

NOTICE OF MEETING AND AGENDA

SPECIAL MEETING OF THE FIXED INCOME/HEDGE FUNDS/COMMODITIES COMMITTEE And BOARD OF INVESTMENTS*

**LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION
300 North Lake Avenue - 8th Floor
Pasadena, CA 91101**

**Wednesday, July 8, 2015
8:00 AM***

COMMITTEE MEMBERS:

JOSEPH KELLY, CHAIR
HERMAN SANTOS, VICE CHAIR
DIANE SANDOVAL
DAVID GREEN, ALT

I. APPROVAL OF THE MINTUES

- A. Approval of the Minutes of the Special Meeting of the Fixed Income/Hedge Funds/Commodities Committee Meeting of the March 11, 2015.

II. DISCUSSION

- A. Update on Goldman Sachs Hedge Fund of Funds – Mr. Rice
- B. Potential Impact of Reduced Fixed Income Allocation on Opportunistic Segment and non-U.S. Search – Mr. Santos
- C. Update on Opportunistic Fixed Income Managers – Mr. Santos

III. PUBLIC COMMENT

IV. GOOD OF THE ORDER (For information purposes only)

V. ADJOURNMENT

***The Board of Investments has adopted a policy permitting any member of the Board to attend a Standing committee meeting open to the public. In the event five (5) or more members of the Board of Investments (including members appointed to the Committee) are in attendance, the meeting shall constitute a joint meeting of the Committee and the Board of Investments. Members of the Board of Investments who are not members of the Committee may attend and participate in a meeting of a Board Committee but may not vote on any matter discussed at the meeting. The only action the Committee may take at the meeting is approval of a recommendation to take further action at a subsequent meeting of the Board.**

Documents subject to public disclosure that relate to an agenda item for an open session of the Committee that are distributed to members of the Committee less than 72 hours prior to the meeting will be available for public inspection at the time they are distributed to a majority of Committee Members at LACERA's offices at 300 N. Lake Avenue, Suite 820, Pasadena, CA 91101, during normal business hours of 9:00 a.m. to 5:00 p.m. Monday through Friday.

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**MINUTES OF THE SPECIAL MEETING OF THE
FIXED INCOME/HEDGE FUNDS/COMMODITIES COMMITTEE
OF THE BOARD OF INVESTMENTS*
LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION
GATEWAY PLAZA
300 N. LAKE AVENUE, SUITE 810, PASADENA, CA**

March 11, 2015

COMMITTEE MEMBERS:

Joseph Kelly, Chair
Herman Santos, Vice Chair
Michael Schneider
Diane Sandoval

ABSENT:

David Green, Alt

MEMBERS AT LARGE:

Michael Schneider
John Barger

STAFF, ADVISORS, PARTICIPANTS

Esmeralda Del Bosque	Vache Mahseredjian
John Harrington	Robert Santos
David Kushner	David Kushner
Chris Wagner	Trina Sanders
Sergik Tahmazyan	Juan Almaguer
Gregg Rademacher	Steven Rice
Robb Van Der Volgen	Christine Roseland
Rob Hill	Mike Herrera
Dale Johnson	Ingrid Tang
Patrick Lighaam,	Calvin Chang
Managing Director	Steve Foresti,
Wilshire Associates	Managing Director
	Wilshire Associates

THE MEETING WAS CALLED TO ORDER BY CHAIR KELLY APPROXIMATELY AT 1:34 P.M.

I. APPROVAL OF THE MINUTES

A. APPROVAL OF THE MINTUES OF THE SPECIAL MEETING OF THE

FIXED INCOME/HEDGE FUNDS/COMMODITIES COMMITTEE
MEETING OF NOVEMBER 19, 2014.

Mr. Schneider, made a motion, seconded by Mr. Santos, to approve the minutes of the Fixed Income/Hedge Funds/Commodities Committee Meeting of November 19, 2014. The motion carried by unanimous vote.

II. DISCUSSION

- A. A Review of Commodities: The Roles in Asset Allocation and Implementation Approaches Presentation – Patrick Lighaam, Managing Director, Wilshire Associates, Steve Forest, Managing Director, Wilshire Associates
- B. Future Agenda Items: Emerging Markets, Bench Marking for Fixed Income, Commodities, Risk Management, create protocol template

III. PUBLIC COMMENT

IV. GOOD OF THE ORDER


V. ADJOURNMENT

The meeting was adjourned at approximately 2:50 P.M.

