

MINUTES OF THE SPECIAL MEETING OF THE BOARD OF INVESTMENTS

LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION

300 N. LAKE AVENUE, SUITE 810, PASADENA, CALIFORNIA 91101

9:00 A.M., TUESDAY, MAY 10, 2016

PRESENT: David Green, Chair

Shawn Kehoe, Vice Chair

Joseph Kelly, Secretary

Diane Sandoval

Herman B. Santos

Michael Schneider

Estevan Valenzuela

ABSENT: Kenneth Simril

Valerie Villarreal

STAFF ADVISORS AND PARTICIPANTS

Gregg Rademacher, Chief Executive Officer

Vache Mahseredjian, Interim Chief Investment Officer

Steven Rice, Chief Counsel

James Rice, Senior Investment Officer

Trina Sanders, Investment Officer

Ted Wright, Principal Investment Officer

Barry W. Lew, Legislative Affairs Officer

STAFF ADVISORS AND PARTICIPANTS (Continued)

SEIU Local 721

Vito Triglia, Political Coordinator

Meketa Investment Group

Stephen McCourt, Managing Principal

Leandro Festino, Managing Principal

Funston Advisory Services LLC

Rick Funston, Consultant

Gina Eubanks, Consultant

I. CALL TO ORDER

The meeting was called to order at 9:04 a.m., in the Board Room of Gateway Plaza.

II. PLEDGE OF ALLEGIANCE

Mr. Kelly led the Board Members and staff in reciting the Pledge of Allegiance.

III. APPROVAL OF MINUTES

A. Approval of the Minutes of the Regular Meeting of April 13, 2016

Mr. Santos made a motion, Mr. Schneider seconded, to approve the minutes of the regular meeting of April 13, 2016. The motion passed unanimously.

IV. REPORT ON CLOSED SESSION ITEMS

There was nothing to report.

V. PUBLIC COMMENT

Mr. Vito Triglia from SEIU 721 addressed the Board regarding item VIII. F.

VI. CHIEF INVESTMENT OFFICER'S REPORT

Mr. Mahseredjian provided a brief discussion on the Chief Investment Officer's report.

VII. CONSENT ITEMS

Mr. Santos made a motion, Ms. Sandoval seconded, to approve the following agenda items. The motion passed unanimously.

- A. Recommendation as submitted by Gregg Rademacher, Chief Executive Officer: That the Board approve attendance of Board members at the Pomerantz Annual Corporate Governance & Litigation Roundtable on June 30, 2016 in Beverly Hills, CA, and approve reimbursement of all travel costs incurred in accordance with LACERA's Education and Travel Policy. (Memo dated April 20, 2016) (Placed on the agenda at the request of Mr. Santos)
- B. Recommendation as submitted by Gregg Rademacher, Chief Executive Officer: That the Board approve attendance of Board members at the 2016 PPI Executive Seminar on October 23-25, 2016 and PPI's Asia Roundtable on October 26 – 28, 2016 in Hong Kong, China and approve reimbursement of all travel costs incurred in accordance with LACERA's Education and Travel Policy.(Memo dated April 20, 2016) (Placed on the agenda at the request of Mr. Kehoe)
- C. Recommendation as submitted by Gregg Rademacher, Chief Executive Officer: That the Board approve attendance of Board members at the 7<sup>th</sup> Annual RFKennedy Compass Conference in Hyannis Port, MA on June 27 – 29, 2016, and approve reimbursement of all travel costs incurred in accordance with LACERA's Education and Travel Policy. (Memo dated April 28, 2016) (Placed on the agenda at the request of Mr. Green)

### VIII. NON – CONSENT ITEMS

- A. Recommendation as submitted by Michael Schneider, Chair, Real Estate Committee: That the Board adopt the Revised Real Estate Objectives, Policies, and Procedures. (Memo dated April 22, 2016)

Ms. Sanders was present to answer questions from the Board.

Mr. Valenzuela made a motion, Ms. Sandoval seconded, to approve the agenda item. The motion passed unanimously.

- B. Recommendation as submitted by Gregg Rademacher, Chief Executive Officer: That the Board adopt the Board of Investments Charter. (Memo dated April 28, 2016)

Mr. Funston of Funston Advisory Services and Mr. Rademacher were

present to answer questions from the Board.

Mr. Kelly made a motion, Mr. Kehoe seconded to approve staff's recommendation. The makers of the motion revised their motion to modify Section 4.1.1. of the Charter to state, "in consultation with the BOI and the CEO and CIO, schedule dates, times and location for the BOI meetings."

