AGENDA

A REGULAR 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., WEDNESDAY, FEBRUARY 14, 2018

The Board may take action on any item on the agenda,
and agenda items may be taken out of order.

I. CALL TO ORDER

II. PLEDGE OF ALLEGIANCE

III. APPROVAL OF MINUTES

A. Approval of the Minutes of the Regular Meeting of January 10, 2018

IV. PUBLIC COMMENT

V. INTERIM CHIEF EXECUTIVE OFFICER'S REPORT
(Memo dated January 5, 2018)

VI. CHIEF INVESTMENT OFFICER'S REPORT
(Memo dated February 2, 2018)

VII. CONSENT ITEMS

A. Recommendation as submitted by Robert R. Hill, Interim Chief Executive Officer: That the Board approve attendance of Board members at the 2018 MoneyConf – "The Future of Money" on June 11-13, 2018 in Dublin, Ireland and approve reimbursement of all travel costs incurred in accordance with LACERA's Education and Travel Policy. (Placed on the agenda at the request of Mr. Kehoe)
(Memo dated February 5, 2018)

VII. CONSENT ITEMS (Continued)

B. Recommendation as submitted by Robert R. Hill, Interim Chief Executive Officer: That the Board approve attendance of Board members at the National Association of Corporate Directors - Global Cyber Forum on April 17-18, 2018 in Geneva, Switzerland and approve reimbursement of all travel costs incurred in accordance with LACERA's Education and Travel Policy.
(Placed on the agenda at the request of Mr. Kehoe)
(Memo dated February 5, 2018)

C. Recommendation as submitted by Robert R. Hill, Interim Chief Executive Officer: That the Board approve attendance of Board members at the Institutional Investor – Public Funds Roundtable on April 25-27, 2018 in Los Angeles, California and approve reimbursement of all travel costs incurred in accordance with LACERA's Education and Travel Policy.
(Placed on the agenda at the request of Mr. Santos)
(Memo dated February 5, 2018)

D. Recommendation as submitted by Robert R. Hill, Interim Chief Executive Officer: That the Board approve attendance of Board members at the 15th Annual Australia & New Zealand Forum on February 28 – March 2, 2018 in Sydney, Australia and approve reimbursement of all travel costs incurred in accordance with LACERA's Education and Travel Policy.
(Placed on the agenda at the request of Mr. Santos)
(Memo dated February 5, 2018)

E. Recommendation as submitted by Robert R. Hill, Interim Chief Executive Officer: That the Board waive the Education and Travel Policy, Section 705.07 D. 4, for Trustee Sanchez and in its place approve attendance at the UCLA Anderson Executive Education – Corporate Governance Program on May 15-17, 2018 in Los Angeles, California; and approve reimbursement of all costs associated with the conference according to LACERA's Education and Travel Policy.
(Memo dated February 6, 2018)

VII. CONSENT ITEMS (Continued)

F. Recommendation as submitted by Wayne Moore, Chair, Fixed Income/Hedge Funds/Commodities Committee: That the Board make the following changes to the Fixed Income Composite structure:

1. Increase the allocation target for the Core sub-composite from 35% to 45%;

2. Decrease the allocation target for the Core Plus sub-campsite from 35% to 25%;

3. Terminate the following mandates and transition assets to the BlackRock Trust Company (BTC) U.S. Debt Index Fund:
   a. BTC Intermediate Credit Bond Index Fund (Core mandate)
   b. BlackRock Financial Management (Core mandate)
   c. LM Capital (Core Plus mandate);

4. Graduate Pugh Capital Management (Core mandate) from the Emerging Manager Program; and

5. Combine the High Yield and Opportunistic sub-composites with an allocation range of 20-40%.

(Memo dated January 31, 2018)

G. Recommendation as submitted by Shawn Kehoe, Chair, Corporate Governance Committee: That the Board approve the consolidated Corporate Governance Principles. (Memo dated January 15, 2018)

VIII. NON-CONSENT ITEMS

A. Recommendation as submitted by Trina Sanders, Investment Officer and Amit Aggarwal, Investment Officer: That the Board approve a commitment of up to $50 million to Heitman Asia-Pacific Property Investors, L.P. (Memo dated January 26, 2018)

B. Recommendation as submitted by Steven P. Rice, Chief Counsel: That the Board approve the attached ballot insert entitled "Powers and Duties of Investments Board Members," which will be included with the ballot materials for the election of the Third Member of the Board of Investments and posted on lacera.com. (Memo dated February 5, 2018)

VIII. NON-CONSENT ITEMS (Continued)

C. Recommendation as submitted by Christopher J. Wagner, Principal Investment Officer and David E. Simpson, Investment Officer: That the Board allocate an additional $100 million to Morgan Stanley Alternative Investment Program, as manager of LACERA's Private Equity Co-Investment Program. (Memo dated January 26, 2018)

IX. REPORT

A. Fund Performance Review as of December 31, 2017
Meketa Performance Report as of December 31, 2017
Jon Grabel, Chief Investment Officer

B. Semi-Annual Interest Crediting for Reserves as of December 31, 2017
Beulah S. Auten, Chief Financial Officer
(For Information Only) (Memo dated January 23, 2018)

C. Monthly Status Report on Board of Investments Legal Projects
Steven P. Rice, Chief Counsel
(For Information Only) (Memo dated February 5, 2018)

X. REPORT ON STAFF ACTION ITEMS

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

XII. EXECUTIVE SESSION

A. Conference with Staff and Legal Counsel to Consider the Purchase or Sale of Particular, Specific Pension Fund Investments
(Pursuant to California Government Code Section 54956.81)

1. Davidson Kempner Institutional Partners, L.P.

XIII. RECOGNITION

A. National Association of Securities Professionals –
FAST Track Program

XIV. ADJOURNMENT

Documents subject to public disclosure that relate to an agenda item for an open session of the Board of Investments that are distributed to members of the Board of Investments less than 72 hours prior to the meeting will be available for public inspection at the time they are distributed to a majority of the Board of Investments 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.

Persons requiring an alternative format of this agenda pursuant to Section 202 of the Americans with Disabilities Act of 1990 may request one by calling Cynthia Guider at (626) 564-6000, from 8:30 a.m. to 5:00 p.m. Monday through Friday, but no later than 48 hours prior to the time the meeting is to commence. Assistive Listening Devices are available upon request. American Sign Language (ASL) Interpreters are available with at least three (3) business days notice before the meeting date.

MINUTES OF THE REGULAR 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., WEDNESDAY, JANUARY 10, 2018

PRESENT: David Green, Chair

Shawn Kehoe, Vice Chair

Joseph Kelly, Secretary

Wayne Moore

David Muir

Ronald Okum

Gina V. Sanchez

Herman B. Santos

Michael Schneider

STAFF ADVISORS AND PARTICIPANTS

Robert Hill, Interim Chief Executive Officer

Jonathan Grabel, Chief Investment Officer

Steven Rice, Chief Counsel

Christine Roseland, Senior Staff Counsel

Christopher Wagner, Principal Investment Officer

John McClelland, Principal Investment Officer

James Rice, Senior Investment Officer

STAFF ADVISORS AND PARTICIPANTS (Continued)

Vache Mahseredjian, Principal Investment Officer

Ted Wright, Principal Investment Officer

Chad Timko, Senior Investment Analyst

Scott Zdrazil, Senior Investment Officer

David Simpson, Investment Officer

Amit Aggarwal, Investment Officer

David Chu, Investment Officer

Ted Granger, Assistant Chief Financial Officer

Meketa Investment Group
Leandro Festino, Managing Principal
Timothy Filla, Managing Principal

StepStone Group LP
Jose Fernandez, Partner

The Townsend Group
Micolyn Magee, Principal

Grosvenor Capital Management
Andrew Preda, Senior Vice President
Sean Conroy, Director
Robert Fu, Senior Vice President

Milliman
Mark Olleman, Principal
Craig Glyde, Consulting Actuary

I. CALL TO ORDER

The meeting was called to order by Chair Green at 9:12 a.m., in the Board Room of Gateway Plaza.

II. ELECTION OF OFFICERS (Election of Chair, Vice Chair, Secretary, and Audit Committee Member)

The election of officers was conducted by Secretary Kelly:

A. Chair of the Board

Mr. Green was nominated to the position of Chair of the Board of Investments by Mr. Santos.

Hearing no other nominations, the Board voted unanimously and elected Mr. Green as Chair of the Board of Investments.

Secretary Kelly announced that Mr. Green was elected to the position of Chair of the Board of Investments.

B. Vice Chair of the Board

Mr. Kehoe was nominated to the position of Vice Chair of the Board of Investments by Mr. Green.

Hearing no other nominations, the Board voted unanimously and elected Mr. Kehoe as Vice Chair of the Board of Investments.

Secretary Kelly announced that Mr. Kehoe was elected to the position of Vice Chair of the Board of Investments.

II. ELECTION OF OFFICERS (Continued)

C. Secretary

Mr. Moore was nominated to the position of Secretary of the Board of Investments by Mr. Kelly.

Hearing no other nominations, the Board voted unanimously and elected Mr. Moore Secretary of the Board of Investments.

Secretary Kelly announced that Mr. Moore was elected to the position of Secretary of the Board of Investments.

D. Audit Committee Member

Mr. Schneider was nominated to the position of Audit Committee Member by Mr. Santos.

Hearing no other nominations, the Board voted unanimously and elected Mr. Schneider as Audit Committee Member of the Board of Investments.

Secretary Kelly announced that Mr. Schneider was elected to the position of Audit Committee Member.

III. PLEDGE OF ALLEGIANCE

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

IV. APPROVAL OF MINUTES

A. Approval of the Minutes of the Regular Meeting of December 13, 2017.

IV. APPROVAL OF MINUTES (Continued)

Mr. Santos made a motion, Mr. Okum seconded, to approve the minutes of the regular meeting of December 13, 2017. The motion passed with Mr. Muir abstaining.

V. REPORT ON CLOSED SESSION ITEMS

No items were reported out.

VI. PUBLIC COMMENT

Mr. Ramon Rubalcava addressed the Board regarding Item X.C.

VII. INTERIM CHIEF EXECUTIVE OFFICER'S REPORT
(Memo dated January 2, 2018)

Mr. Hill recognized elected Board member, Mr. Muir, and appointed member, Gina Sanchez, to the Board of Investments.

Mr. Hill provided a friendly reminder to the Board that the Board Offsite will take place on Tuesday, January 30, 2018, Wednesday, January 31, and Thursday, February 1, 2018.

Lastly, Mr. Hill recognized and thanked the Financial and Accounting Services Division, Communications Division and the Legal Division for their work in creating LACERA's Comprehensive Annual Financial Report.

VIII. CHIEF INVESTMENT OFFICER'S REPORT
(Memo dated December 22, 2017)

Mr. Grabel provided a brief discussion on the Chief Investment Officer's Report. (Mr. Kehoe left the meeting at 9:30 a.m.)

IX. CONSENT ITEMS

Mr. Santos made a motion, Mr. Kelly seconded, to approve the following agenda items except Item. IX.E. The motion passed unanimously.

A. Recommendation as submitted by Robert R. Hill, Interim Chief Executive Officer: That the Board approve attendance of Board members at the International Corporate Governance Network conference on February 28 – March 1, 2018 in Tokyo, Japan and approve reimbursement of all travel costs incurred in accordance with LACERA's Education and Travel Policy. (Placed on the agenda at the request of Mr. Kehoe)
(Memo dated December 30, 2017)

B. Recommendation as submitted by Robert R. Hill, Interim Chief Executive Officer: That the Board approve attendance of Board members at the 2018 SWFI Institutional Investor Forum on February 20 – February 22, 2018 in Santa Monica, California and approve reimbursement of all travel costs incurred in accordance with LACERA's Education and Travel Policy.
(Placed on the agenda at the request of Mr. Santos)
(Memo dated December 30, 2017)

C. Recommendation as submitted by Robert R. Hill, Interim Chief Executive Officer: That the Board approve attendance of Board members at the Pension Bridge Annual Conference on April 10-11, 2018 in San Francisco, California and approve reimbursement of all travel costs incurred in accordance with LACERA's Education and Travel Policy.
(Placed on the agenda at the request of Mr. Green)
(Memo dated January 3, 2018)

D. Recommendation as submitted by Robert R. Hill, Interim Chief Executive Officer: That the Board approve attendance of Board members at the NASP - Diverse and Emerging Manager Forum on January 26, 2018 in Houston, Texas and approve reimbursement of all travel costs incurred in accordance with LACERA's Education and Travel Policy. (Placed on the agenda at the request of Mr. Green)
(Memo dated January 3, 2018)

IX. CONSENT ITEMS (Continued)

E. Recommendation as submitted by Herman Santos, Chair, Equity: Public/Private Committee: That the Board approve the 2018 Private Equity Objectives, Policies, and Procedures.
(Memo dated December 22, 2017)

Mr. Santos made a motion, Mr. Moore seconded, to approve the agenda item. The motion passed unanimously (roll call) with Messrs. Green, Kelly, Moore, Muir, Okum, Santos, Schneider and Mrs. Sanchez voting yes.

F. Recommendation as submitted by Herman Santos, Chair, Equity: Public/Private Committee: That the Board approve the 2018 Private Equity Annual Investment Plan. (Memo dated December 22, 2017)

G. Recommendation as submitted by Herman Santos, Chair, Equity: Public/Private Committee: That the Board approve the Minimum Qualifications and Evaluation Criteria thereby authorizing staff to initiate the Request for Proposal process for a private equity secondary advisor. (Memo dated December 22, 2017)

H. Recommendation as submitted by Shawn Kehoe, Chair, Joint Organizational Governance Committee: That the Board approve the Sexual Harassment Prevention Training Policy for Board members.
(Memo dated January 2, 2018)

X. NON - CONSENT AGENDA

A. Recommendation as submitted by Robert R. Hill, Interim Chief Executive Officer: That the Board review the 2018 meeting calendar and reschedule meeting dates as needed. (Memo dated December 29, 2017)

Mr. Hill was present and answered questions from the Board.

Mr. Santos made a motion, Mrs. Sanchez seconded, to survey the Board to reschedule the March 2018 and November 2018 Board meeting dates. The motion passed unanimously.

X. NON - CONSENT AGENDA (Continued)

B. Recommendation as submitted by Jonathan Grabel, Chief Investment Officer: That the Board nominate Scott Zdrazil, Senior Investment Officer – Corporate Governance, for election to the Council of Institutional Investors Board of Directors.
(Memo dated December 15, 2017)

Mr. Grabel, and Mr. Zdrazil were present and answered questions from the Board.

Mr. Santos made a motion, Mr. Kelly seconded, to approve the agenda item. The motion passed unanimously.

C. Recommendation as submitted by Robert R. Hill, Interim Chief Executive Officer: That the Board:

1. Accept the June 30, 2017, Retirement Benefit Actuarial Valuation prepared by the plan's consulting actuary, Milliman.
2. Adopt recommended employer contribution rates (all tiers) and employee contribution rates (plan tiers General Plan G and Safety Plan
3. Direct the Interim Chief Executive Officer to communicate the results of the Retirement Benefit Actuarial Valuation to the Board of Supervisors by May 15, 2018, with a recommendation to implement the employer and employee rates no later than September 30, 2018.

(Memo dated December 21, 2017)

Mr. Hill and Messrs. Olleman and Glyde of Milliman provided a presentation and answered questions from the Board.

Mr. Santos made a motion, Mr. Kelly seconded, to approve the agenda item. The motion passed unanimously.

XI. REPORTS

A. 2018 Board of Investments and Committee Meeting Calendar and Workplan
Jonathan Grabel, Chief Investment Officer
(Memo dated December 20, 2017)

Mr. Grabel provided a brief presentation and answered questions from the Board.

B. LACERA Total Fund Asset Allocation
Jonathan Grabel, Chief Investment Officer
Leandro Festino, Managing Principal – Meketa Investment Group
Timothy Filla, Managing Principal – Meketa Investment Group
(Memo dated December 22, 2017)

Mr. Grabel and Messrs. Festino and Filla of Meketa Investment Group provided a brief presentation and answered questions from the Board.

C. Real Estate Performance Measurement Report – 2nd Quarter 2017
John McClelland, Principal Investment Officer
Trina Sanders, Investment Officer
Amit Aggarwal, Investment Officer
Jennifer Stevens, Principal – The Townsend Group
(Memo dated December 21, 2017)

Messrs. McClelland and Aggarwal and Mrs. Magee of the Townsend Group provided a brief presentation and answered questions from the Board.

D. Hedge Fund Performance Discussion – 3rd Quarter 2017
James Rice, Senior Investment Officer
Andrew Preda, Senior Vice President – Grosvenor Capital Management
Sean Conroy, Director – Grosvenor Capital Management
(Memo dated December 29, 2017)

Mr. Jim Rice and Messrs. Preda and Conroy of Grosvenor Capital Management provided a brief presentation and answered questions from the Board.

XI. REPORTS (Continued)

(Mr. Muir left the meeting at 12:00 p.m.)

E. Private Equity Portfolio Update
Christopher Wagner, Principal Investment Officer
Jose Fernandez, Partner – StepStone Group
(Memo dated December 22, 2017)

Mr. Wagner and Mr. Fernandez of StepStone Group provided a brief presentation and answered questions from the Board.

The following items were received and filed:

F. Other Opportunities Update
Jonathan Grabel, Chief Investment Officer
(For Information Only) (Memo dated December 22, 2017)

G. Update on H.R. 1: Unrelated Business Income Tax
Barry W. Lew, Legislative Affairs Officer
(For Information Only) (Memo dated December 28, 2017)

H. Palladium Equity Portfolio Company Meeting
David E. Simpson, Investment Officer
(For Information Only) (Memo dated December 22, 2017)

I. Monthly Status Report on Board of Investments Legal Projects
Steven P. Rice, Chief Counsel
(For Information Only) (Memo dated January 2, 2018)

J. Meketa Investment Group Self-Assessment
Leandro Festino, Managing Principal – Meketa Investment Group
Timothy Filla, Managing Principal – Meketa Investment Group
(For Information Only) (Memo dated January 10, 2018)

XII. REPORT ON STAFF ACTION ITEMS

There were no items to report out.

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

The Board and Mr. Hill welcomed Mrs. Sanchez and Mr. Muir to the Board of Investments.

Mr. Grabel thanked the Investment staff for their hard work in preparing for the Board of Investments meeting.

Mr. Green thanked Mr. Grabel for his hard work and welcomed back Bonnie Nolley.

(Mr. Okum left the meeting at 12:30 p.m.)

XIV. EXECUTIVE SESSION

A. Conference with Staff and Legal Counsel to Consider the Purchase or Sale of Particular, Specific Pension Fund Investments
(Pursuant to California Government Code Section 54956.81)

1. HBK Multi-Strategy Fund L.P.

Messrs. Jim Rice and Timko, and Messrs. Preda and Fu of Grosvenor Capital Management, provided a brief presentation and answered questions from the Board.

Mr. Santos made a motion, Mr. Kelly seconded, to approve staff's recommendation. The motion passed (roll call) with Messrs. Green, Kelly, Moore, Santos and Mrs. Sanchez voting yes and Mr. Schneider voting no. The Board’s decision and vote to approve an investment of up to $250 million to HBK Multi-Strategy Fund L.P. was reported out in open session. The initial

XIV. EXECUTIVE SESSION (Continued)

allocation will be $125 million, with additional allocations to be considered later. The HBK Multi-Strategy Fund L.P., is a hedge fund that invests across seven strategies comprised of corporate credit, structured credit, emerging markets, event driven equities, quantitative strategies, volatility trades and developed market fixed income. Messrs. Kehoe, Muir and Okum were absent from this item.

2. BlackRock Trust Company

Messrs. Grabel, Mahseredjian, Wright and Zdrazil provided a brief presentation and answered questions from the Board.

Mr. Santos made a motion, Mr. Schneider seconded, to approve staff's recommendation. The motion passed unanimously (roll call) Messrs. Green, Kelly, Moore, Santos, Schneider and Mrs. Sanchez voting yes. The Board's decision and vote to approve an account conversion and consolidation of LACERA's investments in certain public equity and fixed income commingled investment products managed by BlackRock Trust Company to separate accounts, was reported out in open session. Messrs. Kehoe, Muir and Okum were absent from this item.

(Mr. Kelly left the meeting at 1:41 p.m.)

XIV. EXECUTIVE SESSION (Continued)

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

1. LACERA v. Justin Caldbeck
JAMS, Case No. 1110021489
Santa Clara County Superior Court, Case No. 17CV316347
Counsel: Glaser Weil

The Board met in Executive Session pursuant to Paragraph (1) of Subdivision (d) of California Government Code Section 54956.9. There was nothing to report at this time.

XV. ADJOURNMENT

There being no further business to come before the Board, the meeting was adjourned at 1:48 p.m.

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

1. Board Offsite Meeting Information Memo (Memo dated January 8, 2018)
2. Letter to Honorable Kevin Brady regarding the H.R. 1: Tax Cuts and Jobs Act (Memo dated December 13, 2017)

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WAYNE MOORE, SECRETARY

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DAVID GREEN, CHAIR

February 5, 2018

TO: Each Member
Board of Retirement
Board of Investments

FROM: Robert R. Hill RRH
Interim Chief Executive Officer

SUBJECT: **CHIEF EXECUTIVE OFFICER'S REPORT**

I am pleased to present the Chief Executive Officer's Report that highlights a few of the operational activities that have taken place during the past month, key business metrics to monitor how well we are meeting our performance objectives, and an educational calendar.

March Madness

We refer to the period beginning in December through the end of March as "March Madness" because retirements tend to spike during this period as members desire to retire in time to be eligible for any April 1st cost-of-living adjustment (COLA) that may be approved. As we have in years past, we are continuing our commitment to share the annual March Madness statistics in the Chief Executive Officer's report. There are two key statistics we track during this time of year.

How well are we keeping up with our member's requests to retire? The chart below shows the total number of pending retirement elections. All incoming retirement requests are triaged by staff to facilitate processing those retirements with immediate retirement dates and those which will require special handling (i.e. legal splits and those with uncompleted service credit purchases).

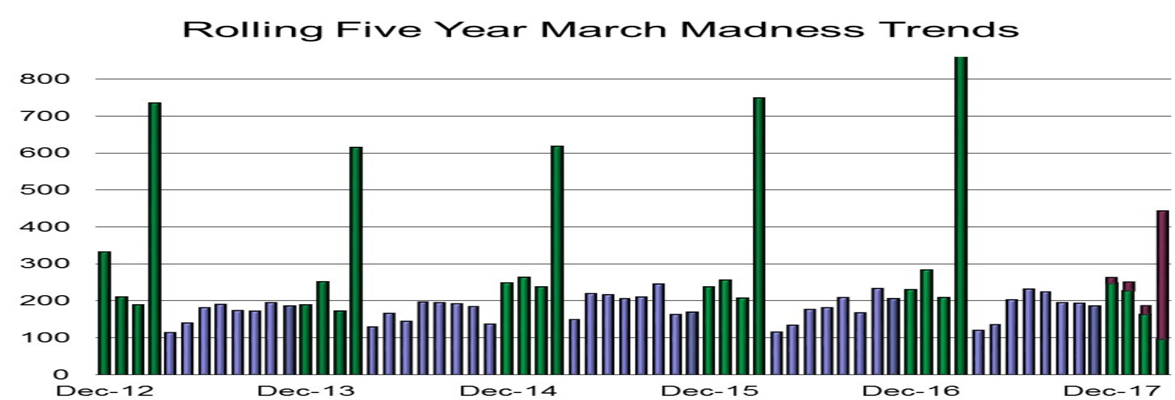
Retirement Month	Retirement Elections
December 2017	**16**
January 2018	**24**
February 2018	**24**
March 2018	**347**
Pending Disability Cases	**99**
Total Pending	**510**

The 411 retirement elections not completed for December through March are pending for the following reasons: additional research or information required (1), pending a change of retirement date (3), pending member action (usually waiting for a signed election) (16), pending processing (391).

The Pending Disability Cases represents the number of approved disability cases being processed by the Benefits Division. Once a disability has been granted by the Board, the Benefits Division staff work with the member and their employer to select a disability effective date, determine the member's option election, and bring them on payroll. These disability cases are pending for the following reasons: pending reciprocal validation (3), pending a decision on the effective date (17), currently in process (22), and waiting for an action by the member (57). These cases are not assigned to a specific month in the "March Madness" period because the final effective date has not been determined. As with service retirements, some cases have mitigating factors such as legal splits and uncompleted purchases, which can also extend processing. We expect to successfully meet the retirement agenda deadlines for a majority of our March Madness retirees.

The second key statistic is the volume of retirements during the year, and especially during March Madness. This gives us an indication on the severity of the stress being placed on our capacity to meet our various member service requests and demands placed upon our staff.

The green bars in the following chart reflect those members who have been approved to retire (i.e., their retirement elections have been approved and completed). The red bars reflect those cases that have not been processed as of the date of this report. As of January 20, 2018, we have processed 411 out of 1158 retirements for the March Madness period so far. Comparing the total processed and pending per month we are running over the five-year average (last five competed years) for December (276 vs. avg. of 247), and on par for January (252 vs. avg. of 252), February (187 vs. avg. of 203) and March (443 vs. avg. of 716) are still in play and running as expected so far. Putting this into perspective during last year's March Madness 1,588 members retired, which was higher than the rolling five-year average of 1,418 (the five-year averages may change from month to month as disability cases are processed due to retroactive retirement dates).