***The Board of Retirement and Board of Investments have adopted a policy permitting any member of the Boards to attend a standing committee meeting open to the public. In the event five (5) or more members of either Board of Retirement and/or the Board of Investments (including members appointed to the Committee) are in attendance, the meeting shall constitute a joint meeting of the Committee and the Board of Retirement and/or Board of Investments.**

June 29, 2015

TO: Each Member
Fixed Income/Hedge Funds/Commodities Committee

FROM: James Rice, CFA 
Senior Investment Officer–Hedge Funds

FOR: July 8, 2015 Fixed Income/Hedge Funds/Commodities Committee Meeting

SUBJECT: **GOLDMAN SACHS ASSET MANAGEMENT HEDGE FUND OF FUNDS
UPDATE**

In April, LACERA began funding its investment in the Goldman Sachs Hedge Fund of Funds portfolio. **Table 1** below summarizes the investment to date in this portfolio of hedge funds.

Table 1

Effective Date	Number of Hedge Funds	Capital invested at Cost
May 1, 2015	4	\$37.50 million
June 1, 2015	10	\$100.75 million
July 1, 2015	8	\$76.00 million
Total Invested at Cost to date	22	\$214.25 million

There remains an additional \$35.75 million that will be invested in three additional hedge funds and used to pay fund of fund expenses. That amount is expected to be contributed by the end of July.

The hedge fund performance report for second quarter 2015 will be provided for the September 2015 Board meeting and will provide return and market value information for the Goldman Sachs portfolio, the two existing Grosvenor Hedge Fund of Funds portfolios, and the combined hedge fund program.


Noted and Reviewed:



Vache Mahseredjian, CFA, CAIA, FRM, ASA
Interim Chief Investment Officer

June 30, 2015

TO: Each Member
Fixed Income/Hedge Funds/Commodities Committee

FROM: Robert Z. Santos 
Investment Officer–Fixed Income

FOR: July 8, 2015 Fixed Income/Hedge Funds/Commodities Committee Meeting

SUBJECT: **GUIDANCE ON POSTPONING OPPORTUNISTIC NON-U.S. FIXED
INCOME SEARCH UNTIL AFTER ASSET ALLOCATION STUDY**

In May, LACERA's general consultant, Wilshire Associates (Wilshire) presented risk and return characteristics of various "optimal" portfolios for approval by the Board of Investments (**ATTACHMENT A**). In August, the Board is expected to decide on the Fund's asset allocation. Depending on the Board's decision, the allocation to the Fixed Income asset class might decrease from its current target of 22.5% to as low as 10.1%. A reduction in the Fixed Income allocation would have a direct impact on the relative size of the Opportunistic segment of the Fixed Income Composite (the Composite).

ATTACHMENT B compares the relative size of the Opportunistic allocation for the Committee to review. As shown on this attachment, the Opportunistic segment may represent from 20.9% to as much as 60.9% of the Composite. These percentages include the pending allocation to opportunistic managers already hired, plus a \$400 million expected allocation to Opportunistic Non-U.S. mandates. As a reminder, the Board's approved target allocation to Opportunistic Fixed Income is 25% of the Composite, with a range of +/- 5%.

Staff is seeking guidance from the Committee on continuing with the current plans to conduct a search for Opportunistic Non-U.S. fixed income managers or postponing the search until the Board's asset allocation decision has been made.

Attachments

Noted and Reviewed:



Vache Mahseredjian, CFA, CAIA, FRM, ASA
Interim Chief Investment Officer

Frontier 1

Other Opportunities 0-5% ; HF and Commodities 0-5%

W Wilshire

	Current Policy	Optimization Constraints 1	Current Standard Deviation - 100bps	Match Current Return	Match Current Standard Deviation	Current Standard Deviation + 50bps	Current Standard Deviation + 100bps
Global Equity	48.5%	0 - 100%	39.9%	43.5%	47.7%	51.5%	55.3%
Private Equity	<u>11.0%</u>	0 - 10%	<u>10.0%</u>	<u>10.0%</u>	<u>10.0%</u>	<u>10.0%</u>	<u>10.0%</u>
Total Equity	59.5%		49.9%	53.5%	57.7%	61.5%	65.3%
Fixed Income	<u>22.5%</u>	0 - 100%	<u>24.3%</u>	<u>20.9%</u>	<u>17.1%</u>	<u>13.5%</u>	<u>10.1%</u>
Total Fixed Income	22.5%		24.3%	20.9%	17.1%	13.5%	10.1%
Private Real Estate	10.0%	0 - 11%	11.0%	11.0%	11.0%	11.0%	11.0%
Commodities	3.0%	0 - 5%	2.8%	2.6%	2.2%	1.9%	1.6%
Hedge Funds	3.0%	0 - 5%	5.0%	5.0%	5.0%	5.0%	5.0%
Other Opportunities	<u>0.0%</u>	0 - 5%	<u>5.0%</u>	<u>5.0%</u>	<u>5.0%</u>	<u>5.0%</u>	<u>5.0%</u>
Total Alternatives	16.0%		23.8%	23.6%	23.2%	22.9%	22.6%
Cash	2.0%	2 - 100%	2.0%	2.0%	2.0%	2.0%	2.0%
Total Allocation	100.0%		100.0%	100.0%	100.0%	100.0%	100.0%
Expected (Median) Return (%)	6.43		6.37	6.43	6.50	6.57	6.63
Standard Deviation of Return (%)	12.34		11.34	11.80	12.34	12.94	13.34
+ / (-) in Expected Return (bps)			(7)	0	7	14	19
+ / (-) in Standard Deviation of Return (bps)			(100)	(54)	(0)	50	100
Sharpe Ratio	0.40		0.43	0.42	0.41	0.40	0.39
Contribution to Asset Volatility:							
Equity	63.6		75.9	78.2	80.5	82.5	84.2
Fixed Income	5.8		7.2	5.8	4.4	3.3	2.3
Alternatives	10.6		13.7	13.0	12.2	11.5	10.9
Cash	(0.0)		(0.0)	(0.0)	(0.0)	(0.0)	(0.0)

* "Other Opportunities" is allocated to proxy 2 risk parity strategies.

OPPORTUNISTIC¹ ALLOCATION AS A PERCENTAGE OF FIXED INCOME COMPOSITE


	Current FI Allocation (as of 5/31/15)		Projections based on a FI target allocation of:							
Strategies	22.5%		20.9%		17.1%		13.5%		10.1%	
Core	\$3,714.2	33.8%	\$3,120.4	30.6%	\$2,192.9	26.3%	\$1,314.2	19.9%	\$484.3	9.8%
Core Plus	\$3,558.4	32.4%	\$3,364.6	33.0%	\$2,437.1	29.2%	\$1,558.4	23.6%	\$728.5	14.8%
High Yield	\$714.4	6.5%	\$714.4	7.0%	\$714.4	8.6%	\$714.4	10.8%	\$714.4	14.5%
Opportunistic	\$3,003.5	27.3%	\$3,003.5	29.4%	\$3,003.5	36.0%	\$3,003.5	45.6%	\$3,003.5	60.9%
Total	\$10,990.5	100.0%	\$10,202.9	100.0%	\$8,347.9	100.0%	\$6,590.4	100.0%	\$4,930.6	100.0%

Note: \$ shown are in millions.

¹ Includes Non-U.S. Opportunistic Search

June 30, 2015

TO: Each Member
Fixed Income/Hedge Funds/Commodities Committee

FROM: Robert Z. Santos 
Investment Officer–Fixed Income

FOR: July 8, 2015 Fixed Income/Hedge Funds/Commodities Committee Meeting

SUBJECT: **UPDATE ON OPPORTUNISTIC FIXED INCOME MANAGERS**

LACERA’s fixed income team conducted several Opportunistic manager searches over the past two years. LACERA's Board of Investments selected several firms and authorized staff to enter into contract negotiations. This memo provides a progress report on the funding of those managers. The table below summarizes when these searches were completed, the types of searches conducted, managers selected by the Board, the amount of assets allocated to each manager, and the status of each selected manager. For those firms with a status of “In Negotiation”, another update will be provided to the Board in the near future.

Date Of BOI Approval	Opportunistic Search Type	Manager Name	Amount Allocated	Status
September 11, 2013	Multi-Strategy	BeachPoint	\$200 mm	Funded
		Sankaty	\$200 mm	Funded
		Ares	\$200 mm	In Negotiation
		OakHill	\$200 mm	In Negotiation: Awaiting Response Regarding GIPS Certification
		KKR	Bench	-
December 11, 2013	Direct Lending	Crescent	\$200 mm	Funded
		Tennenbaum	\$200 mm	Funding
February 11, 2015	Securitized Credit	DoubleLine	\$200 mm	Expected Funding 8/1/2015
		TCW	\$200 mm	Expected Funding 8/1/2015
		Brookfield	Bench	-

Noted and Reviewed:



Vache Mahseredjian, CFA, CAIA, FRM, ASA
Interim Chief Investment Officer