Mr. Santos made a substitute motion, Mr. Valenzuela seconded, to refer back to staff to include suggested changes based on the Board's discussion. The substitute motion failed (roll call) with Messrs. Green, Kehoe, Kelly and Schneider voting no; and Messrs. Santos, Valenzuela and Ms. Sandoval voting yes.

VIII. NON – CONSENT ITEMS (Continued)

The motion to adopt the Board of Investment Charter with revised Section 4.1.1. stating "in consultation with the BOI and the CEO and CIO, schedule dates, times and location for the BOI meetings" passed with Messrs. Green, Kehoe, Kelly, Schneider and Ms. Sandoval voting yes, and Messrs. Santos and Valenzuela voting no.

- C. Recommendation submitted by Gregg Rademacher, Chief Executive Officer: That the Board adopt the Powers Reserved for the Board of Investments and continue general discussion on the LACERA Investment Program Governance project.  
(Memo dated May 2, 2016)

Mr. Funston of Funston Advisory Services and Mr. Rademacher were

present to answer questions from the Board.

Mr. Kelly made a motion, Mr. Schneider seconded, to approve staff's recommendation. Mr. Kelly revised the motion, Mr. Schneider seconded, to exclude item #28 from the Powers Reserved and incorporate the suggested changes. The motion passed unanimously.

- D. Recommendation as submitted by Meketa Investment Group: That the Board (1) Approve reducing the policy target weight to "Other Opportunities" from 5% to 0%, while adopting a policy target range of 0% to 5%; (2) Redeploying the 5% allocation as follows: 3.5% to Fixed Income and 1.5% to Global Equities; and (3) Include the glidepath for reaching the new target weights by 12/31/18.  
(Memo dated May 10, 2016)

VIII. NON – CONSENT ITEMS (Continued)

Mr. McCourt and Mr. Festino of Meketa Investment Group were present to answer questions from the Board.

Mr. Santos made a motion, Mr. Valenzuela seconded, to approve staff's recommendation. The motion passed (roll call) unanimously with Messrs. Green, Kehoe, Kelly, Santos, Schneider, Valenzuela and Ms. Sandoval voting yes.

- E. Recommendation as submitted by James Rice, Senior Investment Officer: That the Board continue the Risk Parity search, currently underway, until completion, at which time staff will present its finding and any recommendations. (Memo dated April 26, 2016)

Mr. Jim Rice was present to answer questions from the Board.

Mr. Santos made a motion, Mr. Green seconded, to approve staff's recommendation. The motion passed (roll call) with Messrs. Green, Kehoe, Santos and Schneider voting yes; and Messrs. Kelly, Valenzuela and Ms. Sandoval voting no.

- F. Recommendation as submitted by Barry W. Lew, Legislative Affairs Officer: That the Board adopt a “Support” position on Assembly Bill 1853, which would enable any retirement system operating under the County Employees Retirement Law of 1937 to become a district. (Memo dated April 27, 2016)

Mr. Lew and Mr. Steven Rice were present to answer questions from the Board.

VIII. NON – CONSENT ITEMS (Continued)

Mr. Kelly made a motion, Mr. Santos seconded, to adopt a “Watch” position on AB 1853. The motion passed (roll call) unanimously with Messrs. Green Kehoe, Kelly, Santos, Schneider, Valenzuela, and Ms. Sandoval voting yes.

IX. REPORTS

- A. Hedge Funds: Review of Role and Implementation  
Stephen McCourt, Managing Principal  
Leandro Festino, Managing Principal  
(Presentation dated May 10, 2016)

Mr. McCourt and Mr. Festino of Meketa Investment Group provided a presentation and answered questions from the Board.

The following items were received and filed:

- B. Follow-Up to Securities Lending Program Review  
Robert Santos, Investment Officer  
(Memo dated April 29, 2016) (For Information Only)
- C. Monthly Status Report on Board of Investments Legal Projects  
Steven P. Rice, Chief Counsel  
(Memo dated April 28, 2016) (For Information Only)
- D. OPEB Trust Fund – 1st Quarter 2016  
Ted Wright, Principal Investment Officer  
(Memo dated April 27, 2016) (For Information Only)
- E. Blackrock Institutional Trust Company, N.A.  
Ted Wright, Principal Investment Officer  
Dale Johnson, Investment Officer  
(Memo dated April 26, 2016) (For Information Only)

IX. REPORTS (Continued)

F. Fund Performance Review as of March 31, 2016  
Wilshire Associates Performance Report as of March 31, 2016  
Vache Mahseredjian, Interim Chief Investment Officer  
(For Information Only)

G. Chief Executive Officer's Report  
(Memo dated April 26, 2016) (For Information Only)

X. REPORT ON STAFF ACTION ITEMS

In regards to Item III., the Board requested that staff provide a copy of the CIO report presentation slides.