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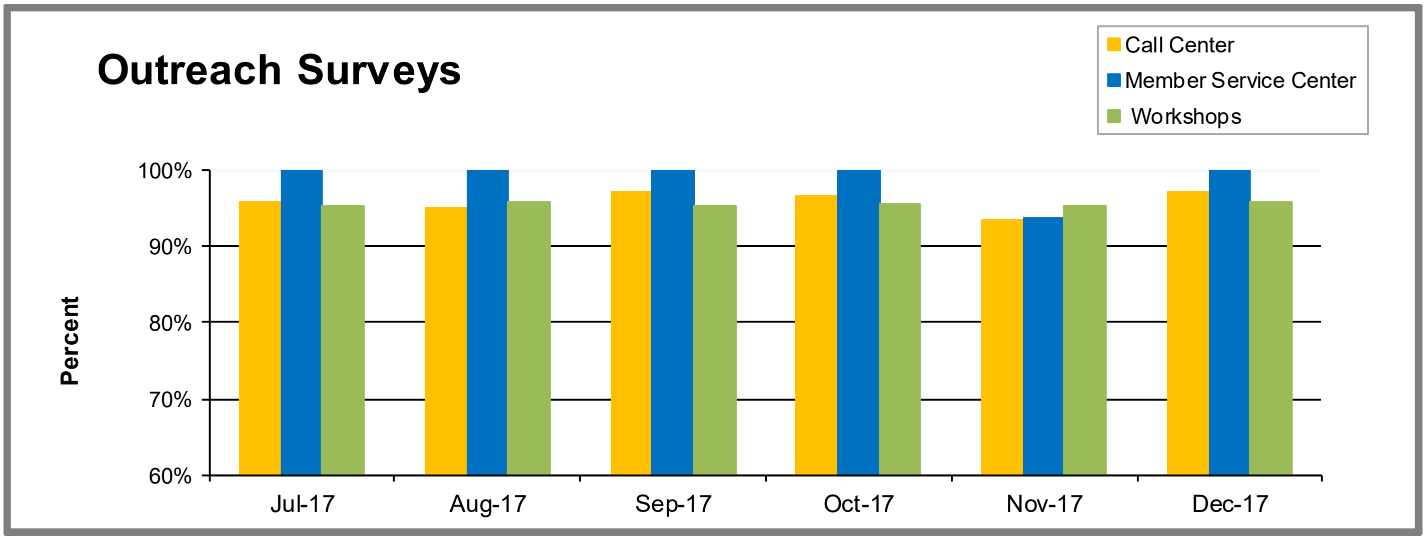
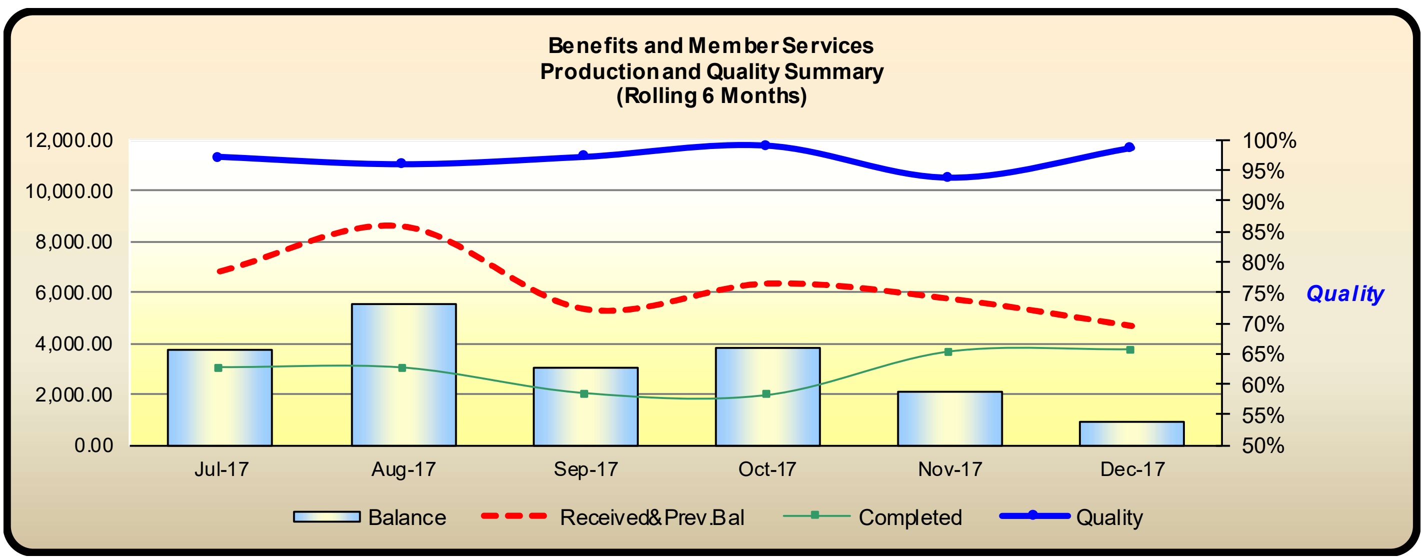
CEO report Jan 2018.doc
Attachments

LACERA's KEY BUSINESS METRICS

OUTREACH EVENTS AND ATTENDANCE				
Type	# of WORKSHOPS		# of MEMBERS	
	Monthly	YTD	Monthly	YTD
Benefit Information	12	100	399	5,565
Mid Career	1	7	17	234
New Member	13	79	196	1,662
Pre-Retirement	5	48	102	1,304
General Information	1	2	15	115
Retiree Events	1	5	75	612
Member Service Center	Daily	Daily	1,703	9,114
TOTALS	**33**	**241**	**2,507**	**18,606**





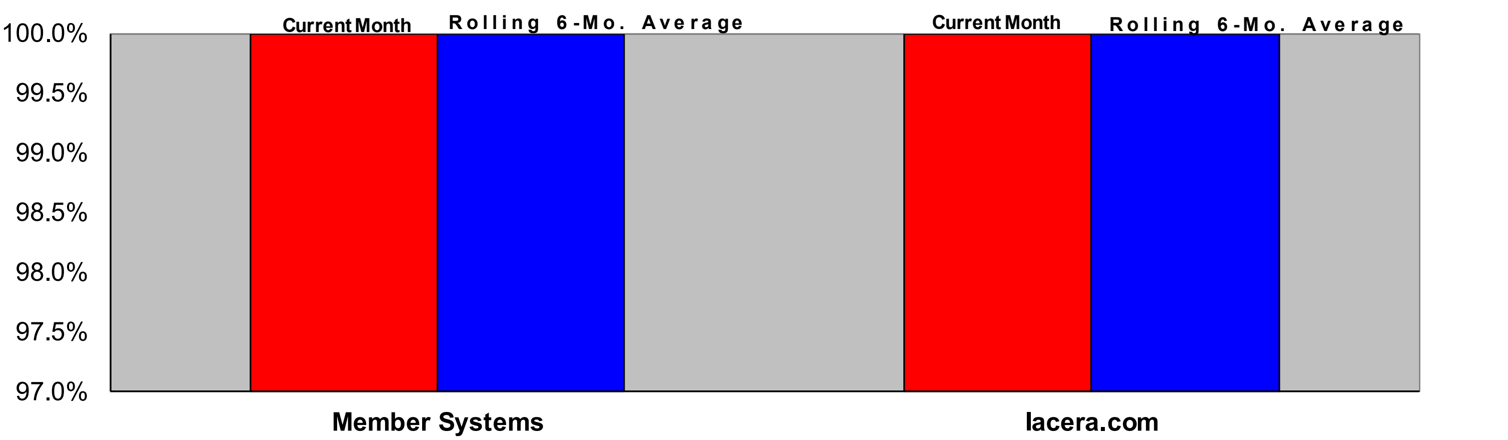
Member Services Contact Center			RHC Call Center	Top Calls
Overall Key Performance Indicator (KPI)		88.61%		
Category	**Goal**	**Rating**		Member Services
Call Center Monitoring Score	95%	94.89%	98%	1) Workshop Info.\Appointments: Inquiry
Grade of Service (80% in 60 seconds)	80%	39%	32%	2) Benefit Pmts.: Gen Inq./Payday Info
Call Center Survey Score	90%	97.16%	xxxxx	3) Retirement Counseling: Process
Agent Utilization Rate	65%	74%	85%	
Number of Calls		10,169	4,025	Retiree Health Care
Number of Calls Answered		8,773	3,368	1) Medical Benefits - General Inquiries
Number of Calls Abandoned		1,396	657	2) Part B Premium Reimbursement
Calls-Average Speed of Answer (hh:mm:ss)		00:03:31	00:04:48	3) Medical-New Enroll./Change/Cancel
Number of Emails		292.16	212	
Emails-Average Response Time (hh:mm:ss)		07:40:48	(Days) 1	Adjusted for weekends

LACERA's KEY BUSINESS METRICS

Fiscal Years	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Assets-Market Value	$38.7	$30.5	$33.4	$39.5	$41.2	$43.7	$51.1	$51.4	$50.9	$55.8
Funding Ratio	94.5%	88.9%	83.3%	80.6%	76.8%	75.0%	79.5%	83.3%	79.4%	n/a
Investment Return	-1.4%	-18.2%	11.8%	20.4%	0.3%	12.1%	16.8%	4.3%	1.1%	13.0%

DISABILITY INVESTIGATIONS					
APPLICATIONS	**TOTAL**	**YTD**	**APPEALS**	**TOTAL**	**YTD**
On Hand	598	xxxxxxx	On Hand	121	xxxxxxx
Received	53	280	Received	3	19
Re-opened	0	1	Administratively Closed/Rule 32	1	13
To Board – Initial	35	221	Referee Recommendation	0	6
Closed	3	36	Revised/Reconsidered for Granting	0	2
In Process	**613**	**613**	**In Process**	**123**	**123**

SYSTEMS AVAILABILITY - DECEMBER 2017



Active Members as of 2/1/18	
General-Plan A	164
General-Plan B	54
General-Plan C	65
General-Plan D	44,498
General-Plan E	19,060
General-Plan G	21,523
Total General	**85,364**
Safety-Plan A	7
Safety-Plan B	10,634
Safety-Plan C	2,323
Total Safety	**12,964**
TOTAL ACTIVE	**98,328**

Retired Members/Survivors as of 2/1/18	Retirees	Survivors	Total
General-Plan A	18,022	4,583	22,605
General-Plan B	688	67	755
General-Plan C	423	62	485
General-Plan D	13,482	1,249	14,731
General-Plan E	12,065	1,029	13,094
General-Plan G	9	0	9
Total General	**44,689**	**6,990**	**51,679**
Safety-Plan A	5,567	1,574	7,141
Safety-Plan B	5,009	262	5,271
Safety-Plan C	4	0	4
Total Safety	**10,580**	**1,836**	**12,416**
TOTAL RETIRED	**55,269**	**8,826**	**64,095**

Retired Members	
Monthly Payroll	266.29 Million
Payroll YTD	1.6 Billion
No. Monthly Added	257
Seamless %	99.61%
No. YTD Added	1,624
Seamless YTD %	99.63%
Direct Deposit %	96.00%

Health Care Program (YTD Totals)	Employer Amount	Member Amount
Medical	236,698,779	20,053,671
Dental	21,175,794	2,184,762
Med Part B	28,332,662	xxxxxxxxxx
Total Amount	**$286,207,235**	**$22,238,433**

Health Care Program Enrollments (Monthly)	
Medical	49,139
Dental	50,234
Med Part B	32,809
Long Term Care (LTC)	698

Funding Metrics as of 6/30/17	
Employer Normal Cost	9.97%*
UAAL	9.73%*
Assumed Rate	7.25%*
Star Reserve	$614 million
Total Assets	$52.7 billion
Member Contributions as of 6/30/17	
Annual Additions	$526.6 million
% of Payroll	6.65%*
Employer Contributions as of 6/30/17	
Annual Addition	$1,331.4 million
% of Payroll	19.70%*

*Effective July 1, 2017, as of 6/30/16 actuarial valuation.

Metrics YTD from July 1, 2017 through December 31, 2017

Date	Conference
March, 2018	
3-6	CALAPRS (California Association of Public Retirement Systems) General Assembly Meeting Indian Wells, CA
5-9	Healthcare Information and Management Systems Society Conference & Expo Las Vegas, NV
7-8	AHIP (America's Health Insurance Plans) National Health Policy Conference Washington D.C.
8-9	PREA (Pension Real Estate Association) Spring Conference Beverly Hills, CA
11-13	2018 Commonfund Forum Orlando, FL
12-14	Council of Institutional Investors (CII) Spring Conference Washington D.C.
14-16	Pacific Pension Institute (PPI) North American Winter Roundtable Washington D.C.
19-21	InfoSecWorld Conference & Expo 2018 Lake Buena Vista, FL
28-30	CALAPRS (California Association of Public Retirement Systems) Advanced Principles of Pension Management for Trustees at UCLA Los Angeles, CA
April, 2018	
9-11	IFEBP (International Foundation of Employment Benefit Plans) Investments Institute Naples, FL
10-11	Pension Bridge Annual Conference San Francisco, CA
16-18	CRCEA (California Retired County Employees Association) Spring Conference Santa Barbara, CA
23-26	Portfolio Concepts & Management *(prev. Fundamentals of Money Management)* Wharton School, University of Pennsylvania *(IFEBP)*
24-26	UCLA Anderson Executive Education-Corporate Governance Program Los Angeles, CA
29-May 2	World Healthcare Congress Washington D.C.
29-May 2	Milken Institute Global Conference Beverly Hills, CA

L//.CERA

February 2, 2018

TO: Each Member
Board of Investments

FROM: Jon Grabel
Chief Investment Officer

SUBJECT: **CHIEF INVESTMENT OFFICER'S REPORT—DECEMBER 2017**

The following memorandum and attachments constitute the CIO report for December 2017. **Attachment 1** presents summary investment information including market values, actual and target allocations, and returns. **Attachment 2** is a summary investment report for the OPEB Master Trust. A list of all current applicants for public investment-related searches is included as **Attachment 3** and will be provided on a monthly basis to identify firms with whom LACERA is in a quiet period. **Attachment 4** summarizes compliance regarding asset allocations, portfolio guidelines, and other policies across the Total Fund for the most recent quarter.

PERFORMANCE

The Total Fund finished with an approximate investment balance of $55.6 billion.[1] The month had a positive net return of 1.6%. All asset classes registered investment gains for the month. For the fiscal year to date, the Total Fund has gained 7.5%.

The OPEB Master Trust continued to generate positive performance in December. For the month, the L.A. County, LACERA, and Superior Court funds all had net gains of 1.3%, 1.3%, and 1.4%, respectively. For the fiscal year to date, L.A. County, LACERA, and Superior Court funds had respective net gains of 9.4%, 9.4%, and 8.9%.

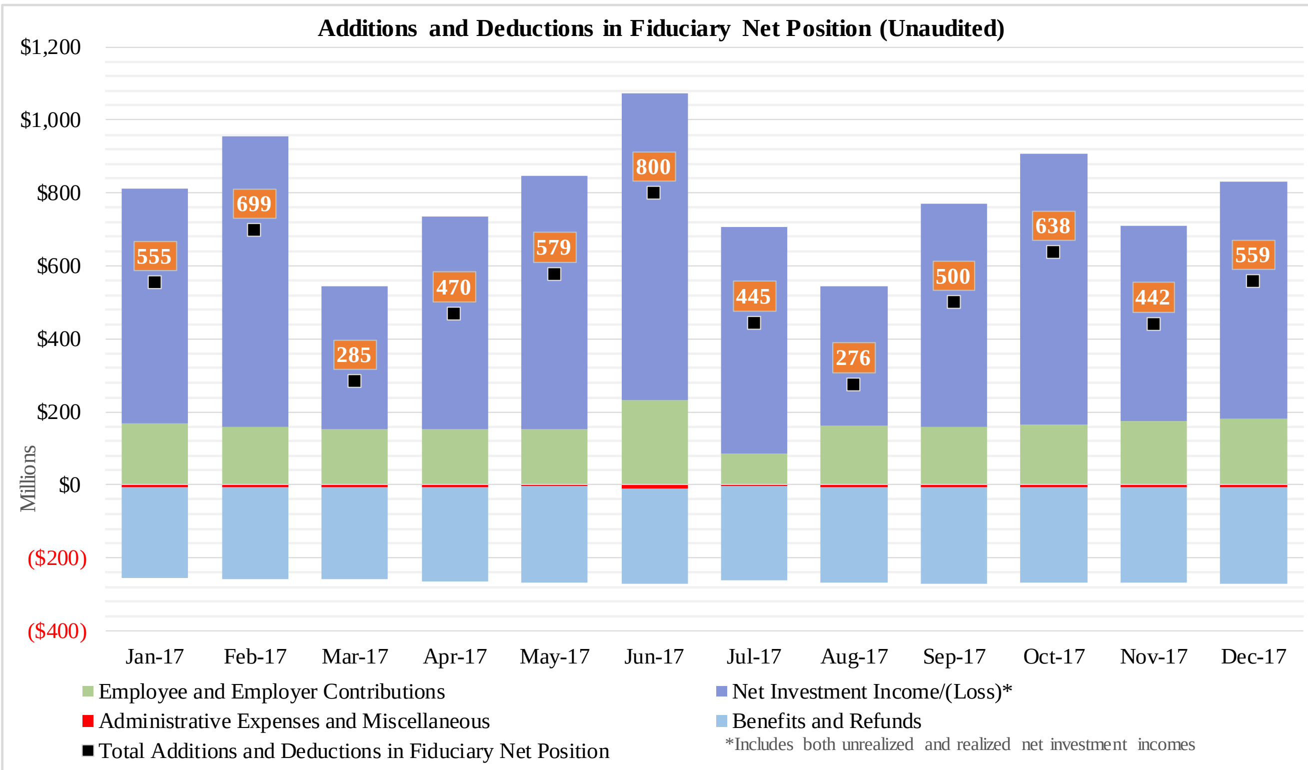
CASH FLOWS, CASH BALANCES, AND FIDUCIARY NET POSITION[2]

As illustrated in Chart 1 below, included to provide detail on the sources of monthly transactional flows, the Plan's fiduciary net position increased by $559 million during the month of December as investment

[1] For months that coincide with calendar quarter end, the Total Fund value is calculated using the custodian's quarter-end market values for all asset classes. For inter-quarter periods, the Total Fund value is calculated using the custodian's month-end market value for all asset classes except for private equity and real estate. Private equity and real estate market values are calculated by adjusting the preceding quarter-end market value for subsequent cash flows.
[2] LACERA's Fiduciary Net Position is an unaudited snapshot of account balances as of the preceding month end and reflects assets available for future payments to retirees and their beneficiaries, including investment fund assets, as well as any liabilities owed as of the report date. The Plan's net position is inclusive of both investment and operational net assets, while the Total Fund's position includes investment net assets only.

income more than offset net benefit payments. Over the last twelve months, the Plan's net position has increased by $6.2 billion.

Chart 1: Additions and Deductions in Fiduciary Net Position (Unaudited)



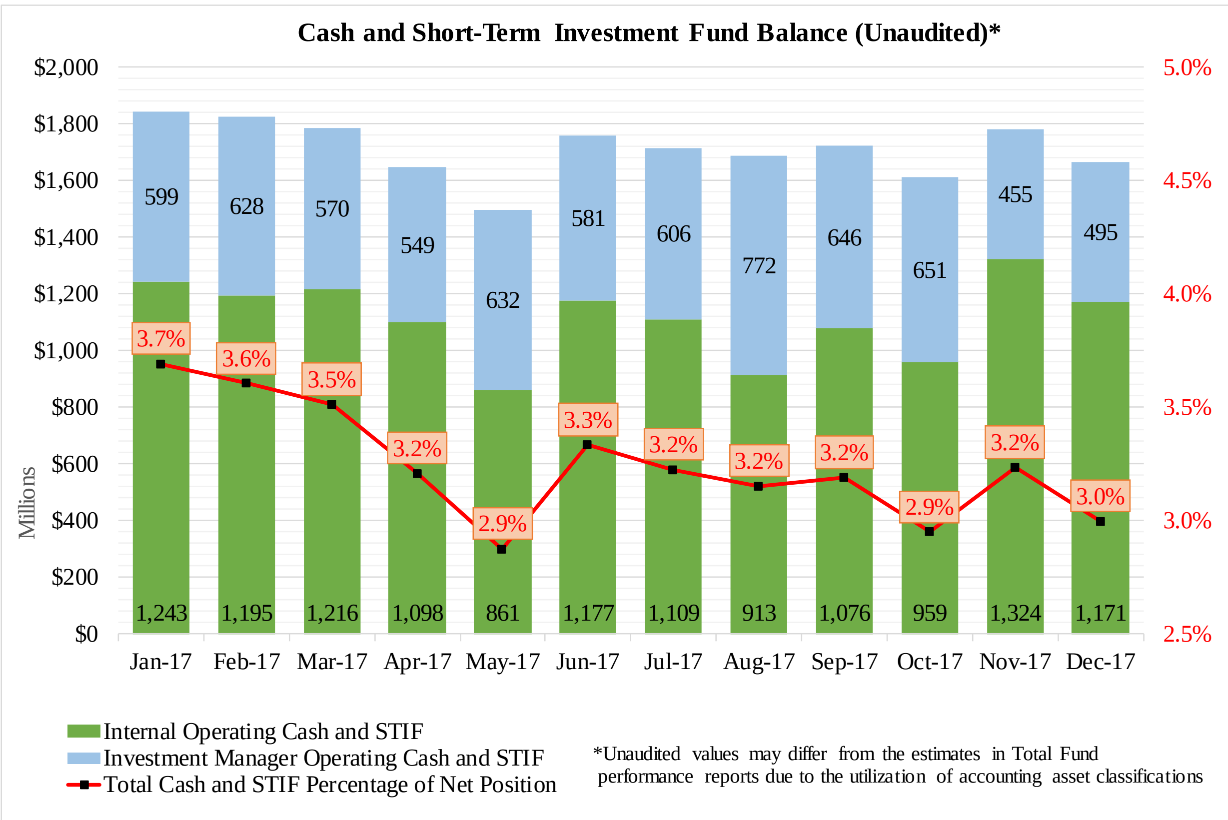
With respect to cash, LACERA finished the month of December with approximately $1.1 billion in the Fund's primary operating account, as reported by the master custodian and identified as "cash" on various Total Fund reports. There was additional cash held in internal accounts dedicated to asset categories with frequent cash flows as well as cash held by select external managers. As illustrated in Chart 2 below, LACERA held a total of $1.2 billion of internal operating cash and short-term investments across all of its operating accounts and a further $495 million in cash and short-term investments was held by LACERA's external investment managers.

In total, LACERA held approximately $1.7 billion in cash and short-term investment funds at the end of December, which can be categorized as follows:

- Discretionary (internal operating cash and Short Term Investment Fund ("STIF") balances accessible for the daily operating needs of the plan): $1.2 billion
- Non-discretionary (operating cash and STIF balances held by external investment managers): $495 million

The Fund's total cash and short-term investment fund balance represented 3.0% of the Plan's unaudited net position of $55.6 billion as of December 31, 2017, while its discretionary cash and short-term investment fund balance represented 2.1% of the Plan's unaudited net position.

Chart 2: Cash and Short-Term Investment Fund Balance (Unaudited)



The following table (Table 1) provides a summary of cash flows at the asset class level. For the month of December, Private Equity and Public Equity, had net investment distributions (cash inflows) totaling $514.6 million; while Real Estate, Fixed Income, and Commodities had net investment contributions (cash outflows) totaling $554.6.

Table 1: Asset Class Cash Flows

Asset Category and Purpose	$ in Millions	Cash Impact
Private Equity		
Distributions	$157.5	Inflow
Capital calls	-157.4	Outflow
Private Equity	*$0.1*	*n/m*
Public Equity: U.S.		
Distributions	$200.6	Inflow
U.S. Equity	*$200.6*	*Net Inflow*

Public Equity: Non-U.S.		
Distributions	$300.0	Inflow
Currency hedge	13.9	Inflow
Non-U.S. Equity	*$313.9*	*Net Inflow*
Fixed Income		
Contributions	-$450.0	Outflow
Fixed Income	*-$450.0*	*Net Outflow*
Commodities		
Contributions	-$50.0	Outflow
Commodities	*-$50.0*	*Net Outflow*
Hedge Funds		
No activity	$0.0	Net Flow
Hedge Funds	*$0.0*	*n/m*
Real Estate		
Commingled fund net activity	$3.3	Inflow
Separate account net activity	-$57.9	Outflow
Real Estate	*-$54.6*	*Net Outflow*

As indicated above, the Public Equity asset class realized a $13.9 million cash inflow from the Non-U.S. Equity currency hedging program. LACERA's Asset Allocation Policy requires that the developed markets Non-U.S. Equity allocation, currently $9.9 billion, maintain a passive currency hedge overlay on 50% of its investment value. Note that when the currency overlay program sustains a loss due to a depreciating U.S. dollar, underlying Non-U.S. equity values should be positively impacted. Conversely, in an appreciating U.S. dollar environment, the currency hedging program will have a gain, while underlying Non-U.S. equity values should be negatively impacted. Due to an appreciating U.S. dollar, the currency hedges maturing in December realized a gain and $13.9 million was transferred to cash from LACERA's passive currency overlay account. The hedged Non-U.S. Equity portfolio gained 2.3% net of fees, or approximately $231.1 million during the month. A change in currency valuation is one of many variables that influences returns for a hedged Non-U.S. Equity portfolio. A currency hedge and the related equity portfolio can both deliver positive or negative returns in a given period due to a staggered rolling of futures within the currency hedge.

ACTIVE SEARCHES

This section is intended to keep the Board of Investments apprised of active investment-related searches that include Requests for Proposal (RFP), Information (RFI), and Quote (RFQ). At this time, there are five searches currently underway.

The first is a targeted search requesting information from select investment management firms that have an offering in the multi-strategy Hedge Fund category. Candidate firms have been identified in conjunction with LACERA's Hedge Fund Advisors. Staff has evaluated responses, conducted on-site due diligence meetings, and made recommendations to the Board at the December 2017 and January 2018 meetings. A third recommendation is scheduled for the February meeting.

The second is a targeted search requesting information from select investment management firms that have an offering in the relative value Hedge Fund category. Candidate firms have been identified in conjunction with LACERA's Hedge Fund Advisors. Responses have been submitted to LACERA. Staff will conduct due diligence and possibly make recommendations to the Board in the second quarter of 2018.

The third search currently underway is an RFI for active U.S. small capitalization equity investment management services. The minimum qualifications for this search were advanced by the Equity Committee in May and approved by the Board in June. The RFI was issued in July with responses due in August. The review process is currently in the due diligence phase and a recommendation is scheduled for the March Board meeting.

The fourth search is an RFP issued for active U.S. and non-U.S. public equity emerging managers to manage direct mandates in separate accounts (a direct investment strategy was advanced by the Equity Committee in August and approved by the Board in September). The RFP was issued in October and manager responses due in November. The review process is underway and a recommendation is expected to be made in the second quarter of 2018.

The fifth search is for a private equity secondary advisor. The Board has approved minimum qualifications for this external service provider and the RFP was released on January 30, 2018.

UPDATES

This section provides a brief synopsis of recent developments, near-term work priorities and upcoming projects.

<u>Total Fund</u>

- In conjunction with Meketa, a Total Fund strategic asset allocation study is in process with BOI presentations scheduled monthly through the remainder of the fiscal year.
- State Street is currently finalizing the implementation of version 1.0 of the TruView risk system, including the on-boarding of the OPEB Trust assets onto the platform. The Q2 FY18 Total Fund

TruView report will be added as a new section to the Total Fund quarterly performance review, which will presented at the February 2018 BOI meeting. State Street continues to fine-tune the portfolio reporting function.

- Onsite interviews for the Principal Investment Officer for Portfolio Analytics position have been completed and an assessment of the final candidates is in its final stages.
- The asset allocation glide path previously approved by the Board continues to be implemented.

Public Equity

- Staff continues to integrate factors into its analysis of the U.S. equity portfolio. Construction of non-U.S. factor indices for use in analyzing the non-U.S. portfolio continues apace.

Private Equity

- Staff continues to evaluate the cost of continuing to outsource the emerging manager program versus moving the program in house.
- Staff is preparing a search for a Senior Investment Officer to focus on secondary activity, co-investments, and alternative private equity structures.

Fixed Income

- The FI/HF/C Committee approved a structure review in January; that structure review will be forwarded to the BOI in February.
- A review of cash guidelines is scheduled for March.

Real Estate

- Staff continues to evaluate several international commingled fund opportunities.
- Staff is currently coordinating a performance attribution analysis project with the Real Estate Consultant.

Commodities

- A structure review is scheduled for the summer of 2018.

Hedge Funds

- A direct portfolio is being built with individual manager recommendations occurring throughout 2018.

Corporate Governance

- A draft, consolidated Corporate Governance Principles policy, incorporating feedback and approved by the Corporate Governance Committee, is being presented to the Board in February.
- Assessment of public markets managers' ESG practices continues to be refined, with takeaways integrated into LACERA's public market manager searches and monitoring.

OPEB

- Following the Board's approval of a new asset allocation for the OPEB trusts, staff has begun updating the IPS. An update is anticipated at the March BOI meeting.

COMPLIANCE MONITOR

Evaluating the Fund's investment portfolios against established policies and guidelines is an integral part of the ongoing portfolio management process and is commonly referred to as compliance. The Fund's portfolio is implemented in a nuanced way across multiple asset categories, so LACERA utilizes a multi-faceted approach to evaluate compliance. A summary of compliance activities across the Total Fund identifying advisory notifications where appropriate is provided on a calendar quarter basis. Compliance categories include allocation target weights, portfolio policies such as the use of leverage, and guidelines for various items such as types of permissible holdings.

INVESTMENT MANAGER MEETINGS

The purpose of this section is to promote transparency and governance best practices through the timely listing of manager meeting requests that the staff and/or consultant(s) receive from either the Chief Executive Officer (CEO) or a member of the Board of Investments.

In the normal course of business, the CEO or a Board member might recommend that staff meet with a specific manager; there might even be a subsequent discussion regarding a specific manager. If a third communication about the manager takes place within a rolling one-year period, LACERA's Investment Policy Statement directs that the full Board be notified of the requests. This process is designed to preserve the integrity of the decision-making process. Such contact would be reported in this section.

There are no contacts to report this month.

JANAURY FORECAST

Growth assets continue to perform well in early 2018. Bullish investors point to global synchronized economic growth and low realized inflation to justify both past and future increases in asset prices. Additionally, some market participants have high expectations about tax overhaul in the United States benefiting corporate profits. In contrast, more skeptical investors identify fundamental valuation metrics that are at the high end of historical ranges, the relatively long duration of the current economic expansion, and the reduction of central bank stimulus programs such as asset purchase programs in the U.S. and Europe.

The World Economic Forum annual meeting occurred in late January in Davos-Klosters, Switzerland. Much attention was placed on globalism versus nationalism across government policies around the world, prompted to a large extent by recent tariffs imposed on washing machines and solar panels by the United States. It remains to be seen how such changes in policy may both foretell future changes and how economies might be impacted. In the same week, U.S. Treasury Secretary Mnuchin applauded a weakening of the U.S. dollar while President Trump at Davos stated, "ultimately I want to see a strong dollar." We remain cognizant of the varied and, at times, contradictory forces that can influence global markets. We continue to strive to position the Total Fund with balanced sources of return in a way that can satisfy the Plan's short-term obligations and long-term goals.

LACERA's portfolio is poised to generate investment gains in January, as global equity markets are up more than 5% in January. Commodity markets ended 2017 strongly and started 2018 mildly positive. Fixed income markets have incurred modest losses against a backdrop of gradually increasing interest rates.

Attachments

JG:cq

Attachment 1

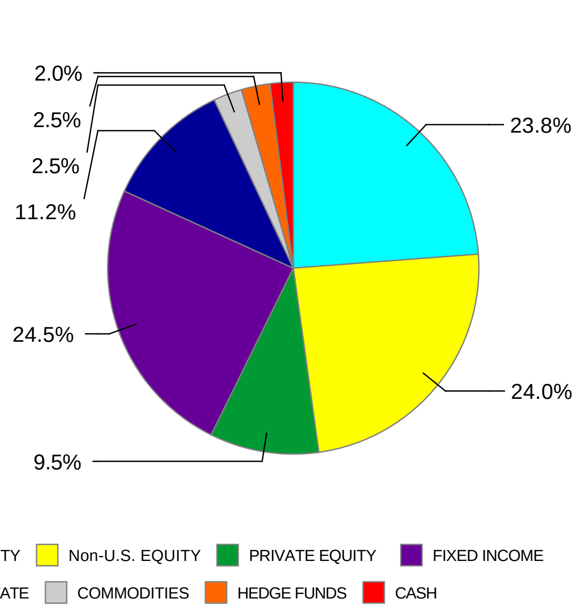
LACERA'S ***ESTIMATED*** TOTAL FUND

December 31, 2017

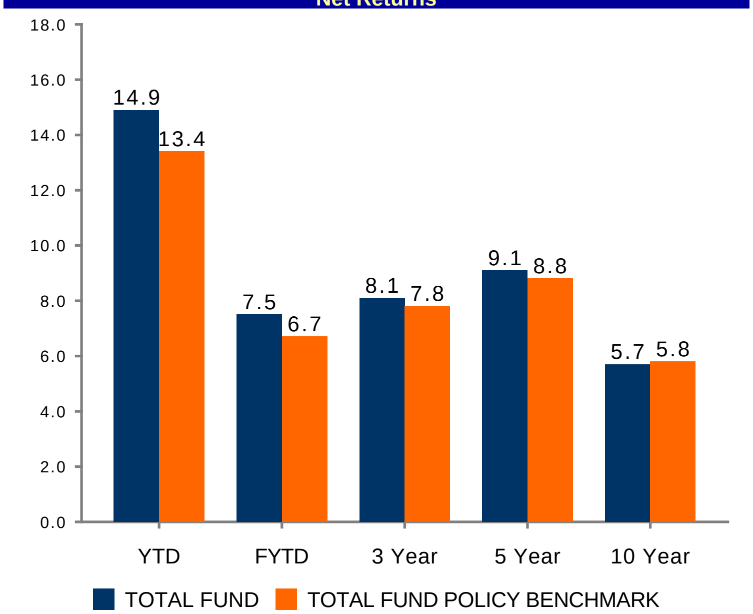
LACERA

	Market Value (millions)	Actual % Total Fund	Target % Total Fund	TOTAL RETURNS (NET) YTD	FYTD	3 Year	5 Year	10 Year
U.S. EQUITY	**13,239.2**	**23.8**	**23.5**	**20.9**	**10.8**	**10.9**	**15.4**	**8.5**
RUSSELL 3000 (DAILY)				21.1	11.2	11.1	15.6	8.6
Non-U.S. EQUITY (Hedged)	**13,370.7**	**24.0**	**21.9**	**25.3**	**11.2**	**9.5**	**9.2**	**3.1**
CUSTOM MSCI ACWI IMI N 50%H				24.6	11.0	9.0	8.8	2.8
PRIVATE EQUITY [1]	**5,270.7**	**9.5**	**10.0**	**17.6**	**10.4**	**12.0**	**14.8**	**11.1**
PRIVATE EQUITY TARGET [2]				12.8	6.2	13.0	13.2	10.4
FIXED INCOME	**13,617.3**	**24.5**	**25.4**	**5.2**	**1.8**	**3.7**	**3.2**	**5.3**
FI CUSTOM INDEX				4.1	1.4	2.8	2.5	4.4
REAL ESTATE [1]	**6,233.4**	**11.2**	**11.0**	**7.2**	**3.8**	**9.9**	**9.4**	**3.0**
REAL ESTATE TARGET				7.1	3.3	10.3	10.9	6.3
COMMODITIES	**1,400.5**	**2.5**	**2.8**	**4.1**	**9.2**	**-3.4**	**-7.1**	**-5.4**
Bloomberg Commodity Index Total Return				1.7	7.3	-5.0	-8.5	-6.8
HEDGE FUNDS [3]	**1,386.1**	**2.5**	**3.4**	**5.8**	**2.9**	**2.5**	**5.2**	
HEDGE FUND CUSTOM INDEX [3]				5.8	3.0	5.4	5.2	
CASH	**1,089.5**	**2.0**	**2.0**	**1.1**	**0.5**	**0.8**	**0.6**	**0.8**
Citigroup 6 M Treasury Bill Index				0.9	0.6	0.5	0.3	0.5
TOTAL FUND [1]	**55,607.5**	**100.0**	**100.0**	**14.9**	**7.5**	**8.1**	**9.1**	**5.7**
TOTAL FUND POLICY BENCHMARK				13.4	6.7	7.8	8.8	5.8

Asset Allocation



Net Returns



[1] Returns for private equity and real estate are calculated on a quarterly basis and are not updated intra quarter. Therefore, 3-, 5- and 10-year returns are only calculated at quarter-end for private equity and real estate. In addition, the Total Fund's returns are based on the latest available quarterly returns for these two asset classes.

[2] Rolling ten-year return of the Russell 3000 plus 500 basis points (one-quarter lag).

[3] One-month lag. Performance included in the Total Fund beginning 10/31/11

These are preliminary returns

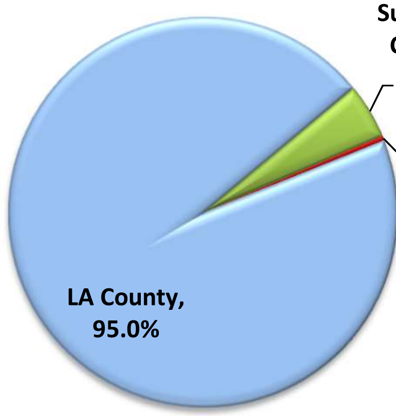
Periods greater than 1-year are annualized

OPEB MASTER TRUST

December 31, 2017

Fund Name		Inception Date	Market Value (millions)	Trust Ownership	Month	3 Month	FYTD	1 Year	3 Year	Since Incept.
Los Angeles County:	Gross	Feb-2013	$831.7	95.0%	1.33	4.68	9.39	19.80	8.37	6.33
	Net				1.33	4.67	9.36	19.76	8.33	6.28
	Net All				1.33	4.66	9.34	19.71	8.27	6.24
LACERA:	Gross	Feb-2013	$3.2	0.4%	1.34	4.72	9.46	19.98	8.43	6.36
	Net				1.34	4.71	9.44	19.94	8.39	6.32
	Net All				1.32	4.38	9.00	18.68	7.73	5.91
Superior Court:	Gross	Jul-2016	$40.1	4.6%	1.36	4.74	8.96	18.34	---	13.73
	Net				1.36	4.73	8.94	18.30	---	13.69
	Net All				1.35	4.65	8.83	17.92	---	12.57
TRUST OWNERSHIP TOTAL:			**$875.1**	**100.0%**						

Trust Ownership



Allocation		Inception Date	Market Value (millions)	Allocation %	Month	3 Month	FYTD	1 Year	3 Year	Since Incept.
OPEB Global Equity:	Gross	Mar-2014	$683.5	80.9%	1.65	5.79	11.50	24.36	9.91	8.54
	Net				1.65	5.78	11.48	24.31	9.87	8.50
Benchmark: MSCI ACWI IMI Net					1.63	5.72	11.34	23.95	9.52	8.16
Excess Return (Gross - Benchmark)					*0.02*	*0.07*	*0.16*	*0.41*	*0.39*	*0.38*
OPEB Enhanced Cash:	Gross	Feb-2013	$161.2	19.1%	0.11	0.30	0.67	1.31	0.89	0.67
	Net				0.10	0.29	0.65	1.26	0.84	0.61
Benchmark: Citigroup 6 M T-Bill Index					0.11	0.30	0.55	0.88	0.46	0.31
Excess Return (Gross - Benchmark)					*0.00*	*0.00*	*0.12*	*0.43*	*0.44*	*0.36*

These are preliminary returns

Periods greater than 1-year are annulized

ATTACHMENT 3

PUBLIC INVESTMENT-RELATED SEARCHES APPLICANTS

This document identifies firms who have pro-actively submitted an application to LACERA in response to a publicly posted request. These publicly posted requests are commonly referred to as searches and may include minimum qualifications. When an external firm submits an application to a search, LACERA is in a quiet period with the applying firm while the search is active.

The following firms have responded to a request for information regarding an active U.S. small capitalization equity mandate:

AB L.P.
Aberdeen Asset Management Inc
American Century Investment Management, Inc.
Aristotle Capital
Brandywine Global Investment Management, LLC
Brown Advisory LLC
ClearBridge Investments
Cooke & Bieler, LP
Cornerstone Capital Management Holdings LLC
Cortina Asset Management
Cramer Rosenthal McGlynn, LLC
FIAM LLC
Fisher Investments
Hotchkis and Wiley Capital Management, LLC
Investment Counselors of Maryland, LLC
Kayne Anderson Rudnick Investment Management, LLC
LMCG Investments, LLC
Macquarie Investment Management
Martingale Asset Management
Matarin Capital
Mesirow Financial Investment Management Inc.
MFS Institutional Advisors, Inc
PanAgora Asset Management, Inc
Quantitative Management Associaties LLC
Ranger Investment Management
River Road Asset Management, LLC
Rothschild Asset Management Inc
Systematic Financial Management, L.P.
The Boston Company Asset Management LLC
Tributary Capital Management, LLC
Victory Capital Management Inc
Voya Investment Management
Wellington Management Company LLP
Wells Capital Management, Inc.

Westfield Capital Management Company, L.P.
William Blair Investment Management, LLC
Ziegler Capital Management, LLC

The following firms have responded to a request for proposal regarding an active emerging manager equity mandate:

361 Capital
AltraVue Capital
AMP Wealth Management
Applied Research Investments
Arabesque Asset Management
Ativo Capital Management
Blackcrane Capital, LLC
Bowling Portfolio Management
Bridge City Capital, LLC (BBC)
Business Technology Associates
Cedar Street Asset Management
Compass Group LLC
CornerCap Investment Counsel
Decatur Capital Management
Denali Advisors
Dundas Global Investors
Eastern Shore Capital Management
Empiric Institutional LLC
Global Alpha Capital Management
Goelzer Investment Management, Inc.
Granahan Investment Management
Granite Investment Partners
High Pointe Capital Management LLC
Hillcrest Asset Management
Isthmus Partners, LLC
Marietta Investment Partners
Mark Asset Management
Martin Investment Management LLC
Maryland Capital Management (MCM)
Matarin Capital Management
Metis Global Partners
Monarch Partners
New Amsterdam Partners LLC
Oak Associates LTD
OakBrook Investments LLC
Osmosis Investment Management US LLC

Pacific Ridge Capital Partners, LLC
Pacific View Asset Management LLC
Redwood Investments
RVX Asset Management, LLC
Seamans Capital Management
Semper Augustus Investments Group LLC
Spyglass Capital Management LLC
Summit Global Investments
Sustainable Insight Capital Management
Union Square Park Capital Management LLC

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ATTACHMENT 4

Compliance Monitor* - December 2017

This report highlights operational and compliance metrics monitored by the Investment Division

	Quarterly Review Status	# Advisory	Notes
PUBLIC MARKETS			
U.S. Equity			
Asset Allocation Policy Compliance	✓	1	Passive exposure is above the 75% allocation range
Investment Guideline Compliance	✓		
Emerging Manager Program	✓		
# of Sudan/Iran Holdings Held by Managers	✓		
Non - U.S. Equity			
Asset Allocation Policy Compliance	✓		
Investment Guideline Compliance	✓		
# of Sudan/Iran Holdings Held by Managers	✓	3	3 issuers held representing $16.4 mm in market value
Fixed Income			
Asset Allocation Policy Compliance	✓		
Investment Guideline Compliance	✓	1	Manager breeched the cap on unrated and BBB securities
Emerging Manager Program	✓		
# of Sudan/Iran Holdings Held by Managers	✓	4	4 issuers held representing $26.2 mm in market value
Commodities			
Asset Allocation Policy Compliance	✓		
Investment Guideline Compliance	✓		
# of Sudan/Iran Holdings Held by Managers	✓		
Securities Lending			
Investment Guideline Compliance	✓		
$ Value on Loan	✓	1	GSAL $540.5 mm; State Street $763.9 mm
$ Value of Cash Collateral	✓	1	GSAL $553.3 mm; State Street $947.8 mm
Total Income YTD	✓	1	GSAL $2.7 mm; State Street $2.5 mm
Proxy Voting			
Number of Meetings Voted	✓	1	126 meetings voted
Tax Reclaims			
Total Paid Reclaims YTD	✓	1	$311,593
Total Pending Reclaims	✓	1	$1.5 mm

Compliance Monitor* - December 2017

This report highlights operational and compliance metrics monitored by the Investment Division

	Quarterly Review Status	# Advisory	Notes
PRIVATE MARKETS			
Real Estate (As of 9/30/2017)			
Asset Allocation Policy Compliance	✓		
Guideline Compliance by Strategy (Core/Non-Core)	✓		
Guideline Compliance by Manager	✓		
Guideline Compliance by Property Type	✓		
Guideline Compliance by Geographic Location	✓	1	Western Region is above target
Guideline Compliance by Leverage	✓		
Private Equity (As of 9/30/2017)			
Asset Allocation Policy Compliance	✓		
Guideline Compliance by Strategy (Buyout/Venture/Special Sits)	✓		
Guideline Compliance by Geographic Location	✓		
Investment Exposure Limit	✓		
Hedge Funds			
Asset Allocation Policy Compliance	✓		
External Manager Guideline Compliance	✓	2	One FOF manager exceeded the cash limit; the other experienced a temporary liquidity breech
Direct Portfolio Manager Guideline Compliance	✓		
OPEB MASTER TRUST			
Equity			
Asset Allocation Policy Compliance	✓		
Investment Guideline Compliance	✓		
# of Sudan/Iran Holdings Held by Managers	✓		
Fixed Income/Enhanced Cash			
Asset Allocation Policy Compliance	✓		
Investment Guideline Compliance	✓		
# of Sudan/Iran Holdings Held by Managers	✓		
FEE VALIDATION			
Fee Reconciliation Project	✓		
AB 2833	✓	1	Annual report delivered at the December 2017 BOI meeting

* Notes: This list is not exhaustive as various compliance processes are completed throughout the year.
Each quarter, different items may appear on the compliance monitor.

February 5, 2018

TO: Each Member
Board of Investments

FROM: Robert R. Hill RRH
Interim Chief Executive Officer

FOR: Board of Investments Meeting of February 14, 2018

SUBJECT: The 2018 MoneyConf - "The Future of Money" on June 11-13, 2018 in Dublin, Ireland

The 2018 MoneyConf will be hosting "The Future of Money" event on June 11-13, 2018 in Dublin, Ireland. In three years, MoneyConf has become the leading fintech event in Europe. Over 5,000 of the top names in the industry, from CEO's of global financial institutions to the founders of the world's most disruptive startups, from more than 70 countries, have made it to the place where those redefining the future of finance meet.

The main conference highlights include the following:

- Fraud & Cybersecurity
- Cryptocurrencies & Bitcoin
- Wealth Management & Augmented Reality
- Capital Markets
- Regulation & Compliance

The conference meets LACERA's policy of an average of five (5) hours of substantive educational content per day. The discounted hotel rates range from $364.00 to $500.00 plus applicable resort fees and taxes and the registration fee is $1,440.00.

If the registration fee is insufficient to pay the cost of the meals provided by the conference sponsor, LACERA must reimburse the sponsor for the actual cost of the meals, less any registration fee paid. Otherwise, the attendee will be deemed to have received a gift equal to the value of the meals, less any registration fee paid, under California's Political Reform Act.

IT IS THEREFORE RECOMMENDED THAT YOUR BOARD:

Approve attendance of Board members at the 2018 MoneyConf – "The Future of Money" on June 11-13, 2018 in Dublin, Ireland and approve reimbursement of all travel costs incurred in accordance with LACERA's Education and Travel Policy.

RH/lg
Attachment

MONEYCONF

DUBLIN | JUNE 11-13, 2018

A comprehensive overview

Contents

A grand conclave of the tech industry's high priests.

The New York Times

Carlos Torres Vila,
CEO of BBVA,
speaking at MoneyConf 2016

5,000+

Attendees

75%

Senior management

250

Journalists

100+

Speakers

70

Countries

Where the disrupted meet the disruptors

In three years, MoneyConf has become Europe's leading fintech conference: a meeting place for 5,000 of the industry's most influential figures, from the CEOs of global financial institutions, to the founders of the world's most disruptive startups, to leading investors and international media.

"

Where the world's biggest banks and tech firms meet.

In June 2018 the people redefining the future of finance will convene in Dublin, Ireland for MoneyConf. Join them.

Who comes to MoneyConf?

MoneyConf brings together the CEOs of the world's leading finance companies with the founders leading the behemoths of tomorrow – the fintech startups you need to know about. Join over 5,000 people asking how the future of finance will look. Dublin, this June 11-13.

Taavet Hinrikus,
CEO, TransferWise

They've spoken

Carl Torres Vila
CEO
BBVA

John Collison
president & co-founder
Stripe

JP Rangaswami
CDO
Deutsche Bank

Claire Calmejane
director of innovation
Lloyds Bank

Taavet Hinrikus
co-founder & CEO
TransferWise

Mark Mullen
CEO
Atom Bank

Ann Cairns
president
Mastercard

Alexander Graubner-Müller
co-founder & CEO
Kreditech

Chris Skinner
author
The Finanser

Valentin Stalf
CEO
N26

Ben Milne
co-founder
Dwolla

David Birch
director
Consult Hyperion

Mark Wilson
CEO
Aviva

Bill Ready
CEO
Braintree

Pieter van der Does
CEO & co-founder
Adyen

Eileen Burbidge
partner
Passion Capital

Nicolas Huss
CEO
VISA

Gary Hoberman
CIO
MetLife

Ann Cairns,
president, international markets, Mastercard

MoneyConf by day

Your MoneyConf ticket gives you access to two stages of in-depth analysis of the most pressing issues in fintech today. You'll also get to experience curated roundtables and workshops, special nighttime networking events and our exclusive MoneyConf app.

Inspiring talks from 10am-5pm

Onstage content with world-class speakers kicks off across our two MoneyConf stages, Centre Stage and Insights Stage, at 10am each morning. We've welcomed the people who have built 21st-century giants TransferWise and Stripe. Our attendees have also heard from C-level executives driving change at the world's most influential companies, such as Mastercard, Deutsche Bank and Lloyds Bank. Here's what we'll be discussing.

John Collison,
co-founder, Stripe

Credit and lending

- Will the market evolve towards more collaboration between alternative lenders and banks or fiercer competition?
- What will the lending space look like in five years' time?
- What are the biggest changes facing the industry and how are traditional banks adapting?
- Alternative lenders do not possess the economically valuable data that banks do: could this be their downfall?

Payments

- How can banks and fintech startups collaborate in the current competitive financial environment?

- How are mPOS technologies expanding merchant categories and digitising new segments of commerce?

- UX: what if the practice of invisible payment was extended to all forms of commerce?

- Who will emerge victorious in the battle of mobile wallets and why?

Banking

- PSD2 will facilitate further enrichment of alternative platforms data. How does a bank differentiate itself when value-added services are provided externally?
- How can banks better manage the relationship between employees and intelligent machines?
- In a world where every device is connected, how do you stay ahead of the cyber threat?
- Which lines of business hold most scope for the application of AR and VR?

Commerce and retail

- What challenges are preventing faster adoption of so-called social commerce?
- How can small retailers increase engagement and loyalty in a contextual commerce world, where products and services are offered at exactly the right time and place?
- How should a retailer evaluate different payment gateways?

AI, data and machine learning

- How will big data analysis continue to transform the financial services industry?
- How are companies using data to optimise the customer experience?
- Should consumers trust banks to use their data in an ethical and legal manner?
- Are we in danger of being clouded by the buzz around big data rather than understanding its practical benefits within the financial ecosystem?
- When will AI be fully adopted in consumer finance?
- Would you trust your transactions, bank accounts, portfolios and other financial assets to a computer? Will you have a choice? Do we trust AI with our money?
- Do people want financial advice before they even realise they need it?

Fraud and cybersecurity

- What are financial services overlooking when it comes to security threats and fraud prevention today?
- When will biometrics go mainstream?
- How do you protect against threats when every device in your company is connected?
- The cost of non-compliance is huge. What are the most important steps companies need to take to avoid both threats and non-compliance reprimands?

Insurance

- How big is the insurance-industry-disruption opportunity?
- Fraud has always been a major problem for the industry. Is blockchain the answer?
- Is the role of an agent or broker dead in a digital world?
- Where in the insurance value chain is most at risk of disruption?
- How are new technologies bringing insurance to the under-insured?

Cryptocurrencies

- Are there cryptocurrencies competing with bitcoin?
- How does a cryptocurrency startup manage its regulation and compliance when they act in areas of ambiguity?
- Can bitcoin really reach half a billion in value over the next few years?
- How significant is Ether as an example of how cryptocurrencies can be much more than money?
- What is the next development in smart contract applications?

Blockchain

- Do we know blockchain's full potential?
- How can blockchain and digital identity power financial inclusion?
- What are the main case studies of practical use and acceptance of blockchain today?
- How close is blockchain to finding applications in legacy financial systems and B2B uses?

Wealth management

- Will augmented reality allow robo-advisors to compete effectively in the HNW space?
- Does AI represent the death knell for active investing?
- Is there enough of a shift towards greater efficiency and adaption by incumbent firms in the industry?
- How will tech introduce increased transparency to wealth management?

Investment

- Are ICOs the future of funding?
- As the traditional fintech leaders mature, IPO, or partner with traditional banks, how can the next wave of fintech disruptors make their mark in a crowded and competitive marketplace and obtain the required funding to compete?
- What space will be next to boom like insurtech? Will it be regtech?

Capital Markets

- How can NLP and machine learning mitigate the increasing cost of regulatory compliance?

- Where will standardised solutions and data standards such as FIBO have the biggest impact?

- How are new technologies making the modern trading desk more efficient and does this matter in a world of AI?

- How can data analytics help improve market share when MiFiD II best execution requirements are predicted to make clients more price-sensitive?

Regulation

- Is there a level playing field for incumbents and disruptors when it comes to regulation and compliance?
- How should regulators deal with technology innovations that lie outside existing regulations?
- How can regulation find a balance between fair competition, protecting the consumer and promoting innovation?
- In an increasingly digital world, does regulation and compliance mean more engineers or more lawyers?

Workshops from 10am-4pm

You can attend fully curated, invite-only MoneyConf workshops targeted at specific audiences, where speakers, partners, investors and more will work through the problems facing businesses of all sizes.

Roundtables from 10am-5pm

At MoneyConf, roundtable groups of 15-20 speakers and attendees meet to try to find solutions to the toughest problems in tech and business today. Roundtable groups will be linked directly to onstage content, so whether you're into cryptocurrencies, insurance, lending, or another topic being covered at MoneyConf, we have the group for you to join.

The networking continues: MoneyConf by night

MoneyConf isn’t like most conferences. Our timetable doesn’t run from nine to five – far from it. After talks finish, the networking continues at a series of exclusive, specially curated night events.

Night Summit: 8pm till late

MoneyConf doesn’t end each day with the final talk on Centre Stage. In fact, we find that some of the most valuable connections our attendees make are forged after hours. We’ll be hitting Dublin’s most charming bars and restaurants with founders, CEOs, investors and startups for invite-only networking events.

Our mobile app

Only available to attendees, MoneyConf app is your in with everyone attending the event – from the CEOs and founders of the world's most influential companies, to the people building the companies of tomorrow, investors and more. You'll be able to search for and chat with all attendees pre, during and after the event, set up meetings and ensure your time in Dublin is as productive as possible.

Media

"A grand conclave of the tech industry's high priests

The New York Times

"The giants of the web assemble.

THE WALL STREET JOURNAL.

"One of the most important events in the international tech calendar.

THE HUFFINGTON POST

"Europe's largest technology conference

USA TODAY

"Davos for Geeks

Bloomberg

"The best of Silicon Valley and European technology

FT
FINANCIAL TIMES

"Glastonbury for Geeks

theguardian

MONEYCONF

June 11-13, 2018
See you in Dublin.

LACERA

February 5, 2018

TO: Each Member
Board of Investments

FROM: Robert R. Hill
Interim Chief Executive Officer

FOR: Board of Investments Meeting of February 14, 2018

SUBJECT: National Association of Corporate Directors - Global Cyber Forum
April 17-18, 2018 in Geneva, Switzerland

The National Association of Corporate Directors (NACD) - Global Cyber Forum will take place on April 17-18, 2018 at the Hotel President Wilson in Geneva, Switzerland. Attendees of this unique forum will examine leading board oversight practices, and the intimate discussion will focus on practical, actionable items that board members and key c-suite executives can effectively implement to help defend their companies against cybersecurity risks from around the globe.

The main conference highlights include the following:

- Public-Private Collaboration on Cybersecurity
- The Board's Evolving Role in Cyber-Risk Oversight
- Cybersecurity: The Human Factor
- The Shifting Regulatory Landscape

The conference meets LACERA's policy of an average of five (5) hours of substantive educational content per day. The standard hotel rate at the President Wilson hotel is $350.00 per night plus applicable taxes and the registration fee to attend is $3,495.00.

If the registration fee is insufficient to pay the cost of the meals provided by the conference sponsor, LACERA must reimburse the sponsor for the actual cost of the meals, less any registration fee paid. Otherwise, the attendee will be deemed to have received a gift equal to the value of the meals, less any registration fee paid, under California's Political Reform Act.

IT IS THEREFORE RECOMMENDED THAT YOUR BOARD:

Approve attendance of Board members at the National Association of Corporate Directors - Global Cyber Forum on April 17-18, 2018 in Geneva, Switzerland and approve reimbursement of all travel costs incurred in accordance with LACERA's Education and Travel Policy.

RH/lg
Attachment

NACD Global Cyber Forum **Agenda**

17-18 APRIL 2018 | THE HOTEL PRESIDENT WILSON | GENEVA, SWITZERLAND

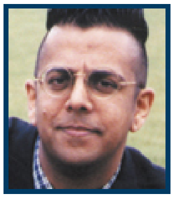
DAY 1. TUESDAY, 17 APRIL

18:00 – 19:00

Networking Cocktails and Welcome Reception

19:00 – 21:00

Dinner with Keynote Address



Dr. Simon Singh
Journalist, TV Producer, Author, *The Code Book, Fermat's Last Theorem, Big Bang, Trick or Treatment?*

DAY 2. WEDNESDAY, 18 APRIL

07:00 – 08:00

Power Breakfast *(3 concurrent sessions)*

Join cybersecurity experts, corporate cybersecurity leaders (CISOs) and non-executive directors (NEDs) for informal, interactive discussions about cybersecurity's hottest issues. Program topics under development.

OPTION 1

Report from the Front Lines of Technology

Hear about the latest developments in the Internet of Things (IoT), cloud computing, mobile, artificial intelligence, robotics and more - that are affecting companies in every industry, and discuss the questions board members should ask their management teams about the cybersecurity implications of emerging technologies.

Olga Botero
Vice Chair, EVERTEC, Inc.; Director, Intralinks; Former CIO, Grupo Bancolombia; Senior Advisor, the Boston Consulting Group

Richard Spearman
Group Corporate Security Director, Vodafone Group plc

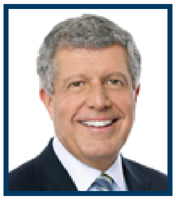
Akhilesh Tuteja
Global Practice Co-Lead, India Region, KPMG LLP

OPTION 2

Cybersecurity: The Human Factor

A company's workforce has the potential to be one of the biggest threats to the security of its data assets, or the key to a robust cyber-defense strategy. Learn how leading companies are establishing cultures of cyber-awareness at all levels of their organizations -- including among top management and in the boardroom.

Dr. Mantsika Matooane
Board Member and Non-Executive Director, Johannesburg Stock Exchange (JSE); NMG Consultants and Actuaries (Pty) Limited; Group Executive of Enterprise Information Management Services, Transnet SOC Limited

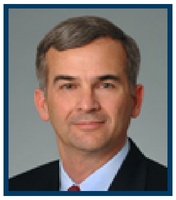


William E. McCracken
Director, NACD, MDU Resources Group Inc.; President, Executive Consulting Group

OPTION 3

Building the Boardroom Cybersecurity Dashboard

In a recent NACD survey, less than 20% of board members say they are "very satisfied" with the information they receive from management about cyber-risks. What key metrics, benchmarks, and sources of information (internal to the company as well as external) are essential for effective board oversight of cybersecurity?



Jeff Brown
Vice President, Chief Information Security Officer, Raytheon Co.

Dr. Maya Bundt
Head, Cyber and Digital Solutions, Swiss Reinsurance Company Ltd.; Director, Valiant AG, Swiss Re Direct Investments Company Ltd., Swiss Re Principal Investments Company Ltd.

08:15 – 08:30

Welcome and Overview

08:30 – 09:30

The New Cybersecurity State of Play

Overview of the current global cyber-threat environment, focusing on the important emerging trends and developments that corporate board members need to know about.

Josh Klein
Technologist, Consultant, and Advisor

09:30 – 10:30

The Shifting Regulatory Landscape

How will new cyber-regulations—including the European General Data Protection Regulation and other key standards and requirements—affect global companies in 2018 and beyond, and what does it all mean for the work of the board?

Dani Michaux
Asia Regional Leader, KPMG LLP

Dr. Gerhard Schabhüser
Vice President, the Federal Office for Information Security (BSI)

10:30 – 10:45

Networking Break

10:45 – 11:45

Public-Private Collaboration on Cybersecurity

Given the unique nature of cybersecurity threats, coordination between industry and government is essential. Yet many companies are uncertain about how to engage, given the wide range of public-private partnership activities at both the national and global levels, many of which are in relatively early stages of evolution. What protocols have been developed, and what initiatives are being proposed? What questions should board members ask about how their companies are working with national and international agencies on cyber issues?

Jen Ellis
Vice President, Policy and Public Affairs, Rapid7

Gen. Koen Gijsbers
Senior Advisor, Network Centric Industry Operations Industry Consortium; Former General Manager, NATO Communications and Information Agency; Former CIO, Netherlands Ministry of Defence

Dr. Phyllis Schneck
Deputy Under Secretary for Cybersecurity, National Protection and Programs Directorate, U.S. Department of Homeland Security

11:45 – 12:45

Securing the Global Company

CISOs and NEDs from multinational companies talk about the changing face of cyber hygiene in response to emerging threats and technological advances, how strong cybersecurity practices can strengthen a company's competitive position, and implications for the information that management needs to provide to board members.

John Hermans
Cyber Security Lead Partner KPMG LLP

Sara Grootwassink Lewis
Audit Committee Chair, Sun Life Financial, Weyerhaeuser Co., PS Business Parks; Director, Leadership Board of the U.S. Chamber of Commerce Center for Capital Markets Competitiveness; Trustee, Brookings Institution

Richard Spearman
Group Corporate Security Director, Vodafone Group plc

12:45 – 13:00

Move to Lunch

13:00 – 14:30

Networking Lunch and Keynote

The Rt. Hon Baroness Pauline Neville-Jones DCMG
Senior Advisor, Ridge-Schmidt Cyber; Chair, Bank of England advisory panel on cybersecurity; Member of Parliament and Privy Councillor, UK; Former UK Minister of State for Security and Counter-terrorism

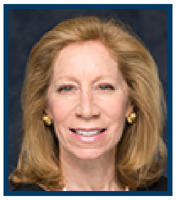
14:30 – 15:30

The Board’s Evolving Role in Cyber-Risk Oversight

How are corporate boards keeping pace with the rapidly-changing cyber-threat environment? How can board members evaluate the level of their companies’ resilience to cyberattacks? Seasoned global NEDs and cybersecurity experts share leading-edge practices and lessons learned. The session will include findings from recent roundtables in Germany and London focused on adaptation of the principles from NACD’s *Director’s Handbook on Cyber-Risk Oversight*.

Larry Clinton
President and CEO, Internet Security Alliance; Director, IT Sector Coordinating Council, Cybersecurity Advisory Board for the Center for Audit Quality

Dr. Anastassia Lauterbach
Independent Director, Dun & Bradstreet Corp.; Advisory Board Director, Kaspersky Lab ZAO; Founder & CEO, Lauterbach Ventures



Shelley Leibowitz
President, SL Advisory; Director, E*TRADE Financial, Child Guidance Center of Southern CT; Former Group Chief Information Officer, World Bank

15:30 – 15:45

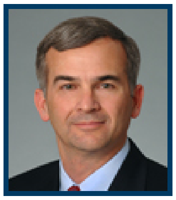
Networking Break

15:45 – 17:15

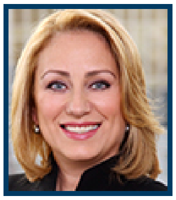
Cyber-breach Simulation and Peer Exchange

What happens when senior executives and board members of a fictitious global company respond to a major cyber incident? A cybersecurity expert will lead us through the events on the day of, and in the months following, the discovery of a cyber-breach. Attendees will discuss key takeaways in facilitated small-group discussions.

Greg Bell
Principal, Advisory Services, KPMG LLP

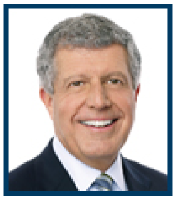


Jeff Brown
Vice President, Chief Information Security Officer, Raytheon Co.



Lucy Fato
Executive Vice President & General Counsel, American International Group, Inc. (AIG)

Sara Grootwassink Lewis
Audit Committee Chair, Sun Life Financial, Weyerhaeuser Co., PS Business Parks; Director, Leadership Board of the U.S. Chamber of Commerce Center for Capital Markets Competitiveness; Trustee, Brookings Institution



William E. McCracken
Director, NACD, MDU Resources Group Inc.; President, Executive Consulting Group

17:15 – 17:30

Concluding Remarks

17:30 – 18:30

Closing Reception

18:30

Program Adjourns

RESERVE YOUR SEAT TODAY
NACDOnline.org/Education

Attendance at the entire course is mandatory for NACD Fellowship® credit.
Please make your travel plans accordingly.

NATIONAL ASSOCIATION OF CORPORATE DIRECTORS

LACERA

February 5, 2018

TO: Each Member
Board of Investments

FROM: Robert R. Hill RRH
Interim Chief Executive Officer

FOR: Board of Investments Meeting of February 14, 2018

SUBJECT: Institutional Investor – Public Funds Roundtable
April 25-27, 2018 in Los Angeles, California

The 2018 Institutional Investor – Public Funds Roundtable will take place on April 25-27, 2018 at the Beverly Hilton in Los Angeles, California. The 2018 Roundtable for Public Funds will address shifting trends in depth, and aim to arm public chief investment officers and their teams with the crucial knowledge needed to succeed going forward.

The main conference highlights include the following:

- Institutional Investor Case Study: Aligning the Public Pension Portfolio
- Private Equity and the Incredible Shrinking Public Markets
- Private Credit: Demystifying the Flood of Capital
- Idea Labs: Hacking the Governance Challenge
- Rapid-Fire: The Market Risks that You Worry Will Destroy Everything

The conference meets LACERA's policy of an average of five (5) hours of substantive educational content per day. The standard hotel rate at the Beverly Hilton hotel is $218.00 per night plus applicable taxes and the registration fee to attend is $125.00.

If the registration fee is insufficient to pay the cost of the meals provided by the conference sponsor, LACERA must reimburse the sponsor for the actual cost of the meals, less any registration fee paid. Otherwise, the attendee will be deemed to have received a gift equal to the value of the meals, less any registration fee paid, under California's Political Reform Act.

IT IS THEREFORE RECOMMENDED THAT YOUR BOARD:

Approve attendance of Board members at the Institutional Investor – Public Funds Roundtable on April 25-27, 2018 in Los Angeles, California and approve reimbursement of all travel costs incurred in accordance with LACERA's Education and Travel Policy.

RH/lg
Attachment

Institutional Investor

Public Funds Roundtable

April 25–27, 2018 | The Beverly Hilton | Los Angeles, CA

Roundtable Co-Chairs

Angela Miller-May, Chicago Teachers' Pension Fund

Advisory Board

Derek Brodersen, Alberta Teachers Retirement Fund

Mark Steed, Arizona Public Safety Personnel Retirement Systems

Carlos Borromeo, Arkansas Public Employees' Retirement System

Michael Rosborough, CalPERS

Aoifinn Devitt, Chicago Policemen's Annuity and Benefit Fund

David Veal, City of Austin Employees' Retirement System

Amy McGarrity, Public Employees' Retirement Association of Colorado

Tim Price, Contra Costa County Employees' Retirement Association

Ashbel C. Williams, Florida State Board of Administration

Robert M. Maynard, Public Employee Retirement System of Idaho

Steve Russo, Indiana Public Retirement System

Andy Palmer, Maryland State Retirement & Pension Systems

Jeb Burns, Municipal Employees' Retirement System of Michigan

Craig Husting, Public School & Education Employee Retirement Systems of Missouri

Steve Yoakum, Public School & Education Employee Retirement Systems of Missouri

Mansco Perry III, Minnesota State Board of Investments

Joseph Cullen, Montana Board of Investments

Fadi BouSamra, The Metropolitan Government of Nashville & Davidson County Employee Benefit System

Christopher McDonough, State of New Jersey Investments

Robert Jacksha, New Mexico Educational Retirement Board

Vince Smith, New Mexico Investment Council

Scott C. Evans, New York City Retirement Systems

David Hunter, North Dakota Retirement and Investment Office

Farouki Majeed, School Employees Retirement System of Ohio (SERS)

Scott McIntosh, Ontario Municipal Employees' Retirement System (OMERS)

James Davis, OPTrust

Molly Murphy, Orange County Employees Retirement System

John Skjervem, Oregon State Treasury

James H. Grossman, Pennsylvania Public School Employees' Retirement System

W. Bryan Lewis, Pennsylvania State Employees' Retirement System

Don Pierce, San Bernardino County Employees' Retirement Association (SBCERA)

Elizabeth Crisafi, San Diego City Employees' Retirement System

Matt Clark, South Dakota Investment Council

Jase Auby, Teacher Retirement System of Texas (TRS)

T.J. Carlson, Texas Municipal Retirement System

Tom Tull, Employees Retirement System of Texas

Bruce Cundick, Utah Retirement Systems

Gary Bruebaker, Washington State Investment

Sam Masoudi, Wyoming Retirement System Board

Hacking the Public Pension Portfolio

Let's rip apart and re-examine the paradigms within which public pension plans have operated for the past ten years.

Meeting return expectations in the current market cycle will take more than strong diversification — including, but not limited to, an investment team that's light-years ahead of the curve. So what can you do to find the *diamonds in the rough*, manage *all things risk,* and hack both *governance* and *human capital*?

The 2018 Roundtable for Public Funds will address these shifting trends in depth, and aim to arm public chief investment officers and their teams with the crucial knowledge needed to succeed going forward.

Join us to explore, examine — and hack — the public pension plan.

Tuesday, April 24th — Early Registration

5:30 p.m.
Early Registration for Asset Allocators

6:45–8:30 p.m.
Early Registration and Welcome Reception for All Delegates

All conference attendees are invited to join us at the Beverly Hilton Aqua Star Pool for early registration and a poolside cocktail and hors d'oeuvres welcome reception.

Wednesday, April 25th

8:15–9:00 a.m.
Buffet Breakfast and Registration

9:00–9:15 a.m.
Opening Remarks

Kip McDaniel, *Chief Content Officer & Group Editorial Director*, Institutional Investor

9:15–10:00 a.m.
Fireside Chat: Emmanuel Roman, the Man Who's Making PIMCO Exciting Again

In November, PIMCO CEO Emmanuel Roman received the *Institutional Investor* cover treatment with a story titled "The Man Who's Trying to Make PIMCO Boring Again."

Now he's getting the Alternative Investor Institute treatment with a fireside chat to discuss what the future holds for one of asset management's most storied firms and the markets in which it operates. Hint: It's not boring in the slightest.

Moderator: **Kip McDaniel**, *Chief Content Officer & Group Editorial Director*, Institutional Investor

Emmanuel Roman, *Chief Executive Officer*, PIMCO

10:00–10:45 a.m.
Institutional Investor Case Study: Aligning the Public Pension Portfolio

The traditional American public pension portfolio is well known: a big slice of public equities, some debt, a few esoteric strategies, perhaps some hedge funds — and a whole lot of real estate and private equity. Variance is rare — and change is slow.

However, some plans are reshaping the entire alignment of public pension plan portfolio management, team structure, innovation, and risk.

Are they smart — or are they crazy? Decide for yourself.

James Davis, *Chief Investment Officer*, OPTrust

10:45–11:15 a.m.
Coffee Break

11:15 a.m.—12:30 p.m.
Idea Labs: Reconstructing the Public Pension Portfolio

Through the posing of concrete questions to small discussion groups, and in light of the ideas presented in the previous case study, delegates will have the opportunity to share their views on the new models of public pension investing. Discussion tables are seated so that you may engage with a diverse group of peers. The only rule: No sacred cows allowed.

A. **David Veal, CFA, CAIA, FRM**, *Chief Investment Officer*, City of Austin Employees' Retirement System

Jay Kloepfer, *Executive Vice President, Director of Capital Market Research*, Callan Associates Inc.

B. **Joe Marenda**, *Managing Director*, Cambridge Associates LLC

C. **Laura Wirick**, *Principal & Consultant*, Meketa Investment Group

D. **Freeman Wood**, *Partner, Alternative Investments*, Mercer

Joe Cullen, CFA, CAIA, FRM, *Chief Investment Officer*, Montana Board of Investments

E. **David Sancewich**, *Managing Director*, Pension Consulting Alliance, LLC

F. **John Nicolini, CFA**, *Private Markets Consultant*, Verus

G. **Jason Rector, CFA**, *Funds Alpha Analyst*, State of Wisconsin Investment Board

Trevor A. Jackson, Jr., *Senior Consultant*, Summit Strategies Group

12:30–2:15 p.m.
Seated Lunch with Featured Speaker
The Landscape in Washington

Stephen F. Hayes, *Editor-In-Chief*, *The Weekly Standard*

With over a year in the White House under his belt, what’s next for the Trump Administration – and what should organizations expect? Should the Democrats gain control of Congress, what will be the ramifications of a divided government? What does the future hold for the Republican and Democratic parties? Hayes will offer powerful analysis of the Trump Administration’s policies and how both Congress and the electorate are adjusting to an unconventional president in the White House.

Afternoon Focus: Diamonds in the Rough

2:15–3:00 p.m.
Obscure Now — But Not Obscure for Long

Recall the day when private credit was obscure — and about to explode on the institutional investment scene.

Now imagine if you were in private credit before everyone else.

There exist, right now, strategies that will allow those who allocate to see returns well above their projected rates of return. The trick, of course, is singling out those strategies from those that are dead on arrival.

Join cutting-edge allocators and managers in a discussion of just what those not-obscure-for-long strategies will be.

Moderator: **Kip McDaniel**, *Chief Content Officer & Group Editorial Director*, Institutional Investor

Mark Steed, *Deputy CIO & Chief of Staff*, Arizona Public Safety Personnel Retirement Systems

Fadi BouSamra, *Chief Investment Officer*, The Metropolitan Government of Nashville & Davidson County Employee Benefit System

3:00–3:15 p.m.
Transition Time

3:15–4:15 p.m.

Breakouts: Finding the Uncorrelated Diamonds in the Rough

Part panel, part discussion group, these concurrent sessions (pick your poison) will drill down on various silos of alternative investments — and how allocators can benefit from more nuanced views of each. Come prepared to examine and explore — bring your microscope.

I. Private Equity and the Incredible Shrinking Public Markets

Private equity often dominates public pension portfolios — and this bet has paid off handsomely for many allocators for many years. However, changing dynamics in both private and public markets call into question the persistence of this status quo. How can allocators, and the managers who invest on their behalf, ensure that the next great idea won't be lost in a sea of lackluster capital?

Moderator: **James Walsh,** *Head of Portfolio Advisory*, Albourne America LLC

Mansco Perry III, CFA, CAIA, CIPM, *Executive Director & Chief Investment Officer*, Minnesota State Board of Investment

Chris Schelling, CAIA, *Director — Private Equity*, Texas Municipal Retirement System

II. Private Credit: Demystifying the Flood of Capital

Rarely has any strategy caught fire as quickly as did private credit — which, along with its stellar returns, has caused a spike in cynicism about the asset class's long-term viability. How can allocators ensure that they will continue to benefit from this strategy without succumbing to bubble fever?

Moderator: **Patrick Adelsbach**, *Partner, Head of Credit*, Aksia LLC

Tom Tull, *Chief Investment Officer*, Employees Retirement System of Texas

James H. Grossman, Jr., CFA, CPA, *Chief Investment Officer*, Pennsylvania Public School Employees' Retirement System

III. The Desperate Search for the Uncorrelated

Marketable alternatives (hedge funds, for those of you uneducated in the latest labels) have a stronger *raison d'être* than return stream as of late — meaning the time will come when institutional portfolios clamor to hold hedge funds once again. Before that time (a recession!) comes along, what can allocators do to ensure that they find the right strategies, geographies, and managers?

Moderator: **Stephen L. Nesbitt**, *Chief Executive Officer*, Cliffwater LLC

Jason Rector, CFA, *Funds Alpha Analyst*, State of Wisconsin Investment Board

San Masoudi, CFA, CAIA, *Chief Investment Officer*, Wyoming Retirement System

4:15–4:30 p.m.

Transition Time

4:30–5:30 p.m.

The Next Generation of Public Fund CIOs

On your mark . . . get set . . . go. Watch the best and brightest not-yet–chief investment officers go head to head. Over a series of lightning rounds, each panelist will compete to answer pressing — and confidential — institutional investing questions. The audience will then vote on who will be a finalist for the Next CIO Award, to be presented at the Allocators' Choice Awards on November 29, 2018, in New York City.

Mike Rosborough, *Investment Director*, CalPERS

Ben Bronson, *Director of Liquid Strategies*, FPPA of Colorado

Sharmila Kassam, *Deputy Chief Investment Officer*, Employees' Retirement System of Texas

Wei Xie, *Strategic Director, Office of the Chief Investment Officer*, OPTrust

5:30–6:00 p.m.
Time at Leisure

6:00 p.m.
Departure from Beverly Hilton for Fig & Olive Melrose

6:30 p.m.
Reception and Dinner at Fig & Olive Melrose

8490 Melrose Place, West Hollywood, CA

Join us for a casual evening reception and dinner at Fig & Olive Melrose.

Thursday, April 26th

7:30–9:00 a.m.
Private Breakfast for Canadian Pension Officers

8:15–9:00 a.m.
Buffet Breakfast and Registration

9:00–9:15 a.m.
Opening Remarks

Kip McDaniel, *Chief Content Officer & Group Editorial Director*, Institutional Investor

Angela Miller-May, *Chief Investment Officer*, Chicago Teachers' Pension Fund

9:15–10:00 a.m.
Closed Door Session

Doors will close promptly at the start of this session, and not open again until its conclusion. All (prompt) delegates are welcome.

Speaker to be announced.

10:00–10:45 a.m.
Institutional Investor Case Study: Successfully Insourcing an American Pension Portfolio

Governance has long been blamed for both a lack of innovation in investing and robust internal investment teams at American public pension plans.

It need not be that way any longer.

Take an inside look at an investment organization that has overcome governance hurdles to effectively partner with outside providers — while concurrently bringing a significant proportion of its investment management in-house.

10:45–11:15 a.m.
Coffee Break

11:15 a.m.–12:30 p.m.
Idea Labs: Hacking the Governance Challenge

Through the posing of concrete questions to small discussion groups, and in light of the ideas presented in the previous case study, delegates will have the opportunity to debate and discuss methods of navigating the challenges posed by their specific governance structures. Discussion tables are seated so that you may engage with a diverse group of peers. The only rule: No sacred cows allowed.

A. **Leandro Festino, CFA, CAIA**, *Managing Principal, Consultant*, Meketa Investment Group

B. **Jeffrey C. Boucek, CFA**, *Senior Vice President, National Director of Public Fund Investment Consulting*, Segal Marco Advisors

C. **Timothy S. Sant, CFA**, *Principal*, Summit Strategies Group

D. **Eileen Neill, CFA**, *Managing Director & Senior Consultant*, Verus

12:30–2:30 p.m.

Fireside Chat with Jessica Yellin

Seated Lunch with Featured Speaker

Presented by: **Kip McDaniel**, *Chief Content Officer & Group Editorial Director*, Institutional Investor

Jessica Yellin, *former Chief White House Correspondent,* CNN

Jessica Yellin has interviewed three Presidents, three first ladies, and many of the possible contenders for the 2016 presidential race. She was one of the few women ever to earn the title chief White House correspondent, and throughout her career has often been the only woman in a room. Yellen will offer insight into the personalities that will drive our politics for the next decade, and shares stories from behind the scenes on Air Force One, the West Wing and more.

2:30–3:10 p.m.

Artificial Intelligence Boot Camp

What are the most impactful ways that artificial intelligence and machine learning will change institutional investment decision-making? What are the most important concepts and algorithms — and how do you apply them to your portfolio? Will the way we allocate fundamentally change?

Brandon Da Silva, *Investment Analyst*, OPTrust

Afternoon Focus: All Things Risk

3:10–3:50 p.m.

Rapid-Fire: The *Non-Market Risks* that You Worry Will Destroy Everything

In lightning-round format (to wake you up from lunch), six CIOs will take questions on what non-market risks most threaten their portfolios, their teams, and their careers.

Moderator: **Kip McDaniel**, *Chief Content Officer & Group Editorial Director*, Institutional Investor

Derek Brodersen, CFA, *Chief Investment Officer*, Alberta Teachers Retirement Fund

Amy McGarrity, *Chief Investment Officer*, Public Employees' Retirement Association of Colorado

Ashbel C. Williams, *Executive Director & Chief Investment Officer*, Florida State Board of Administration

Jonathan Grabel, *Chief Investment Officer*, Los Angeles Country Employees Retirement Association

Michael Walden-Newman, *State Investment Officer*, Nebraska Investment Council

Robert Jacksha, *Chief Investment Officer*, New Mexico Educational Retirement Board

3:50–4:35 p.m.

Rapid-Fire: The *Market Risks* that You Worry Will Destroy Everything

Again in lightning-round style, six *new* CIOs will take questions on what market-based risks they most fear as the bull market (let's hope it's still going by Roundtable time . . .) enters its ninth year.

Moderator: **Kip McDaniel**, *Chief Content Officer & Group Editorial Director*, Institutional Investor

David Kaposi, *Chief Investment Officer*, Ontario Power Generation

Jase Auby, *Deputy Chief Investment Officer*, Teacher Retirement System of Texas (TRS)

Don Pierce, *Interim Chief Investment Officer*, San Bernardino County Employees' Retirement Association (SBCERA)

4:35–4:45 p.m.
Transition Time

4:45–5:30 p.m.
Breakouts

Part panel, part discussion group, these concurrent sessions (pick your poison) will take deep dives into the issues surrounding new thinking about risk in institutional portfolios. Come prepared to confront hard truths — and help find solutions.

I. Crisis Risk Offset: New Strategic Asset Class or Siren Song?

Some describe it as a "new strategic asset class" designed to "materially appreciate in value at a time when growth-risk-related assets are experiencing significant challenges." Others, specifically *Institutional Investor* columnist Angelo Calvello, describe it as the "Siren of the Year" — "deceptively alluring, but misleading." Hear from those who have allocated — and those who avoid, like the plague, this new (or not so new?) strategy.

Allan Emkin, *Founder, Managing Director*, Pension Consulting Alliance, LLC

Peter Madsen, *Chief Investment Officer*, Utah Schools & Institutional Trust Funds Office

II. The Technology Between Us

The ways asset allocators evaluate risk — and apply their conclusions — have changed dramatically in the past decade. In this environment, platforms are arising to facilitate that analysis and those decisions. Asset managers need to understand how these platforms work; consultants need to understand who's using them and how; and allocators need to understand how to leverage them. This is not a test — it's a primer.
Moderator: **Max Giolitti**, *Chief Risk Officer*, Verus

III. Point/Counterpoint: Portfolio Theory Edition

Risk factor investors often argue that their paradigm is an evolution of risk parity portfolios. Risk parity managers, on the other hand, often argue that this is incorrect — and that risk factor proponents are making assumptions they shouldn't be. Hear from both managers and allocators about this fundamental debate, which permeates both asset allocation and manager selection. Feel free to egg them on.

Moderator: **Andrew Junkin**, *President*, Wilshire Consulting

Angela Miller-May, *Chief Investment Officer*, Chicago Teachers' Pension Fund

Scott McIntosh, *Managing Director, Global Diversified Program*, Ontario Municipal Employees' Retirement System (OMERS)

5:30–6:00 p.m.
Time at Leisure

6:00 p.m.
Departure from the Beverly Hilton to BOA Steakhouse

6:15 p.m.
Reception and Dinner at BOA Steakhouse

9200 Sunset Boulevard #650, West Hollywood, CA

Join us for a casual reception and dinner at BOA Steakhouse.

Friday, April 27th

7:30–9:00 a.m.
Private Breakfast for Chief Investment Officers & Heads of Investment Offices
Tim Price, *Chief Investment Officer*, Contra Costa Employees' Retirement Association

8:30–9:15 a.m.
Buffet Breakfast and Registration

9:15–9:30 a.m.
Opening Remarks
Kip McDaniel, *Chief Content Officer & Group Editorial Director*, Institutional Investor

Morning Focus: Hacking Human Capital

9:30–10:15 a.m.
The Talent Crisis
Sure, private equity and hedge fund firms can easily attract and keep talent (*ahem* paychecks *ahem*) — but the equation is different when it comes to a life of civil service in the public sector. It's thus essential that team leaders in the public plans space provide more than money. But what exactly is in the secret sauce?

Moderator: **Allan Martin**, *Partner*, NEPC, LLC

T.J. Carlson, *Chief Investment Officer*, Texas Municipal Retirement System

10:15–10:45 a.m.
Coffee Break

10:45–11:45 a.m.
Human Capital Breakouts
Part panel, part discussion group, these concurrent sessions (pick your poison) will take deep dives into the issues of human capital. Come prepared to confront hard truths — and help find solutions.

I. The Unrepresented Voices of Asset Management
If you don't know by now, you haven't been paying attention: The asset management industrial complex has largely failed to promote diversity and inclusion in the workplace. How can allocators and managers together effectively break the historic gender and ethnic imbalance (beyond tokenism) in the workplace — and what benefits will they see if they succeed?

Elizabeth Crisafi, *Chief Investment Officer*, San Diego City Employees' Retirement System

Molly Murphy, CFA, *Chief Investment Officer*, Orange County Employees Retirement System

Scott C. Evans, CFA, *Deputy Comptroller for Asset Management & Chief Investment Officer*, New York City Retirement Systems

II. Nothing Lasts Forever
News flash: You won't be in your role forever. And if you care about your organization and its underlying mission, you will also care about who follows you in your role — and having him or her be successful at it. Learn from an array of market participants — recruiters, seasoned CIOs, and newcomers — about how individuals and organizations can pay it forward and weather what is inherently a difficult process.

Moderator: **James A. Callahan, CFA**, *Executive Vice President, Head of Fund Sponsor Consulting*, Callan Associates Inc.

Michael Trotsky, *Executive Director, Chief Investment Officer*, MassPRIM

Aoifinn Devitt, *Chief Investment Officer*, Chicago Policeman's Annuity and Benefit Fund

11:45 a.m.–12:45 p.m.
The Culture Wars

You come to the realization that your new (or current) organization is not nearly as efficient, productive, and collaborative as your platonic ideal. What do you do? Running away isn't an option, so learn how to envision the big picture while sweating the small details about one of life's hardest challenges: changing a culture from within.

Moderator: **Kip McDaniel**, *Chief Content Officer & Group Editorial Director*, Institutional Investor

Farouki Majeed, CFA, *Chief Investment Officer,* School Employees Retirement System of Ohio (SERS)

12:45 p.m.
Buffet Lunch

Delegates are invited to convene for a casual buffet — or take lunch to go on their way to the airport.

Roundtable concludes.

LACERA

February 5, 2018

TO: Each Member
Board of Investments

FROM: Robert R. Hill RRH
Interim Chief Executive Officer

FOR: Board of Investments Meeting of February 14, 2018

SUBJECT: AVCJ Private Equity & Venture Forum – 15th Annual Australia & New Zealand Forum on February 28 – March 2, 2018 in Sydney, Australia

The 15th Annual Australia & New Zealand Forum will take place on February 28 – March 2, 2018 at the Westin Hotel in Sydney, Australia. The forum will bring together 270 attendees, which include investment leaders from across the world to have a cutting-edge industry debate on domestic, regional and global issues.

The main conference highlights include the following:

- The Institutionalized Debt Market Revolution
- Tech Ecosystem in Australia
- New Wave of LP's for Alternatives
- Succession the Right Way
- Asia Highlights: Where, Why, and How for LP's

The conference meets LACERA's policy of an average of five (5) hours of substantive educational content per day. The standard hotel rate at the Westin Hotel is $320.00 per night plus applicable taxes and the registration fee to attend is $2,295.00.

If the registration fee is insufficient to pay the cost of the meals provided by the conference sponsor, LACERA must reimburse the sponsor for the actual cost of the meals, less any registration fee paid. Otherwise, the attendee will be deemed to have received a gift equal to the value of the meals, less any registration fee paid, under California's Political Reform Act.

IT IS THEREFORE RECOMMENDED THAT YOUR BOARD:

Approve attendance of Board members at the 15th Annual Australia & New Zealand Forum on February 28 – March 2, 2018 in Sydney, Australia and approve reimbursement of all travel costs incurred in accordance with LACERA's Education and Travel Policy.

RH/lg
Attachment

AVCJ Private Equity & Venture Forum

Global Perspective, Local Opportunity

2018 SERIES

AVCJ An Acuris company

15th Annual Australia & New Zealand Forum

28 February - 2 March 2018 | The Westin Hotel, Sydney

Join over 270 attendees in Sydney for the 15th Annual AVCJ Australia and New Zealand Forum when investment leaders from across the world meet for 2 days of cutting-edge industry debate on domestic, regional and global issues.

www.avcjforum.com/ausnz

A snapshot of the AVCJ Australia & New Zealand Forum:

270+	55	11	135	125+
Delegates	Speakers	Countries	Companies	LPs

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www.avcjforum.com/ausnz

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Darryl Mag T: +852 2158 9639 E: Darryl.Mag@acuris.com

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Email: book@avcj.com **Call: +852 2158 9636**

Forum at a glance

Private equity and venture capital in Australia is back on track. A crop of new firms, founded by senior partners from the established domestic players, are raising capital and attracting LPs with flexible terms. Established managers are looking towards growth via overseas expansion, buy and build strategies and bolt-on acquisitions. With competition in the mid-market intensifying, it will be interesting to see the varying strategies at play and how GPs position themselves to win deals at a fair valuation. As the market matures, we will also see how firms become institutionalised and less reliant on key players, as the inevitable succession question becomes louder.

Since 2003, the AVCJ Australia & New Zealand Forum has been THE meeting place for the leaders of the alternative investments industry in the region. From the managing partners of Australian private equity funds to the CIO of the supers funds and emerging managers and family offices, the AVCJ Forum is where everyone in the ecosystem comes together once a year to exchange ideas, catch up with friends and meet their next business partner.

Benefits of attending include:

Network: Meet a diverse and powerful group of international LPs, GPs and advisors

Discover: Hear tips and tricks for fundraising, investing and exits from the industry thought-leaders

Global view: Find out the macro trends shaping the business landscape in 2018

Asia: Hear Regional experts share their knowledge on where to invest and how to achieve returns

New LPs: Meet the non-traditional LPs that are committing capital to private equity

Limited Partners from the following organisations that attend include:

- Abu Dhabi Investment Authority
- AustralianSuper
- Australia Post Superannuation Scheme
- AustSafe Super
- AvSuper
- BlackRock Private Equity Partners
- Capital Dynamics
- Cbus Super
- Challenger
- Christian Super
- China Investment Corporation (CIC)
- Coller Capital
- Commonwealth Superannuation Corporation (CSC)
- CPP Investment Board
- Employees Provident Fund (EPF)
- ESSSuper Emergency Services & State Super
- European Investment Fund (EIF)
- First State Super
- Funds SA
- Future Fund
- GESB
- GIC Special Investments
- HarbourVest Partners
- Hesta
- Hostplus
- IBM Superannuation
- Industry Funds Management
- International Finance Corporation (IFC)
- IOOF Holdings
- Khazanah Nasional Berhad
- Media Super
- MLC Private Equity
- New Zealand Superannuation Fund
- Nomura Private Equity Capital
- OPTrust Private Markets Group
- Qantas Superannuation
- QIC
- Roberts Family Office
- State Super Financial Services
- SunSuper
- Telstra Super
- Temasek
- Texas Permanent School Fund
- The Myer Family Office
- Unigestion SA
- University of Pittsburgh Medical Center
- University of Rochester
- University of Sydney
- UniSuper

... and many others!

For the latest confirmed speakers visit:
www.avcjforum.com/ausnz

Speakers

Keynotes

Raphael Arndt
Chief Investment Officer
FUTURE FUND

Mike Baird
Former NSW Premier

Limited Partners

Graeme Bibby
Chief Investment Officer
MUTUAL TRUST

Steve Byrom
Head of Private Equity
FUTURE FUND

Jon Freeman
Partner
COLLER CAPITAL

Alicia Gregory
Head of Private Equity
MLC

James Lilico
Investment Manager – Private Markets
SUNSUPER

Will MacAulay
Investment Manager – Unlisted Assets
HESTA

Jenny Newmarch
Portfolio Manager – Growth Assets
FIRST STATE SUPER

Hemal Mirani
Managing Director
HARBOURVEST PARTNERS (ASIA)

Marcus Simpson
Global Head of Private Equity
QIC

Cameron Sinclair
Director, Private Equity
FUTURE FUND

Speakers

Senior Industry Professionals

Scott Bookmyer
Head of Australia & Chief Operating Officer – Asia
KKR

Daniel Bowden
Partner
STAFFORD PRIVATE EQUITY

Marcus Darville
Managing Partner
QUADRANT PRIVATE EQUITY

Michelle Deaker
Managing Partner
ONEVENTURES

Yasser El-Ansary
Chief Executive
AVCAL

Jake Haines
Managing Director
PACIFIC EQUITY PARTNERS

Rob Koczkar
Managing Director
ADAMANTEM CAPITAL;
Chief Executive Officer
SOCIAL VENTURES AUSTRALIA

T.J. Kono
Partner
UNISON CAPITAL

Philip Latham
Partner and Leader of the Australian Office
NAVIS CAPITAL PARTNERS

Ken Licence
Managing Director
PRINCIPLE ADVISORY SERVICES

Steven Lipchin
Global Head, Private Equity
IFM INVESTORS

Jeremy Samuel
Founder and Managing Director
ANACACIA CAPITAL

Tim Sims
Managing Director
PACIFIC EQUITY PARTNERS

Ravi Thakran
Chairman and Managing Partner
L CATTERTON ASIA

Matthew Turner
Head of Australia & New Zealand Senior Debt
ICG

James Viles
Principal
BAIN & COMPANY

John White
Partner
NEXT CAPITAL

David Willis
Partner – Transaction Services, National Head of Private Equity
KPMG

Stefan Zuschke
Co-Chairman and Managing Partner
BC PARTNERS

Programme

Day 1: Wednesday, 28 February

15.00 Limited Partners' Session (invitation only)

Participants will have the opportunity to hear first-hand about PE investing from their peers – many of whom have decades of experience investing in global markets and working with a diverse range of GPs, in a confidential setting. The session will feature presentations by senior industry professionals, followed by an interactive roundtable discussion on topics key to the LP community, including:

- To what extend should the rise of disruptive technologies impact portfolio construction?
- How should LPs view the GP bifurcation of products, and when does this pose a conflict of interest?
- How to invest: Big buyout or modest mid-cap? Regional or country specific? Niche or generalist?
- What questions do LPs now ask GPs that they didn't ask before?
- How are LPs managing RG97 requirements?
- What are the prospects of new funds, especially spinouts?
- Should GPs disclose returns excluding the effect of subscription lines?

18.15 Cocktail reception

Day 2: Thursday, 1 March

08.30 Registration

08.50 Welcome remarks

09.00 Opening keynote address

09.30 The world in 2018

In the last 18 months the world has witnessed Brexit, a Trump presidency, and a range of macro-economic and political warnings that could have triggered a global recession or worse. However, none of these fears have become a reality and the business arena has remained resilient. With capital flooding into the private market asset class, enabling firms to raise ever larger funds, this – coupled with the availability of cheap debt – has contributed to ambitious deal-making. Our panel examines the world in 2018 and beyond, as well as what private market managers can do to prevail in these conditions.

- How is geo-politics affecting the investment landscape?
- Will high levels of dry powder trigger high valuations and an unfavourable cycle?
- What are the main threats that could damage the current buoyancy in the investment arena and are they likely to occur?
- How are China capital controls effecting the market?

10.30 Networking coffee break

11.00 Australasia in 2018

Private equity and venture capital in Australia is back on track. A crop of new firms are raising funds and approaching LPs with innovative terms, while established managers look towards growth. With competition in the mid-market intensifying, it will be interesting to see the varying strategies at play and how GPs position themselves to win deals. As the market matures, we will also see how firms become institutionalised and less reliant on key players, as the inevitable succession question becomes louder. In this session, a panel of Australian GPs will debate the market and predictions for the future.

- What strategies are new managers employing to differentiate themselves in a crowded market?
- Are buy and build strategies and bolt-on acquisitions a sure-fire way to drive returns?
- How can the Australian GP become more institutionalised and build expertise?
- What is the right volume and geographic spread of LPs?
- Are multi-product offerings going to become common among domestic GPs?

11.45 Managing your portfolio

Performance is the obvious precondition for living to see another fundraise, but there is more to it than backing a strong management team and then picking an opportune moment to sell. While the core principles that underpin effective portfolio management are little changed – devising and implementing post-acquisition development plans that address immediate priorities and deliver long-term improvements – strategies and skill sets evolve over time. Our panelists will share their experiences of working with portfolio companies to create value.

- What approaches to value creation have been most successful?
- What are the best ways to ensure management team buy-in?
- How can GPs ensure technology enhances rather than disrupts portfolio companies?
- What are the courses of action when improvement initiatives fall short?

12.30 Networking lunch

13.30 LP debate: The multi-product GP

A one-stop shop for alternatives is a godsend vs. You can't be top quartile in everything

Are private equity firms introducing additional strategies to leverage their knowledge bases or as a cynical ploy to accrue more management fee income? Are institutional investors justified in consolidating their GP relationships with a view to minimizing fees and simplifying reporting or will they come to regret the assumption that top performers in one area can replicate their success in another? A handful of global buyout firms, particularly the listed players, have long made it their business to operate across multiple asset classes - adding real estate, infrastructure and credit to existing PE strategies - but this approach now appears to be taking hold among a wider subset of GPs. It remains to be seen if everyone would be best served by managers sticking to what they know best.

Programme

Day 2: Thursday, 1 March - Cont

14.15 **Australia goes global**

In a competitive marketplace you must find growth and scalability to succeed. Australia has strong homegrown brands, but how do you capture an international market, and where and how has this been done by domestic GPs? Of course, while it is not easy to find local partners or succeed in foreign markets, no doubt this will become a big driver as valuations rise and the domestic economy plateaus.

- How can PE help Australian companies expand overseas?
- What barriers and limitations exist, and how can these be overcome?
- How do you find local partners and is this a key to success?
- What are the most attractive sectors and regions for outward growth?

15.00 **Networking coffee break**

15.30 **The institutionalised debt market revolution**

With leverage becoming increasingly prevalent in Asia for PE deals, a range of non-traditional lenders have emerged to challenge the banks and provide capital. The rise of credit providers and an institutional market of debt – where ease of execution and flexible structures are offered – is disrupting the market, especially in Australia, and as such, we are seeing PE firms and LPs entering the market. In this session, a panel of experts will highlight the current trends, as well as discuss the options and relevant challenges in financing deals.

- What are the new financing trends in Asia?
- What are the sources of capital? How to choose the best option/combination for a deal?
- How risky are emerging markets for lenders?
- How can a PE GP build a team that can enable them to compete with dedicated debt specialists?

16.15 **Tech ecosystem in Australia**

Australia has a thriving local tech scene, which has seen a number of big successes that spurred a string of promising startups backed by a resurgent venture capital industry. Thinking globally from day one, the rise of a strong domestic talent pool, enhanced commercialisation capabilities, and keeping in-house HR and marketing ready for deployment – these are the new operating methods for VC 2.0 compared to the last cycle. But how do you execute and will this translate into returns? A panel of elite domestic tech investors will share how they plan to build a sustainable industry where the local players are the partner of choice for the leading startups.

- How do you foster global thinking when Australia is still a remote location?
- What can be done to improve on the lack of expertise in commercialising tech innovation?
- What strategies are VCs enlisting to quickly scale companies and take them global?
- What is different now, compared to last cycle, in the way VCs operate?
- How can industry and government collectively support the domestic tech opportunity?

17.00 **Closing keynote address**

17.30 **Close of conference day 2**

18.15 **AVCJ in partnership with AVCAL:**
Building Better Businesses Gala Dinner
(Venue: Hyatt Regency Sydney)

Day 3: Friday, 2 March

09.00 **Succession the right way**

LPs in Australia are concerned about the long-term team stability of the GPs in their PE portfolio. Some of them have attempted to address succession issues, but with mixed results. While others do not see it as an issue for their fund despite questions from investors. So how do you find the right balance, will founders want to relinquish power to retain key staff, and what does good succession look like? In this session, a panel of GPs and LPs will debate the following topics:

- Who owns the track record?
- How concerned are LPs that GPs are not prepared?
- What models exist, and what have we seen from GPs across the globe?
- What is the outlook for succession in Australia given the maturity of funds and make-up of senior management?

10.00 **Keynote address**

10.30 **Networking coffee break**

11.00 **Asia highlights: Where, why, and how for LPs**

The onus is on GPs to prove they have the capability to prosper now that beta and bull markets are a thing of the past. As the asset class continues to mature in the region, GPs are evolving to add to their offerings and institutionalise their firm to attract a wider LP base. Our Asian experts will share their thoughts on delivering performance in the current environment and how Australian LPs should commit to the region to ensure they have a diversified portfolio.

- How can Asian managers capitalise on the desire from LPs to look outside of the mega global players for regional exposure?
- Are spin-out funds with niche strategies and terms garnering interest?
- What strategies are attracting LPs to funds, and where have we seen the best returns?
- How can new LPs looking at Asia create a balanced portfolio across the region?

11.45 **New wave of LPs for alternatives**

Australia has a thriving local tech scene, which has seen a number of big successes that spurred a string of promising startups backed by a resurgent venture capital industry. Thinking globally from day one, the rise of a strong domestic talent pool, enhanced commercialisation capabilities, and keeping in-house HR and marketing ready for deployment – these are the new operating methods for VC 2.0 compared to the last cycle. But how do you execute and will this translate into returns? A panel of elite domestic tech investors will share how they plan to build a sustainable industry where the local players are the partner of choice for the leading startups.

- What type of non-traditional LPs have made commitments to private equity?
- Are they able to react faster to opportunities than other LPs?
- To what extent are they competitors for deals rather than partners?
- How do you source new LPs and present the PE opportunity?

12.30 **LPs' views on Australasia and beyond**

The world offers a myriad of strategies, fund types, specialties, and terms. Do you commit big to a handful of mega funds, or seek out the niche country only managers with deep rooted connections and expertise? Alternatively, do you try a combination of both, and if so, which geographies, what role should Australia play, and how do you strive to get the balance right?

- Which are the most interesting sectors, regions, and strategies?
- Have LPs adjusted their expectations for returns from Asia?
- How you do you execute direct investments whilst managing fund relationships?
- Is manager consolidation the way of the future?

13.30 **Lunch and close of Forum**

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Company

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City Country Post/zip code

Telephone Fax E-mail

I plan to attend the **Welcome reception** on Wednesday, 28 February at 18:30 Yes ☐ No ☐

I plan to attend the **Cocktail reception** and **Gala dinner** on Thursday, 1 March at 18:00 Yes ☐ No ☐

Payment details

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Expiry date Security code

Credit card billing address

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Cancellation/refund policy: A cancellation charge of US$300 is applicable to written cancellations received on or before 15 February 2018. No refund will be made for cancellations after the date due to our advance guaranty obligations and administration costs. A substitute delegate is welcome but the organiser MUST be notified in advance of the meeting to avoid incurring a charge. Substitutions may NOT be made at the meeting.

Pay in advance: Please be reminded that payment of all registration fees MUST be received 14 days from your invoice date. Late payments may result in exclusion from our official delegate list, which is posted at the forum. Regrettably, no entrance will be permitted for payments not received before the events take place.

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L///CERA

February 6, 2018

TO: Each Member
Board of Investments

FROM: Robert R. Hill RRH
Interim Chief Executive Officer

FOR: Board of Investments Meeting of February 14, 2018

SUBJECT: Request to waive Education and Travel Policy requirement and in its place approve attendance at the UCLA Anderson Executive Education – Corporate Governance Program on May 15-17, 2018 in Los Angeles, California

Board member, Gina Sanchez, requests that your Board waive the Education and Travel Policy requirement, Section 705.07, D. 4, that requires a Board member to successfully complete the State Association of County Retirement Systems (SACRS) Public Pension Investment Management Program or the University of Pennsylvania Wharton (Wharton) School of Business Portfolio Concepts and Management course and in its place accept attendance at the UCLA Anderson Executive Education – Corporate Governance Program on May 15-17, 2018 in Los Angeles, California.

Ms. Sanchez has a long career in investment management and is the founder and CEO of Chantico Global, LLC, as well as a contributor and guest host for CNBC. She has more than 20 years of experience managing asset allocation mandates for mutual funds and foundations, and consulting with pension funds and family offices. Given her extensive expertise in this industry, the SACRS or Wharton courses will not likely add materially to Ms. Sanchez's knowledge, and therefore they would not serve the purpose of the Education and Travel Policy requirement. Attending the UCLA Anderson Executive Education Program would be more beneficial to Mrs. Sanchez and to LACERA in helping provide a useful educational foundation for her LACERA Board service.

At its October 2017 meeting, the Board of Investments approved the UCLA Anderson Executive Education Program. A copy of the conference agenda is attached for reference.

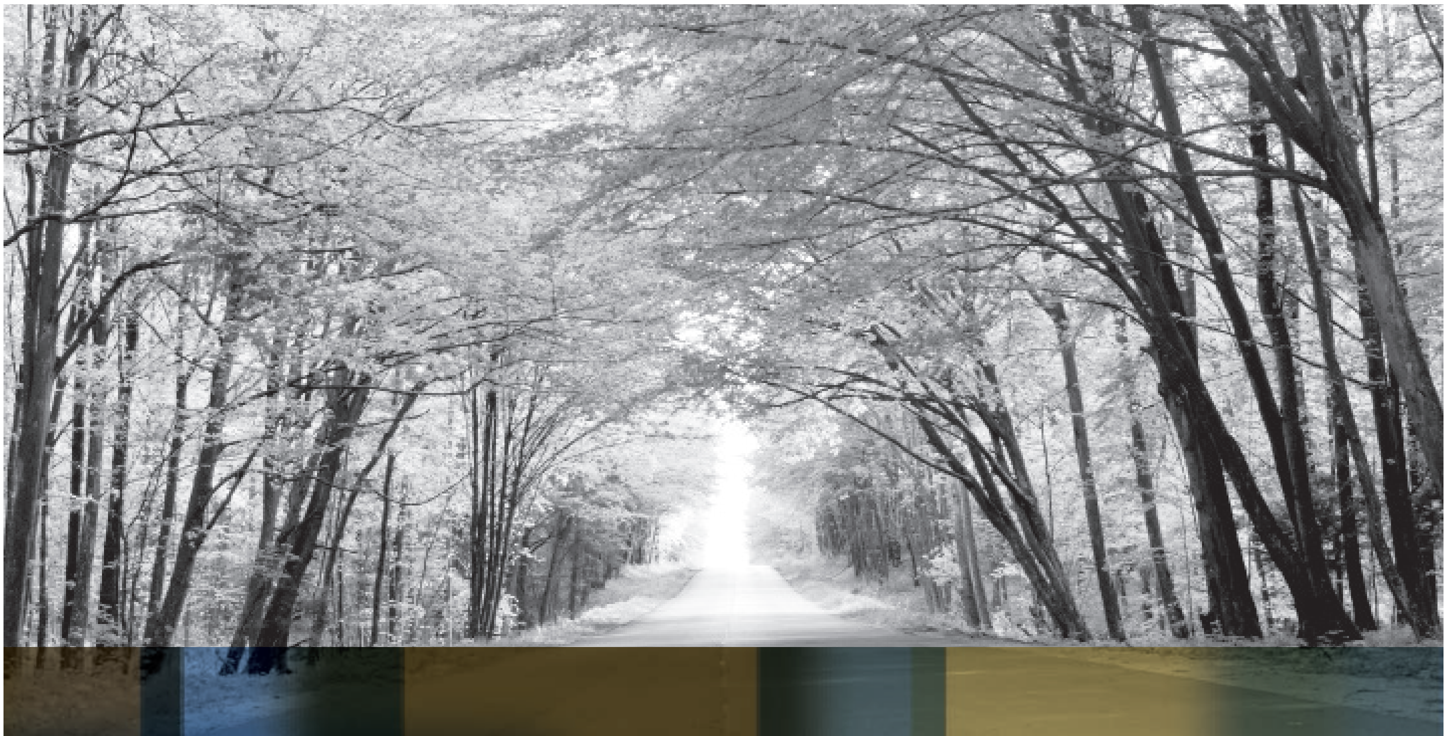
IT IS THEREFORE RECOMMENDED YOUR BOARD:

Waive the Education and Travel Policy, Section 705.07 D. 4, for Trustee Sanchez and in its place approve attendance at the UCLA Anderson Executive Education – Corporate Governance Program on May 15-17, 2018 in Los Angeles, California; and approve reimbursement of all costs associated with the conference according to LACERA's Education and Travel Policy.

RH/lg
Attachment

UCLA Anderson

EXECUTIVE EDUCATION



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—Florian Zerhusen,
CEO, Windkraft Nord USA, Inc.

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Corporate Governance Program

Certifying Board Best Practices Since 1999

May 15 - 17, 2018

UCLA Anderson
EXECUTIVE EDUCATION

TUESDAY, MAY 15	WEDNESDAY, MAY 16	THURSDAY, MAY 17
7:30 - 8:00 a.m. *Breakfast* *Executive Dining Room*	*7:30 - 8:00 a.m.* *Breakfast* *Executive Dining Room*	*7:30 - 8:00 a.m.* *Breakfast* *Executive Dining Room*
8:00 - 9:00 a.m. **Welcome and Introductions** A. Osborne & C. Hayn, UCLA Anderson 9:00 - 11:00 a.m. **Hot Topics** A. Osborne, UCLA Anderson 11:00 - 11:15 a.m. **Break** 11:15 a.m. - 12:15 p.m. **Regulatory Changes Impacting the Boardroom** T. Kellerman, Morgan Lewis & Bockius	8:00 - 9:45 a.m. **Compensation Committees** D. Lewin, UCLA Anderson A. Nadel, Strategic Apex Group 9:45 - 10:00 a.m. **Break** 10:00 a.m. - 12:45 p.m. (EDR) **Key Accounting Considerations** C. Hayn, UCLA Anderson	8:00 - 10:15 a.m. **Digging Deeper Into Your Firm's Financial Statements** C. Hayn, UCLA Anderson 10:15 - 10:30 a.m. **Break** 10:30 a.m. - 12:15 p.m. **Cyber Risk and Security for Boards** S. Zipperstein
12:15 - 1:30 p.m. *Working Lunch: Board-led Investigations* *O. Yazdi, KPMG*	*12:45- 2:00 p.m.* *Working Lunch: Board of Directors: Ethical Considerations* *Gonzalo Freixes, UCLA Anderson*	*12:15 - 1:30 p.m.* *Working Lunch: Board of Directors: Ethical Considerations* *Gonzalo Freixes, UCLA Anderson*
1:30 - 5:00 p.m. **Strategic Management and the Board** I. Larkin, UCLA Anderson 5:00 - 5:15 p.m. **Daily Wrap-Up** A. Osborne and C. Hayn, UCLA Anderson	2:00 - 3:00 p.m. **Effective Audit Committees** A. Goldenberg, Ernst & Young 3:00 - 3:15 p.m. **Break** 3:15 - 5:30 p.m. **Activist Shareholder Dialogue** A. Shapiro, Lawndale Capital Management 5:30 - 5:45 p.m. **Daily Wrap-Up** C. Hayn, UCLA Anderson	1:30 - 3:30 p.m. **Managing Mergers, Acquisitions, Joint Ventures, and Alliances** G. Geis, UCLA Anderson 3:30 - 4:00 p.m. **Daily Wrap-Up/Key Takeaways** C. Hayn 4:00 - 4:30 p.m. **Break** 4:30 - 6:00 p.m. **Certification Exam**
5:30 - 6:30 p.m. *Opening Reception* *TBD* *6:30 - 8:00 p.m.* *Directors Networking Dinner with TBD* *Location TBD*	*Free Evening*	*Program Concludes*

*This schedule is subject to change.

LACERA

January 31, 2018

TO: Each Member
Board of Investments

FROM: Fixed Income/Hedge Funds/Commodities Committee:
Wayne Moore, Chair
Herman Santos, Vice Chair
Ronald Okum
Joseph Kelly
David Green, Alternate

Fixed Income Staff:

Vache Mahseredjian, CFA, CAIA, FRM, ASA, Principal Investment Officer
Robert Santos, Investment Officer
Esmeralda Del Bosque, Investment Officer
Adam Cheng, CFA, Sr. Investment Analyst
Jeff Jia, Sr. Investment Analyst

FOR: February 14, 2018 Board of Investments Meeting

SUBJECT: **FIXED INCOME STRUCTURE REVIEW**

RECOMMENDATION

Make the following changes to the Fixed Income Composite structure:

1. Increase the allocation target for the Core sub-composite from 35% to 45%,

2. Decrease the allocation target for the Core Plus sub-composite from 35% to 25%,

3. Terminate the following mandates and transition assets to the BlackRock Trust Company (BTC) U.S. Debt Index Fund:
   a. BTC Intermediate Credit Bond Index Fund (Core mandate)
   b. BlackRock Financial Management (Core mandate)
   c. LM Capital (Core Plus mandate,)

4. Graduate Pugh Capital Management (Core mandate) from the Emerging Manager Program, and

5. Combine the High Yield and Opportunistic sub-composites with an allocation range of 20-40%.

BACKGROUND

On January 10, 2018, the Fixed Income/Hedge Funds/Commodities Committee ("Committee") unanimously approved the recommended changes to LACERA's Fixed Income Composite structure. The recommendations are intended to reduce the risk and increase the liquidity of the Fixed Income Composite. The structural changes necessitate the movement of assets among managers, and a key outcome is a reduction in investment management fees by an estimated $1.7 million annually. The final recommendation—combining the High Yield and Opportunistic sub-composites—facilitates the creation of a new Credit asset class, which the Board might consider during its upcoming review of LACERA's asset allocation.

As a reminder, strategic asset allocation has the greatest impact on the Total Fund's performance. The next biggest impact is attributable to asset class structure, which was the subject of the Committee meeting. Manager selection decisions have only a tertiary impact; therefore, the manager-specific recommendations listed above are the consequence of the structural changes.

Attached are staff's memo to the Committee and the memo from the Board's general consultant, Meketa, which is in support of the recommendations.

OPTIONS AVAILABLE TO THE BOARD

The Board may wish to approve, modify, or reject the recommendations.

DELIBERATIONS AND OPINIONS EXPRESSED BY THE COMMITTEE

Committee members asked questions about the following topics on January 10:

- The potential impact on return and risk of both the Fixed Income Composite and Total Fund
    - *Excess return and tracking error of the Core Composite are lower than the corresponding measures of the Core Plus Composite. Therefore, expanding Core and decreasing Core Plus is expected to reduce the excess return and tracking error of the Fixed Income Composite. However, the ratio of excess return to tracking error of Core is higher, so the risk-adjusted return will likely increase.*

- Concern over possible manager concentration with BlackRock
    - *Although the dollars invested with BlackRock are large, the active investment risk is small, because the assets are mostly in indexed strategies. Therefore, the primary risk is not investment risk but rather operational risk—and BlackRock, with over $6 trillion in assets under management, has very good operational controls. Furthermore, the transition from index funds to separate accounts will further reduce the operational risk.*

- Whether manager recommendations should be independent of a structure review

  - *As noted above, individual managers have much less impact on performance than do asset allocation and asset class structure. Therefore, unless there is an urgent issue related to a manager that requires immediate action, having manager-related recommendations that arise naturally as an outcome from asset allocation or structure changes is preferable.*

- The timeline for an emerging manager search and its funding source
  - *The emerging manager search is expected to launch in the latter part of 2018. The funding is likely to come from the Core segment, but such implementation details depend in part on the Board's decisions relating to asset allocation later this year.*

RISKS OF ACTION AND INACTION

If the Board approves the recommendations, the Fixed Income Composite's expected excess return could potentially decline. Offsetting that risk is the expectation that the risk could decline, liquidity will improve, and fees will decrease.

If the Board does not approve the recommendations, the risk and liquidity of the Fixed Income Composite will remain unchanged, and the portfolio will not benefit from lower fees. In addition, a capable investment manager would not be promoted from the emerging manager program.

CONCLUSION

The Committee approved several structural changes designed to reduce risk, increase liquidity, and decrease investment management fees for the Fixed Income Composite. Also included are separate recommendations to graduate a manager from LACERA's Emerging Manager Program, and to combine High Yield with Opportunistic fixed income strategies.

Attachments

Noted and Reviewed:

Jonathan Grabel
Chief Investment Officer

December 20, 2017

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

FROM: Vache Mahseredjian, CFA, CAIA, FRM, ASA
Principal Investment Officer

Fixed Income Team:
Robert Santos, Investment Officer
Esmeralda Del Bosque, Investment Officer
Adam Cheng, Sr. Investment Analyst
Jeff Jia, Sr. Investment Analyst

FOR: January 10, 2018 Committee Meeting

SUBJECT: **FIXED INCOME STRUCTURE REVIEW**

RECOMMENDATION

Make the following changes to the Fixed Income Composite in order to reduce risk and increase liquidity:

1. Increase the allocation target for the Core sub-composite from 35% to 45%

2. Decrease the allocation target for the Core Plus sub-composite from 35% to 25%

3. Terminate the following mandates and transition assets to the BlackRock Trust Company (BTC) US Debt Index Fund:
   a. BTC Intermediate Credit Bond Index Fund (Core mandate)
   b. BlackRock Financial Management (Core mandate)
   c. LM Capital Group (Core Plus mandate)

4. Graduate Pugh Capital Management (Core mandate) from the Emerging Manager Program

5. Combine the High Yield and Opportunistic sub-composites with an allocation range of 20-40%

EXECUTIVE SUMMARY

Staff has completed a review of LACERA's Fixed Income Composite (Composite). As of September 30, 2017, the market value of the Composite was approximately $12.4 billion, or 23% of LACERA's Total Fund. This allocation is within the targeted policy range.

This memo is comprised of three sections:

I. The Role of Fixed Income
II. Fixed Income Composite Structure
III. Staff Recommendations

The first section reviews the primary policy objectives of the asset class. LACERA's Investment Policy Statement (IPS) identifies three objectives for the Fixed Income Composite: 1) reduce the risk of the Total Fund, 2) outperform the fixed income benchmark, and 3) provide liquidity, particularly during a declining equity market. A review of performance demonstrates that over the past 20 years, the Composite has consistently reduced risk, enhanced return, and provided liquidity.

The second section examines the current composite structure and the purpose of each of the four sub-composites: Core, Core Plus, High Yield, and Opportunistic. This section also analyzes the return, risk, fee, and liquidity profile of the overall composite as well as each segment. Analysis at the sub-composite level reveals interesting differences in performance and risk exposures.

The last section provides recommendations that reduce the risk and increase the liquidity of the fixed income asset class. Furthermore, a key outcome of these changes is an estimated fee reduction of $1.7 million annually. The focus of these recommendations is on the Core and Core Plus segments of the portfolio. There is also a recommendation that lays the groundwork for separating investment grade bonds from those rated below investment grade. Following the asset allocation study scheduled for early 2018—contingent upon the Board's approval—High Yield and Opportunistic may be combined with other credit-related investments that currently reside in Real Estate, Hedge Funds, and Private Equity, into a new asset category to be called "Credit Opportunities."

In addition to the structural recommendations noted above, staff undertook a comprehensive review of LACERA's Fixed Income Emerging Manager Program (**ATTACHMENT B**). One of the manager-specific recommendations is to graduate Pugh Capital Management from the program. Staff anticipates conducting an emerging manager search in late 2018.

Meketa has reviewed staff's recommendations and they concur (**ATTACHMENT A**).

I. THE ROLE OF FIXED INCOME

LACERA's Investment Policy Statement (IPS) identifies three objectives for the Fixed Income Composite:

A. Reduce the risk of LACERA's Total Fund
B. Outperform the benchmark, the Bloomberg Barclays U.S. Universal Bond Index, by 1.25% with an expected tracking error of 4.25% over a market cycle[1]
C. Provide liquidity, especially during a declining equity market

To a certain extent, reducing risk and enhancing return are competing objectives, therefore various parts of the Composite are used for different purposes. Although Core and Core Plus have enhanced return, their primary role is to fulfill objectives A and C, while High Yield and Opportunistic are intended to satisfy objective B.

A. Reduce Risk

As shown in **TABLE 1,** the standard deviation of LACERA's Fixed Income Composite has been the lowest among LACERA's asset classes (except Cash) over the past ten years. Also, the correlation to the other asset classes is low to moderate, meaning that the Composite has had a diversifying impact on the Total Fund. The Composite has generated positive total returns in 18 of the past 20 years. Of the two negative years, the largest decline was -3.0% (in 2008). Based on its low standard deviation and limited downside, the Composite has fulfilled its risk reduction role.

TABLE 1
RISK AND RETURN OF LACERA COMPOSITES
(Periods Ended 9/30/17)

ASSET CLASS	10 Years		
	Return (Net)	Standard Deviation	Correlation to Fixed Income
Fixed Income	5.5%	3.9%	1.00
U.S. Equity	7.4%	17.1%	0.44
Non-U.S. Equity	2.5%	20.2%	0.63
Real Estate	2.8%	7.0%*	-0.42
Private Equity	11.6%	8.4%*	0.01
Commodities	-5.4%	21.7%	0.47
Hedge Funds	---	---	---
Cash	0.9%	1.5%	0.71
TOTAL FUND	**5.5%**	**9.8%**	**0.56**

**The standard deviation for private assets may understate their true risk*

[1] The excess return and tracking error objectives were increased substantially in the 2012 structure review when the target allocation to Opportunistic increased from 5% to 25%.

B. Outperform the Benchmark

TABLE 2 shows the performance of LACERA's Fixed Income Composite over various time periods. Over the past 20 years, the Composite's annualized return of 5.8% exceeded the benchmark, net-of-fees, by 50 basis points (bps) with a tracking error of 1.4%. The information ratio (IR), calculated as the ratio of excess return to tracking error, is 0.7 over the past 20 years—an IR greater than 0.5 is considered the standard for a successful program.[2] While the excess return and tracking error are below their allowable ranges, it is important to note that these targets were increased substantially in the 2012 structure review, when the Opportunistic segment increased from 5% to 25%. The prior excess return objective was 10-20 bps with a tracking error range of 0.5% to 1.0%.

TABLE 2
ANNUALIZED PERFORMANCE OF FIXED INCOME COMPOSITE
(Periods Ended 9/30/17)

	1 Year	**2 Years**	**3 Years**	**5 Years**	**10 Years**	**15 Years**	**20 Years**
Fixed Income (Gross)	3.5%	5.5%	4.0%	3.6%	5.7%	5.8%	6.0%
Fixed Income (Net)	3.2%	5.2%	3.8%	3.4%	5.5%	5.6%	5.8%*
Benchmark[A]	1.0%	3.5%	3.1%	2.5%	4.7%	4.8%	5.3%
Difference (Net – Benchmark)	**2.2%**	**1.7%**	**0.7%**	**0.8%**	**0.8%**	**0.7%**	**0.5%**
Tracking Error[B]	---	1.1%	1.2%	1.0%	1.7%	1.4%	1.4%
Information Ratio[C]	---	1.7	0.8	1.1	0.6	0.7	0.7
Standard Deviation[B]	---	2.7%	2.6%	2.8%	3.8%	3.6%	3.6%
Standard Deviation (Benchmark)[B]	---	2.8%	2.7%	2.8%	3.3%	3.4%	3.3%

** LACERA Net returns start July 2001; therefore, the 20-year return is an estimate.*
[A] From Inception to 3/09: Domestic FI Custom Index; From 4/09 to the present: Bloomberg Barclays U.S. Universal Index.
[B] Source: Zephyr StyleADVISOR
[C] Information Ratio = Excess Return divided by Tracking Error

Furthermore, as shown above, the Composite has delivered solid excess returns across all time periods. The net returns are also supported by relatively low management fees. **Table 3** displays a comparison of fees charged by LACERA's fixed income investment managers versus their respective peer universe. As evidenced, for the fiscal year 2016,[3] LACERA's fees are lower than the median across all sub-composites. In aggregate, the Composite is also below median with a fee of 23 bps.

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[2] The information ratio calculation is based on gross returns.
[3] The latest available data from CEM is for FY2016.

TABLE 3
ANNUALIZED FIXED INCOME INVESTMENT FEES VS. PEERS

FY-2016	Fixed Income	Core	Core Plus	High Yield	Opportunistic
LACERA Fixed Income Fee	**23.3 bps**	**9.3 bps**	**16.5 bps**	**40.5 bps**	**51.9 bps**
Universe Fee*	26.7 bps	20.2 bps	22.7 bps	43.1 bps	Varies

** Source: Fixed Income - CEM; Core, Core Plus, High Yield - eVestment.*

C. Provide Liquidity

The Core and Core Plus sub-composites consist primarily of government, investment-grade corporate, and agency mortgage backed securities, which are among the most liquid sectors of the fixed income market. In addition to being liquid, meaning that they trade at a narrow bid/ask spread, these instruments generate cash from scheduled coupon payments. As a result, the Core and Core Plus segments are a supplement to LACERA's two percent Cash allocation as a source of liquidity. As a reminder, in the aftermath of the 2007/2008 financial crisis, the Fixed Income Composite provided over $3.5 billion in liquidity for paying benefits and for rebalancing.

II. FIXED INCOME COMPOSITE STRUCTURE

The Fixed Income Composite is partitioned into four segments—**Core (35%), Core Plus (35%), High Yield (5%),** and **Opportunistic (25%)**.[4] As of September 30, 2017, the Composite comprised 21 portfolios with a combined market value of approximately $12.4 billion. The managers and market values are shown in **APPENDIX I**. The Composite's benchmark is the Bloomberg Barclays U.S. Universal Bond Index, the broadest measure of the U.S. dollar-denominated bond market. This index consists of investment grade and below investment grade bonds.

The goal of the **Core** component is stability. Its purpose is to closely mirror the investment-grade portion of the index, as represented by the Bloomberg Barclays U.S. Aggregate Bond Index[5]—the benchmark most commonly used by U.S. institutional investors. **Core Plus** managers also invest primarily in investment grade bonds, but they are given some flexibility to invest in non-investment grade and non-dollar bonds.

High Yield managers invest in U.S. Dollar denominated corporate bonds rated below investment grade. They may also invest tactically in Non-U.S. bonds. The purpose of the **Opportunistic** segment is to enhance return and provide diversification by investing tactically in non-traditional segments of the fixed income market. These sectors are typically underutilized because they are not included in the broad bond indices. As a reminder, the Opportunistic segment was introduced in 2009 with an initial target weight of 5%; this was increased in 2012 to 25%. Therefore, the majority of Opportunistic managers were hired within the past four years. Given the limited track

[4] Numbers in parentheses are the current target weights for the sub-composites.
[5] The Aggregate Index is a subset of the U.S. Universal Index. As of September 30, 2017, the Aggregate Index constituted 83% of the U.S. Universal Index.

record, as well as the potential re-categorization next year, this sub-composite is not the primary focus of the structure review.

Table 4 displays target weights and allocation ranges for the sub-composites. It also provides additional detail on risk, return and fees. The table highlights how Core and Core Plus are different from High Yield and Opportunistic with regard to return and correlations to equities. Over the past five years, returns for Core and Core Plus have been 3% or lower, whereas the returns for High Yield and Opportunistic are greater than 5%. While the higher return helped meet the outperformance objective, it increased the risk and reduced liquidity of the Composite. The table also shows that Core and Core Plus have a low correlation to U.S. equities whereas the correlations for High Yield and Opportunistic are higher. This is expected, given their fundamental risk drivers: Core and Core Plus are more sensitive to interest rates, whereas High Yield and Opportunistic are more sensitive to credit risk and equity returns.

TABLE 4
FIXED INCOME COMPOSITE RISK AND RETURNS

Segment	Target Weights	Allocation Range	Actual Weights (9/30/17)	5-Year Total Return (Net-of-fees)	5-Year Standard Deviation*	Correlation* to U.S. Equities (Russell 3000)
Core	35%	25% – 45%	37%	2.7%	2.7%	0.04
Core Plus	35%	25% – 45%	33%	3.0%	3.2%	0.18
High Yield	5%	0% – 10%	4%	5.4%	4.6%	0.68
Opportunistic	25%	15% – 35%	26%	5.2%	3.3%	0.57
Total Composite	**100%**		**100%**	**3.4%**	**3.9%**	**0.27**

** Source: Zephyr StyleADVISOR*

III. STAFF RECOMMENDATIONS

LACERA created the Opportunistic sub-composite in the aftermath of the 2008 global financial crisis in order to enhance return and provide diversification by investing in non-traditional fixed income. As shown in the preceding table, Opportunistic investments have succeeded in boosting and diversifying the sources of return, but they have also introduced more credit risk. The potential creation of a stand-alone “Credit Opportunities” category in the 2018 asset allocation allows LACERA to group investments that have similar risk characteristics. Lifting High Yield and Opportunistic out of the Fixed Income Composite into the new category, along with credit-related strategies from other asset classes, will enable the Fixed Income Composite to return to its traditional risk-reduction role. Independent of the potential asset allocation changes, staff recommends the changes listed below:

1. Increase the allocation target for the Core sub-composite from 35% to 45%
2. Decrease the allocation target for the Core Plus sub-composite from 35% to 25%

3. Terminate the following mandates and transition assets to the BlackRock Trust Company (BTC) US Debt Index Fund:
    a. BTC Intermediate Credit Bond Index Fund (Core mandate)
    b. BlackRock Financial Management (Core mandate)
    c. LM Capital Group (Core Plus mandate)
4. Graduate Pugh Capital Management (Core mandate) from the Emerging Manager Program
5. Combine the High Yield and Opportunistic sub-composites with an allocation range of 20-40%

The motivation for the first two recommendations is to reduce Composite risk and increase liquidity by transitioning Core Plus assets to Core. Core strategies invest in traditional fixed income assets, comprised primarily of U.S. investment grade instruments. These securities are low-risk and can be easily converted into cash in times of market distress. In contrast, Core Plus mandates have been used to gain moderate exposure to higher risk segments of the fixed income market including non-U.S. and high yield. However, with the emergence of managers dedicated to these segments, the need for a large allocation to Core Plus managers has lessened.

Part of this recommendation is to increase the allocation to the passive index fund from roughly 20% to 50% of the Core sub-composite. This adds another layer of risk reduction to the portfolio while also decreasing tracking error, increasing liquidity, and reducing fees for the overall Composite and the Total Fund. The fee savings are substantial: the combined dollar savings amounts to approximately $1.7 million annually.

In order to increase the Core passive account, staff's third recommendation is to reduce the weight to low-conviction managers within Core and Core Plus. Staff evaluated each investment manager and its mandate, utilizing both qualitative and quantitative analyses. Qualitative metrics included organizational stability, depth of the portfolio management team, and research capabilities. Quantitative analysis included the review of performance, risk, investment characteristics, and peer universe studies utilizing State Street, Style Advisor, eVestment, and TruView risk software. In addition, staff used two asset allocation programs, Style Allocator and Bloomberg to optimize manager allocations.

<u>Core</u>

- Terminate BTC Intermediate Credit Bond Index Fund ($239.6 mm) and transfer assets to BTC U.S. Debt Index Fund

  Rationale - The BTC Intermediate Credit Index Fund was added in 2009 after the Global Financial Crisis. At that time, corporate bonds were transferred in-kind from two terminated Core Plus managers. While the index fund served its purpose as a transition vehicle, moving the assets into the broader U.S. Debt Index Fund is advisable because it is more diversified and tracks the benchmark for Core and Core Plus.

- Terminate BlackRock's active core mandate ($716.7 mm) and transfer assets to BTC U.S. Debt Index Fund

  Rationale – BlackRock has managed an active core portfolio for LACERA since 1997. Over the past 10 years, this active portfolio has outperformed the passive alternative by only 5 bps net-of-fees, placing it in the 68th percentile of eVestment's universe of U.S. Core Fixed Income managers. In addition, the tracking error of the active portfolio was 116 bps compared to 11 bps for the Index Fund. The lower fees and tracking error of the Index Fund make it a more compelling choice.

- Graduate Pugh Capital Management ($111.7 mm) from the Emerging Manager Program

  Rationale – Pugh is a minority, woman-owned fixed income manager founded in 1991. The firm began managing a core fixed income strategy for LACERA in 2005 and has delivered solid, consistent performance. Over the past ten years, Pugh has outperformed the benchmark by 40 bps per year net-of-fees, and their tracking error is the lowest among LACERA's active Core managers. Pugh's success has been validated by their asset growth, which has climbed to $5.6 billion. If Pugh is graduated, their mandate size will no longer be limited by the 4% upper limit of the emerging manager allocation range. For a detailed review of the Emerging Manager Program, please refer to **ATTACHMENT B**.

<u>Core Plus</u>

- Terminate LM Capital Management ($454.6 mm) and transfer assets to BTC U.S. Debt Index Fund

  Rationale – LM Capital has managed an active core plus portfolio for LACERA since 2002. The firm's 10-year return is the lowest among LACERA's Core Plus managers and ranks in the 79th percentile of eVestment's Core Plus universe. LM was promoted out of the Emerging Manager Program in 2004, partly because of their 10% allocation to emerging market debt (EMD), primarily within Latin America. This strategy served a useful purpose at the time, because LACERA did not have a dedicated EMD manager. However, LACERA now has two very high conviction EMD managers, totaling $413.7 mm, whose mandates are more broad and global in scope. Furthermore, there are material organizational issues such as staff turnover, the outsourcing of research capabilities, and succession planning concerns.

<u>High Yield and Opportunistic</u>

- Combine the High Yield and Opportunistic sub-composites with an allocation range of 20-40%

  Rationale- By definition, high yield bonds are rated below investment grade. The majority of the Opportunistic segment is also rated below investment grade; therefore, it makes sense to combine the two credit-sensitive segments. Also, as shown in **Table 4** above, both High Yield and Opportunistic have higher correlations to U.S. equities. Furthermore, if the "Credit Opportunities" asset category is approved, combining High Yield and Opportunistic would streamline the process.

Following Board approval, staff will begin implementing the recommended changes. After the asset allocation study is completed in 2018, staff will revisit policies and the structure as necessary. In addition, as part of on-going monitoring and due-diligence, staff intends to implement certain fine-tuning changes to further improve the effectiveness of the Composite. These changes include updates to investment manager guidelines and benchmarks. Also, over the next several months, staff will review the Opportunistic managers to identify exposures that may not currently be part of their mandates.

CONCLUSION

Staff conducted a review of LACERA's fixed income composite and made recommendations to reduce risk, increase liquidity, and reduce fees. Included in these structural changes were recommendations to promote an emerging manager and terminate low-conviction managers.

Attachments
Noted and Reviewed:

Jonathan Grabel
Chief Investment Officer

VM:st

MEMORANDUM

To: LACERA Board of Investments

From: Stephen McCourt, Leandro Festino, Tim Filla
Meketa Investment Group

Date: December 22, 2017

Re: Fixed Income Structure Review

Background

In August 2016, Meketa Investment Group ("Meketa") presented a comprehensive review of LACERA's fixed income portfolio, and made several recommendations (attached). During the ensuing year, Staff conducted its own review of its fixed income portfolio. Subsequently, Staff reached out to Meketa during the fourth quarter to discuss their findings. Generally speaking, these finding were in agreement with the observations made by Meketa in 2016.

Recommendation

We support the recommendations made by Staff in its memo, and note below some observations, where appropriate:

- The increase in Core assets at the expense of Core Plus;
- The consolidation of strategies (termination of BTC Intermediate Credit Bond Index Fund, BlackRock Financial Management Core mandate, and LM Capital Group Core Plus mandate);
- The increased weight to passive strategies (BTC US Debt Index Fund), to be funded with the assets of the three terminated strategies above);
- The graduation of Pugh Capital Management from the Emerging Manager Program;
- The consolidation of the High Yield and Opportunistic composites.

Observations

We view the analysis done by Staff as a first, and thorough, approach to enhancing the structure of the fixed income portfolio. Once the asset allocation study for the Fund is completed in 2018, we would encourage Staff to focus on the implementation of the new structure via a deeper review of the Core and Core Plus products. Additional quantitative and qualitative analysis could be used to detect if a portfolio's role and/or exposures may be duplicative. As core bonds portfolios tend to be largely efficient, additional savings (above and beyond those already identified in Staff's memo) could be achieved via greater weight in index portfolios (for example, by redirecting the assets of a duplicative strategy to the index fund).

Finally, in our presentation in 2016, we highlighted that Treasuries, both nominal and inflation protected (TIPS), could offer valuable diversification and downside protection to the fixed income portfolio. While TIPS may be eventually added to a real assets/inflation hedging portfolio as part of the asset allocation study in 2018, we simply wanted to remind Trustees that a portfolio of Treasury bonds may yield valuable diversification and downside protection benefits to LACERA.

We look forward to discussing this topic with you in more detail at the January 10th Committee meeting.

LACERA

December 21, 2017

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

FROM: Vache Mahseredjian, CFA, CAIA, FRM, ASA
Principal Investment Officer

Fixed Income Team:
Robert Santos, Investment Officer
Esmeralda Del Bosque, Investment Officer
Adam Cheng, Sr. Investment Analyst
Jeff Jia, Sr. Investment Analyst

FOR: January 10, 2018 Committee Meeting

SUBJECT: **FIXED INCOME EMERGING MANAGER PROGRAM REVIEW**

BACKGROUND

LACERA's Emerging Manager Policy (EMP) defines an emerging fixed income manager as *"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."*

The Policy's objective is to gain early access to smaller investment management organizations. LACERA recognizes that these investment management firms may generate superior performance because of increased market flexibility associated with their size. The Policy provides LACERA an opportunity to identify talented investment management organizations early in their development.

LACERA's Emerging Manager Policy was established in 1995. Initially, the Policy applied only to equity mandates and implemented via a "manager of managers" approach. In December 2000, the Board expanded the Program to other asset classes such as fixed income, real estate, and private equity. For fixed income, the Board approved direct in-house oversight (as opposed to a "manager of managers" approach). Under this arrangement, staff identifies qualified investment firms through a Request-For-Proposal (RFP) process and the Board selects managers after interviewing short-list candidates.

The Board also adopted allocation ranges for each asset class. A range of 0-4% of LACERA's bond portfolio was approved for emerging fixed income managers. As of September 30, 2017, LACERA's allocation reached 3.7% ($458.2 million) or 0.3% below the upper limit of the allocation range.

Over the EMP's history, three managers have been promoted from the Program: Post Advisory (2003), LM Capital (2004), and PENN Capital (2012).

TABLE 1 displays the allocation of assets among managers, their mandates, and benchmarks.

TABLE 1

EMERGING MANAGER PROGRAM (As of 9/30/17)				
Manager	**Portfolio Size (in millions)**	**% of EMP Program**	**Mandate**	**Benchmark**
Dolan McEniry	$346.5	75.6%	Core Plus	BBC Credit Intermediate 65% / BBC MBS 25% / BBC HY Ba/B 10%
Pugh Capital Management	$111.7	24.4%	Core	BBC Aggregate
Total Program	**$458.2**	**100.0%**		

EMP PERFORMANCE

Staff continues to be pleased with the performance of the Program. As noted in **Table 2**, the EMP has generated 70 bps of excess return on a net-of-fees basis since inception.

TABLE 2

EMERGING MANAGER PROGRAM (Annualized Returns as of 9/30/17)										
Portfolio	**Market Value (in millions)**	**Month**	**Qtr**	**Ytd**	**1 Yr**	**3 Yr**	**5 Yr**	**7 Yr**	**10 Yr**	**Since Inception**
Emerging Manager Program*	$458.2	-0.13	1.22	4.80	3.03	3.98	3.83	4.92	6.08	6.27
EMP Custom Benchmark		-0.23	1.02	3.45	1.49	2.85	2.67	3.77	4.92	5.26
Difference (Net - Benchmark)		**0.08**	**0.14**	**1.16**	**1.28**	**0.89**	**0.90**	**0.89**	**0.88**	**0.70**

* Includes Hughes Capital through June 30, 2005, Post Advisory Group through March 31, 2003, LM Capital through March 31, 2004, PENN Capital through January 31, 2012, and GW Capital through January 31, 2016.

REVIEW OF INDIVIDUAL MANAGERS

In the following section, staff presents brief comments on each of the managers in the Program.

Dolan McEniry Capital Management

Founded in 1997, Dolan McEniry Capital Management (Dolan) manages a core plus fixed income portfolio for LACERA. Since the firm was hired, assets under management have increased by roughly $5 billion to $6.2 billion as of September 30, 2017. Based in Chicago, Illinois, Dolan is 55% owned by its two portfolio managers, Daniel Dolan and Roger McEniry. The remaining 45%

interest in Dolan was sold to a European-based investment firm in October 2016. The majority of the firm's asset growth comes from the core plus strategy that they manage for LACERA.

Dolan can best be described as a "niche" manager. Their area of expertise lies in the management of corporate bonds, both investment grade and high yield. It is typical of the firm to hold 80% of a portfolio in investment grade corporate bonds and up to 20% in high yield.

TABLE 3 displays Dolan's annualized performance. Since inception, the portfolio has outperformed the Index by 143 bps, net-of-fees. Security selection within Corporates (both investment grade and high yield) is the primary contributor to this outperformance.

TABLE 3

DOLAN McENIRY CAPITAL MANAGMENT

(Annualized Returns as of 9/30/17)

Portfolio	Month	Qtr	Ytd	1 Yr	3 Yr	5 Yr	7 Yr	10 Yr	Since Inception*
Dolan McEniry	-0.03	1.31	5.19	3.78	4.57	4.49	5.19	6.79	6.44
Dolan McEniry Custom Benchmark**	-0.15	1.08	3.54	1.86	3.11	2.79	3.64	4.90	4.72
Difference (Net - Benchmark)	**0.09**	**0.17**	**1.44**	**1.65**	**1.19**	**1.41**	**1.27**	**1.60**	**1.43**

* Inception: July 2005

** 65% BBC U.S. Credit Intermediate / 25% BBC MBS / 10% BBC High Yield Ba/B

Pugh Capital Management

Founded in 1991, Pugh Capital Management (Pugh) manages a core fixed income strategy for LACERA. Pugh is a minority woman-owned, fixed income only firm located in Seattle, Washington. Assets under management as of August 31, 2017 total approximately $5.5 billion, up nearly $4.5 billion since being hired in May 2005.

Pugh's top-down portfolio strategy begins with a market overview. A review of economic factors such as GDP, productivity, inflation, and job growth assist in shaping the investment team's view on key trends in the economic and capital markets. It is at this stage that the duration of the portfolio (+/- 10% of the underlying index) is set, as well as where on the yield curve one must be to take advantage of the market. Value is added primarily through security selection and sector rotation.

TABLE 4 displays Pugh's annualized performance. Since inception, the portfolio has outperformed the Index by 37 bps, net-of-fees. Like Dolan, Pugh has performed well. Of LACERA's core and core plus managers, Pugh was the only firm to outperform during calendar year 2008, during the height of the financial crisis. Staff has confidence that Pugh will continue to perform well over the long-term.

TABLE 4

PUGH CAPITAL MANAGMENT (Annualized Returns as of 9/30/17)									
Portfolio	**Month**	**Qtr**	**Ytd**	**1 Yr**	**3 Yr**	**5 Yr**	**7 Yr**	**10 Yr**	**Since Inception***
Pugh Capital Management	-0.44	0.95	3.44	0.26	2.92	2.40	3.44	4.99	4.75
BBC Aggregate Benchmark	-0.48	0.85	3.14	0.07	2.71	2.06	2.95	4.27	4.15
Difference (Net - Benchmark)	**0.02**	**0.05**	**0.14**	**-0.02**	**-0.01**	**0.11**	**0.26**	**0.49**	**0.37**

* Inception: July 2005

PROMOTIONS

While both Dolan McEniry and Pugh have demonstrated an ability to outperform their respective benchmarks, staff's Fixed Income Structure Review (Dated December 20, 2017) is recommending only the promotion of Pugh. This is based on staff's concerns over Dolan's decision to sell 45% of the firm's ownership in October 2016. Staff would like to continue to monitor this change in ownership structure.

If the Board approves Pugh's promotion, Dolan will be the only firm left in the EMP. Therefore, staff plans to launch an EMP search in late 2018.

Noted & Reviewed:

Jonathan Grabel
Chief Investment Officer

RZS:AC

APPENDIX I

FIXED INCOME MANAGER AND MARKET VALUE

(As of 9/30/2017)

	Market Values ($ in millions)
Core	
BTC Aggregate Index	872.0
BTC Intermediate Credit Index	239.6
BlackRock	716.7
Dodge & Cox	1,292.3
Pugh Capital Mgmt.	111.7
Wells Capital Mgmt.	1,355.0
Subtotal:	**$4,587.3**
Core Plus	
Dolan McEniry Capital Mgmt.	346.5
LM Capital Group	454.6
Loomis Sayles	1,077.6
PIMCO	1,051.9
Western Asset Mgmt.	1,147.3
Subtotal:	**$4,077.9**
High Yield	
Oaktree Capital Mgmt.	422.3
PENN Capital Mgmt.	108.4
Subtotal:	**$530.7**
Opportunistic	
Aberdeen	205.7
Ashmore	208.0
Bain Capital	299.1
Beach Point Capital	379.9
Brigade Capital Mgmt.	484.8
Crescent Capital Group	270.2
Doubleline Capital	265.2
Principal Global Investors	268.8
TCW	268.2
Tennenbaum Capital Partners	232.8
Western Asset Mgmt.	301.7
Subtotal:	**$3,184.4**
Total Fixed Income:	**$12,380.3**

APPENDIX II

FIXED INCOME CHARACTERISTICS

The table below provides summary statistics for the Composite and its benchmark.

(As of 9/30/2017)

	LACERA	BENCHMARK	DIFFERENCE
Yield	3.4%	3.2%	0.3%
Yield Spread	1.4%	0.6%	0.8%
Spread Duration	2.8	2.7	0.1
Duration	4.3	5.7	-1.4
Ex-Ante Standard Deviation	2.5%	3.0%	1.3%

Source: State Street TruView

LACERA

January 15, 2018

TO: Each Member
Board of Investments

FROM: Corporate Governance Committee
Shawn Kehoe, Chair
Valerie Villareal, Vice Chair
Joseph Kelly
Herman Santos
David Green, Alternate

Scott Zdrazil
Senior Investment Officer – Corporate Governance

Dale Johnson
Investment Officer

FOR: February 14, 2018 Board of Investments Meeting

SUBJECT: **CORPORATE GOVERNANCE PRINCIPLES**

RECOMMENDATION

Approve consolidated *Corporate Governance Principles*.

LEGAL AUTHORITY

LACERA's *Investment Beliefs* state, "LACERA considers the risks of ESG factors as relevant to its investment process" (*Investment Policy Statement*, Appendix A).

LACERA's *Corporate Governance Policy* (the "Policy") provides that the Corporate Governance Committee "[r]ecommends the *Corporate Governance Principles*, and other items concerning environmental, social, and governance matters to the Board of Investments for consideration and approval" (page 1).

The Policy provides that the Board of Investments, "[a]pproves and promulgates policies addressing environmental, social, and governance issues, such as corporate governance and proxy voting matters and including but not limited to *Corporate Governance Principles…*as recommended by the Corporate Governance Committee of the Board" (page 1).

BACKGROUND

On January 10, 2018, the Corporate Governance Committee ("Committee") unanimously approved recommending for Board of Investments approval consolidated *Corporate Governance Principles* ("Principles"), with suggested revisions as explained in the next section of this memorandum. If approved, the Principles would consolidate and replace three LACERA policies articulating LACERA's views on corporate governance issues and guiding LACERA's proxy votes: the current *Corporate Governance Principles*, the *U.S. Proxy Voting Guidelines*, and the *Non-U.S. Proxy Voting Guidelines.* The proposed consolidated Principles document culminates from the Committee's discussion and actions since January 2017.

Attached are:

1. A clean version of the proposed, consolidated Principles **(Attachment 1)**;
2. A redlined version that incorporates line edits reflecting discussion at the January 10, 2018 Committee meeting **(Attachment 2)**; and
3. Background materials from the January 10, 2018 Committee meeting **(Spiral Binder)**.

DELIBERATIONS AND OPINIONS EXPRESSED BY THE COMMITTEE

The Corporate Governance Committee unanimously approved the draft Principles while requesting that staff consider the following suggestions. Each suggestion is addressed below:

1. Incorporate reference to LACERA's *Investment Beliefs.*

   Reference to the *Investment Beliefs* has been incorporated into descriptions of LACERA and the "Statement of Purpose" on pages 1 and 2, respectively.

2. Incorporate reference of actuarial analysis in the background information about LACERA.

   Reference to consideration of actuarial analysis has been incorporated on page 1. The language is intended to accurately represent LACERA's investment approach, while not encroaching upon matters that are subject to other LACERA policies in order to avoid the risk of confusion from multiple policies providing language guidance on similar matters.

3. Incorporate reference to LACERA's collaboration with other investors and institutional investor associations on corporate governance matters.

   The Committee discussed incorporating reference to LACERA's membership and collaboration with corporate governance associations, such as the Council of Institutional Investors and International Corporate Governance Network. One board member cautioned that although LACERA may be affiliated to investor associations, it is not subject to the policies of these associations.

Page 2 incorporates brief reference to LACERA's collaboration with other institutional investors and associations. The language specifies that LACERA collaborates with such associations "when it has common objectives." The wording is intended to avoid the implication or interpretation that LACERA is subject to the investor associations to which it has affiliated.

LACERA's participation in governance-related investor associations is more fully defined in LACERA's *Corporate Governance Policy*. In addition, staff suggests updating the corporate governance section of LACERA's website to reflect the new *Corporate Governance Policy* and the new *Corporate Governance Principles* (if adopted), as well as identify LACERA's corporate governance association affiliations.

4. Review the draft Principles for clarity in wording and consistency in language.

The attached redlined version identifies a number of modest word and punctuation edits to enhance clarity of wording, including several phrases identified by Board members at the January 10, 2018 Committee meeting. The Communications Division provided additional review and editing. None of the edits substantively affects the spirit or impact of the draft Principles, as reviewed by the Committee.

In addition to the edits described above, the U.S. Congress passed into law new tax legislation on December 22, 2017, subsequent to the finalization of the draft Principles reviewed by the Committee in January. The revised tax provisions modified the tax-deductibility of incentive-based compensation to certain executive officers of public companies, as defined in Section 162(m) of the Internal Revenue Code and as previously addressed on page 17 of the draft Principles. In the wake of the legislative changes, explicit reference to Section 162(m) has been struck from page 17 to avoid the document being dated. The spirit and remaining substance of the policy principle remain unchanged.

RISKS OF ACTION AND INACTION

If the Board approves the proposed *Corporate Governance Principles*, the policy would be implemented in adherence to LACERA's *Corporate Governance Policy*, including applying to proxy votes during the upcoming proxy season for public equities investments for which LACERA has retained beneficial ownership rights. The Principles would be subject to regular Board review and revisions, per the *Corporate Governance Policy*, to address emerging issues and market developments.

If the Board does not approve the proposed *Corporate Governance Principles*, LACERA's three current policies (*Corporate Governance Principles*, *U.S. Proxy Voting Guidelines*, and *Non-U.S. Proxy Voting Guidelines*) would continue to apply to proxy voting and other areas, as defined in LACERA's *Corporate Governance Policy*.

CONCLUSION

The proposed Principles aim to represent a clearer, more concise, and consolidated articulation of LACERA's views on corporate governance issues. The proposed document synthesizes 84 pages of existing policy language from three current policies into a unified and updated, 21-page document, incorporating Board member feedback and input from several meetings. It is recommended that the Principles be adopted by the Board of Investments.

Attachments

Noted and Reviewed:

Jonathan Grabel
Chief Investment Officer

ATTACHMENT 1

[CLEAN VERSION]

Corporate Governance Principles

Table of Contents

About LACERA

The Los Angeles County Employees Retirement Association ("LACERA") administers defined benefit retirement plans and other post-employment benefits for employees of Los Angeles County and certain other districts.

The Los Angeles County Board of Supervisors established LACERA in 1937 under the terms of California's County Employees Retirement Law. LACERA is governed by the California Constitution (Article XVI, Section 17), the California County Employees Retirement Act of 1937, and the California Public Employees' Pension Reform Act of 2013. Today, LACERA serves over 160,000 active and retired members.

> LACERA Mission Statement
>
> We Produce, Protect, and Provide the Promised Benefits

LACERA's mission is to "produce, protect, and provide the promised benefits." LACERA aims to fulfill its mission through prudent investment and conservation of plan assets, in accordance with its *Investment Beliefs* and in consideration of actuarial analysis.

LACERA's Board of Investments is responsible for establishing LACERA's investment policy and objectives, as well as exercising oversight of the investment management of the fund.

Statement of Purpose

The fundamental objective of LACERA's *Corporate Governance Principles* is to safeguard and promote the economic interests of the trust. LACERA believes that strong corporate governance practices and policies at the firms in which it invests help generate long-term economic performance.

The *Corporate Governance Principles* identify LACERA's fundamental principles of corporate governance. They are intended to advance LACERA's *Investment Beliefs* by articulating LACERA's view on sound governance and guiding LACERA's proxy votes at public companies. In advocating practices in line with these *Corporate Governance Principles*, LACERA aims to maximize the long-term value of plan holdings.

The *Corporate Governance Principles* are organized into five sections. Each section addresses common corporate governance and proxy voting issues. The five sections address issues pertaining to boards of directors, investor rights and capital structure, executive compensation and incentives, performance reporting, and environmental and social factors.

The *Corporate Governance Principles* are guided by five core concepts that collectively provide a framework by which LACERA aims to promote sustainable investment returns and responsible stewardship of fund assets:

> **Accountability**: Governance structures and practices should be designed to promote the accountability of a firm's board of directors to the investors who provide the firm with capital. Accountability helps to ensure that a firm is managed in the best interests of its investors.
>
> **Integrity**: Integrity and trust are the cornerstone of financial markets and essential for economic stability. Core investor rights and protections are crucial to promoting integrity in financial markets.
>
> **Aligned Interests**: Compensation and incentive practices should align the interests of senior executives with those of investors.
>
> **Transparency**: Firms should provide investors with clear, comprehensive, and timely disclosures about fundamental elements of the firm's business and financial activities.
>
> **Prudence**: Firms should prudently identify, assess, and manage environmental and social factors that may impact the firm's ability to generate sustainable economic value.

Fiduciary duty guides LACERA's *Corporate Governance Principles* and their application. LACERA evaluates the financial impact of each issue presented on corporate proxies and votes proxies for the exclusive benefit of plan participants and beneficiaries in all instances.

LACERA recognizes that sound governance balances the rights of investors providing a firm with capital with the role and responsibility of corporate boards to direct and manage the firm. LACERA may oppose overly prescriptive or unduly burdensome measures proposed on corporate proxies, or resolutions that may otherwise restrict a firm's board of directors from acting in the best economic interests of investors.

LACERA also recognizes that the laws, regulations, and customs guiding corporate governance practices vary by market. LACERA seeks to apply its *Corporate Governance Principles* in a universal and consistent manner, while observing and taking into consideration – as applicable and appropriate – local laws, regulations, and customs.

The procedures by which LACERA applies and promotes the *Corporate Governance Principles,* including executing proxy votes, engaging policymakers and portfolio companies, and collaborating with other institutional investors when it shares common objectives (such as actively participating in investor associations), are described in LACERA's *Corporate Governance Policy.*

Principles

I. Directors

The board of directors drives the strategic direction and oversight of the firm and its management. LACERA relies upon the directors it elects to exercise effective oversight and ensure that the firm is managed in the best interests of investors. Directors should understand the firm's long-term business strategy as well as risks that may impact the firm's value, and demonstrate a record of sound stewardship and performance. LACERA advocates policies and practices that encourage directors to be accountable to investors. Accountability ensures that a firm's operations and reporting are managed in the best interests of investors.

A. Independent Oversight

1. **Board Independence:** At least two-thirds of the board should be composed of independent directors in order to oversee management on behalf of investors, promote accountability to investors, and avoid potential conflicts of interest.

   An independent director is defined as someone who has no material affiliation to the company, its chief executive officer, chairperson, or other executive officers, other than the board seat.

   Materiality is defined as any financial, personal, or other relationship that a reasonable person might conclude could potentially influence one's objectivity in a manner that would have a meaningful impact on the individual's ability to satisfy requisite fiduciary standards on behalf of investors. Directors may not be considered independent if they, or a family member, are or have been an employee of the company (or a subsidiary or affiliate thereof) in the last five years; have a 20 percent or greater economic interest in the company; are or have been part of an interlocking director relationship with the CEO; receive direct payments for professional services unrelated to their service as a director in excess of $10,000 per year; or engage in any related party transaction in excess of $10,000 per year.

2. **Board Leadership:** The board should be chaired by an independent director.

3. **Board Committees:** Each board should establish an audit committee, a nominating and governance committee, and a compensation committee, each composed exclusively of independent directors.

   Deference generally should be afforded to boards in determining appropriate oversight structures, such as the establishment and role of additional board committees. LACERA may support proposals to appoint an additional board committee in limited circumstances where a firm's performance, oversight structures, and peer comparisons demonstrate that inadequate board consideration and focus has been accorded to a compelling issue related to firm value.

LACERA may oppose or withhold support from non-independent board nominees or key board leadership positions where the board or key committees lack adequate independence.

B. Board Quality and Composition

1. **Composition:** The board should be composed of highly talented individuals who are best positioned to oversee the company's strategy for creating and sustaining value. Boards should give consideration to ensuring that directors collectively possess a diverse set of relevant skills, competencies, and attributes to exercise oversight on investors' behalf, including expertise, geographic familiarity, and professional backgrounds relevant to the company's strategic objectives. The board should strive for a suitable mix of tenures to ensure both institutional familiarity and fresh perspectives on the board, as a firm's market environment and business strategies evolve.

2. **Diversity:** The board should establish and disclose policies and processes for ensuring that it identifies and nominates suitable directors from a wide pool of candidates relevant to its business strategy, including, but not limited to, diverse gender, racial, and ethnic backgrounds. A diverse and inclusive board is better positioned to effectively deliberate and oversee business strategy in investors' interests.

3. **Board Size:** The board should define and disclose in governance documents an appropriate size or range of directors that ensures the board is composed of adequately diverse viewpoints and experience to effectively oversee the firm's business strategy, while not being so large as to diminish the board's operational effectiveness. Modifications to governing documents defining board size and structure should be submitted for investor approval and not be proposed for the purpose of impeding a change in firm control.

4. **Excessive Commitments:** Directors should have adequate time to dedicate to their board service, fulfill their responsibilities, and represent investors' interests. Accordingly, directors should not serve on more than four public company boards. Currently serving chief executive officers should not serve on more than three public boards (including their own).

5. **Tenure and Age Restrictions:** LACERA does not support arbitrary restrictions on director qualifications, such as tenure limits or mandatory retirement ages. Such limitations may impede a firm from benefiting from the expertise of an otherwise highly qualified director.

C. Director Selection and Elections

1. **Annual Elections:** Each director should be elected annually. Directors should not be elected by classes, or to "staggered" terms.

2. **Vote Standard for Director Elections:** Director nominees in uncontested elections should be elected by a majority of votes cast. In contested director elections, a plurality of votes should determine the election.

3. **Universal Proxy Card:** In the event of a contested director election, investors should have the right to select and vote for individual director nominees on a consolidated, or "universal," proxy ballot, regardless of whether the director nominee is put forward by management or a dissident investor.

4. **Cumulative Voting:** LACERA supports cumulative voting in director elections, in compliance with California Government Code Section 6900.[1]

5. **Proxy Access:** Long-term investors who have held a significant ownership interest for a reasonable amount of time should have the right to nominate alternative directors for consideration on a firm's proxy, otherwise known as "proxy access." Proxy access procedures should have sound safeguards in place to ensure an orderly nominating process and prevent proxy access from being used to effectuate a change in control.

6. **Ability to Remove Directors:** Investors should have the right to remove directors with or without cause, in order to allow investors to take action when a director is not serving investors' best interests.

D. Board Roles and Responsibilities

1. **Governance Guidance:** The board should develop, adopt, disclose, and periodically review clearly defined governance guidelines that govern the board's operations.

2. **Resources:** The board should have adequate resources and access to information to enable it to execute its responsibilities and duties. Directors should be provided information in advance of meetings. Directors should have full access to senior management and information concerning the firm's operations. Directors should be familiar with a firm's operations independent of the chief executive officer and senior management. Directors should have the authority and adequate budget to hire outside experts, if necessary.

3. **Independent Proceedings:** Directors should work with the chief executive officer to establish board agendas. Independent directors should meet at least annually without management or non-independent directors' participation.

4. **Board Communication and Engagement:** Firms should establish reasonable policies that permit effective communication between investors and directors regarding business strategy and corporate governance matters.

5. **Management Succession Planning:** The board should conduct a regular evaluation of the chief executive officer and plan for business continuity, including establishing and disclosing a succession plan for the chief executive officer and key senior executives.

6. **Board Self-Evaluation and Refreshment:** Boards should adopt and disclose a process for regular, rigorous, and earnest self-assessment and evaluation. The evaluation process should be conducted under the direction of independent directors and ensure candor, confidentiality, trust, and effective interaction among directors. Board self-evaluation should be tailored to meet the firm's and board's strategic objectives and requirements. In order to promote long-term planning aligned with business needs, the board's self-evaluation process should assess the board's size and operational effectiveness, identify emerging business risks and relevant skills gaps among its composition, and prudently

[1] Section 6900. Cumulative Voting. "Government Body." Whenever any government body is a shareholder of any corporation, and a resolution is before the shareholders which will permit or authorize cumulative voting for directors, such government body shall vote its shares to permit or authorize cumulative voting. As used in this section, the term "government body" means the state, and any office, department, division, bureau, board, commission or agency thereof, and all counties, cities, districts, public authorities, public agencies and other political subdivisions or public corporations in the state.

anticipate and proactively plan for board vacancies and refreshment. It should appraise the alignment and adequacy of director education and development, as well as the delineation of management and board powers, while positioning the board to efficaciously exercise oversight in investors' interests.

7. **Charitable and Political Contributions:** Corporate charitable contributions may accrue direct and indirect benefits to a firm and its investors, including goodwill in communities in which it operates and favorable tax treatment. Charitable contributions should not be directed, eliminated, or otherwise restricted by investors.

   The board should monitor, assess, and approve all charitable and political contributions (including trade association contributions) made by the firm. Political and charitable contributions should be consistent with the interests of the firm and its investors. The board should clearly define and approve the terms and conditions by which corporate assets may be provided to charitable and political activities, including developing and publicly disclosing guidelines for the approval of such contributions. The board should disclose on an annual basis the amounts and recipients of all monetary and non-monetary contributions made by the firm during the previous fiscal year, including any expenditures earmarked for political or charitable activities that were provided to or through a third party.

8. **Director Indemnification:** Directors may be provided reasonable and limited protections, including indemnification and limited personal liability for damages resulting from violating duty of care, where the director is found to have acted in good faith and in a manner the director believed to be in the best interests of the firm. Reasonable limitations may ensure the board is positioned to recruit qualified directors.

E. Board Performance and Effectiveness

1. **Performance Evaluation:** The board's performance, and that of individual directors, should be assessed within the context of the board's suitability for and track record of serving and protecting investors' interests. LACERA may withhold support or oppose individual directors, members of a board committee, or the entire board where the track record demonstrates directors' failure to serve investors' best interests. Director and board performance is evaluated in consideration of the following factors:

   1.1. Stewardship and Risk Oversight: Directors should demonstrate a sound track record of stewardship and risk oversight, including avoiding any material failures of governance, risk oversight, or fiduciary responsibilities at the company.

   1.2. Effective Oversight of Management: Directors should conduct effective oversight of management, including avoiding any failure to replace management as appropriate.

   1.3. Attendance: Each director should attend at least 75 percent of scheduled board meetings each year, including attendance at assigned committees, absent a compelling, clearly disclosed justification.

   1.4. Board Service: Directors' track records and performance on other boards may be considered in evaluating director nominees. In particular, a director's failure to effectively exercise oversight on other boards or any egregious actions that raise substantial doubt about the director's ability to fulfill a director's obligations and serve the best interests of investors may prompt opposition to the director's nomination.

1.5. **Ethics:** Directors should demonstrate the utmost integrity and be free of any criminal wrongdoing, breaches of fiduciary responsibilities, or questionable transactions with conflicts of interest.

1.6. **Transparency in Reporting:** Financial reports and material disclosures should be published in a satisfactorily diligent and timely manner.

1.7. **Investor Responsiveness:** Directors should demonstrate accountability and responsiveness to investors. Directors should not unilaterally amend a firm's governing documents in a manner that materially diminishes investor rights or otherwise adversely impacts investors without seeking investor approval. Directors should not adopt a poison pill or make a material change to an existing poison pill without submitting the plan for investor approval within the following 12 months. Directors should take reasonable steps to implement resolutions approved within the previous 12 months by a majority of investors, within the confines of legal and regulatory constraints. Directors should respond to tender offers where a majority of shares have been tendered. There should be no record of abuse against minority investor interests.

2. **Committee Performance:** Each committee should demonstrably fulfill its core duties and the specific responsibilities outlined in its committee charter. LACERA may oppose incumbent directors who have served on committees that have failed to perform their duties in investors' best interests.

   Audit Committee members should ensure that non-audit fees are not excessive, no adverse opinion has been rendered on the company's audited financial statements, and the firm has not entered into an inappropriate indemnification agreement that limits legal recourse against the external auditor.

   Compensation Committee members should demonstrate a clear and proven track record of aligning executive pay with the firm's strategic objectives and performance, refrain from permitting problematic pay practices, ensure clear disclosures of all key components of pay plan design and practices, and exhibit reasonable and timely responsiveness to investors.

3. **Contested Director Elections:** In assessing director nominees in contested elections, LACERA may consider all relevant factors to identify and support the nominees best suited to enhance sustainable firm value and serve investors' economic interests. Consideration may be given to the long-term financial performance of the firm, its governance profile, and management's track record; nominees' proposed strategies for value creation; the qualifications and suitability of director nominees, including their alignment with LACERA's governance principles; and the dissidents' ownership stake and history of generating sustainable returns at other firms.

LACERA may support requests to reimburse dissident nominees for reasonable, incurred expenses when dissident nominees have presented a compelling case and support for their nomination is warranted.

II. Investor Rights and Capital Structure

Integrity and trust are the cornerstones of capital markets and essential for economic stability. Core investor rights ensure fair and equitable treatment of investors and help instill investor confidence, thereby facilitating capital formation and economic stability.

LACERA supports core rights and protections at portfolio companies and within financial market policies in order to safeguard its investments and foster a stable investment climate within the broader financial markets in which it invests. Financial rules and regulations should promote fair, orderly, and competitive markets and provide for investor protections. Investor rights extend to key decisions that may fundamentally impact or modify a firm's capital structure, such as share issuances, restructuring, and mergers and acquisitions.

A. Investor Rights

1. **Rights Proportionate to Economic Interest:** Investors should have voting rights proportionate to their economic interests. Multiclass ownership structures may entrench certain investors and management, insulating them from acting in the interests of all investors. LACERA therefore supports the principle of "one share, one vote."

2. **Voting Requirements and Procedures:** Investors should have the right to act on fundamental corporate matters by a simple majority of votes cast. Fundamental matters may include, but are not limited to, amending a firm's governing documents (such as its charter or bylaws) and effecting corporate transactions, such as a merger or acquisition.

   2.1 Simple Majority Voting: Companies should not adopt supermajority voting requirements except when such provisions may protect outside or minority investors from unilateral action being taken by an entity (or entities) with controlling interest or significant insider ownership.

   2.2 Voting Procedures: Voting and tabulation of matters put before investors by proxy or otherwise should be guided by transparent procedures, consistent application of rules, and fairness for all eligible voters. Votes should be counted by an independent tabulator and kept confidential. Voting results should be promptly disclosed once tabulation has been finalized.

   2.3 Bundled Voting: Investors should be able to review and cast votes on unrelated matters as separate and distinct ballot items. Disparate matters should not be presented for investor consideration as a "bundled" voting item. LACERA may oppose bundled proposals that combine supportable voting items with matters that LACERA opposes.

   2.4 Broker Non-Votes: Uninstructed broker votes and abstentions should be counted for quorum purposes only.

3. **Annual Meetings**

   3.1 Quorum Requirements: Quorum requirements should promote that a broad range of investors are represented at meetings. Quorum requirements should not be unduly low, in either absolute terms or relative to the economic interest of a controlling investor or significant

investor, in order to protect investors from unrepresentative action being conducted.

3.2 Technology: Investors should have the right to attend an annual meeting of a firm in person. Any use of technology, such as audiocasts or webcasts, should expand and enhance, and not restrict or otherwise impede, investors' ability to participate in an annual meeting, and should afford opportunities for meeting participation equal to those afforded investors attending the meeting in person.

3.3 Resolutions: Investors with a reasonable ownership interest in a firm should have the right to put forward a resolution for investors' consideration and vote at the firm's annual meeting.

3.4 Advance Notice Requirements: Investors should be able to submit items for formal consideration at an annual meeting, such as proposals or director nominees, as close to the meeting date as reasonably possible and within the broadest timeframe possible, recognizing the need to allow sufficient notice for company, regulatory, and investor review.

3.5 Transaction of Other Business: LACERA generally opposes requests for advance approval by proxy of undisclosed business items that may come before an investor meeting for consideration.

4. **Special Meetings:** Investors should be able to call a special meeting to take action on certain matters that may occur between regularly scheduled annual meetings. The right to call a special meeting should require aggregating a minimum of 10 percent ownership interest and be subject to reasonable terms and conditions.

5. **Action by Written Consent:** Investors should have the right to act by written consent on key governance matters under reasonable terms and conditions.

6. **Access to Research:** Investors should have access to competitive, timely, and independent market, investment, and proxy research services of their choosing. Market regulation should support and not impede a competitive market of service providers.

7. **Ownership Disclosure:** Significant ownership interests above 5 percent should be disclosed.

8. **Incorporation:** A firm's country or state of incorporation may significantly impact the firm's financial health, competitive position, governance profile, and the legal rights afforded to investors, as defined by the jurisdiction of incorporation. When selecting a jurisdiction for incorporation (such as in relation to a merger or acquisition or a proposed reincorporation), firms should give due consideration to competitively positioning the firm for financial success while also ensuring sound governance practices and strong legal rights and protections for investors. LACERA may oppose proposals for reincorporation where the business and financial rationale for reincorporation do not outweigh the detrimental impact of a reincorporation on investor rights and governance provisions.

9. **Litigation Rights:** Robust and viable litigation rights enable investors to protect firm value, deter misconduct, and seek recourse in the event of egregious corporate malfeasance or fraud. Corporations should not curtail or otherwise

diminish investors' prospective legal recourse through governance provisions, such as exclusive forum designations for legal disputes, mandatory arbitration clauses, or "fee-shifting" provisions by which an investor who unsuccessfully brings legal action must bear the entirety of the corporation's legal costs.

B. Capital Structure

Finding the optimal mix of equity, long-term debt, and short-term financing is critical to driving economic returns. A firm's capital structure should support the generation of long-term, sustainable returns. The board should determine and drive a firm's capital structure, in coordination with senior management. Capital structure should coordinate and balance multiple factors, including the firm's business profile, strategy, and opportunities for growth; access to and cost of capital; and capital distributions such as the firm's dividend policy.

Investors should be able to vote on matters that may fundamentally modify or impact a firm's capital structure, such as common share issuances, and mergers and acquisitions.

1. **Share Issuances and Authorizations:** Share issuances enable firms to raise funds for financing purposes.

   1.1 Authorization of Common Shares Issuance: Requests to authorize capital or approve share issuances should specify the quantity of shares for which approval is sought. Requests should be evaluated upon careful consideration of the individual details and merits of each request and according to LACERA's economic interests. Firms should present a compelling purpose for the share issuance, demonstrate a track record of responsibly using authorized shares in investors' interests, and provide for rights and restrictions attached to proposed equity that are aligned with investors' interests. In evaluating requests, the availability of preemptive rights and any risks of authorizing the share issuance, including the dilutive impact of the request, may also be considered. Capital authorization terms should not facilitate an anti-takeover device or otherwise adversely impact investors' interests.

   1.2 Preemptive Rights: Preemptive rights provide current investors the right to maintain a proportionate interest in a firm by exercising a right to purchase shares proportionate to what they already own in any new issuances of equity. Requests to create or abolish preemptive rights should consider the size of the firm, the characteristics of its investor base, and the liquidity of its equity to ensure that preemptive rights may be pragmatically exercised and do not impose an onerous restriction on capital raising.

   1.3 Preferred Shares Authorization: Preferred shares, which provide distinct features such as fixed dividend payments or seniority of claims relative to common shares, may be supportable when the purpose of such issuance is in connection with a proposed transaction appearing on the same ballot that merits support. Otherwise, requests for authorization are evaluated in consideration of the request's stated purpose, the firm's past use of authorized preferred shares, and an assessment of the risk of authorizing the share issuance, including the dilutive impact of the request, and should not create or increase shares that carry superior voting rights to common shares. Any conversion rights should define reasonable conversion ratios and not result in excessive dilution of common shares.

1.4 Blank Check Preferred Shares: Firms generally should not create classes of shares providing the board with broad discretion to define voting, conversion, dividend distribution, and other rights, absent a compelling rationale and clearly stated restrictions in line with investors' interests. The voting rights of unissued shares should be presented for investor approval and not be subject to board discretion.

1.5 Blank Check Preferred Share Placements: Investor approval should be required for the placement of preferred shares with any person or group for other than general corporate purposes to enable investor review of the business purpose, prospective impact on dilution and voting positions, and any adverse impact on existing investors.

1.6 Reverse Stock Split: Reverse stock splits, by which multiple shares are exchanged for a lesser amount to increase share price, generally should be accompanied by a proportionate reduction in authorized shares.

2. **Debt Issuance and Borrowing Powers:** Debt issuances and restructuring, amendments to a firm's aggregate limit on the board's ability to borrow money, and other debt-related items should serve a compelling and clearly articulated business purpose, be in line with and supportive of generating sustainable and viable financial returns, and take into reasonable consideration any detrimental impact on existing investors. LACERA evaluates debt-related proposals upon careful consideration of the individual terms and merits of the request.

3. **Capital Allocation and Income Distributions:** A firm should allocate capital, including distribution of income through dividends or share repurchases, in a disciplined and balanced manner that supports the generation of long-term value.

3.1 Allocation of Income: Firms should provide adequate justification when seeking investor approval for the allocation of income when the payout ratio appears unbalanced or unsustainable (either inordinately low, such as below 30 percent, or excessive, given the firm's financial position).

3.2 Stock (Scrip) Dividend Policy: Firms may provide investors the option to receive dividend payments in the form of common equity in lieu of cash. Such provisions enable a firm to retain cash and may strengthen the position and commitment of long-term investors. In all circumstances, firms should provide a cash option, absent a compelling justification that such an option may be harmful to investors.

3.3 Share Repurchase Programs: Open market share repurchase plans should enable investors to participate on equal terms and support balanced and disciplined capital allocation. Requests to authorize share repurchases should have a defined and limited duration, incorporate clear and reasonable terms and conditions, and generally not exceed 10 percent for market repurchases within any single authority, absent a compelling rationale in line with investors' interests and market practice.

4. **Mergers, Acquisitions, and Other Corporate Restructuring:** Mergers and corporate restructuring (including spin-offs, leveraged buyouts, and reorganizations) have major financial implications for investors.

4.1 Evaluation: LACERA carefully examines all relevant facts and circumstances of each proposal to determine whether the proposal, in its entirety, is in LACERA's best interests. Assessment of each proposed transaction takes into account multiple factors. The valuation should be reasonable. Market reaction may be considered. The strategic rationale and expected benefits should be sensible, with any projected synergies or financial impact reasonably achievable. Management should have a favorable track record of successful integration of acquisitions or business combinations. The negotiation and deal process should be fair and equitable. There should be no conflicts of interest, such as factors enabling insiders to disproportionately benefit from the proposed transaction. The resulting entity should observe sound corporate governance practices. The risks of not completing the transaction or corporate restructuring may be considered. Sufficient information should be provided to enable investors to make an informed decision.

4.2 Appraisal Rights: Investors should be afforded appraisal rights by which they may seek a judicial review of the terms of certain corporate transactions in order to determine fair market value.

5. Anti-Takeover Measures: Investors should be afforded the reasonable opportunity to deliberate and decide on the merits of takeover bids and acquisitions. Practices and provisions, including corporate bylaws, charters, laws, and statutes, that may impede or deter a corporate transaction that is otherwise in investors' interests, may take a variety of forms and generally should be submitted for investor review and approval.

5.1 Poison Pills: The board should not enact or amend a poison pill without investor approval. LACERA generally supports the redemption of existing poison pills, except in unique circumstances where a carefully designed, short-term plan may enable a firm to negotiate more favorable terms with a potential bidder. Such plans should require a minimum 20 percent ownership threshold to trigger, provide for limited and reasonable duration, exclude provisions by which only continuing directors may remove the pill, and otherwise provide adequate investor protections so that the plan will not unduly impede a bid that is otherwise in investors' interests.

5.2 Net Operating Loss (NOL) Protective Amendments: Protective amendments with the stated purpose of preserving a company's net operating losses for a tax benefit, such as under the terms of Section 382 of the Internal Revenue Code, should balance the anticipated benefit to investors of preserving the tax value and the risk of potential abuse of such provisions as an anti-takeover measure. Because NOL protective amendments may serve as a poison pill, the board should submit related items for investor review and approval. Such provisions should only be used under limited, clearly justified circumstances and include adequate protections, such as an appropriate ownership threshold and clearly defined and reasonable duration limits.

5.3 Greenmail: Greenmail, by which a firm repurchases shares of a potential acquirer at an above-market price to deter a takeover, should be prohibited.

5.4 Other Anti-Takeover Measures: LACERA generally opposes provisions that impose onerous restrictions or impediments on prospectively beneficial takeover bids, taking into account the specific terms and circumstances of such provisions to determine the provision's alignment

with LACERA's economic interests. LACERA supports firms opting out of related anti-takeover laws and statutes, where legally permitted.

Fair price provisions that require an investor seeking to purchase control of a firm to pay a defined fair price should not impose onerous requirements that may deter a competitive bid from being considered by investors.

Firms should opt out of control share acquisition statutes that void the voting rights of an investor surpassing certain ownership thresholds; control share cash-out provisions requiring an investor above a specified ownership threshold to purchase shares from remaining investors at the highest acquiring price if remaining investors exercise their right to sell their shares; and freeze-out provisions requiring an investor who meets a defined ownership threshold to wait a specified period of time before gaining control of the firm.

Disgorgement provisions, by which an investor who acquires ownership interest above a specified threshold must pay the firm any profits realized from the sale of the firm's equity purchased within a defined time period prior to exceeding the defined ownership threshold, should be avoided.

Firms should not provide designated investors (such as the government of a related, formerly state-owned enterprise) "golden shares" that provide for exceptional veto power or voting rights regarding specific corporate proposals.

6. **Related-Party Transactions:** Investors should have the right to approve significant related-party transactions. Investor approval helps to protect investors against self-dealing. Firms should provide clear information regarding such transactions – including all fees, a compelling rationale for the service or services provided, and the assessment of independent directors and an independent financial advisor of the transactions – in order to permit an informed assessment of prospective conflicts of interest.

III. Compensation and Incentives

Compensation and incentives should align the interests of senior executives and investors. Executive compensation and incentives serve a critical role in recruiting, motivating, and retaining talent. Pay plan design, structure, and goals should be fundamentally derived from and relevant to a firm's core business objectives and collectively promote sustainable value creation. Accordingly, pay and incentives should incentivize and reward executives for the achievement of outstanding performance, while encompassing prudent risk mitigation and taking care to avoid excessive risks that may be detrimental to the firm's long-term financial returns.

Boards should determine core components of executive pay design, including target pay levels and incentives. Boards oversee compensation paid to senior executives, award bonuses, and establish incentive plans that may include equity and performance-based grants and awards. The board may also review and approve supplemental compensation plans for firm employees, including employee equity and retirement plans.

Firms should provide investors with transparent, clear, and comprehensive disclosure of senior executives' total compensation package. This includes disclosure of salary, short and long-term incentive compensation, and all benefits and perquisites. Selected performance metrics and targets upon which compensation is contingent should be provided in a plain and clear format.

A. Advisory Vote on Executive Compensation

Executive compensation design and practices should be submitted for investor review and non-binding approval on an annual basis (also known as "say on pay"). Advisory votes should consider the firm's pay design and practices as a whole, taking into account the alignment of executive pay with long-term firm performance, the absence of significant problematic pay practices and excessive risk in targets and reward incentives, and the clarity of the firm's pay disclosures.

B. Compensation Plan Design

Executive compensation and practices should link pay to firm performance. Compensation should be commensurate with the firm's long-term performance, appropriately aligned with firms with which the firm competes for executive talent (such as industry peers and firms of comparable size and profile), and properly consider the firm's long-term outlook for generating sustainable returns.

1. **Performance Criteria:** Incentive compensation should incorporate clearly defined, rigorous, and disclosed performance criteria upon which incentive pay is contingent. Performance metrics, targets, and hurdles should be consistent with and promote the firm's strategy for generating sustainable value, including key financial and operating objectives, and effective management of relevant business risks.

2. **Peer Benchmarking:** Peer groups used to benchmark compensation should be clearly disclosed and relevant to the firm's business profile and size.

3. **Compensation Consultants:** Compensation consultants providing strategy, design, and implementation services related to executive compensation to the board's compensation committees should be at the exclusive hire and service of the committee, unquestionably independent, and clearly disclosed.

4. **Equity Ownership, Retention, and Holding Requirements:** Equity ownership among senior executives may strengthen the alignment of interests between executives and investors and promote prudent risk mitigation, and should be encouraged. Equity ownership guidelines providing that executives should maintain reasonable equity in the firm, requirements for executives to retain a meaningful portion of equity acquired through compensation plans, and equity grant holding requirements should strike an appropriate balance to promote equity ownership while avoiding overly restrictive or onerous provisions that may undermine talent motivation and retention to the detriment of investors' interests.

5. **Pre-Arranged Trading Plans:** Pre-arranged trading plans, as provided under Securities and Exchange Commission Rule 10b5-1, define parameters for executives' predetermined securities transactions in advance of an executive becoming aware of material non-public information regarding the firm's securities and are intended to mitigate the risks of insider trading. The adoption, amendment, or termination of pre-arranged trading plans for senior executives should be governed by the board, promptly disclosed, and provide for timely disclosure of transactions made pursuant to the plan's provisions.

6. **Hedging and Speculative Transactions:** Senior executives should be prohibited from engaging in derivative or speculative transactions involving equity of the firm, including hedging, holding equity in a margin account, or pledging equity as collateral for a loan.

7. **Internal Pay Disparity:** Executive compensation should be considered in the context of how a firm compensates its employees, including in relation to industry peers. Firms should disclose the ratio of the chief executive officer's total pay to that of the average firm employee.

8. **Restrictions:** Executive pay should not be subject to arbitrary restrictions or limitations on the magnitude or form of compensation, such as linking executive pay to average employee compensation. Arbitrary limits and restrictions may undermine a firm's ability to attract and retain competent talent and create a competitive disadvantage for the firm.

9. **Recoupment Policies:** Firms should adopt and disclose rigorous policies defining the terms and conditions by which incentive compensation may be recouped, in order to align pay with performance, promote accurate financial reporting, and deter misconduct. Robust clawback policies should enable the board to review and recoup senior executive incentive compensation in the event that compensation was calculated using inaccurate financial reports, or in the event of fraud or misconduct. Application of the recoupment policy should be reasonably disclosed.

C. Equity Plans

Equity plans should motivate plan participants to focus on long-term firm value and returns, encourage equity ownership, and advance the principle of aligning employee interests with those of investors.

Firms should submit equity plans for investor approval. Equity plans should be reviewed taking into account plan features, impact on equity dilution, and prospects to align pay with performance.

1. **Performance-Based:** Equity plans should define robust and appropriate performance requirements by which equity may be granted that are aligned with

and justifiable by the firm's business strategy and strategic objectives. Such provisions may include terms and performance criteria permitting a plan to qualify for favorable tax treatment.

2. **Track Record:** The firm should demonstrate a history of responsibly linking equity awards to performance and avoiding grants of excessive awards.

3. **Impact:** The total cost and potential dilution of the plan should be reasonable.

4. **Repricing:** Equity granted under the terms of the plan, such as share options and stock appreciation rights, should not be repriced without investor approval, as re-pricing may sever the link between pay and performance. Requests to reprice underwater options should clearly define and compellingly justify the rationale and intent, timing, defined participants, and terms, such as a value-for-value exchange, exercise price, and vesting requirements.

D. Employee Equity Programs

1. **Employee Stock Purchase Plans:** Employee stock purchase plans encourage firm employees to acquire an ownership stake in the firms for which they work by providing employees the right to purchase the firm's equity at a set price within a certain period of time. Employee stock purchase plans should define reasonable terms, such as designating exercise prices at no lower than 85 percent of fair market value, fixing a justifiable offering period, and limiting voting power dilution to less than 10 percent.

2. **Employee Stock Ownership Plans:** Employee stock ownership plans (ESOPs) enable employees to accumulate firm equity. ESOPs should balance encouraging employee equity ownership while avoiding harm to existing investors. Shares allocated to ESOPs should not be excessive (generally no more than 5 percent of outstanding shares).

E. Severance and Retirement Arrangements

Severance payments to executives in the event of an employment termination, separation, or change in firm control should be justifiable by the executive's performance, serve the long-term interests of the firm and its investors, and not be excessive.

1. **Golden Parachutes:** Firms should submit for investor approval arrangements to provide executives with extraordinary severance payments in certain circumstances, such as a change in firm control. Extraordinary payments may be assessed in relation to market and peer practice and should not exceed payments greater than three times base salary and bonus. Severance payments should not be so attractive as to influence merger agreements that may not be in the best interests of investors and should have triggering mechanisms beyond the control of senior executives. Any payments in the event of a change in control should be "double triggered," i.e., contingent upon both an actual change in control and an employment separation related to the change-in-control event. Unvested equity should not accelerate upon the change in control. Payments should not trigger, and firms should not commit to paying, executives' excise taxes ("gross ups"). A change in control should not be contingent upon investor approval of executives' severance payments.

2. **Supplemental Executive Retirement Plans:** Retirement plans that provide extraordinary retirement benefits exclusive to executives should be presented for

investor approval and avoid excessive payouts, such as excluding all incentive or bonus pay from covered compensation calculations.

3. **Golden Coffins:** Firms should refrain from providing extraordinary compensation upon an executive's death. Firms should submit for investor approval agreements and policies that oblige the firm to make payments or awards following the death of a senior executive, including unearned salary or bonuses, accelerated vesting or continuation in force of unvested equity grants, and other extraordinary payments or awards.

F. Director Compensation

Firms should disclose the philosophy and process used for determining compensation paid to directors serving on the board and the value of all elements of director compensation.

1. **Structure and Design of Director Compensation:** Directors may be compensated in both cash and equity. Fees and compensation paid to directors should be appropriate relevant to market norms, the firm's industry, and its financial performance. Equity should not constitute the entirety of director compensation, as this may undermine directors' incentive to monitor and exercise oversight of long-term risks to firm value.

2. **Equity Ownership:** Equity ownership by directors promotes the alignment of directors' interests with those of investors. Firms should adopt and disclose equity ownership guidelines to encourage directors to acquire and hold a meaningful amount of equity in the firm. Equity ownership should not, however, be a qualification for board service, as such restrictions may impede otherwise highly qualified individuals from serving as directors.

3. **Retirement Benefits:** Retirement benefits for director service are improper, as such benefits may impede objectivity and sever the alignment of interest between directors and investors.

IV. