LACERA’s Investment Derivatives Policy sets forth the investment policy for the use of Investment Derivatives, including the strategic objectives and prescribed risk controls. This policy also provides assurance that there is sufficient flexibility in controlling investment risks and returns associated with the use of derivative instruments. The Derivatives Policy is included as **Attachment H**.

Emerging Manager Policy
Consistent with LACERA's goal of maximizing the Plan's long-term total return, LACERA has determined that it is prudent to consider the full universe of investment management firms. Therefore, LACERA has developed an Emerging Manager Policy to establish prudent procedures for identifying and employing high-potential emerging investment managers (see **Attachment L**).

Securities Lending Policy
The Board has authorized the execution of a Securities Lending Program which will be performed by the Plan custodian, and/or qualified third-party securities lending agent(s), and/or direct borrowers (principals). The program is monitored and reviewed by the Investment Staff and was established by a written agreement authorized by the Board. **Attachment N** contains the Plan's securities lending investment policy.

INVESTMENT MANAGEMENT POLICIES

LACERA may utilize both internally and externally managed portfolios based on specific mandates and methodologies. The external managers will be expected to acknowledge in writing that they are Plan fiduciaries, and they will have discretion and authority to determine investment strategy, security selection and timing, subject to the Policy guidelines and investment guidelines specific to their portfolio.

Investment managers, as prudent experts, will be expected to know LACERA's specific investment guidelines for their portfolios, and to comply with these guidelines. It is each manager's responsibility to identify guidelines that may have an adverse impact on performance, and to initiate discussion with Staff toward possible improvement of said guidelines.

As outlined in LACERA's Manager Monitoring and Annual Review Policy (**Attachment M**), Staff, under Board supervision, is responsible for monitoring investment managers' adherence to their investment mandate, and any material changes in the managers' organization. The investment managers retained by LACERA will be responsible for informing Staff of all such material changes on a timely basis. Further, Staff is responsible for monitoring and evaluating manager performance on a regular basis relative to each portfolio's benchmark return and relative to a peer group of managers with similar investment mandates.

Investment managers under contract to LACERA shall have discretion to establish and execute transactions with any securities broker/dealers as needed. However, LACERA reserves the right to preclude investment managers from directing trades through brokerage subsidiaries of LACERA contractors. The investment managers must obtain the most favorable executions with respect to all of the portfolio transactions as market conditions permit.

Prohibited Transactions

The following transactions will be prohibited unless stated otherwise in the investment manager guidelines:

- Short sales.
- Selling or buying on margin.
- "Prohibited transactions" as defined under the Employee Retirement Income Security Act of 1974 (ERISA).
- Transactions that involve a broker acting as a "principal", where such broker is also the investment manager (or an entity related to the investment manager) who is making the transaction.
- Any or all investment activities forbidden by SEC or other applicable governing bodies.
- With the exception of hedge funds, real estate and private equity, no investment manager or trustee may leverage the LACERA portfolio by investing more than 100% of the total market value. This measure must reflect the effective exposure associated with derivative securities. The exposure for options, when permitted by contract, must be based on an appropriate options pricing model.

Selection Criteria for Investment Managers

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

- The firm must be experienced in managing investments for institutional clients in the asset class/product category/investment style specified by LACERA.
- 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 retaining clients.
- The firm must have an asset base sufficient to accommodate LACERA's portfolio. In general, LACERA's portfolio should make up no more than 25% of the firm's total asset base at funding. Exceptions may be made on a case-by-case basis.
- The firm must demonstrate adherence to the investment mandate sought by LACERA, and adherence to the firm's stated investment discipline.
- The firm's fees should be competitive with industry standards for the product category.
- The firm must comply with the "Duties of the Investment Managers" outlined herein.
- For the Equity and Fixed Income Asset Classes, the firm must conform to Global Investment Performance Standards (GIPS) for performance reporting,. Firms not in compliance must provide assurances they will become compliant within twelve months after funding.

The following minimum qualifications will be used for public market investment manager searches and will not require Board approval:

- LACERA’s expected allocation to the mandate must be limited to 25% of the manager’s assets in the proposed product at funding.
- Manager’s proposed product must have at least a seven-year track record.[2]
- At least 60%, of the quarterly rolling one-year excess returns for the last seven years[3] (15 of 25 observations) must exceed the appropriate benchmark by at least the net of fees excess return expectations for LACERA’s managers in the same mandate.

In the event that these minimum qualifications need to be modified to meet the particular needs of a manager search, Staff will submit the appropriate search criteria to the Board of Investments for approval.

Termination Criteria for Investment Managers

LACERA 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:

- Failure to comply with the guidelines agreed upon for management of LACERA's portfolio, including holding restricted issues.

[2] With the exception of high yield, opportunistic fixed income, emerging markets, and U.S. and international small cap managers: at least a three year track record.

[3] With the exception of high yield, opportunistic fixed income, emerging markets, and U.S. and international small cap managers: quarterly rolling one-year excess returns for the last three years.

- Failure to achieve performance objectives specified in the manager's guidelines.
- Significant deviation from the manager's stated investment philosophy and/or process.
- Loss of key personnel.
- Evidence of illegal or unethical behavior by the investment management firm or key employees.
- Lack of willingness to cooperate with reasonable requests by LACERA for information, meetings or other material related to its portfolios.
- Loss of confidence by Staff and the Board in the investment manager.
- A change in the Fund's asset allocation program which necessitates a shift of assets to another sector.
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The presence of any one of these factors will be carefully reviewed by LACERA Staff, but will not necessarily result in an automatic termination.

DUTIES OF RESPONSIBLE PARTIES

Duties of LACERA’s Board of Investments

The Board or its designee(s) will adhere to the following in the management of LACERA's assets:

- Shall approve Policies for the execution of LACERA'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 timely implementation and administration of these decisions.
- Shall review LACERA's investment structure, asset allocation and financial performance annually or more frequently as the need arises. The review will include recommended adjustments to the long-term asset allocation to reflect any changes in applicable regulations, long-term capital market assumptions, actuarial assumptions or LACERA's financial condition.
- Shall review LACERA's investment performance quarterly[4] or as needed. The Board shall monitor investment returns on both an absolute basis and relative to appropriate benchmarks and peer group comparisons. The source of information for these reviews shall come from Staff, consultants, the custodian and LACERA's investment managers.
- May retain investment consultants to provide such services as conducting performance reviews, asset allocation, manager reviews and investment research. The comments and recommendations of the consultants will be considered in conjunction with other available information to aid the Board in making informed, prudent decisions.

[4] Private Equity and Real Estate assets are reviewed semi-annually.

- 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 are defined in LACERA's Manager Monitoring and Annual Review Policy (**Attachment M**).
- The Board shall direct Staff to administer LACERA'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 LACERA.
- The Board shall be responsible for selecting a qualified custodian with advice from Staff.
- The Board shall strive to avoid conflicts of interests.

Duties of the Investment Staff
The Investment Staff plays a significant role in the management and oversight of the Fund. Investment Staff shall be responsible for the following:

- Manage the strategic asset allocation of the fund in accordance with agreed upon target ranges and rebalancing policies.
- Establish investment guidelines for manager portfolios that are consistent with existing policies and with Board-approved investment structure.
- Monitor external managers for adherence to appropriate policies and guidelines. Ensure that investment managers conform to the terms of their contracts.
- Ensure that due diligence and oversight of the Investment portfolios is conducted.
- Evaluate and manage the relationships with the consultants to the Fund to ensure that they are providing all the necessary assistance to Staff and the Board as set forth in their service contracts.
- Conduct the manager search process, as set forth in this document, with assistance from consultants as directed by the Board.
- Manage portfolio restructurings resulting from external manager terminations with the assistance of consultants and managers, as needed.
- As directed by the Board, conduct special research required to manage the Fund more effectively.
- Assist the Board in the development and approval of the private market (e.g., Real Estate, Private Equity and Hedge Funds) Investment Plans; implement and monitor the Plans.
- Report on investment activity and matters of significance at least monthly.
- Rebalance the portfolio to maintain asset allocation and/or to provide liquidity for cash needs or benefit payments. This requires delegating authority to the Chief Investment Officer to shift up to 3% of Fund's assets without Board approval.

- Maintain control over all wire transfers or movement of monies to or from all investment accounts.
- Strive to avoid conflicts of interest.
- Authorize consent to assignments of Investment Manager Agreements that are technical assignments under the Investment Advisors Act of 1940 with subsequent notification to the Board.
- Report to the entire Board if either the Chief Executive Officer (CEO) or a member of the Board of Investments has contacted the Investment Staff on three separate occasions over a rolling one-year period regarding a potential investment manager.

In addition to these core responsibilities, LACERA's Board of Investments has delegated to the Chief Investment Officer (CIO), or where noted the Chief Executive Officer (CEO) or Principal Investment Officer, the following:

- Authority to approve real estate co-investments according to the Real Estate Co-Investment Policy found in LACERA's Real Estate Objectives, Policies and Procedures.
- Authority to approve the purchase or sale of any existing fund investment within the Private Equity portfolio in accordance with the LACERA's Private Equity Objectives, Policies and Procedures.
- Authority to sign all investment-related consultant contracts and agreements, subsequent to Board approval. Thereafter, authority to sign all amendments and modifications with respect to such contracts and agreements, and make all decisions with respect to their day-to-day operation and implementation where the investment mandate remains substantially unchanged. The Board will receive written notification of all material actions taken.
- Authority to approve temporary variances from public market investment manager guidelines. In the event the CIO is not available, and time is of the essence in making a decision, the CEO shall have the authority to approve such variances. In the event neither the CIO or CEO are available, a committee comprised of all available Principal Investment Officers shall have the authority to approve such variances. The Board will receive written notification of all such actions.
- Authority to approve reductions to investment manager fee schedules. The Board will receive written notification of all such actions.
- Authority to approve variances from LACERA's Fund of Funds sub-manager selection and compliance criteria on a case-by-case basis. In the event the CIO is not available, and time is of the essence in making a decision, the CEO shall have the authority to approve such variances. In the event neither the CIO or CEO are available, a committee comprised of all available Principal Investment Officers shall have the authority to approve such variances. The Board will receive written notification of all such actions.
- Authority to limit or freeze manager trading activity pending discussion and action by the Board of Investments. In the event the CIO is not available, and time is of the essence in

making a decision, the CEO shall have the authority to approve such variances. In the event neither the CIO or CEO are available, a committee comprised of all available Principal Investment Officers shall have the authority to approve such variances. The Board will receive written notification of all such actions.

- Authority to take actions not otherwise specifically delegated, when deemed in the best interest of the Fund, in consultation with the CEO and the Chair of the Board of Investments, pending discussion and action by the Board of Investments.

All investment-related contracts and agreements and all amendments and modifications to them are subject to review and approval by LACERA's Legal Office.

Duties of the Investment Managers

The investment managers shall have designated discretion to direct and manage the investment and reinvestment of assets allocated to their accounts in accordance with this document; applicable Local, State and Federal statutes and regulations; and individual management investment plans and executed contracts. The investment managers shall be responsible for the following:

- Execution of a contractual agreement to invest within the guidelines establishedby the Board.
- Provide LACERA with proof of liability and fiduciary insurance coverage.
- Be a SEC-Registered Investment Advisor under the 1940 Act, unless LACERA has previously approved an exemption from registration, and be recognized as providing demonstrated expertise over a number of years in the management of institutional, tax-exempt assets within a defined investment specialty.
- Adhere to the investment management style 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.
- Execute all transactions for the benefit of LACERA with brokers and dealers qualified to execute institutional orders on an ongoing basis at the best net cost to LACERA.
- Reconcile monthly accounting, transaction and asset summary data with custodian valuations, and communicate and resolve any significant discrepancies with the custodian (excludes real estate and private equity). For hedge funds, the reconciliation function with the hedge fund managers will be performed by the fund of funds manager or an alternative asset third party administrator.
- Maintain frequent and open communication with Staff on all significant matters that affect the Fund, including, but not limited to, the following:

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

2. Significant changes in ownership, organizational structure, financial condition or senior personnel.
3. Any changes in the Portfolio Manager or other key personnel assigned to the Plan.
4. Each significant client which terminates its relationship with the Investment Manager, within 30 days of such termination.
5. All pertinent issues which the Investment Manager deems to be of significant interest or material importance.
6. Meet with the Board or its designee(s) on an as-needed basis.

Duties of the Master Custodian

The Master Custodian shall be responsible for the following:

- Provide complete global custody and depository services for the designated accounts.
- Manage, if directed by the Board, a Short-Term Investment Fund (STIF) for investment of any cash not invested by managers, and ensure that all available cash is invested. If the cash reserves are managed externally, full cooperation must be provided.
- Provide Staff with portfolio performance in a timely manner, and reconcile differences with managers.
- Provide, in a timely and effective manner, a monthly report of the investment activities implemented by the investment managers.
- Calculate all income and principal realized and properly report the results in periodic statements.
- Provide monthly and fiscal year-end accounting statements for the portfolio, including all transactions; these should be based on accurate security values for both cost and market. These reports should be provided within acceptable time frames.
- Report to LACERA situations where accurate security pricing, valuation and accrued income is either not possible or subject to considerable uncertainty.
- Provide assistance to LACERA to complete such activities as the annual audit, transaction verification, corporate actions, securities litigation, or unique issues as required by the Board.
- 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.
- Delivery of all U.S. and non-U.S. proxy voting materials to LACERA, including meeting notices, voting instruction forms, proxy statements, quarterly and annual shareholder reports and miscellaneous proxy voting materials.

Duties of Consultants
The Board and Staff will consider the comments and recommendations of consultants in conjunction with other available information to make informed, prudent decisions.

General Investment Consultant
The General Investment Consultant shall be responsible for the following:

- **Conduct an asset-liability study–**work closely with LACERA's actuaries and senior investment Staff to prepare a comprehensive asset-liability study, no less frequently than every three to five years.
- **Assist LACERA's senior Staff with strategic investment decisions–**focus on "big-picture" total fund investment policy and structure issues.
- **Provide independent reviews–**when requested, provide independent reviews via brief (1 to 2 pages) summary reports to the Board on projects that Staff has completed in the following areas:

    1. Investment Policy and Guidelines
    2. Asset Class Structures and Strategies
    3. Investment Manager Searches

- **Calculate performance measurement–**independently from LACERA's custodian and provide quarterly Fund performance reports. Once a year the Consultant will make a performance presentation to the Board of Investments.
- **Research investment ideas–**provide independent, thorough research on current industry issues.
- **Educate LACERA's Investment Board-**provide educational presentations to the Board on specific issues. Education will range from informational items to critical investment policy issues.

Real Estate Consultant
The Real Estate consultant shall be responsible for the following:

- Assist Staff in making recommendations to the Investment Board regarding the Real Estate Objectives, Policies and Procedures, strategic asset allocation and asset class strategy.
- Assist LACERA in the selection of qualified real estate investment managers.
- Prepare a quarterly performance report including performance attribution on LACERA's managers and total assets.
- Provide topical research and education on investment subjects that are relevant to LACERA.

Private Equity Consultant
The Private Equity Investment Consultant shall be responsible for the following:

- Assist in the preparation of the Private Equity Objectives, Policies and Procedures and Annual Investment Plans.
- Assist LACERA in the implementation of the Private Equity Investment Plan.
- Assist Staff in the preparation of a semi-annual performance report including portfolio investments.
- Provide topical research and education on Private Equity Investments relevant to LACERA.

Proxy Voting Consultant
The Proxy Voting Consultant(s) shall be responsible for the following:

- Provide Staff with on-going proxy voting research and analyses consistent with LACERA's investment goals and in accordance with **Attachment E** of the Investment Policy Statement.
- Assist Staff with the preparation and/or revisions of LACERA's proxy voting guidelines.
- Provide Staff with company-specific corporate governance profiles, pertinent statistical reporting and yearly review of the results of corporate annual meetings.

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Revised: March 11, 2009

ATTACHMENT A

ENHANCED CASH INVESTMENT POLICY

LACERA's cash is actively managed. The two sources of cash are: 1) a 2% target weight in LACERA's current asset allocation mix, and 2) un-invested cash swept daily from LACERA's other actively managed portfolios. The investment's key objectives are to:

- Preserve principal through the use of high quality, short-term fixed income instruments.
- Diversify with respect to maturity, sector, industry, and issuer.
- Generate income and maintain adequate liquidity to pay benefits, for rebalancing purposes, and capital calls from LACERA's other active investment managers.
- To earn an annualized net (after fees and expenses) total rate of return that exceeds the Citigroup 6 Month U.S. Treasury Bill Index over rolling five-to-seven year periods by 25 basis points (0.25%), with expected tracking error of 0.5% - 1%.
- The manager may invest in high quality, short-term fixed income instruments with a credit rating of at least A-2/P-2 by Moody's or S&P. The portfolio's maximum average duration is one year, and the maximum average maturity for individual securities is two years. The use of repurchase agreements will be permitted provided these agreements are adequately collateralized.

Although LACERA recognizes that duration management is a key contributor to total return in the management of cash/short-term assets, the investment manager may also enhance the total return of the portfolio through sector rotation and security selection. Investment staff will continually monitor the manager's portfolio to analyze the account's performance, review stability of key investment personnel, ensure the continuity of their investment process, and verify that securities purchased on LACERA's behalf conform to the stated and approved investment guidelines.

Tobacco Policy
Investment managers should refrain from purchasing tobacco securities when the same investment goals concerning risk, return, and diversification can be achieved through the purchase of another security.

Sudan Policy
Investment managers should refrain from purchasing securities where the company has been identified as doing business in Sudan or with the government of Sudan, when the same investment goals concerning risk, return and diversification can be achieved through the purchase of another security.

Iran Policy
Investment managers should refrain from purchasing securities where the company has been identified as doing business in Iran's energy sector or with the government of Iran, when the same investment goals concerning risk, return and diversification can be achieved through the purchase of another security.

Revised November 19, 2014
Reviewed by F.I. Hedge Funds Commodities on 9-10-14
Reviewed: November 20, 2013
Revised: November 13, 2012
Revised: October 31, 2012
Revised: July 28, 2010, Revised: September 12, 2007

ATTACHMENT B

FIXED INCOME INVESTMENT POLICY

LACERA's Fixed Income Composite has the following three strategic objectives:

- To reduce the risk of LACERA's Total Fund by investing in a portfolio of bonds that has lower risk than other asset classes such as stocks, real estate, or private equity.
- To earn an annualized net (after fees and expenses) total rate of return that exceeds the Barclays U.S. Universal Bond Index over rolling five-to-seven year periods by 1.25%, with expected tracking error of 4.25%.
- To provide liquidity for paying benefits and portfolio rebalancing.

Investment Approach

The Fixed Income Composite will be allocated into the following segments:

- **Core** consists of index funds and active strategies that have low levels of active risk relative to the benchmark. This tier is anticipated to offer the greatest level of liquidity. Managers will invest primarily in investment grade, dollar-denominated, fixed-rate government bonds, corporate bonds, mortgage-backed securities (MBS), asset-backed securities (ABS), and commercial mortgage-backed securities (CMBS).
- **Core Plus** managers will also invest primarily in U.S. dollar, investment grade bonds, but they will have greater latitude to outperform their respective benchmarks. In addition to the traditional tools of active managers, such as interest rate and yield curve management, sector allocation, and security selection, Core Plus managers will have the flexibility to invest on a tactical basis in non-dollar bonds and bonds rated below investment grade.
- **High Yield** managers will invest in bonds rated below investment grade. The primary focus will be on U.S. Dollar denominated bonds rated Ba/B, but managers may also invest tactically in CCC-rated bonds or Non-U.S. bonds.
- **Opportunistic** fixed income will be used to enhance return and provide diversification by investing in non-traditional sectors of the bond market. This segment will be subdivided into four main sectors: Corporate Credit, Securitized Credit, Non-U.S., and Miscellaneous.

Allowable Investments

Core and Core Plus managers may invest in all sectors of the fixed income market included in the Barclays U.S. Aggregate Bond Index–a broad measure of the U.S. dollar-denominated, investment-grade, taxable bond market. They may also invest in other investment-grade sectors such as municipal bonds, collateralized mortgage obligations (CMOs) and private placements (SEC Rule 144A securities). Core Plus managers may also invest opportunistically in extended sectors (foreign bonds, high yield bonds and emerging market bonds with a minimum rating of B3 by Moody's or B- by Standard and Poors). The performance of Core and Core Plus managers shall be measured against a broad U.S. investment grade bond index such as the Barclays U.S. Aggregate Bond Index.

LACERA's strategic allocation to domestic high yield bonds shall be managed by investment firms that specialize in this sector of the bond market. The performance of high yield managers shall be measured against a broad index of high yield bonds such as the Barclays U.S. Corporate High Yield Ba/B Index.

Non-traditional fixed income sectors will be suitable investments for the Opportunistic segment of LACERA's Fixed Income Composite. Such sectors may include, but are not limited to, convertible bonds, preferred stock, securitized investments, collateralized loan obligations, subordinated bonds, bank loans, private debt, distressed debt, private placements, and Non-U.S. securities. These specialized sectors are generally considered "high return" investments and, therefore, have the potential for enhancing the portfolio's performance expectations. In addition, investments in these sectors increase the overall portfolio diversification since they tend not to be highly correlated with other traditional fixed income securities. The performance of opportunistic managers shall be measured against an absolute return target consistent with the manager's strategy.

Tobacco Policy

Investment managers should refrain from purchasing tobacco securities when the same investment goals concerning risk, return and diversification can be achieved through the purchase of another security.

Sudan Policy

Investment managers should refrain from purchasing securities where the company has been identified as doing business in Sudan or with the government of Sudan, when the same investment goals concerning risk, return and diversification can be achieved through the purchase of another security.

Iran Policy

Investment managers should refrain from purchasing securities where the company has been identified as doing business in Iran's energy sector or with the government of Iran, when the same investment goals concerning risk, return and diversification can be achieved through the purchase of another security.

Revised: November 19, 2014
Reviewed by Committee on 9-10-14
Reviewed: November 20, 2013
Revised: November 13, 2012
Revised: January 12, 2011
Revised: September 9, 2009
Revised: March 9, 2009

LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION
SAMPLE INVESTMENT GUIDELINES FOR
CORE AND CORE PLUS BOND MANAGERS

Benchmark: Barclays U.S. Aggregate Bond Index

Investment Objective: To outperform the benchmark over a full market cycle, in accordance with specific target ranges for annualized excess return and tracking error.

Duration Management: The modified adjusted duration of the portfolio, after accounting for derivative positions, will be restricted to **+/-25%** of the Barclays U.S. Aggregate Bond Index's modified adjusted duration. Deviations from this guideline require prior written authorization by LACERA.

Eligible Sectors and Securities: The benchmark index is a broad measure of the U.S. dollar-denominated, investment grade, fixed-rate, taxable bond market. Any security that is contained in the benchmark index is eligible for purchase.

Investment managers may also invest in securities that are not included in the benchmark. However, total exposure to non-benchmark securities will be limited as follows:

- Core Managers: Maximum **25%**
- Core Plus Managers: Maximum **50%**

The following is a partial list of securities that are not in the benchmark, but which are eligible for purchase.

Eligible Non-Benchmark Sectors/Securities
Bonds rated below investment grade
$-denominated foreign bonds (non-Index)
Non-Index MBS, ABS, CMBS
144A Securities
Preferred Securities
Bank Loans
Convertible Bonds
Bonds denominated in a foreign currency
Foreign Currencies

The list will evolve over time, and specific limitations will be placed on each manager, depending on that manager's expertise in a given bond sector. In addition, subject to prior approval by LACERA, investment in a manager's sector-specific commingled funds are permitted.

Credit Quality: The portfolio must be invested predominantly in bonds rated investment quality by the major credit rating agencies (Moody's/S&P/Fitch).[1] The maximum amount allowed in bonds rated below investment grade (Baa3/BBB-/BBB-) is:

- Core Managers: Maximum of 20%
- Core Plus Managers: Maximum of 30%

In addition:

- Money market instruments must be rated at least A-2/P-2 or equivalent by at least one major credit rating agency.

- All rated securities, including Rule 144A securities, must be rated at least B- by Standard & Poors or equivalent by at least one major credit rating agency at the time of purchase.

- Unrated issues may be purchased provided that, in the judgment of Manager, they would not violate LACERA's minimum credit quality criteria.

- In the event that a portfolio holding is downgraded and no longer meets the aforementioned credit quality criteria, the manager will be required to immediately notify LACERA of the downgrade in writing. Manager shall make every effort to liquidate the security within **six** months. An update of the condition of the credit, as well as a hold/sell recommendation, shall be sent to LACERA on a monthly basis. On a case-by-case basis, LACERA may extend the holding period of a non-credit quality compliant security.

- Unrated issues and securities rated BBB+, BBB or BBB- (S&P) or equivalent, in combination, may represent up to 30% of the portfolio.

Diversification

- No more than 5% of the portfolio may be invested in securities of a single issuer, except: U.S. Treasury securities, government guaranteed debt (including G-7 countries), agency debt, agency mortgage-backed securities, and manager's approved commingled funds.

- Maximum exposure to a single issuer rated BBB+, BBB or BBB-, (excluding manager's commingled vehicles), is 3% of the portfolio. Investments in a single issuer rated below BBB-, (excluding manager's commingled funds), may represent up to 1% of the portfolio.

- The following table lists the permitted sector ranges:

[1] In case of a split rating, Barclay's index rules will apply. The index uses the "middle" rating among Moody's, S&P, and Fitch. If only two agencies rate a bond, the index uses the more conservative rating.

	PERMITTED RANGES	
SECTOR	MINIMUM	MAXIMUM
Government	5%	80%
Corporate	5%	75%
Mortgage-Backed	5%	75%
Asset-Backed	0%	35%
Commercial MBS	0%	35%
Non-Dollar Bonds	0%	15%

Currency: Managers have discretion to hold foreign currency denominated bonds on a hedged or unhedged basis. The maximum exposure to foreign currency bonds is 15%, but no more than 10% may be on an unhedged basis.

Derivatives: Managers may use derivatives only if the net impact on the portfolio does not violate any of the guidelines set forth in this document. Furthermore, any use of derivatives must at all times be consistent with LACERA's Derivatives Investment Policy.

Derivative instruments may be used in lieu of physical securities when the derivatives offer greater liquidity (lower transaction costs) or greater precision for the purposes of managing a portfolio's duration, yield curve exposure, credit risk or prepayment risk. Derivatives will be used primarily to hedge, or reduce risk, but they may also be used to increase exposure to a risk factor, if that desired exposure is not easily obtainable via physical securities.

Allowable Derivative Instruments
1. Treasury Futures
2. Eurodollar Futures
3. Options
4. Swaps
5. Credit Derivatives

Counterparties for non-exchange traded derivatives (e.g. swaps and over-the-counter options) must be rated at least A3/A- by Moody's or S&P. If a counter-party is downgraded below A3/A-, Managers must notify LACERA staff promptly.

Tobacco Policy

Manager should refrain from purchasing tobacco securities when the same investment concerning risk, return, and diversification can be achieved through the purchase of another security. Consequently, if two investments have identical risk/return characteristics, manager shall purchase the security with no tobacco business. Otherwise, manager shall select the security expected to provide the most value added.

Sudan Policy

Investment managers should refrain from purchasing securities where the company has been identified as doing business in Sudan or with the government of Sudan, when the same investment goals concerning risk, return and diversification can be achieved through the purchase of another security.

Iran Policy

Investment managers should refrain from purchasing securities where the company has been identified as doing business in Iran's energy sector or with the government of Iran, when the same investment goals concerning risk, return and diversification can be achieved through the purchase of another security.

Other Restrictions

Under no circumstances, may the portfolio be leveraged. Manager must segregate enough cash or cash equivalents (up to one year duration) to cover all forward settlement transactions, including To Be Announced (TBA) mortgage transactions.

No investment, including derivatives, may be purchased if its return is tied to a type of investment that is not listed under the Eligible Securities section of these guidelines.

All temporary cash balances will be automatically swept into LACERA's STIF account.

Investment Policy Amendments

If any item, guideline, or constraint within this statement of guidelines and objectives proves to be too restrictive in practice, it will be the responsibility of the Manager to prepare a modification and/or amendment to the specific item in writing for consideration by LACERA.

Reviewed: November 19, 2014
Reviewed: November 20, 2013
Revised: November 13, 2012
Revised May 14, 2007

LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION
SAMPLE INVESTMENT GUIDELINES FOR
HIGH YIELD BOND MANAGERS

Benchmark

Barclays U.S. Corporate High Yield Ba/B Index

Investment Objective

To outperform the benchmark over a full market cycle, in accordance with specific target ranges for annualized excess return and tracking error.

Duration Management

The majority of a manager's outperformance is expected to be attributable to sector rotation and security selection. Over long periods of time, duration management should not be the primary contributor to total return. The modified adjusted duration of the portfolio, after accounting for derivative positions, will be restricted to **+/-25%** of the benchmark index.

Deviations from this guideline require prior written authorization by LACERA.

Permitted Investments

Any security that is contained in the benchmark index is eligible for purchase.

Investment managers may also invest in securities that are not included in the benchmark, but the total of all non-benchmark securities will be limited to 25%. The following is a partial list of securities that are not in the benchmark, but are eligible for purchase by LACERA's high yield fixed income managers.

1. U.S. Treasury and Agency securities
2. Unrated bonds
3. Non $-denominated bonds
4. 144A Securities
5. Bank Loans
6. Preferred Securities
7. Common Stock, Options, and Warrants (see below)
8. Convertible Bonds
9. Foreign Currencies

The list will evolve over time, and specific limitations will be placed on each manager, depending on that manager's expertise in a given bond sector. In addition, subject to prior approval by LACERA, investments in manager's sector-specialized commingled funds are permitted.

The following are conditions for purchase or acquisition of c*ommon stock, options, warrants, or* other equity-related instruments:

- Manager must notify LACERA in writing at least 5 days in advance of acquiring the securities; and
- When combined with all other securities acquired under this section, the securities do not comprise more than 5% of value of the portfolio, measured as of the date of the purchase, acquisition, conversion or exercise, as applicable;
- The securities of any one issuer do not comprise more than 1% of the value of the portfolio, measured as of the date of the purchase, acquisition, conversion, or exercise, as applicable;
- The securities either:

  (i) are included in a unit with, or are attached to, fixed income securities in the portfolio;

  (ii) are obtained upon conversion of a convertible security or exercise of a warrant or option involving a pre-existing portfolio investment; or

  (iii) are received, purchased, or otherwise obtained in connection with the reorganization, restructuring, recapitalization or other exchange transaction involving a pre-existing portfolio investment.

Credit Quality

The Benchmark index consists exclusively of below investment-grade securities, so the overwhelming majority of investments held must be rated below investment grade by the major credit rating agencies: Moody's, S&P, and Fitch. (In case the the rating agencies differ in their evaluation of a credit, the index provider's rules will determine whether a bond is classified as investment grade or high yield. The Barclays Index currently uses the "middle" rating among the three rating agencies.)

In addition, the following credit-related guidelines will apply:

- Money market instruments must be rated at least A-2/P-2 or equivalent by at least one major credit rating agency.

- All rated securities, including Rule 144A securities, must be rated at least B- by Standard & Poor's or equivalent by at least one major credit rating agency at the time of purchase.

- A maximum of 5% of the portfolio may be invested in issues rated at or below CCC by Standard & Poor's or Caa by Moody's.

- Unrated issues may be purchased provided that, in the judgment of Manager, they would not violate LACERA's minimum credit criteria.

- In the event that a portfolio holding is downgraded and no longer meets the aforementioned credit quality criteria, the manager will be required to immediately notify LACERA of the downgrade in writing. Manager shall make every effort to liquidate the security within **six** months. An update of the condition of the credit, as well as a hold/sell recommendation, shall be sent to LACERA on a monthly basis. On a case-by-case basis, LACERA may extend the holding period of a non-credit quality compliant security.

Diversification

- At all times: Except for U.S. Treasury, government guaranteed and agency debt, no more than 5% of the portfolio may be invested in securities of a single issuer.

- The table below lists the permitted ranges for sector exposure:

	Permitted Ranges	
Sector	**Minimum**	**Maximum**
Domestic:	**75%**	**100%**
Cash	0%	15%
Government	0%	25%
Corporate	60%	100%
International:	**0%**	**25%**
Government	0%	25%
Corporate	0%	25%

- With the exception of U.S. and Canada, investments in government and corporate debt of G-23 countries will be limited to 10% of the portfolio.

- Up to 25% of the portfolio may be invested in a single industry.

Derivatives

Managers may use derivatives only if the net impact on the portfolio does not violate any of the guidelines set forth in this document. Furthermore, any use of derivatives must at all times be consistent with LACERA's Derivatives Investment Policy.

Derivative instruments may be used in lieu of physical securities when the derivatives offer greater liquidity (lower transaction costs) or greater precision for the purposes of managing a portfolio's duration, yield curve exposure, credit risk or prepayment risk. Derivatives will be used primarily to hedge, or reduce risk, but they may also be used to increase exposure to a risk factor, if that desired exposure is not easily obtainable via physical securities.

Allowable Derivative Instruments
1. Treasury Futures
2. Eurodollar Futures
3. Options
4. Swaps
5. Credit Derivatives

Counterparties for non-exchange traded derivatives (e.g. swaps and over-the-counter options) must be rated at least A3/A- by Moody's or S&P. If a counterparty is downgraded below A3/A-, Managers must notify LACERA staff promptly.

Tobacco Policy

Manager should refrain from purchasing tobacco securities when the same investment concerning risk, return and diversification can be achieved through the purchase of another security. Consequently, if two investments have identical risk/return characteristics, manager shall purchase the security with no tobacco business. Otherwise, manager shall select the security expected to provide the most value added.

Sudan Policy

Investment managers should refrain from purchasing securities where the company has been identified as doing business in Sudan or with the government of Sudan, when the same investment goals concerning risk, return and diversification can be achieved through the purchase of another security.

Iran Policy

Investment managers should refrain from purchasing securities where the company has been identified as doing business in Iran's energy sector or with the government of Iran, when the same investment goals concerning risk, return and diversification can be achieved through the purchase of another security.

Other Restrictions

Under no circumstances, may the portfolio be leveraged. All temporary cash balances will be automatically swept into LACERA's STIF account.

Investment Policy Amendments:

If any item, guideline, or constraint within this statement of guidelines and objectives proves to be too restrictive in practice, it will be the responsibility of the Manager to prepare a modification and/or amendment to the specific item in writing for consideration by LACERA.

Revised: November 19, 2014
Reviewed by Committee on 9-10-14
Revised: November 20, 2013
Revised: November 13, 2012

LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION
SAMPLE INVESTMENT GUIDELINES FOR
OPPORTUNISTIC BOND MANAGERS

Benchmark

Benchmark will vary per mandate.

Investment Objective

An absolute return target of 8-10% net of fees, annualized over a full market cycle, in accordance with specific target ranges for annualized excess return and tracking error.

Permitted Investments

Opportunistic managers will invest in a diversified opportunity set of non-traditional segments of the fixed income market, both public and private.

The following is a partial list of eligible investments.

Investment Grade Bonds
High Yield Debt
Bank Loans
Asset Backed Securities
Agency and Non-Agency Mortgage Backed Securities
CMOs, CDOs, CLOs (Debt and Equity)
Mortgage Derivatives (IOs/POs)
Equity Securities (Acquired in connection with eligible debt)
Convertible Bonds
144A Securities
Private Debt
Stressed/Distressed Debt
Structured Products
$-Denominated Foreign Bonds
Emerging Market Debt (Hard and Local Currency)
Bonds Denominated in a Foreign Currency
Foreign Currencies

The list will evolve over time, and specific limitations will be placed on each manager, depending on that manager’s expertise in a given bond sector. In addition, subject to prior approval by LACERA, investment in a manager’s specialized fund vehicles is permitted.

Concentration Limits/Diversification

Depending on the mandate, maximum exposures will be established for:

- Permitted Investments
- Cash/Cash Equivalents
- Industry
- Issue/Issuer

- Non-U.S. Assets
- Currency

Duration Management
Duration will vary per mandate.

Credit Quality
In the event that a portfolio holding suffers severe impairment in creditworthiness, the Manager will be required to immediately notify LACERA in writing, together with a hold/sell recommendation. An update of the condition of the credit shall be sent to LACERA on a monthly basis.

Derivatives
Any use of derivatives must at all times be consistent with LACERA's Derivatives Investment Policy.

Allowable derivative instruments will vary according to mandate and may be used in lieu of physical securities when the derivatives offer greater liquidity (lower transaction costs) or greater precision for the purposes of managing portfolio risks. Derivatives will be used primarily to hedge, or reduce risk, but they may also be used to increase exposure to a risk factor, if that desired exposure is not easily obtainable via physical securities.

Under no circumstances will the combination of physical bonds and derivative positions change the characteristics of the portfolio so that it violates any guidelines set forth in the Statement of Investment Guidelines and/or LACERA’s Derivatives Investment Policy.

Counterparties for non-exchange traded derivatives (e.g. swaps and over-the-counter options) must be rated at least A3/A- by Moody’s or S&P.

Hedging
Managers may take limited short positions to hedge.

Leverage
Under no circumstances, may the portfolio be leveraged.

Tobacco Policy
Manager should refrain from purchasing tobacco securities when the same investment concerning risk, return, and diversification can be achieved through the purchase of another security. Consequently, if two investments have identical risk/return characteristics, manager shall purchase the security with no tobacco business. Otherwise, manager shall select the security expected to provide the most value added.

Sudan Policy
Investment managers should refrain from purchasing securities where the company has been identified as doing business in Sudan or with the government of Sudan, when the same

investment goals concerning risk, return and diversification can be achieved through the purchase of another security.

Iran Policy

Investment managers should refrain from purchasing securities where the company has been identified as doing business in Iran's energy sector or with the government of Iran, when the same investment goals concerning risk, return and diversification can be achieved through the purchase of another security.

Investment Policy Amendments

If any item, guideline, or constraint within this statement of guidelines and objectives proves to be too restrictive in practice, it will be the responsibility of the Manager to prepare a modification and/or amendment to the specific item in writing for consideration by LACERA.

Revised: November 19, 2014
Reviewed by Committee on 9-10-14

ATTACHMENT C

U.S. EQUITY INVESTMENT POLICY

LACERA seeks to maintain a diversified portfolio of U.S. equity securities in order to obtain the highest total return for the Fund at an acceptable level of risk within this asset class:

- The U.S. equity portfolio is expected to earn an annualized net (after fees and expenses) total rate of return that exceeds the Russell 3000 Index over rolling five-to-seven year periods by 10-20 basis points, with an expected tracking error of 0.5%-2%.
- Passive management will comprise between 35% - 75% of the U.S. equity composite portfolio.
- Active management will have two components. Low active risk (tracking error of less than 300 basis points) will comprise between 0% - 25% of the U.S. equity composite portfolio. Moderate/high active risk (tracking error greater than 300 basis points) will comprise between 10% - 30% of the U.S. equity composite portfolio.
- The target allocation range for opportunistic strategies within the U.S. equity portfolio will be 0%-5%.
- The composite portfolio will exhibit fundamental and market capitalization characteristics similar to that of the Russell 3000 Index.
- The composite will be style neutral relative to the Russell 3000 over time.

Passive Policy
A passively managed portfolio shall be an ongoing part of the U.S. equity policy. This passive portion (35% to 75%) of the portfolio may consist of the following:

- Large capitalization core.
- An offset to any investment style biases in the composite portfolio relative to the Russell 3000 Index by utilizing passive style index funds, as appropriate.
- Temporary investment for assets in transition.

The performance of the passive component shall be measured against the appropriate broad market or style benchmark.

Active Management Policy
Active management will be used to enhance the return of the composite portfolio. The active managers will have full discretion, within the context of stated guidelines, in the purchase and sale of individual securities and concentrations within the economic and industry sectors. LACERA's portfolios should be managed in a manner similar to other portfolios within an organization with similar guidelines and performance objectives. If, in the manager's opinion, these guidelines restrict opportunities present in the marketplace, the manager should inform the investment Staff in writing, seeking a waiver from or amending the restriction(s).

The manager will maintain a 95% to 100% investment in U.S. equity securities, unless otherwise stated in the manager's investment guidelines. No non-U.S. equities may be held; however, ADR's will be allowed in the portfolio.

Opportunistic Strategies Policy
The opportunistic allocation allows for unique strategies that are less correlated with traditional strategies and do not fit any of the existing strategy categories.

Tobacco Policy
Investment managers should refrain from purchasing tobacco securities when the same investment goals concerning risk, return and diversification can be achieved through the purchase of another security.

Sudan Policy
Investment managers should refrain from purchasing securities where the company has been identified as doing business in Sudan or with the government of Sudan, when the same investment goals concerning risk, return and diversification can be achieved through the purchase of another security.

Iran Policy
Investment managers should refrain from purchasing securities where the company has been identified as doing business in Iran's energy sector or with the government of Iran, when the same investment goals concerning risk, return and diversification can be achieved through the purchase of another security.

Revised: November 19, 2014
Reviewed by the Committee 8-13-14
Revised: November 20, 2013
Revised: November 13, 2012
Revised: January 13, 2010

INVESTMENT GUIDELINES
U.S. Equity Manager

[Account specifics:
Mandate, Style, Benchmark, Excess Return Expectation, Expected Tracking Error[1]]
Time Frame: Full Market Cycle

Equity securities shall be properly researched using accepted fundamental and technical analysis standards. LACERA's investment managers have full discretion within the parameters defined below. Managers may request guideline changes in writing through LACERA's investment staff. Requested guideline changes deemed appropriate by Staff falling outside the below parameters will be submitted to the Board of Investments for approval.

1) Permitted investments include all equity-related investments that trade on U.S. stock exchanges. This includes but is not limited to:

- Common Stock
- Securities issued by foreign companies - maximum 10% at market value[2]
- Preferred Stock
- Warrants
- Rights
- Convertible Securities - maximum 10% at market value
- Real Estate Investment Trusts (REITS) - maximum 10% at market value[3]
- Publicly-traded Master Limited Partnerships-maximum of 5% at market value
- Rule 144A Securities – maximum 5% at market value. Securities shall have a minimum market capitalization of $100 million. Manager must obtain authorization from the head of equity section prior to purchase.
- Private Investment in Public Equity (PIPE's) – maximum 5% of manager's total portfolio market value. Issuers shall have a minimum market capitalization of $100 million. Prior to purchasing a PIPE, manager must currently own security in LACERA's portfolio. *(Note: This item applies to Small/Mid Cap managers only.)*
- U.S. equity index Exchange Traded Fund (ETF) – may only be purchased to equitize cash. The aggregate ETF %weight in the portfolio may not exceed the portfolio's cash % weight.

[1] LACERA's investment staff will monitor the portfolio's rolling 3-year and rolling 5-year *realized* tracking errors. Staff recognizes that approximately 68% of observations should fall within the expected ranges. Tracking error will be calculated as the standard deviation of the differences between the portfolio and benchmark returns.
[2] This limitation includes (but is not limited to) American Depository Receipts (ADRs), and dually listed securities (securities listed on multiple stock exchanges) outside of the manager benchmark.
[3] This limitation would apply to REITS outside of the manager benchmark.

2) The following are prohibited investments:

- Non-publicly traded securities except as permitted in section (1) above
- Non-negotiable securities except as permitted in section (1) above
- Short sales
- Leverage
- Mutual funds
- Derivatives

3) Cash should not exceed 5% of the manager's portfolio's total market value and will be managed by a "cash" manager designated by the Board of Investments. Managers should notify investment staff of any increase in their cash level.

4) Maximum individual security weighting (will be strategy specific).

5) Maximum industry weighting (will be strategy specific).

6) No transaction shall be conducted with any broker/dealer who (1) LACERA has by written notice to the Manager deemed unsuitable for LACERA trades, (2) is affiliated with an investment consultant that provides non-brokerage related services to LACERA, or (3) is affiliated with the manager.

Tobacco Policy
Investment managers should refrain from purchasing tobacco securities when the same investment goals concerning risk, return and diversification can be achieved through the purchase of another security.

Sudan Policy
Investment managers should refrain from purchasing securities where the company has been identified as doing business in Sudan or with the government of Sudan, when the same investment goals concerning risk, return and diversification can be achieved through the purchase of another security.

Iran Policy
Investment managers should refrain from purchasing securities where the company has been identified as doing business in Iran's energy sector or with the government of Iran, when the same investment goals concerning risk, return and diversification can be achieved through the purchase of another security.

Note: Guideline criteria shown in blue font means that specific item is customized based on a manager's mandate.

Reviewed: November 19, 2014
Reviewed by the Committee 8-13-14
Reviewed: November 20, 2013, Reviewed: November 13, 2012

ATTACHMENT D

NON-U.S. EQUITY INVESTMENT POLICY

LACERA seeks to maintain a diversified portfolio of non-U.S. equity securities in order to obtain the highest total return for the Fund at an acceptable level of risk within this asset class:

- The non-U.S. equity portfolio is expected to earn an annualized net (after fees and expenses) rate of return from dividends and realized and unrealized capital gains that exceeds the Morgan Stanley Capital International All Country World Excluding United States Investable Market Index (MSCI-ACWI ex-US IMI) over rolling five-to-seven year periods by 10 – 20 basis points, with expected tracking error of 1% - 3%.
- Passive management will comprise between 40%-70% of the total non-U.S. equity composite portfolio.
- Active management will have three components. Active regional will comprise between 0%-20% of the total non-U.S. equity composite portfolio. Active non-U.S. will comprise between 0%-40% of the total non-U.S. equity composite portfolio. Active emerging markets will comprise between 10%-30% of the total non-U.S. equity composite.
- The target allocation range for opportunistic strategies within the non-U.S. equity portfolio will be 0%-5%.
- The composite portfolio will exhibit fundamental and market capitalization characteristics similar to that of the MSCI All Country World Excluding the United States Investable Market Index, with net dividends reinvested [MSCI ACWI ex-U.S. IMI (Net)].
- The composite will maintain regional and style neutrality to the benchmark.

Passive Policy

A passively managed portfolio shall be an ongoing part of the non-U.S. equity policy. This passive portion (40%-70%) of the portfolio shall provide the following:

- Large capitalization core.
- Regional balancing mechanism to maintain regional neutrality relative to the index.
- Temporary investment for assets in transition.

The performance of the passive component(s) shall be measured against the appropriate broad or regional index.

Active Management Policy

The active component of the non-U.S. equity composite portfolio may use a combination of core, regional, emerging and frontier markets managers. Core managers will have authority to invest internationally with specific country investments defined by the EAFE + Canada benchmark. Regional managers will only have investment authority in either MSCI Europe or the MSCI

Pacific Basin indices. Emerging markets managers will primarily invest in countries included in the MSCI Emerging Markets benchmark. In addition to specific mandates, on an opportunistic basis, emerging markets managers may invest in “frontier” countries.

The active managers will have full discretion, within the context of stated guidelines, in the purchase and sale of individual securities and concentrations within the economic and industry sectors. LACERA's portfolios should be managed in a manner similar to other portfolios within an organization with similar guidelines and performance objectives.

If, in the manager's opinion, these guidelines restrict opportunities present in the marketplace, the manager should inform the investment Staff in writing, seeking a waiver from or amending the restriction(s).

Opportunistic Strategies Policy
The opportunistic allocation allows for unique strategies that are less correlated with traditional strategies and do not fit any of the existing strategy categories.

Currency Policy
LACERA employs a passive 50% currency hedge overlay on the developed markets assets. A 50% currency hedge reduces some volatility associated with the currency exposure from non-U.S. equities while still maintaining the diversification benefits associated with the broader global equity universe. The emerging markets currencies are not hedged. A passive currency overlay manager has been retained to implement the currency hedge program. The non-U.S. equity managers are allowed to hedge defensively, when they deem it appropriate. The risk associated with currency exposure is incorporated in LACERA’s asset allocation by using the MSCI EAFE 50% Hedged Index and MSCI Emerging Markets Unhedged Index as proxies for non-U.S. equities.

Tobacco Policy
Investment managers should refrain from purchasing tobacco securities when the same investment goals concerning risk, return and diversification can be achieved through the purchase of another security.

Sudan Policy
Investment managers should refrain from purchasing securities where the company has been identified as doing business in Sudan or with the government of Sudan, when the same investment goals concerning risk, return and diversification can be achieved through the purchase of another security.

Iran Policy
Investment managers should refrain from purchasing securities where the company has been identified as doing business in Iran’s energy sector or with the government of Iran, when the same investment goals concerning risk, return and diversification can be achieved through the purchase of another security.

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Reviewed by the Committee 8-13-14

INVESTMENT GUIDELINES
Non U.S. Equity Manager

[Account specifics:
Mandate, Style, Benchmark, Excess Return Expectation, Expected Tracking Error[1]]
Time Frame: Full Market Cycle

Equity securities shall be properly researched using accepted fundamental and technical analysis standards. LACERA's investment managers have full discretion within the parameters defined below. Managers may request guideline changes in writing through LACERA's investment staff. Requested guideline changes deemed appropriate by staff falling outside the below parameters will be submitted to the Board of Investments for approval.

1) Authorized countries for investment include those in the applicable Index benchmark. Developed Market managers: may purchase up to 10% of their portfolio's market value in emerging markets countries. (*Note: the small cap manager, Putnam, is allowed to purchase up to 15%.)*

2) Permitted investments include all equity investments that trade in authorized countries. This includes but is not limited to:

   - Common Stock
   - Warrants
   - Rights
   - Preferred Stock
   - Convertible Securities - maximum 10% at market value
   - Securities issued by US companies - maximum 10% at market value[2]
   - Real Estate Investment Trusts (REITS) - maximum 10% at market value
   - Rule 144A Securities – maximum 5% at market value. Securities shall have a minimum market capitalization of $100 million. Manager must obtain authorization from the head of equity section prior to purchase.
   - Red chip and 'H' share securities up to maximum 5% at market value. *(The last item currently applies only to GAM's Pacific Basin strategy.)*

3) The following are prohibited investments:
   - Non-publicly traded securities except as permitted in section (1) above
   - Non-negotiable securities except as permitted in section (1) above

[1] LACERA's investment staff will monitor the portfolio's rolling 3-year and rolling 5-year *realized* tracking errors. Staff recognizes that approximately 68% of observations should fall within the expected ranges. Tracking error will be calculated as the standard deviation of the differences between the portfolio and benchmark returns.

[2] This limitation includes (but is not limited to) Depository Receipts, and dually listed securities (securities listed on multiple stock exchanges).

- Short sales
- Leverage (except where expressly permitted elsewhere in the guidelines, e.g., a mandate that utilizes currency forwards to obtain a net currency exposure that is less than 0%. However, leverage is prohibited at the total portfolio level.)
- Derivatives (except where expressly permitted elsewhere in the guidelines)
- Currency Options
- Mutual Funds (except where expressly permitted elsewhere in the guidelines, e.g., a mandate that invests in closed end mutual funds)

4) While it is recognized that Non U.S. managers may use cash as part of their currency strategy, cash should not exceed 5% of the manager's total portfolio market value. Managers should notify investment staff of any increase in their cash level. Cash will be managed by LACERA's designated cash manager.

5) Maximum individual security weighting (will be strategy specific).

6) No transaction shall be conducted with any broker/dealer who: (1) LACERA has by written notice to Manager deemed unsuitable for LACERA trades, (2) is affiliated with an investment consultant that provides non-brokerage related services to LACERA, or (3) is affiliated with the manager.

Currency Hedging

Currency hedging is permitted as part of a defensive strategy. Forward currency contracts and currency futures (maturity ranging from at least 30 days and not to exceed one year for either instrument) are permitted for currency hedging.[3] However, LACERA wants to manage aggregate currency risk relative to the manager's assigned benchmark while taking into account the currency exposure hedged at LACERA's overall Non U.S. equity composite level. Therefore, the following guidelines are applicable at time of hedge purchase:

- Aggregate net currency exposure[4] is limited to the greater of the actual country exposure or the country's benchmark weight.
- Net currency exposure less than 0% is not permitted (except where expressly permitted in the guidelines). However, currency hedging is permitted for U.S. dollar denominated ADR's and GDR's up to the maximum exposure of these securities' market value. Nonetheless, under no circumstances can the hedge exceed the value of the underlying securities (i.e. no net negative exposure).
- Cross hedging is permitted.
- Hedging into base currency (U.S. dollar) is permitted to the extent that the hedge amount (as a percentage of the portfolio) plus half of the benchmark country weight is not greater than the portfolio's country exposure.

[3] For security settlement, it is assumed spot contracts are used, and therefore, will be excluded from calculations.

[4] Net Exposure = Gross Security Exposure +/- Hedge Exposure.

- Managers will be responsible for evaluating the counterparty's creditworthiness.

If equity market movements cause existing hedges to move more than 5% outside the ranges stated above, adjustment of currency hedges is required to bring net currency exposures back within the limits.[5]

These guidelines are not intended to restrict a manager's aggregate security exposure to an individual country. Its intended purpose is to restrict currency exposure relative to the benchmark when the value of the underlying securities held in the portfolio differs from the portfolio's currency exposure.

For example, if a portfolio contains 13% in Japanese (yen exposure) securities when the benchmark's Japan country weight is 20%, the manager would be authorized to hedge up to 3% of yen exposure into U.S. dollar (allowable hedge = 13% - (20%/2) = 3%). Additionally, the manager would be permitted to purchase an additional 7% yen exposure to total 20% (maximum is the 20% benchmark weight). The manager would be required to reduce yen exposure back to 20% if market value changes caused the net yen exposure to exceed 25%.

Conversely, if a portfolio contains 35% in Japanese (yen exposure) securities when the benchmark's Japan country weight is 20%, the manager would be permitted to hedge 25% of yen exposure into U.S. dollar (allowable hedge = 35% - (20%/2) = 25%). The manager would not be authorized to purchase additional yen exposure because the portfolio's country weight exceeds the benchmark's country weight.

Tobacco Policy

Investment managers should refrain from purchasing tobacco securities when the same investment goals concerning risk, return and diversification can be achieved through the purchase of another security.

Sudan Policy

Investment managers should refrain from purchasing securities where the company has been identified as doing business in Sudan or with the government of Sudan, when the same investment goals concerning risk, return and diversification can be achieved through the purchase of another security.

Iran Policy

Investment managers should refrain from purchasing securities where the company has been identified as doing business in Iran's energy sector or with the government of Iran, when the same investment goals concerning risk, return and diversification can be achieved through the purchase of another security.

Note: Guideline criteria shown in blue font **means that specific item is customized based on a manager's mandate.**

[5] LACERA's custodian will be final arbiter regarding gross, hedge, and net exposure.

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Revised: November 20, 2013
Revised: November 13, 2012

ATTACHMENT E

CORPORATE GOVERNANCE POLICY

The objective of LACERA's corporate governance program is to safeguard and promote the economic interests of the trust. The Corporate Governance Policy (Policy) outlines the responsibilities of LACERA Staff in executing its corporate governance efforts in support of LACERA's Corporate Governance Principles (Principles).

Proxy Voting

Proxy voting is the primary function of LACERA's corporate governance program. LACERA votes the proxies of companies held in its U.S. and non-U.S. equity separate accounts (custodied assets), unless otherwise designated in the Investment Management Agreement.

LACERA votes proxies in accordance with proxy voting guidelines approved by LACERA's Board of Investments (BOI). Any exceptions to the guidelines will be presented to the Board of Investments Corporate Governance Committee (Committee) for approval. As such, voting rights should be exercised for the exclusive benefit of LACERA's members.

LACERA's U.S. and Non-U.S. Proxy Voting Guidelines are derived in large part from Institutional Shareholder Services proxy voting policies. Staff updates the policies annually and presents the revisions to the Committee and the Board of Investments for approval.

Sponsoring Shareholder Proposals

LACERA may sponsor shareholder proposals in support of LACERA's Principles (e.g. Harvard Shareholder Rights Project on board declassification). LACERA will consider requests to sponsor or co-sponsor shareholder proposals taking into consideration multiple factors, including but not limited to: how the proposal supports the Principles, LACERA's control in achieving desired outcome, Staff time and resources, legal review, and likelihood of proposal surviving a company's "no action"[1] request with the Securities and Exchange Commission.

Once Staff reviews the efficacy of sponsoring/co-sponsoring a shareholder proposal, Staff will present the findings to the Committee including an outline of the proposal and an analysis of LACERA's potential participation. The Committee will make a recommendation to the BOI.

Securities Recall

LACERA participates in securities lending to earn incremental income. In securities lending, the legal rights accorded those shares, including proxy voting, are transferred to the borrower of the securities during the period the securities are on loan. As a result, LACERA forfeits its right to vote proxies on loaned securities unless those shares have been recalled from the borrower no later than the share's record date. Shares of loaned securities will be recalled when LACERA sponsors Shareholder Proposals and when the Committee approves actions involving company specific issues.

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[1] A public company can ask the Securities and Exchange Commission to allow it to exclude a shareholder proposal from its proxy if the proposal meets certain conditions as outlined in SEC Rule 14a-8.

Environmental, Social, and Geopolitical Issues

LACERA is periodically requested to review its public markets investment exposures to certain issues arising from Environmental, Social, and Geopolitical (ESG) causes. The following formal process was developed to address these issues and identify LACERA's exposure to exogenous risks.

1. ESG issue will be directed to Committee for further direction to Staff.

2. If Committee decides to review the ESG issue, Staff will assess the potential economic and reputational impact of the issue on LACERA.
    a. Does the issue violate LACERA's Corporate Governance Principles?
    b. Determine criteria for identification of investment(s).
    c. Preliminary identification of the investment.
    d. Preliminary estimate on size of the investment.
    e. Seriousness of the issue/violation and whether it impacts the economics of the investment(s).
    f. Consultation with LACERA's CEO, CIO, and legal counsel.

3. Staff will report its findings on the potential economic and reputational impact of the issue on LACERA to the Committee.

4. The Committee may forward the ESG issue and potential economic and reputational impact on LACERA to the Board of Investments (Board) for further direction.

5. If the Board directs Staff to continue the analysis, Staff will calculate the anticipated resources involved in analyzing the issue including, but not limited to:
    a. Estimate of Staff hours required for research and analysis.
    b. Estimate of the resource impact on current staff initiatives and projects (for example the delay in an RFP search).
    c. Estimate of cost to obtain information (e.g.: company list) from external service provider.

6. Staff will report back to the Committee with its resource requirements analysis.

7. Committee may make recommendation to the Board to pursue additional analysis.

8. Upon receiving direction from the Board, Staff will contract with external data provider to identify investment(s) impacted by the issue.

9. Staff will identify investment exposures within the separate accounts of the public markets asset classes (equities, fixed income and commodities).

10. Staff will contact external investment managers to solicit feedback from portfolio managers on reasoning for the investment and potential return and risk trade-off of economic substitution.

11. Staff will present findings to the Board and any recommendation(s) as necessary. If further action is warranted, such as engagement with companies, Staff's report to the Board will include the following:
    a. An estimate of additional Staff hours needed to execute engagement.
    b. An estimate of the impact of diverting resources from current staff initiatives and projects (for example the delay in an RFP search).
    c. Cost of retaining external resources (3rd party consultant) to assist in the engagement process.
    d. Feedback from portfolio managers on their investment in the company.
    e. Discussion of criteria and terms for company engagement.

12. If further action, such as engagement, is recommended and approved by the Board, Staff will seek to engage with companies on the issue. Letters will be written to the company's executive management and their boards requesting responses within 60 days.

13. If company response is determined to be insufficient, Staff will assess the need to place the company on an economic substitution list[2] and present recommendation(s) to the Board for approval. Included in the recommendation(s) will be the following:
    a. Updated company exposure within separate accounts of public markets asset classes.
    b. Annual cost to procure company list.
    c. Criteria by which company will be removed from the economic substitution list.

14. Staff will continuously monitor company status relative to criteria for removal from the economic substitution list. Once criteria have been met, Staff will recommend removal of the company to the Board.

15. Staff will provide an economic substitution list update to the Board annually which will include the following:
    a. All companies currently on the list.
    b. Issue for which the company was placed on the list.
    c. Investment exposure within separate accounts of public markets asset classes.
    d. Current status of mitigating factors.

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[2] Companies on the list will be covered by the following investment guideline policy language: "Investment managers should refrain from purchasing securities on the economic substitution list when the same investment goals concerning risk, return, and diversification can be achieved through the purchase of another security."

CORPORATE GOVERNANCE PRINCIPLES

I) INTRODUCTION

The fundamental objective that guided the Los Angeles County Employees Retirement Association (LACERA) when drafting Core Principles of good corporate governance was to safeguard and promote the economic interests of the trust. LACERA's Board of Investments recognized that good governance must "maintain an appropriate balance between the rights of shareholders… and the need of board and management to direct and manage the corporation's affairs free from non-strategic short-term influence."[1]

This document identifies LACERA's Board of Investments' Core Principles in corporate governance. Core Principles include Board Independence, Board Management and Evaluation, and Shareholder Rights. It is also intended to communicate the importance of **fiduciary duty**, **integrity, accountability,** and **transparency** to Corporate America.

Corporate **fiduciary duty** is an obligation to act in the best interests of the company and its shareholders. Lack of independence by corporate directors may periodically impede their ability to act in the shareholders' best interest. Therefore, it is important that a substantial majority of directors be independent to help promote shareholder interests over company management.

Integrity and trust are the cornerstones of America's capital markets and essential for economic stability. Building a corporate culture based on integrity is of paramount importance at all times. Consequently, directors must establish a "tone at the top" for an organization.

Accountability is the obligation of the Board of Directors and Senior Management to be responsible for their actions. Accountability helps to ensure that a company's operations and reporting mechanisms are managed in the best interests of its shareholders.

Transparency is a basic shareholder right and critical for an institutional investors understanding of an organization's financial and business activities. Transparency is essential in the following two areas: first, a complete and clear disclosure of an organization's business and financial activity. Second, complete and clear disclosure of executive compensation including fringe benefits. All investors have a basic right to thorough disclosure of a firm's financial activities and how senior managers are being compensated for their services.

Finally, LACERA's Board of Investments believes strong corporate governance practices should help maximize shareholder value. Therefore, the Board of Investments adopts these Principles in the spirit of the LACERA's mission statement: "To produce, protect, and provide the promised benefits" to the employees of Los Angeles County.

II) BOARD INDEPENDENCE

An effective corporate governance structure recognizes that "[g]overnance structures and practices should be designed to provide some form of leadership for the board distinct from

[1] TIAA-CREF Policy Statement on Corporate Governance.

management" and "[g]overnance structures and practices should be designed to ensure the accountability of the board to shareholders and the objectivity of board decisions."[2] The ability to challenge management decisions and objectively evaluate the performance of corporate management may be compromised if a director is not truly independent. Therefore, **a substantial majority** of a corporation's directors should be independent.

<u>Separation of CEO and Chairman</u>

"The responsibilities of leading the board and management are distinct. The CEO is the highest ranking member of the management team,"[3] and the Board of Directors is responsible for management oversight. A dual role played by the CEO and Chairman may create conflict. To mitigate the risk of a dominant CEO controlling the Board, the CEO and Chairman positions should be separated.

If an independent director (as defined in LACERA's U.S. and Non-U.S. Proxy Voting Guidelines)does not hold the Chairman position, the Board should assign an independent lead director who should have the authority to set the board agenda, lead executive sessions of non-executive directors and lead shareholder engagement efforts. In addition, the Board should disclose in proxy materials why the combined role of CEO and Chairman is in the best interest of shareholders.

<u>Director Compensation</u>

Directors should be compensated in either stock or cash, but the majority of compensation should be in stock. Stock compensation should help align directors' interests with shareholders. To focus the directors' attention on the firm's long-term value, directors should be required to hold a significant portion of the stock for as long as they remain on the Board. "Boards should disclose fully in the proxy statement, the philosophy and process used to determine director compensation and the value of all elements of compensation."[4]

<u>Key Committee Structures</u>

The following committees should only include independent directors:

- Audit
- Nominating/Corporate Governance
- Compensation

The Board, rather than the Chief Executive Officer, should appoint committee chairs and members.

[2] NACD Key Agreed Principles (2011)
[3] The Conference Board Commission on Public Trust and Private Enterprise: page 7.
[4] The Report of the NACD Blue Ribbon Commission on Director Compensation: page 5.

III) BOARD MANAGEMENT AND EVALUATION

Board Meetings and Operations

Board members assume a significant amount of responsibility when accepting a director position. Core responsibilities include understanding the corporation's long-term business strategy, understanding the risks that define and drive the company's business and overseeing management. Therefore, to help Board members effectively carry out these duties, the board should develop, adopt, disclose, periodically review, and enforce its own set of governance principles.

Furthermore, following information and/or options should be available to them to execute their duties:

- Directors should be provided information in advance of meetings.
- Directors should have full access to senior management and information concerning the corporation's operations.
- Directors should work with the CEO to draft Board agendas.
- Directors should be familiar with a firm's operations independent of the CEO or senior management.
- Directors should have the authority and budget to hire outside experts if necessary.
- Independent directors should meet at least annually, without management or the other non-independent directors participating.
- Directors should establish a succession plan for the CEO and senior management.
- Directors should develop a plan for evaluating the CEO's performance and evaluate the CEO at least annually.

Board Evaluations

"Shareholders' understanding of board and director assessment processes and criteria is indispensible to both board credibility and shareholders' ability to appraise the board's recommended resolutions and proposed slate of directors."[5] The Board should adopt a written statement of its own governance principles and a process for regular re-evaluation. Independent directors should control the evaluation process, which should be tailored to meet the needs of the individual company and Board.

The evaluation process should include the following factors:

[5] Comparison of Corporate Governance Principles & Guidelines—United States: page 9.

- Review the Boards' own size, and determine that the size is most effective toward future operations.
- Align with established evaluation processes and goals.
- Design to ensure candor, confidentiality, and trust.
- Delineate Board and management powers.
- Create effective interaction between and among directors.
- Assess directors education and development.
- Disclose process to shareholders and the public.

IV) Shareholder Rights

Basic shareholder rights include the clear and complete disclosure of a company's financial and business activities. Financial statements and other company disclosures provide investors with key financial data as well as relevant ESG information that may spur interest in a company as an investment opportunity. Without thorough disclosure for all corporations, the foundation for the economic system will erode.

Part one of this section relates to executive compensation and disclosure issues. Part two of this section recognizes shareholders rights specifically relating to voting proxies. Part three addresses shareholder/director communications. Focusing on these issues will help to continue promoting integrity and transparency in the process.

Executive Compensation

Philosophically, LACERA believes that corporate executives should be fairly compensated for their efforts, compensation should be tied to corporate and individual performance and compensation plan design should encompass prudent risk mitigation. Corporate executives contend their compensation should be based primarily on risks incurred. LACERA, however, believes that executive compensation should not be based on perceived risks because it is the stockholders, more than anyone else, who ultimately bear these risks. Moreover, executives should not expect to be compensated like top-tier entrepreneurs because generally, unlike entrepreneurs, they do not have much personal wealth at risk.

Rather, the vast majority of capital at risk belongs to the corporation's shareholders.

Executive compensation should also be considered in the context of how a firm compensates its employees relative to their peers in the industry. If the firm pays their employees "bottom quartile" wages, it is difficult to justify paying their executives "top quartile" salaries.

The compensation committee, comprised exclusively of independent directors, is responsible for establishing CEO and senior management compensation packages. An independent compensation committee is important to avoid compensation abuses. The committee should be authorized to retain a compensation consultant.[7] Promoting transparency is critical when establishing compensation packages for executives.

Core Principles in this area include:

- All companies should provide annual advisory votes on executive compensation.

- Senior executives' total compensation package should be disclosed to shareholders. This includes full disclosure of salary, short-term incentive compensation, long-term incentive compensation, and all other benefits and perquisites. The disclosure should also include the selected performance metrics and targets.

- Compensation consultants retained for assisting directors work exclusively for the compensation committee. Ideally, the consultant should not have other relationships with the firm.

- Benchmarking exclusively for compensation purposes should be avoided because not all executives can be in the top quartile of pay scales. Peer group companies should be disclosed, and if the composition of the compensation peer group differs from the overall performance peer group, the rationale for the difference should be included.

- Executives should not receive severance payments in the event of termination for poor performance or forced resignation.

- Executives should not receive compensation following a change-in-control until after the change-in-control takes places AND the executives' position is terminated because of the change-in-control.

Proxy Issues

- Proxy votes should be kept confidential.

- Broker votes should be counted for quorum purposes only.

- Every company should prohibit greenmail.

- Each share of common stock, regardless of class, should have one vote. Corporations should not have classes of common stock with disparate voting

[7] Council of Institutional Investors Policies on Corporate Governance, October 5, 2012: Section 5.5g

rights. Authorized unissued common shares that have voting rights to be set by the Board should not be issued without shareholder approval.

- Each director should be elected annually.

- Directors should be elected by a majority of votes cast in an uncontested director election.

- Long-term shareholders who hold a significant number of shares should have the right to access the proxy to nominate directors.

- Any shareholder proposal that is approved by a majority of proxy votes cast should either be implemented by the Board, or LACERA will withhold votes for director nominees after one year of Board inaction.

- All stock option plans should be approved by shareholders.

- Options should not be re-priced without shareholder approval.

- The Board should not enact or amend a poison pill without shareholder approval.

Environmental, Social, and Governance Disclosures

- Companies should provide complete disclosure about all risks including those related to Environmental, Social, and Governance (ESG) factors so that shareholders may make informed investment and voting decisions when evaluating companies and the sustainability of their business practices.

- Charitable and Political Contributions - "The board of directors should monitor, assess and approve all charitable and political contributions (including trade association contributions) made by the company. The board should only approve contributions that are consistent with the interests of the company and its shareowners. The terms and conditions of such contributions should be clearly defined and approved by the board. The board should develop and disclose publicly its guidelines for approving charitable and political contributions. The board should disclose on an annual basis the amounts and recipients of all monetary and non-monetary contributions made by the company during the prior fiscal year. Any expenditures earmarked for political or charitable activities that were provided to or through a third-party should be included in the report."[6]

- "[C]ompanies should adhere to responsible business practices and practice good corporate citizenship. Promotion, adoption and effective implementation of guidelines for the responsible conduct of business and business relationships are consistent with the fiduciary responsibility of protecting long-term investment interests."[7]

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[6] Council of Institutional Investors Polices on Corporate Governance, October 5, 2012: Section 2.14.
[7] Council of Institutional Investors Polices on Corporate Governance, October 5, 2012: Section 1.6.

<u>Shareholder/Director Communication</u>

"Boards should also consider reaching out and developing stronger relationships with investors through candid and open dialogue. In particular, boards should consider ways to engage large long-term shareholders in dialogue about corporate governance issues and long-term strategy issues…"[13]

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Revisions adopted by the Board of Investments on April 10, 2013
Revisions adopted by the Board of Investments on April 22, 2009
Revisions adopted by the Board of Investments on April 27, 2005
Revisions adopted by the Board of Investments on May 26, 2004
Revisions adopted by the Board of Investments on August 13, 2003
Revisions adopted by the Board of Investments on June 11, 2003
Original adopted by the Board of Investments on March 12, 2003

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1. Teachers' Insurance and Annuity Association College Retirement Equities Fund (TIAA-CREF): Corporate Governance Policy.

2. National Association of Corporate Directors Key Agreed Principles: September 1, 2011.

3. The Conference Board's Commission on Public Trust and Private Enterprise: Part 2: Corporate Governance and Part 3: Audit and Accounting: January 9, 2003.

4. The Report of the NACD Blue Ribbon Commission on Director Compensation: 2006

5. Comparison of Corporate Governance Principles & Guidelines—United States: Holly J. Gregory: January 2012.

6. Council of Institutional Investors Policies on Corporate Governance: October 5, 2012.

Revised: November 19, 2014
Reviewed by the Corporate Governance Committee on 7-9-14

[13] NACD Key Agreed Principles (2008) .

HEDGE FUNDS INVESTMENT POLICY

LACERA invests in a diversified portfolio of hedge funds with a goal of reducing the volatility of the Fund without materially decreasing Fund returns. For asset allocation and modeling purposes, the hedge fund category is treated as a separate asset class. However, from an implementation standpoint, the hedge fund category of investments is not a separate asset class but is comprised of strategies that: 1) invest in securities within LACERA's existing asset classes or across multiple asset classes; 2) have an absolute return objective; and 3) include the ability to use specialized techniques such as leverage and short-selling, and instruments such as derivatives.

Program Management

Recognizing that hedge fund investment strategies require specialized knowledge and expertise, LACERA employs a hedge fund of funds manager (or managers) that has (have) been delegated discretion to construct a portfolio consistent with the hedge fund policy. Each hedge fund of funds manager, a specialized external investment manager, is used to identify, select, implement, and monitor these investment strategies in a well diversified portfolio.

The program may include allocations to funds in four general categories: 1) Event Driven, 2) Relative Value, 3) Equity Hedge, and 4) Directional/Tactical (including global macro, commodities, and currency). Multi-strategy funds may also be used in the program. The program may be comprised of 1) hedge fund of funds manager portfolios that have a specific mandate, (e.g. a diversified strategy or a focus on opportunistic credit strategies[1]) and 2) individual hedge funds held directly by LACERA. Individual hedge funds, not part of a fund of funds managed portfolio, are subject to approval by the LACERA Board of Investments.

LACERA fund of funds manager portfolios may invest in hedge funds through a special purpose entity at the portfolio level or directly in hedge funds without a special purpose entity.

Risk and Return Objectives

The target annualized return is 500 basis points over an index of 3-month T-bills. This objective is net of all underlying hedge fund fees and fund of funds manager fees.

Additionally, LACERA measures program returns against a broad universe of hedge fund of funds, as provided by a third party source such as Hedge Fund Research, Inc. This measure of the program's success allows LACERA to determine the value added by the program relative to other hedge fund of funds.

The LACERA hedge fund program is expected to have volatility greater than that of fixed income but less than that of public market equities, generally at a level of less than half of public equity volatility. Realized volatility, as measured by standard deviation of returns, is expected to range from 5-8% over three-year rolling time periods. The program is expected to have low to

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[1] A diversified strategy portfolio generally invests across all of the fund categories as well as in multi-strategy funds while an opportunistic credit strategy portfolio generally invests in the event driven and relative value categories.

moderate correlation with global public market equities and will be managed by maintaining a portfolio equity beta[2] of 0.25 or lower.

Risk Management
Hedge fund strategies generally entail a greater level and number of unique risks than those of traditional public market strategies. These include investment-related and operational risks. It is LACERA's policy that the key risks particular to a hedge fund investment strategy be identified and understood. The hedge fund of fund manager(s) will aid in identifying, understanding, and monitoring risk in their portfolios. To the extent that a hedge fund's risks cannot be sufficiently understood or identified, LACERA will not undertake an investment in that fund. If risks increase to a level beyond the risks allowable in LACERA's hedge fund policy, investments in the fund(s) will be redeemed or reduced to bring the program in compliance with the policy.

Given that the hedge fund manager may have discretion to use short selling, leverage and derivatives, LACERA's Derivatives Policy will not apply to Hedge Fund investments. LACERA will invest in hedge funds using vehicles that limit LACERA's liability to the amount of its committed investment to the hedge fund.

In general, the types of risks and LACERA's methods for mitigation can be summarized as follows:

INVESTMENT RISK	METHOD OF MITIGATION
1. <u>Illiquidity</u> – Illiquidity results from the form of the assets or securities held by the underlying hedge funds as well as terms of the investment vehicle, e.g., lockup periods, or redemption periods.	LACERA will fund only those hedge funds that are expected to invest primarily in liquid assets. Additionally, the majority of the program asset value will be in hedge funds that have a lock-up period of 1 year or less and, after expiration of the lock-up period, a majority of program asset value will be in funds that provide for full or partial redemption at least quarterly. Beyond the initial lockup periods, a liquidity schedule will be maintained such that the majority of program asset value will be liquid within 1 year. While the program in total will comply with this policy, it is recognized that the opportunistic credit portfolio generally invests in less liquid investments than the diversified portfolio.

[2] Portfolio Equity Beta is a measurement of a portfolio's volatility relative to equity market returns. A portfolio with a beta of 1.0 has the same volatility as the equity market. Mathematically, historical beta can be viewed as the slope of the regression line of portfolio returns against market returns.

2. <u>Transparency</u> – Many hedge funds will not fully disclose current position-level holdings.	LACERA will require ongoing disclosure of either position-level data or risk-exposure-level data from the hedge funds. Position-level data includes all of the fund's security holdings and their amounts. Examples of risk-exposure-level data include net and gross equity exposure, sector level net equity allocation, and net fixed income allocation by sector and credit quality category. Additionally, frequent communication with the hedge funds will be undertaken to understand the largest positions in the fund.
3. <u>Leverage</u> – The underlying hedge funds may use leverage, which enables them to gain financial exposure greater than invested capital.	LACERA will not permit excessive use of leverage in the program. Appropriate leverage levels are dependent on the type of strategies used and the risk of the assets held in the fund. The leverage ratio at the strategy level is not permitted to exceed 4.0<u>x</u> for credit, event driven and equities, 8.0<u>x</u> for relative value, and 20.0<u>x</u> for macro and other tactical trading strategies. Portfolio-level leverage will be monitored to manage the overall risk level of the program. Only leverage derived from hedge fund managers' positions will be permitted and no additional leverage will be added at the fund of funds level.
4. <u>Quantitative Risk</u> – Hedge Funds are exposed to a number of quantifiable market risks.	Quantitative risks in the hedge fund portfolio will be measured and managed through the use of a risk measurement system(s). Risk will be evaluated at both the manager level and portfolio level to maintain a program that continues to operate within this policy (e.g., beta and volatility levels). The system(s) will be used to identify unintentional risks in the portfolio which can be reduced through diversification and to identify portfolio changes which would reduce risk while maintaining program objectives. Other risk analyses to be used include scenario analysis to determine how the portfolio might behave in certain unfavorable market environments, and value-at-risk type analysis to identify the potential for losses in severe downside cases.

5. Operational Risk – Hedge Fund investments are in separate legal structures such as limited partnerships. Therefore, there is additional operational risk that can arise when assets leave LACERA's custody.	LACERA is to invest only in hedge funds where an operational due diligence review determines that the funds' control and compliance environments are sufficient for investment. LACERA will only invest in funds that are administered and custodied by independent third parties and audited by reputable third parties. The valuation policies of the hedge funds will be reviewed periodically to make sure that they are sufficiently strong.

Revised: December 10, 2014
Revised: November 19, 2014
Revised: November 20, 2013
Revised: November 13, 2012
Adopted: June 8, 2011

ATTACHMENT G

COMMODITIES INVESTMENT POLICY

LACERA has made an allocation to commodities in order to diversify its portfolio. Commodities have historically exhibited low correlation with stocks and bonds, so an investment in commodities is expected to reduce the risk of LACERA's total fund. A secondary benefit of investing in commodities is that they are positively correlated with inflation, so they can provide an inflation hedge.

Investment Approach

LACERA employs commodities managers to implement diverse, risk-controlled active strategies that are expected to deliver consistent out-performance relative to the commodities benchmark. For example, managers have the discretion to execute futures rolls at the most opportune time. They also have the flexibility to invest collateral in a portfolio of fixed income securities expected to outperform the 3-month T-Bill assumed in the index.

LACERA implements its commodities exposure by employing active management strategies and expects the commodities composite to outperform its benchmark, net of fees, over rolling five-to-seven year periods. Targets for expected return and risk are:

Excess return over benchmark: 50 – 100 bps

Tracking error relative to benchmark: 3% - 4%

Benchmark

LACERA's benchmark for commodities market performance is the Bloomberg Commodity Index – Total Return (Index). This Index consists of futures contracts on physical commodities across the energy, metals, agriculture, and livestock markets. The Index construction rules manage diversification, risk and liquidity by imposing minimum and maximum sector weights.[1]

Derivatives Use

The Index is comprised of futures contracts for physical commodities. The Index weights are based on liquidity and the market value of each commodity produced. LACERA's managers will use derivatives in order to gain exposure to this Index, and <u>at no time will the managers take physical delivery of commodities.</u>

LACERA's managers will invest in derivatives such as futures, swaps, and options to gain exposure to commodities markets. The managers may also employ derivatives to manage the underlying collateral (a portfolio of fixed income securities). All managers investing in derivatives must comply with LACERA's Derivatives Investment Policy, for which risk management is the primary objective.

[1] Index rules ensure that related commodities within a single sector (e.g., energy) constitute no more than 33% of the index at its annual reconstitution. Also, no single commodity may constitute less than 2% or more than 15% of the index.

Tobacco Policy
Investment managers should refrain from purchasing tobacco securities when the same investment goals concerning risk, return and diversification can be achieved through the purchase of another security.

Sudan Policy
Investment managers should refrain from purchasing securities where the company has been identified as doing business in Sudan or with the government of Sudan, when the same investment goals concerning risk, return and diversification can be achieved through the purchase of another security.

Iran Policy
Investment managers should refrain from purchasing securities where the company has been identified as doing business in Iran's energy sector or with the government of Iran, when the same investment goals concerning risk, return and diversification can be achieved through the purchase of another security.

Revised: November 19, 2014
Reviewed by Committee on 9-10-14
Reviewed: November 20, 2013
Revised: November 13, 2012
Revised: January 12, 2011
Revised: September 9, 2009
Adopted: September 12, 2007

LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION
SAMPLE INVESTMENT GUIDELINES FOR
COMMODITIES MANAGERS

Benchmark

Bloomberg Commodity Index - Total Return (Index)

Investment Objective

To outperform the benchmark over a full market cycle, in accordance with specific target ranges for annualized excess return and tracking error.

Permitted Investments

Commodities managers will invest in a diversified basket of commodity derivatives. Underlying collateral will be invested primarily in short-term fixed income instruments.

The following is a partial list of eligible investments.

Commodity Exposure

- Futures
- Swaps
- Forwards
- Options

Collateral Management

- Money Market Instruments
- Government and Agency Obligations
- Municipal Securities
- Corporate Securities
- Inflation-Linked Securities
- Asset Backed Securities
- $-Denominated Foreign Bonds
- Emerging Market Debt (Hard and Local Currency)
- Bonds Denominated in a Foreign Currency

The list will evolve over time, and specific limitations will be placed on each manager, depending on that manager's expertise. In addition, subject to prior approval by LACERA, investment in a manager's sector-specific commingled funds is permitted.

Concentration Limits/Diversification

Depending on the mandate, maximum exposures will be established for:

- Permitted Investments
- Sector and Individual Commodity Weights
- Cash/Cash Equivalents
- Industry
- Issue/Issuer

- Non-U.S. Assets
- Currency

Fixed Income Duration Management
The portfolio's average duration will be one year or less.

Fixed Income Credit Quality
The portfolio will invest only in securities with the minimum credit qualities listed below at the time of purchase.

Minimum Average Portfolio Quality:	A Rating
Minimum Short-Term Security Rating:	A2/P2
Minimum Issue Quality:	BBB- Rating

In the event that the portfolio holding is downgraded and no longer meets the aforementioned credit quality criteria, Manager will be required to promptly notify LACERA of the downgrade in writing. Manager shall make every effort to liquidate the security within **nine** months. An update of the conditions of the credit, as well as hold/sell recommendation, shall be sent to LACERA on a monthly basis. On a case-by-case basis, LACERA may extend the holding period of a non-credit quality compliant security.

Derivatives
Any use of derivatives must at all times be consistent with LACERA's Derivatives Investment Policy.

Commodities: All exposure must be obtained via derivatives. Under no circumstances will LACERA take actual delivery of physical commodities. Short positions are allowed for spread trades; however, the overall portfolio must be 100% fully invested at all times.

Fixed Income: Derivatives will be used primarily to hedge interest rate, credit, or currency risk. Under no circumstances will the combination of physical bonds and derivative positions change the characteristics of the portfolio so that it violates any guidelines set forth in the Statement of Investment Guidelines and/or LACERA’s Derivatives Investment Policy.

Counterparties for non-exchange traded derivatives (e.g. swaps and over-the-counter options) must be rated at least A3/A- by Moody’s or S&P. If a counter-party is downgraded below A3/A-, Managers must notify LACERA staff promptly.

Leverage
Under no circumstances, may the portfolio be leveraged.

Tobacco Policy
Manager should refrain from purchasing tobacco securities when the same investment concerning risk, return, and diversification can be achieved through the purchase of another security. Consequently, if two investments have identical risk/return characteristics, manager

shall purchase the security with no tobacco business. Otherwise, manager shall select the security expected to provide the most value added.

Sudan Policy

Investment managers should refrain from purchasing securities where the company has been identified as doing business in Sudan or with the government of Sudan, when the same investment goals concerning risk, return and diversification can be achieved through the purchase of another security.

Iran Policy

Investment managers should refrain from purchasing securities where the company has been identified as doing business in Iran's energy sector or with the government of Iran, when the same investment goals concerning risk, return and diversification can be achieved through the purchase of another security.

Investment Policy Amendments

If any item, guideline, or constraint within this statement of guidelines and objectives proves to be too restrictive in practice, it will be the responsibility of the Manager to prepare a modification and/or amendment to the specific item in writing for consideration by LACERA.

Revised: November 19, 2014
Reviewed by Committee on 9-10-14

LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION

STATEMENT OF INVESTMENT POLICY
FOR
DERIVATIVES – EXTERNAL MONEY MANAGERS

JULY 27, 2005

This Policy is effective immediately upon adoption and supersedes all previous policies pertaining to the use of investment derivatives by external money managers.

I. PURPOSE

This document sets forth the investment policy ("the Policy") for the permitted circumstances, parameters, and requirements for the use of Investment Derivatives by External Money Managers ("the Program"). The design of this Policy ensures that investors, managers, consultants, or other participants selected by the Los Angeles County Employees Retirement Association ("LACERA") take prudent and careful action while managing the Program. Additionally, use of this Policy provides assurance that there is sufficient flexibility in controlling investment risks and returns associated with the use of <u>derivative</u> instruments.

II. STRATEGIC OBJECTIVE

Facilitating risk management while managing the cost of investing in publicly-traded securities is the strategic objective of this Policy. The growth of derivative instruments worldwide facilitates the investment process. For the purposes of this document a "derivative instrument" is defined as an instrument that derives its value, usefulness, and marketability from an underlying instrument which represents direct ownership of an asset or a direct obligation of an issuer (i.e., a "<u>spot</u>" or <u>cash market</u> instrument).

LACERA retains external money management firms ("Managers") for the express purpose of investing in publicly-traded U.S. and Non-U.S. securities. LACERA is a long-term investor; therefore, Managers shall manage assets for the generation of long-term gains from investments, principally in cash market positions, stocks, and bonds. However, as a significant global institutional investor, LACERA is positioned for taking advantage of derivative instruments to ensure the overall performance objective is achieved as specified.

III. RESPONSIBILITIES AND DELEGATIONS

A. **LACERA's Board of Investments** ("the Board") is responsible for approving and amending the Policy and delegating responsibility for administering the Policy to LACERA's Investment Staff. In addition, the Board is responsible for approving Statements of Investment Policy for each asset class or program that incorporates the use of derivatives.

B. **LACERA's Investment Staff** ("the Staff") shall review written policies and procedures of the Managers concerning derivatives use. The Staff shall monitor reports from the Managers and LACERA's custodian at least quarterly to ensure derivative use is in compliance with this Policy. The Staff shall monitor the use of derivatives by Managers to interpret if any violation has occurred.

The Staff shall monitor the investment performance results of the Managers to ensure that any derivative use does not have a long-term deleterious effect on the Portfolio.

C. The **Managers** received investment discretion under their contracts with LACERA subject to their investment management guidelines. LACERA delegates to Managers the execution of derivatives transactions under this Policy, subject to Section VI.F. of this document. If Managers do not comply with this Policy, LACERA prohibits their use of derivatives. Nothing in this Policy supersedes the Managers' legal obligations to LACERA contained in their investment management contracts.

IV. BENCHMARK

Not applicable.

V. DERIVATIVE STRATEGIES

Four basic strategies can be implemented through the use of derivatives. Of these four strategies described below, only substitution, risk control and arbitrage are permitted; <u>speculation</u> is prohibited.

A. **Permitted:**

1. **Substitution**: When the characteristics of the derivative sufficiently parallel those of the cash market instrument, the derivative may be substituted on a short-term basis for the cash market instrument, or on a longer-term basis to avoid withholding taxes. This strategy is particularly useful when investing cash flow or liquidating investments, as the derivative can be used to manage more precisely the market entry and exit points. Derivatives will also be held as a substitute in those cases where investing in the underlying asset is not practical (e.g. commodities).

2. **Risk Control:** When characteristics of the derivatives instrument sufficiently parallel those of the cash market instrument, an opposite position in the derivative can be taken from the cash market instrument to alter the exposure to or the risk (volatility) of the cash instrument. This strategy is useful to manage risk without having to sell the cash

instrument. Sometimes referred to as 'hedging', the use of derivatives in this context means that there is at least a 95% correlation in price movement between the cash market or instrument and derivative instrument over a rolling three-year period. For currency overlay managers, the 95% correlation refers to the correlation between the proxy basket of currencies and the underlying portfolio.

3. **Arbitrage:** The strategy of a simultaneous purchase and sale of like or similar securities to take advantage of price discrepancies with the goal of making profits.

B. **Prohibited:**

1. **Speculation:** When the characteristics of the derivative are the sole reason for its purchase or sale where an underlying naked cash position is taken in the portfolio. This strategy also implies the leveraging of the portfolio, which may create an obligation of value in excess of the value of that portfolio.

VI. GENERAL REQUIREMENTS AND RESTRICTIONS

A. Each external manager shall prepare, maintain, and periodically review a written derivatives policy that describes the following information:

1. Specifies the philosophy and prescribed use of derivatives for client accounts:
2. Establishes limits to derivatives exposure within a client account expressed in terms of percentage of notional amount of derivatives exposure as a percent of market value;
3. Establishes a standard of care concerning the following areas:
   a. Back office and systems capabilities,
   b. Internal audit and review of derivatives use,
   c. Separation of responsibilities,
   d. Senior management supervision,
   e. The required expertise of those permitted to engage in the use of derivative, and
   f. The authority of those permitted to use derivatives.
4. Establishes and describes the following criteria:
   a. The accounting and valuation procedures in the use of derivatives,
   b. The counter-party exposure credit limit policy,
   c. The value-at-risk analysis regarding the impact to a client's portfolio caused by the use of derivatives,

d. Reconciliation procedures with the client's master custodian bank,

e. Reporting requirements to clients, and

f. The frequency of the policy review and the name of individuals conducting the review.

5. Establishes and describes the monitoring procedures for the following issues:

a. Policy implementation, and

b. Risk exposures

6. Describes the compensation of traders, portfolio Managers, and other individuals involved in the use of derivatives to avoid inappropriate, fraudulent, or non-compliant behavior; and

7. Specifies the periodic review of the written derivatives policy.

B. Managers shall mark-to market derivatives positions daily.

C. Managers shall use a daily pricing source for valuing derivative positions.

D. Managers shall reconcile daily cash and margin positions with LACERA's master custodian bank.

E. Any derivative transaction, which results in the leveraging of the portfolio, is strictly prohibited.

F. Only the Managers' investment guidelines can confer authorization to use derivatives, which is included as part of its contract with LACERA. If derivative use is authorized, then this Policy applies.

G. Any derivative transaction, or any action concerning derivatives not expressly permitted in this Policy, is prohibited unless singularly approved by LACERA's Chief Investment Officer or his/her designee. Managers shall request approval for any policy exception from the Staff, who will seek the appropriate determination.

H. Each Manager shall make available to LACERA's Chief Investment Officer or his/her designee, copies of any policy regarding derivatives it maintains which is applicable to the management of LACERA's account, including those policies required by this Policy.

I. While the use of options is permitted as expressed, there may be times when simultaneous, but opposing options positions may be taken by a manager. An example of this occurs when a call option is written so that the premium income received is then used to finance the purchase of a put option. When these simultaneous transactions result in a risk controlling or cost controlling impact to LACERA's portfolio, then they will be permitted.

VII. TYPES OF RISKS

A. **Market Risk –** Managers shall have systems, procedures, and, if necessary, models to assess the market-related risks to the price behavior of the derivative instruments held in the portfolio, and the impact of market-related risk on the value of the portfolio managed for LACERA.

B. **Credit Risk –** Managers shall have available for inspection credit policies which are applicable to their derivative use. Credit risk analysis must assess the current replacement cost of the transaction of a counter-party default and estimate the replacement cost if the counter-party were to default at some future point during the derivatives exposure period.

C. **Liquidity Risk –** To minimize liquidity risk, the potential derivatives transaction shall be reviewed and supported by at least two market makers.

D. **Cash Flow Risk –** To minimize the cash flow requirements of LACERA, especially in the currency overlay program, Managers shall make use of master netting agreements and have systems in place to monitor when unrealized losses exceed unrealized gains in connection with derivatives transactions.

E. **Basis Risk –** To minimize basis risk, the price movement correlation of the derivative and the underlying cash market or instrument which represents the deliverable instrument must be at least 95% over a rolling three-year period. For currency overlay managers, the 95% correlation refers to the correlation between the proxy basket of currencies and the underlying portfolio.

F. **Legal Risk** - To minimize legal risk, Managers are prohibited from engaging in derivative transactions where such transactions are unenforceable under the laws of the governing jurisdiction. Managers are required to maintain sufficient documentation to enable enforceability of a claim arising from a derivatives transaction and may only engage in derivative transactions when there exists sufficient authority or capacity to do so. Where reasonable, Managers at their own expense shall engage appropriate legal counsel expert in the laws of the governing jurisdiction to protect the interests of LACERA in the use of derivatives.

G. **Settlement Risk –** To minimize settlement risk, master payment netting agreements shall be used where feasible and enforceable for payment in the same currency. Cross currency settlement risk shall be minimized by avoiding the use of spot and short-dated forward trades simultaneously.

H. **Operational Risk –** To minimize operational risk, Managers shall have sufficient internal controls to minimize derivative losses due to errors or omissions. These internal controls shall include the following:

1. Oversight of informed and involved senior management.
2. Documentation of policies and procedures, listing approved activities and establishing limits and exceptions, credit controls and management reports.
3. Independent risk management function, separate from the portfolio management function, or appropriate checks and balances to ensure proper risk management.
4. Independent internal and external audits to verify adherence to the firm's policies and procedures.
5. Back office support with sufficient technology and systems for handling confirmations, documentations, payment, margin levels and accounting and reporting.
6. A system of independent checks and balances throughout the derivatives transaction process from initiation of trade to final settlement.

VIII. COUNTER-PARTY REQUIREMENTS

A. Each Manager shall prepare, maintain, and periodically review a counter-party credit policy for non-exchange-traded derivatives, meeting the following standards:

1. Outlines acceptable credit standards a counter-party must meet.
2. Outlines how a counter-party will be evaluated against those standards.
3. Specifies the individuals within the firm responsible for evaluating counter-party creditworthiness.
4. Specifies a list of approved counter-parties with credit exposure limits.
5. Outlines the frequency of review of counter-parties for the approved list.
6. Outlines procedures for enforcing the counter-party credit policy.
7. Provides for the independent audit of credit policy procedures to ensure compliance.
8. Requires the separation of trading (dealing) activity responsibilities from credit approval and review responsibilities and provides for a separate risk management function within

the firm, or an appropriate sets of checks and balances to ensure proper risk management.

9. Outlines restrictions against the use of counter-parties requiring credit enhancement to establish acceptable creditworthiness.

10. Outlines appropriate internal reporting and control requirements for the management of counter-party risk exposure.

11. Specifies periodic review of the written counter-party credit policy.

B. Counter-party creditworthiness shall equal an "investment grade" of "A3" as defined by Moody's Investor Service or "A-" by Standard & Poor's. The use of counter-parties holding a split rating with one of the ratings below A3/A- is prohibited. Managers shall notify LACERA if a counter-party is downgraded below A3/A- while an instrument held in portfolio is outstanding with that counter-party. The use of unrated counter-parties is prohibited unless the counter-party has an explicit and legal guarantee from its parent company and the parent company meets LACERA's credit rating requirements.

C. Individual counter-party exposure, including LACERA's Custodian, for non-exchange traded derivatives is limited to 33% of the notional amount of the derivative exposure of the portfolio being managed for LACERA. An exception is allowed if the total derivative exposure in the portfolio is less than $100 million. Where netting agreements approved by LACERA's Chief Investment Officer or his/her authorized designee are in place with the counter-party, only the net amount applies toward the $100 million limit.

D. Any entity acting as a counter-party shall be regulated by the appropriate financial regulatory body of at least one of the countries included in the MSCI World Index.

E. The Manager shall, where applicable and enforceable, use <u>master agreements</u> permitting the <u>netting</u> of counter-party of exposure to minimize credit risk.

F. LACERA's Chief Investment Officer or his or her designee may request an adjustment of the counter-party exposure, as LACERA manages its overall counter-party exposure.

IX. PERMITTED AND RESTRICTED INSTRUMENTS

The derivative instrument market is evolving and new instruments are created constantly. Rather than list each derivative, classes of derivatives will be described below, and **may only be used by Managers with guideline authority to do so**.

A. **Futures Contracts –** Stock index futures, bond futures, swap futures, commodity futures, and currency futures contracts which are Commodities and Futures Trading Commission (CFTC) – approved are permitted when the Manager has permission to invest in the underlying or deliverable cash market instrument.

B. **Options –** Stock index options, interest rate options, options on stocks, bonds, and swaps, options on futures and currency options are permitted for use by Managers who have permission to invest in the underlying or deliverable cash market instrument or whose mandate is to overlay a designated portfolio of deliverable cash market instruments.

C. **Currency Forward Contracts –** Currency forward contracts are permitted for use by Managers who have permission to invest in the underlying or deliverable cash market instrument or whose mandate is to overlay a designated portfolio of deliverable cash market instruments. FX transactions may occur between foreign currencies (cross currencies) when made in anticipation of future sales or purchases of securities or when consistent with the Manager's currency management guidelines.

D. **Swaps –** Swaps which provide for the receipt of the interest rate or the rate of return of the permitted cash market instrument are allowed**.**

E. **Structured Notes –** Structured notes (such as, but not limited to, inverse floaters) and mortgages are not considered derivatives for the purposes of this Policy, and are prohibited, unless expressly permitted by the Manager's investment guidelines included in its contract with LACERA.

F. **Warrants –** Purchasing warrants separately is prohibited; however, warrants are permitted when attached to securities authorized for investment.

G. **Credit Default Swaps –** The purchase and sale of single name and basket/index credit default swaps is allowed, if expressly permitted in the Manager's investment guidelines included in its contract with LACERA. In no case may credit default swaps be used to lever the portfolio.

X. LISTING REQUIREMENTS

Derivatives, which are future contracts, shall be CFTC-approved and exchange-traded. Options may either be exchange-traded or traded over-the-counter (OTC). If the derivative is traded over-the-counter, then manager shall strictly adhere to the counter-party guidelines.

XI. CRITERIA FOR NEW DERIVATIVES

Use of any new derivatives shall only occur upon written authorization of LACERA's Chief Investment Officer or his/her authorized designee. New derivatives instruments subject the investor to three types of risk:

A. Objective pricing risk

B. Legal risk

C. Liquidity risk

Because most derivative instruments are traded under unregulated circumstances, a "common law" practice shall prevail. Before use of a new derivative, at least two market makers shall review and support it. The two market makers shall have adequate capitalization, exemplary reputations in the marketplace, and creditworthiness equivalent to "investment grade" of "A3" as defined by Moody's Investor Service or "A-" by Standard and Poor's. The benefits of two market makers include competitive pricing, a minimum number of market participants to create "commonly accepted practices and requirements" for a new derivative, and a minimum degree of liquidity to support institutional use. The derivative must be linked to a pre-existing permissible cash market or instrument, which can be used for delivery.

XII. REPORTING REQUIREMENTS

Managers shall prepare a monthly report for LACERA outlining the following information:

A. The derivatives and the counter-parties used and the market value, cost-value, gain or loss, notional exposure, and amount of exposure;

B. A description of the strategy and expected outcome of the derivative use; and

C. The value-at-risk analysis regarding the impact to LACERA's portfolio caused by the use of derivatives.

XIII. OPERATIONAL REQUIREMENTS

Managers shall comply at all times with the operational requirements of LACERA and its Custodian.

Reviewed: November 19, 2014
Reviewed: November 20, 2013
Revised: November 13, 2012
Revised: January 12, 2011

ATTACHMENT I

PRIVATE EQUITY INVESTMENT POLICY

LACERA seeks to maintain a diversified portfolio of private equity investments in order to obtain the highest total return for the Fund at an acceptable level of risk within the equity asset class. The private equity investment sub-asset class is comprised of investment opportunities not included in the traditional asset class definitions for equities, fixed income, and real estate. Consistent with LACERA's policy of producing a long-term total return by way of prudent risk taking within the context of overall portfolio diversification, it is LACERA's policy to evaluate and consider all reasonable investment opportunities, subject to "prudent expert" standards. In comparison to the "traditional" asset classes, private equity investments are characterized by the following:

- Long term, higher expected returns than liquid equities.
- Increased levels and types of risk due to unique aspects of this sub-asset class.

To mitigate the increased risk and unique complexity of these investments, LACERA recognizes that the use of specialized investment resources is required to identify, select, implement, and monitor these investment strategies.

Return Objectives

The target return for this asset class will be measured by IRR (Internal Rate of Return), with an annualized return of 300 - 500 basis points over a public market index, such as the Russell 3000, over a 10 year time frame. This objective will be net of all partnership and advisor fees.

Additionally, where information is available for each sub-asset class, LACERA will measure returns against top quartile performance numbers for vintage year funds, as provided by a third party source such as Venture Economics. This will be another measure of the program’s success for the asset class, as it will allow LACERA to measure the ability to gain access to top performing general partners.

Risk Management

Counterbalancing the potential for increased returns, private equity investment strategies generally entail a greater level and number of unique risks. It is LACERA's policy that risks particular to a private equity investment strategy be identified and understood to enable the implementation of appropriate measures to mitigate such risks. In general, the typical types of risks and LACERA's policy for mitigation can be summarized as follows:

UNIQUE INVESTMENT RISK	METHOD OF MITIGATION
1. Illiquidity – Illiquidity can result from the form of the asset or security itself or it can be a function of the investment vehicle, i.e., a limited partnership.	Notwithstanding the fact that illiquidity is generally a necessary characteristic of a private equity investment strategy and a source of the expected return premium, LACERA will ensure that each private equity investment provides for the maximum liquidity practical through utilization and structure of an appropriate investment vehicle. LACERA will utilize the secondary market to opportunistically mitigate some of the illiquidity inherent in the asset class.
2. Volatility – The increased volatility of most private equity investments is a result of either the concentrated focus of the investment strategy or the use of leverage, and/or the inclusion of derivatives.	LACERA will mitigate the total volatility of its private equity investment portfolio by implementation of appropriate investment guidelines and criteria through sufficient diversification – both within a particular strategy and by utilizing multiple investment strategies.
3. Lack of Public Information – The private nature of most private equity investments makes obtaining unbiased, reliable information for analysis of potential investments and valuation of the performance of executed investments more difficult.	LACERA will employ the appropriate resources (e.g., specialized advisors, databases, etc.) as needed to assist Staff and the Board in evaluation of potential investments and to establish appropriate procedures to monitor interim performance and assess valuations of the private equity investment portfolio.

Recognizing that, generally, private equity investment strategies require special knowledge and expertise, LACERA will employ one or more specialized advisors as needed to assist Staff and the Board in the development and implementation of the private equity investment program. In addition, a Statement of Objectives, Policies and Procedures and an Investment Plan will be presented to the Board of Investments each year for their approval. The Statement of Objectives, Policies and Procedures is policy-oriented with a long-term focus on risk minimization. It delineates investment objectives, guidelines, and the responsibilities of Staff, advisor(s), and the General Consultant, and provides the definition of Private Equity. This is in contrast to the Investment Plan which is investment selection-oriented with a near-term focus on return maximization.

Revised: November 19, 2014
Reviewed by the Committee on 8-13-14
Revised: November 20, 2013, Revised: November 13, 2012

ATTACHMENT J

REAL ESTATE INVESTMENT POLICY

LACERA seeks to maintain a diversified portfolio of equity-oriented real estate investments to diversify against other asset classes and to enhance overall fund returns. Investment decisions regarding the real estate portfolio shall be guided by the objectives of:

- Hedge against unanticipated inflation.
- Maximize cash distribution and income.
- Achieve a total return commensurate with the risk.
- Maintain a broad diversification of assets and managers.
- Improved fund diversification due to anticipated low correlation of returns with other asset classes.

To mitigate the increased risk and unique complexity of these investments, LACERA recognizes that the use of specialized investment resources is required to identify, select, implement, and monitor these investment strategies. LACERA has established Real Estate Objectives, Policies and Procedures which govern investment activity in this asset class. This is complimented by an Annual Investment Plan establishing the investment parameters for each fiscal year.

Return Objectives

The overall return objective for the equity real estate portfolio is to exceed the National Council of Real Estate Fiduciaries (NCREIF) Fund Index (NFI) Open-end Diversified Core Equity Index (ODCE) plus 40 basis points net of investment manager fees, measured over rolling five-year periods. Specific return objectives will also be established for each separate investment strategy reflecting the appropriate level of return for the risks taken.

Risk Management

Investment risk associated with real estate investing shall be managed and mitigated by employing a diversification strategy and a commitment to thoroughly evaluate and retain managers which will acquire, manage and dispose of all real estate investments with thorough due diligence. LACERA will seek to diversify its real estate portfolio by property type, economic/geographic location and manager. Risk shall be further mitigated and controlled by strict adherence to the investment procedures established.

All real estate investments shall be underwritten, managed and disposed of by a qualified investment real estate manager which has an established, successful record of providing advisory services to institutions, and is deemed able to deliver similar services in the future. A manager's acquisition, management and disposition of real estate investments will be guided by the "prudent expert" standard.

LACERA recognizes the following additional risks and will make every effort to mitigate these risks as outlined below:

INVESTMENT RISKS	METHOD OF MITIGATION
1. Market Inefficiency - The private real estate equity marketplace is very fragmented and most transactions are negotiated on a case by case basis. There are no market makers or exchanges which facilitate trades.	LACERA's policy is to utilize proven expert real estate managers to advise the fund on individual investments. Expert legal counsel is employed to assist with transaction documentation. Investment and reinvestment in real estate is gradual, allowing for ongoing market activity.
2. Liquidity - Real estate investments have limited liquidity. Private real estate investments are not traded on exchanges or by any other rapid transaction facilitator. Trading of the investments is done on an investment by investment basis and often takes three to six months to execute.	LACERA does not intend to utilize the real estate equity portfolio to satisfy liquidity needs. The structures used in the real estate investment activity will emphasize retaining maximum control over each investment by LACERA. LACERA will frequently revisit each investment's "saleability" and will proactively manage each investment so as to preserve its marketability. (Note: LACERA will limit use of structures that restrict control over the investment(s), such as commingled funds.)
3. Liability - Ownership of real property presents both property and liability related risks to LACERA.	It is LACERA's policy to insure against most property and liability risks. Liability resulting from environmental conditions shall be mitigated by thorough investigation prior to acquiring each asset. LACERA shall decline to purchase properties which have environmental conditions that do not permit reasonable remediation or quantifiable and acceptable risks.

Revised: November 19, 2014
Review by R/E Committee: August 13, 2014
Revised: November 20, 2013
Revised: November 13, 2012
Revised: January 12, 2011
Revised: March 11, 2009

REAL ESTATE: RESPONSIBLE CONTRACTOR POLICY

Purpose

The Responsible Contractor Policy (the "Policy") of the Los Angeles County Employees Retirement Association ("LACERA" or the "Fund") is designed to guide, in a manner consistent with the Fund's fiduciary duties, the Fund's real estate investment advisers and other participants in the process of selecting contractors to provide building operations services and construction services to the real estate properties owned by the Fund.

The Policy seeks to ensure that such contractors will be selected based upon demonstrated ability to provide high quality services, and thereby enhance the value of LACERA's real estate investments, as evidenced by their experience, reputation, responsiveness, fees and dependability, and further by their record of compliance with applicable statutes and payment of fair compensation and benefits to employees.

Introduction

LACERA supports and encourages fair compensation and fair benefits for workers employed by its contractors, subject always, however, to the Fund's overriding fiduciary duties to LACERA's participants and their beneficiaries, which duties take precedence over any other duty, including any duty or obligation established by this Policy.

The LACERA Board of Investments hereby adopts the Responsible Contractor Policy described herein in order to support and encourage the engagement of contractors who can be expected to provide high quality services to LACERA properties, utilizing properly-trained and fairly-compensated employees, subject always to LACERA's fiduciary duties, including loyalty, care, skill, prudence and diligence, which require evaluation of expected investment returns and risk of loss when awarding contracts with respect to LACERA's assets.

Utilization of responsible contractors adds value to the investments by ensuring that essential building operations services and construction services are provided by adequately-trained, experienced, and motivated workers. An adequately compensated and trained workforce can be expected to deliver a higher quality product and service. Therefore, LACERA supports a healthy and profitable business environment through market competition, small business development and control of operating costs.

Definition of Responsible Contractor

A Responsible Contractor is a contractor who: (1) has the appropriate experience, reputation, employee relations, responsiveness, fees and dependability to perform the required work; and (2) provides workers fair compensation and fair benefits, for the required work, based on market conditions.

Basic Requirements of the Responsible Contractor Policy

- Fiduciary Duties take Precedence - Notwithstanding any other considerations, LACERA's assets shall be diligently and prudently invested and managed in accordance with the Fund's fiduciary duties, in the sole interest of plan participants and their beneficiaries, and for the exclusive purpose of providing benefits to its participants and their beneficiaries. LACERA's duties, and the duties of its advisers, to LACERA's participants and their beneficiaries shall take precedence over any other duty.

- Competitive Rate of Return - LACERA seeks to have its real estate investments managed and operated in a manner that is expected to produce a competitive rate of return for its participants and beneficiaries at an acceptable level of risk.
- Legal Compliance - LACERA seeks to have all LACERA contractors comply with all applicable federal, state and local laws, regulations and ordinances, including (but not limited to) those related to insurance, withholding taxes, minimum wage, health and safety and environmental matters.
- Non discrimination - LACERA shall give equal consideration to minority controlled firms, firms owned and controlled by women, and ventures involving those same firms, that meet the selection criteria for contractors and service providers.

Preference for Responsible Contractors
Provided the basic requirements in the foregoing section have been satisfied LACERA expresses a strong preference that Responsible Contractors be hired, in accordance with this Policy.

Administration, Monitoring and Enforcement

- Applicable Contracts - This Policy applies to all contractors and subcontractors who provide building operations services and construction services to real estate properties that are wholly owned by LACERA either directly or indirectly through subsidiary entities. The contractors and subcontractors shall use their best efforts to comply with this Policy. This Policy does not apply to real estate properties in LACERA's portfolio that are not wholly owned by LACERA either directly or indirectly.
- Notification - All current and prospective real estate advisers shall be provided with a copy of this Policy.
- Contract Solicitation - All requests for proposals and invitations to bid applicable contracts covered by this Policy shall be made in accordance with the terms of this Policy.
- Contracts and Contract Renewals - All contracts and contract renewals entered into after the effective date of this Policy shall include applicable provisions of this Policy. Minimum Contract Size - This Policy shall apply to all contracts valued at $25,000 or more. Contract value refers to the total project work to be contracted for with desegregation by trade or task. Desegregation designed to evade the requirements of this Policy shall not be permitted.
- Reporting - All advisers and contractors shall collect and retain adequate data documenting their compliance with this Policy and shall be prepared to produce such data for review upon request. LACERA staff shall produce periodic reports to LACERA's Board of Investments, when non-compliance with this Policy is identified.

- Definition of Fair Wages and Benefits - This Policy does not mandate any strict definition of fair wages and benefits. This Policy recognizes and considers in the determination of fair wages and benefits indicators such as local wage practices, state law and labor market conditions, as well as prevailing wages.
- Neutrality - Where there is a legitimate attempt by a labor organization to organize workers employed in the construction, maintenance, operation and services to a LACERA property, LACERA encourages a position of neutrality.
- Enforcement - LACERA shall place any adviser or property manager who fails to comply with this Policy on a probation list. In reviewing adviser and property management contracts for renewal, LACERA shall take into consideration the failure of any LACERA adviser or property manager to comply with this Policy.

DUTIES OF RESPONSIBLE PARTIES

Responsibilities of the LACERA staff shall include:

- Review of the real estate advisers' annual reports regarding compliance with this Policy.
- Furnish periodic reports to LACERA's Board of Investments, as requested, on each adviser's compliance with this Policy, and make recommendations as needed for action to correct any pattern of non-compliance.

Responsibilities of the adviser shall include:

- Communicate this Policy to property managers of LACERA properties and to managers of LACERA's real estate investment vehicles and request them to implement it.
- Maintain a simplified bid summary for each applicable contract. The summary should include identification of the contract's successful bidder and the bidder's status as a Responsible Contractor.
- Provide an annual report to LACERA staff describing actions taken by such adviser to comply with this Policy, including those taken by property managers and their subcontractors.
- Monitor and enforce compliance with this policy, including reasonable investigation of potential violations.

Responsibilities of the property manager shall include:

- Communicate this Policy in all bid documents seeking to secure construction or building service contracts subject to this policy.
- Provide to adviser property level annual reports regarding compliance with this Policy.
- Provide to advisers, for each LACERA property under management, a list of contracts subject to this Policy.

- Maintain a list of Responsible Contractors utilized at each LACERA Property.

Responsibilities of contractor shall include:

- Provide the property manager with Responsible Contractor documentation.
- File with the property manager reports, certifications and other forms as required by LACERA or the manager relating to this Policy.

Revised: November 19, 2014
Reviewed by R/E Committee: August 13, 2014
Reviewed: November 20, 2013
Revised: November 13, 2012
Adopted: December 11, 2002

LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION

PLACEMENT AGENT POLICY

Investment managers in both the public and private markets use placement agents to help them raise capital. The purpose of this Policy is to bring transparency to placement agent activity in connection with LACERA's investments and to help ensure that all investment decisions are made solely on their merits and in a manner consistent with the fiduciary duties of LACERA's Board of Investments (the "Board").

Prior to LACERA investing with any External Manager[1], Investment Staff shall obtain a written representation from the External Manager, in a form acceptable to the Legal Office, stating that the External Manager has not used a Placement Agent[2] in connection with LACERA's

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[1] As defined in California Government Code section 7513.8 "External Manager" means either of the following: (1) a Person who is seeking to be, or is, retained by a board or an Investment Vehicle to manage a portfolio of securities or other assets for compensation; (2) a Person who manages an Investment Fund and who offers or sells, or has offered or sold, an ownership interest in the Investment Fund to a board or an Investment Vehicle. (All code section references are to the Government Code, unless otherwise noted.)

As defined in section 7513.8, "Person" means an individual, corporation, partnership, limited partnership, limited liability company, or association, either domestic or foreign.

As defined in section 7513.8, "Investment Vehicle" means a corporation, partnership, limited partnership, limited liability company, association, or other entity, either domestic or foreign, managed by an External Manager in which a board is the majority investor and that is organized in order to invest with, or retain the investment management services of, other External Managers.

As defined in section 7513.8, "Investment Fund" means a private equity fund, public equity fund, venture capital fund, hedge fund, fixed income fund, real estate fund, infrastructure fund, or similar pooled investment entity that is, or holds itself out as being, engaged primarily, or proposes to engage primarily, in the business of investing, reinvesting, owning, holding, or trading securities or other assets. Notwithstanding the preceding sentence, an investment company that is registered with the Securities and Exchange Commission pursuant to the Investment Company Act of 1940 (15 U.S.C. Sec. 80a-1 et seq.) and that makes a public offering of its securities is not an Investment Fund.

[2] As defined in section 7513.8, "Placement Agent" means any Person directly or indirectly hired, engaged, or retained by, or serving for the benefit of or on behalf of, an External Manager or an Investment Fund managed by an External Manager, and who acts or has acted for compensation as a finder, solicitor, marketer, consultant, broker or other intermediary in connection with the offer or sale to a board or an Investment Vehicle either of the following: in the case of an External Manager as defined in subpart (1) of the definition of an External Manager, the investment management services of the External Manager; in the case of an External Manager as defined in subpart (2) of the definition of an External Manager, an ownership interest in an

investment (and that a Placement Agent will not receive compensation from the External Manager if LACERA invests in the investment), or if the External Manager has used a Placement Agent (or if a Placement Agent will receive compensation from the External Manager if LACERA invests in the investment), it will disclose the following in writing, on a form prepared by Staff:

- The name of the Placement Agent and the relationship between the External Manager and the Placement Agent
- A resume for each officer, partner, or principal of the Placement Agent detailing the individual's education, professional designations, regulatory licenses, and investment and work experience
- A description of any and all compensation of any kind provided, or agreed to be provided, to the Placement Agent
- A description of the services to be performed by the Placement Agent
- Representation that the fee is the sole obligation of the External Manager and not of LACERA, the Investment Vehicle, the Investment Fund, or any investor(s) in the Investment Vehicle or in the Investment Fund
- The name(s) of current or former LACERA board members, employees, or consultants or member(s) of the immediate family of any such individual that are either employed or receiving compensation of any kind provided, or agreed to be provided, directly or indirectly from the Placement Agent
- The name(s) of any current or former LACERA Board members, employees, or consultants who suggested the retention of the Placement Agent
- A statement whether the Placement Agent, or any of its affiliates, are registered with the Securities and Exchange Commission or the Financial Industry Regulatory Association or any similar state regulatory agency, or any similar regulatory agency in a country other than the United States, and the details of that registration or explanation as to why no registration is required
- A statement whether the Placement Agent, or any of its affiliates, is registered (or is required to be registered as of a date certain) as a lobbyist with any state or national government

Any External Manager or Placement Agent that violates the Policy shall not solicit new investments from LACERA for five years after the violation was committed. However, this prohibition may be reduced by a majority vote of the Board at a public session upon a showing of good cause.

Investment Fund managed by the External Manager. Notwithstanding the preceding sentence, an individual who is an employee, officer, director, equityholder, 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.

LACERA shall not enter into any agreement with an External Manager that does not agree in writing to comply with the Policy.

In the event a Placement Agent is expected to receive compensation of any kind in connection with LACERA's investment with the External Manager, the Investment Office will notify the Board in the memorandum discussing the recommended/approved investment. If an External Manager breaches this Policy, Staff will notify the Board in a timely manner.

Reviewed: November 19, 2014

Revised November 9, 2011, effective retroactively to October 9, 2011

ATTACHMENT L

EMERGING MANAGER POLICY[1, 2]

Emerging Manager Definition
Emerging investment managers are independent firms that may not have substantial assets under management (generally, less than $2 billion) nor a long-term investment performance record (generally, less than five years). Emerging investment managers can include, but are not limited to, minority-, women- and disabled veteran-owned organizations.

Purpose and Objective
The objective of LACERA's Emerging Manager Policy (Policy) is to gain early access to smaller investment management organizations. LACERA recognizes that smaller investment management firms may generate superior performance returns because of increased market flexibility associated with smaller asset bases. The Policy provides LACERA an opportunity to identify potentially talented investment management organizations in their early business stages.

The application of this Policy to the various asset classes is discussed below.

U.S. Equity
A "manager-of-manager" strategy was selected as the most effective way to implement LACERA's U.S. equity emerging manager policy because of the resources and expertise required to effectively manage this program. The following defines the manager-of-manager's ("Manager") responsibilities:

- Maintaining an extensive emerging manager database, that meets the criteria outlined in this Policy, and continuously evaluating prospective managers.
- Retaining and terminating firms at its sole discretion based on standards for performance, assets under management and other key issues deemed critical by the Manager.
- Monitoring each emerging manager participating in LACERA's manager-of-manager program for adherence to LACERA's investment guidelines.
- The program Manager shall select emerging managers that meet the minimum qualifications listed below. (The Chief Investment Officer is authorized to approve variances from these sub-manager selection criteria on a case-by-case basis. Any waivers must be subsequently reported to the Board of Investments.)
    1. The emerging manager is a registered investment adviser under the Investment Advisers Act of 1940.
    2. No person or entity, other than the principals or employees of the emerging manager, shall own more than a forty-nine percent (49%) interest in the emerging manager.
    3. LACERA prefers emerging managers who currently comply with the performance presentation standards set forth in *Global Investment Performance Standards (GIPS)*,

[1] Emerging manager (9-13-01).doc.
[2] Adopted by the Board of Investments on June 13, 2001.

CFA Institute. If Manager selects any emerging manager who does not currently follow the GIPS of the CFA Institute, then such emerging manager must make a good faith effort to comply with such standards within **one (1) year** of hire.

4. The portfolio managers which each emerging manager assigns to manage the LACERA portfolio must have an average of at least **five (5) years** of verifiable investment experience managing portfolios containing a similar investment style as that in the Managed Assets to be allocated to such emerging manager.
5. Each emerging manager must have at least **$25 Million** of assets under management in the same investment style to be managed for LACERA before any allocation of Managed Assets to such emerging manager.
6. Each emerging manager must have no more than **$2 Billion** of total assets under direct management before being selected for the Fund.
7. Manager shall review with LACERA investment Staff the rationale for retaining any emerging manager who reaches a level of **$3 Billion** of total assets under management, inclusive of its portion of the Managed Assets, at any time during such emerging manager's participation in the Fund.
8. Each emerging manager must have direct responsibility of assets consisting of the same investment style it will manage for LACERA for at least **three (3) other** clients besides LACERA.
9. LACERA's Managed Assets must comprise no more than **forty percent (40%)** of the total assets managed by any emerging manager.
10. The assets for any single client (other than LACERA) must comprise no more than **fifty percent (50%)** of the total assets managed by any emerging manager, including all Managed Assets allocated to such emerging manager.

LACERA's investment Staff is responsible for monitoring and evaluating the performance of the Manager.

Fixed Income

U.S. fixed income emerging manager candidates may arise in two distinctive areas: more traditional fixed income and specialized non-traditional areas. The most feasible method of gaining access to fixed income emerging managers is by identifying those firms with unique investment capabilities that may potentially complement the existing portfolio structure. Examples include, but are not limited to, investment firms that specialize in non-traditional fixed income sectors or that utilize investment styles complementary to those employed by existing managers. Non-traditional fixed income sectors include, but are not limited to, convertible bonds, bank loans, private placements and international high yield securities.

For initial searches, fixed income emerging managers will be required to meet the following minimum investment criteria. Fixed income emerging managers that meet these minimum qualifications shall be considered search candidates.

- Emerging manager is a registered investment adviser under the Investment Advisers Act of 1940,or must provide adequate explanation as to why they are exempt from registration.
- No person or entity, other than the principals or employees of an emerging manager, shall own more than a **forty-nine percent (49%) interest** of the organization.
- LACERA prefers emerging managers who currently comply with the performance presentation standards set forth in the Global Investment Performance Standards (GIPS) of the CFA Institute. If the emerging manager does not currently follow the GIPS standards, then the emerging manager must make a good faith effort to comply with such standards within **one (1) year** of date of hire.
- The firm's portfolio manager(s) must have an average of at least **five (5) years** of verifiable investment experience managing portfolios containing a similar investment style as that in the LACERA Assets to be allocated to the emerging manager.
- The emerging manager must have at least **$100 Million** of assets under management in the same investment style to be managed for LACERA.
- The emerging manager must have no more than **$2 Billion** of total assets under direct management prior to selection. The emerging manager's total assets under management should not exceed **$3 Billion subsequent** to funding.
- The emerging manager must have direct responsibility for managing assets utilizing the same investment style it will manage for LACERA for at least **three (3) other** Institutional clients besides LACERA.
- LACERA's Assets must comprise no more than **thirty-three percent (33%)** of the total assets managed by the emerging manager.
- The assets of any single client (other than LACERA) must comprise no more than **fifty percent (50%)** of the total assets managed by the emerging manager.

The Board recognizes that objective investment criteria, although important, is only a small part of the manager evaluation process. Therefore, Staff and Consultant will conduct the standard due diligence review process for each manager meeting the above criteria.

Real Estate[3]

The structure and timing of capital raises may not coincide with times when LACERA has capital available for the Emerging Manager Program. Therefore, Staff will manage the ten percent (10%) allocation (10% of the Targeted Real Estate Portfolio) within the range of zero percent (0%) to twenty percent (20%) to allow for over or under weighting emerging manager exposure based on market opportunities.

An emerging manager must meet all the following requirements:

[3] Adopted by the Board of Investments on September 13, 2006.

- The emerging manager must be a registered investment adviser under the Investment Advisers Act of 1940, or must provide adequate explanation as to why they are exempt from registration
- No person or entity, other than the principals or employees of the emerging manager, shall own more than **forty-nine (49%)** interest in such emerging manager.
- If the emerging manager does not currently follow the GIPS performance presentation standards, then the emerging manager must make a good faith effort to comply with such standards within **one (1) year** of date of hire.
- The firm's portfolio manager(s) must have at least **five (5) years** of verifiable investment experience managing portfolios containing a similar investment style as that in the LACERA assets to be allocated to the emerging manager.
- The emerging manager must have at least **$100 Million** of assets under management in the same investment style to be managed for LACERA.
- The emerging manager must have no more than **$2 Billion** of total assets under direct management prior to selection.
- The emerging manager's total assets under management should not exceed **$4 Billion** subsequent to funding.

The Board recognizes that objective investment criteria, although important, are only a small part of the manager evaluation process. Therefore, Staff will conduct an on-site manager review(s) to evaluate the subjective criteria and prepare a report to the Board of Investments for each emerging manager meeting these criteria when new investment allocations are being considered.

Staff anticipates that emerging managers will benefit from the investment track record established in partnership with LACERA. As such, emerging managers and their allocations shall be reviewed periodically to determine if sufficient growth and/or track record exist to allow the firm and its investments to be transferred to an appropriate style group within the traditional Real Estate Portfolio. Such movement would be initiated by a recommendation from Staff based on one or both of the following events:

- Three-year (3) track record exceeding LACERA's return requirements.
- Total assets managed in excess of $2 billion and two-year (2) track record exceeding LACERA's return requirements.

Private Equity

The objective of the private equity Emerging Manager Program is to diversify the portfolio by partnering with investment managers that are not part of the core program, while generating performance results consistent with LACERA's private equity class return expectation—the Russell 3000 plus 300 to 500 basis points. The Emerging Manager Program will provide LACERA the ability to invest in smaller, lesser-known firms and in some cases first time funds whose general partners acquired their experience working at more established firms.

A "manager-of-manager separate account" strategy was selected as the most effective way to implement LACERA's private equity Emerging Manager Policy because of the resources and expertise required to manage this program. The following defines the manager-of-manager's ("Manager") responsibilities:

- Maintain a database of emerging managers that meet the criteria outlined in this policy, and continuously evaluate prospective managers.
- Select managers within the policy investment guidelines.
- Monitor the performance of each manager in the portfolio.
- Provide LACERA quarterly reports that include, but are not limited to, a list of funds selected, performance results of each fund with benchmark comparison, and commentary on the performance of each fund.

The following factors will be considered when selecting an emerging private equity investment:

- To reduce the risk of the emerging manager portfolio, investments will be diversified by vintage year[4] of investment, location of general partner, industry, and investment category. Investment categories include early and late stage venture capital, mezzanine financing, and leveraged buyouts.
- The minimum size of investment made shall be **$5 million**, while the maximum size of investment made shall be **$20 million**.
- LACERA's share in a single partnership, once the partnership has closed to new investments shall not exceed 10% of that partnership's total commitments from all limited partners.
- The performance objective for this program, as measured by IRR (Internal Rate of Return), will be an annualized return of 300 to 500 basis points over the Russell 3000 Index over a 10-year time frame. This objective is net of all partnership fees and expenses.
- The general partner must have demonstrated private equity expertise in sourcing deals, deploying capital, and successfully implementing exit strategies.
- The key persons of the General Partner must have at least five years of verifiable private equity expertise in sourcing deals, deploying capital, and successfully implementing exit strategies.
- No person or entity, other than the principals or employees of the emerging manager, shall own more than **forty-nine (49%)** interest in such emerging manager.
- The fund must be the General Partner's first, second, or third institutional fund.
- The fund cannot exceed **$300 million** in capital commitments if it is a venture fund or **$750 million** in capital commitments if it is a corporate finance-type or buyout fund.

Emerging Manager Qualifications for Promotional Opportunities

Opportunities for larger mandates may occur for emerging managers when, from time to time, LACERA evaluates asset class structure and/or conducts portfolio strategy reviews. Prior to

[4] A private equity partnership vintage year is defined as the year of first investment or capital call.

LACERA conducting an external search for an active manager, managers participating in LACERA's emerging manager program that meet the following minimum objective investment criteria will be considered short-list candidates:

- The product under consideration must have a minimum five-year performance history at that firm.[5] Exceptions to this may occur if the manager has a clearly established performance record from their previous employment or manages a related, similar investment product with longer performance history.
- For Equity and Fixed Income, the emerging manager's five-year net-of-fee[6] performance must exceed LACERA's passive alternative[7]; and, the five-year (gross-of-fees) performance must rank above median in an appropriate peer universe[8] comparison. For Real Estate, the emerging manager's return must exceed LACERA's return objective as outlined in the Equity Real Estate Strategic Plan.
- The manager's three-year rolling return over the most recent five-years must exceed LACERA's passive alternative for 60% of the available observations.
- The manager's three-year performance history must be built on an asset base that is equivalent to the proposed size of the assignment.
- LACERA comprises no more than 25% of the manager's total assets under management.
- The key individuals responsible for developing the performance history must still be active in the investment management process when the search is conducted.
- A representative portfolio for the product under consideration must have fundamental characteristics generally associated with the style being considered.

The Board recognizes that objective investment criteria, although important, are only a small part of the manager evaluation process. Therefore, Staff and Consultant will conduct an on-site manager review(s) to evaluate the subjective criteria and prepare a report to the Board of Investments for each emerging manager meeting these criteria.

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[5] All returns must be in compliance with the Global Investment Performance Standards (GIPS) of the CFA Institute. Performance history must be reflective of institutional accounts.
[6] Fees will be calculated using the manager's regular fee schedule.
[7] Passive alternatives for Public Markets (i.e., Equities, International Equities and Fixed Income) are any benchmark authorized by the Board of Investments or any benchmark utilized by an active manager within these asset classes.
[8] Peer universe data will be obtained for both equity and fixed income mandates from industry recognized manager databases such as Wilshire Associates Trust Universe Comparison Service, Russell/Mellon Analytical Services, or EVestment Alliance.

Asset Allocations

TABLE 1

	Minimum	Maximum
U.S. Equities	0%	5%
Fixed Income	0%	4%
Real Estate[9]	0%	20%
Private Equity	0%	3.5%
Total Fund	0%	4%

Revised: November 19, 2014
Reviewed: by R/E Committee August 13, 2014
Revised: November 13, 2012
Revised: October 31, 2012
Revised: July 8, 2009
Revised: March 11, 2009

[9] Adopted by the Board of Investments September 13, 2006.

ATTACHMENT M

MANAGER MONITORING AND REVIEW POLICY

This policy outlines and defines, in accordance with Board Policies, a process for the on-going monitoring and review of investment managers by LACERA's Investment Staff and to establish guidelines for scheduling manager presentations to the Board of Investments (the Board). In adopting this policy, the Board acknowledges that LACERA has developed a highly qualified and capable in-house Investment Staff. The Staff is led by a Chief Investment Officer with asset class responsibility delegated to individual Investment Officers. This Investment Staff is responsible for and fully capable of performing the work assigned to it by the procedures discussed below.

The Board recognizes it is not necessary to meet with every investment manager annually, although from time-to-time, the Board may wish to meet with managers experiencing either performance or organizational related problems.

The following outlines the Investment Staff's responsibilities for monitoring and reporting back to the Board investment manager activities.

MONTHLY AND QUARTERLY INVESTMENT REPORTS

Monthly Chief Investment Officer Reports

This report will provide the Board asset class market values and target allocations, as well as preliminary performance results for calendar year-to-date, fiscal year-to-date, and three, five and ten year returns. Other information may include investment activity such as manager rebalancing and funding activity, purchases and sales of real estate assets, distributions and fundings of private equity fund investments, and upcoming Staff projects.

Performance Measurement Reports

The Investment Staff will provide quarterly performance measurement reports for the most recent calendar quarter end. Staff will supplement these written reports with oral presentations to the Board annually, alternating every six months with LACERA's general investment consultant.

Public market reports will include the Total Fund results for the trailing quarter, one-, three- and five-year periods. Composite results for all asset classes will also be reported. Real Estate and Private Equity results, while included, will be one quarter in arrears and hedge fund results will be one month in arrears.

Public markets individual manager results will also be included in this report. Manager results will include a summary page reviewing all managers' gross and net-of-fee performance results for the most recent quarter, one, three, and five years. Risk-adjusted graphs will be provided for managers with at least three years of data.

A one-page summary for each manager will also be provided in the quarterly performance report. This summary will list each manager's mandate, provide peer and benchmark relative performance and since inception results. Estimated manager fees will be included in the appendix.

Real estate performance will be provided semi-annually by the Fund's real estate Consultant. The Consultant performance measurement report will address return objectives, return by investment vehicle, portfolio composition, return by investment style, property and manager diversification, and provide a market update commentary. The Consultant will supplement this report with an oral presentation to the Board, at least yearly, on the performance of the real estate portfolio.

The Fund's Private Equity Advisor will provide the asset class's performance measurement report semi-annually. The Advisor's performance measurement report will address portfolio performance, portfolio diversification, portfolio overview and highlights, top ten companies held, and commitment by vintage year. The Advisor will supplement this report with an oral presentation to the Board, at least yearly, on the performance of the private equity portfolio.

The Fund's Hedge Fund of Funds Manager(s) will provide results for their portfolio(s) quarterly. The report will address portfolio performance, composition, diversification, other portfolio characteristics, risk, and provide a summary of strategy review and outlook. The Manager will supplement this report with an oral presentation to the Board, at least yearly, on the performance of the hedge fund portfolio.

ASSET CLASS STRUCTURE AND MANAGER REVIEWS

Public Markets

Biennially, Staff will review with the Board the current strategies for implementing the public markets allocations in relation to the Board's adopted asset allocation policy. Periodically, Staff may recommend the Board adopt strategy changes; however, because these are long-term investment goals, the Board and Staff recognize that continually changing these strategies could negatively impact composite results.

Equity strategy papers will review the composite portfolio's active/passive allocations and any style biases or other deviations resulting from either past policy decisions or occurring from recent market trends.

Fixed income strategy papers will review the rationale for utilizing strategic and tactical allocations to the different sectors of global fixed income markets and their specific role in the composite portfolio structure. Additionally, specific sector allocations will be discussed as part of the fixed income strategic review.

Commodities strategy memos will analyze whether the asset class is fulfilling its desired objectives—diversification and inflation hedging—within the Fund. The Commodities Composite's performance will be examined, including a review of the return and risk of individual managers. Broad issues such as the potential impact of derivatives regulation or the optimum benchmark may also be addressed.

Manager reviews will include, but are not limited to, a review of each manager's investment mandate, investment process, key personnel and/or organizational structure and historical performance. Staff concerns that have not been previously broached with the Board will also be addressed at this time, although such concerns may or may not require immediate Board action.

Private Markets – Real Estate

The Real Estate Statement of Objective, Policies, and Procedures, the Fund's long-range plan, will set forth the objectives, policies and procedures for investment in the asset class of equity real estate. This plan will be reviewed yearly by Staff. Suggested updates or changes will be advanced to the Board for consideration.

Staff will prepare a real estate investment plan annually for Board consideration. The investment plan will review the strategic goals for the portfolio, present a profile and analysis of the current real estate portfolio, review the real estate market, review prior year investment initiatives, and recommend investment initiatives for the upcoming year.

Each real estate manager will present an annual Manager Investment Plan in which specific investment guidelines are identified in accordance with LACERA's Real Estate Statement of Objective, Policies, and Procedures and Investment Plan. Staff reviews and approves each manager's annual Manager Investment Plan and Minimum Return Requirements.

Private Equity

The Private Equity Statement of Objectives, Policies and Procedures, the asset class's long-range plan, will set forth the objectives, policies, and procedures for private equity investments. This plan will be reviewed yearly by Staff, and any suggested changes will be advanced to the Board.

Staff and Advisor will also prepare an annual Investment Plan for Board consideration. The Investment Plan will review the strategic goals for the portfolio, present a profile and analysis of the current private equity portfolio, review the private equity market, review prior year investment initiatives, and recommend investment initiatives for the upcoming year.

Hedge Funds

Staff and the hedge fund of funds manager(s) will prepare an annual strategic review of the hedge fund program to review the strategic goals for the portfolio and the roles and responsibilities of the parties involved in managing and overseeing the portfolio.

Taking into consideration LACERA's stated goal of migrating from a hedge fund of funds structure to one that accesses hedge funds directly, recommendations on actions to further that initiative will be included as part of the annual review.

MONITORING MANAGERS BY INVESTMENT STAFF

The Board has delegated to the investment Staff the fundamental responsibility of monitoring LACERA's investment managers on an on-going basis. Effectively monitoring managers can be broken into two key areas: identifying critical factors to monitor and establishing how managers will be monitored.

Public Markets

Staff will monitor the following critical factors: adherence to investment style, changes in key personnel, performance, organizational changes such as a sale of a firm, rapid asset growth or loss, and high staff turnover. Additionally, manager portfolios will be monitored for adherence to investment guidelines and contract compliance issues.

Managers will be monitored via periodic telephone calls and on-site visits. Each manager's performance will be reviewed monthly. In addition, portfolio characteristics will be reviewed periodically to ensure that a manager is adhering to its investment style. Such reviews will incorporate analytics from external software packages and data provided by LACERA's custodian or obtained from the investment managers.

Private Markets – Real Estate

Staff will monitor the real estate investment managers by conducting annual manager meetings. Key issues that will be reviewed during these meetings include: personnel and organizational changes, client gains/losses and general operational issues. Staff will also review and approve each manager's proposed annual operating budget and strategic management plan for each property.

Staff will conduct on-site inspections for each new investment property purchased by a manager on LACERA's behalf. New investment activity will be summarized for the Board as part of the semi-annual performance review.

Staff will conduct periodic site inspections of each asset owned by the Fund to confirm that the manager is complying with the approved management plan and appropriately monitoring each property's operation and physical condition.

In addition to the monitoring and reviews conducted by the Investment Staff, additional oversight will be conducted by LACERA's internal audit department. Internal audit will periodically conduct operational reviews of the separate account real estate managers to confirm their compliance with the terms and conditions of the investment management agreements. The results of these audits will be reported directly to the Board of Investments.

Private Equity

Staff will monitor both the private equity advisor(s) and the investment managers that the private equity advisor(s) recommends for investment. Staff will meet with the private equity advisor(s) and Board at least yearly to review performance, asset allocation to the various sub-asset classes of private equity, and other issues that arise. In addition, Staff will periodically meet with the private equity advisor(s) to discuss portfolio status, potential investments, and other topics germane to private equity and LACERA's portfolio.

Staff will monitor the performance of the investment managers that the private equity advisor(s)recommends by attending annual partnership meetings and either periodically visiting the investment managers' offices or taking meetings in LACERA's offices to review their portfolio(s) of investments.

Hedge Funds
Staff will monitor both the hedge fund of funds manager and the underlying hedge fund managers including those hired under the discretion of the hedge fund of funds manager. Staff and the hedge fund of funds manager will meet with the Board at least annually to review performance, strategy and manager allocations, risk exposures, and any other issues.

LACERA has a stated goal of developing Staff capabilities in the management of a direct hedge fund portfolio. To further that goal, Staff will monitor the performance of underlying hedge fund managers by participating in on-site- due diligence reviews, attending hedge fund manager client meetings, or conducting meetings in LACERA's offices with hedge fund manager staff.

FORMAL BOARD REVIEW OF PUBLIC MARKETS MANAGERS

Formal manager reviews may be undertaken for any of the following reasons:

- When a manager's last three consecutive quarters of one year rolling excess returns are below the calculated performance bands.
- When a manager's last three consecutive quarters of one year rolling excess returns are *above* the calculated performance bands, a manager review may be undertaken at the discretion of the Chief Investment Officer.
- At the Board's request.
- At either Staff's or Consultant's recommendations.

Staff will notify the Board during performance reviews, or at other times of the year, when in Staff's opinion it is necessary to conduct a manager review. Additionally, the Board may periodically decide for no particular reason to invite investment managers to undertake a formal review.

The review may entail the manager conducting a formal presentation to the Board of Investments. Managers requested to present to the Board because of performance or organizational concerns will be asked to specifically address these issues. They will also be asked to review the following key points:

- Investment philosophy.
- Performance results.
- Past Investment strategy and performance impact relative to the benchmark.
- Current investment strategy.
- Potential investment strategy risk.

Reviewed: November 19, 2014
Revised: November 20, 2013
Revised: November 13, 2012
Revised: January 12, 2011
Revised: March 11, 2009

ATTACHMENT N

SECURITIES LENDING PROGRAM POLICY

LACERA's securities lending program provides the Fund with an opportunity to earn incremental income and offset administrative expenses. The program may be managed by the Fund's custodian, and/or qualified third-party securities lending agent(s), and/or direct borrowers (principals). The operation of the securities lending program should remain transparent to LACERA's external investment managers and should not impede their investment management process.

The securities lending program consists of two separate functions. The first function is the lending of LACERA's eligible securities (U.S. and Non-U.S. equities & bonds), to approved and qualified borrowers, either through an agent or directly, subject to the terms and conditions specified in LACERA's "Securities Lending Authorization Agreement." Loans of U.S. securities must have a minimum collateralization level of 102% and loans of Non-U.S. securities must have a collateralization level of at least 105%.

The second function is the reinvestment of cash proceeds generated by the lending of LACERA's portfolio securities. This is an investment management function, and is therefore governed by the same "prudent man rules" employed by LACERA's existing investment managers. Cash proceeds may be invested in commingled funds or in separately managed accounts. Separately managed accounts will be managed in accordance with investment policies and guidelines adopted by the Board of Investments.

To maintain appropriate risk controls, staff shall continually monitor the securities lending program for compliance with the investment guidelines and policies pertaining to the reinvestment of cash proceeds. These guidelines and policies shall be periodically reviewed and, if needed, amended to incorporate any appropriate revisions.

Reviewed: November 19, 2014
Revised: November 20, 2013
Revised: November 13, 2012
Revised: June 25, 2003