In regards to Item VIII. B., the Board requested that the CEO continue to provide draft agendas to the Board prior to each Board meeting.

In regards to Item VIII. G., Mr. Kelly requested that future legislative items be justified with reference to the Board approved Legislative Policy.

Lastly, the Board requested that staff prepare a memo with an analysis of the Currency Overlay Program.

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

Mr. Kehoe shared his experience of attending the Milken Institute Conference in Los Angeles, CA and encouraged Board members to attend.

Mr. Rademacher provided an update to the Board regarding the Chief Investment Officer search. In addition, Mr. Rademacher shared with the Board that



## XI. GOOD OF THE ORDER (Continued)

staff hosted a meet and greet with the New American Alliance to discuss the future of the investment industry.

Lastly, Mr. Rademacher informed the Board that moving forward LACERA will have a Sheriff Department officer present at the Board of Investments meetings to provide additional security.

Mr. Green, shared with the Board his goals for the year, which included finalizing the general investments consultant search, hiring a CIO, and addressing delegation and communication issues between the Board, staff, and consultants. Mr. Green also thanked staff for their help and support.

## XII. EXECUTIVE SESSION

- A. Conference with Staff and Legal Counsel and Interviews of Manager Candidates to Consider the Purchase or Sale of Particular, Specific Pension Fund Investment (Activist Equity Managers)  
(Pursuant to California Government Code Section 54956.81)

1. Cevian Capital
2. JANA Partners LLC
3. Symphony Financial Partners

In Open Session, prior to commencement of the Executive Session, Mr. Kelly made a motion, Mr. Valenzuela seconded, to discuss these items in Open Session. There was discussion of the item. The makers of the motion amended their motion to discuss these items in Open Session with the exception of discussing the fee information in Executive Session. There was further discussion. The

## XII. EXECUTIVE SESSION (Continued)

motion failed (roll call) with Messrs. Green, Kehoe, Santos, Schneider and Ms. Sandoval voting no; and Messrs. Kelly and Valenzuela voting yes.

The Board then went into Executive Session. Staff and representatives of Cevian Capital, JANA Partners LLC and Symphony Financial Partners provided brief presentations and answered questions from the Board.

Mr. Santos made a motion, Mr. Schneider seconded, to approve staff's recommendation to hire all three firms and approve commitment of up to \$470 million. The allocation of funds will be as follows: (1) Cevian will receive \$250 million to execute in all market environments; (2) JANA will receive \$120 million and will concentrate exposure in a small number of high conviction positions; and (3) Symphony will receive \$100 million and will concentrate on small capitalization market within Japan. The motion passed (roll call) with Messrs. Green, Kehoe, Santos, Schneider and Ms. Sandoval voting yes, and Messrs. Kelly and Valenzuela voting no.

It was reported out in Open Session that the Board had met in Executive Session pursuant to Government Code Section 54956.81 at which time the Board voted by roll call, on a motion by Mr. Santos, seconded by Mr. Schneider, as stated above. The results of the roll call vote and the nature of the investments as stated above were also reported out.

XII. EXECUTIVE SESSION (Continued)

B. Conference with Legal Counsel - Pending Litigation  
(Pursuant to Paragraph (1) of Subdivision (d) of California Government  
Code Section 54956.9.)

1. In re Credit Default Swaps Antitrust Litigation  
U.S.D.C., S.D.N.Y. No.13-MD-2476 (DLC)

The Board met in Executive Session pursuant to Government Code

Section 54957 and there is nothing to report at this time.

C. Pursuant to Government Code Section 54957 - Public Employee  
Performance Evaluation:

1. Performance Evaluation  
Title: Chief Executive Officer

The Board met in Executive Session pursuant to Government Code Section

54957 and there is nothing to report at this time.

Green Folder Information (Information distributed in each Board Members Green  
Folder at the beginning of the meeting)

1. State Street Bank Overcharging For Electronic Messages  
(For Information Only) (Memo dated April 22, 2016)
2. Attorney's Fees Report (For Information Only) (Memo dated April 25, 2016)
3. Attorney's Fees Report For Invoices Over \$25,000 (For Information Only)  
(Memo dated April 25, 2016)
4. Tennenbaum Capital Partners Ownership Update (For Information Only)  
(Memo dated May 4, 2016)
5. Private Equity Search Processes – Update: Supplemental Background  
Information (Memo dated May 5, 2016)
6. Sankaty Advisors Rebranded As Bain Capital Credit, LP  
(For Information Only) (Memo dated May 6, 2016)

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### XIII. ADJOURNMENT

There being no further business to come before the Board, the meeting was adjourned at 2:54 p.m.

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JOSEPH KELLY, SECRETARY

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DAVID GREEN, CHAIR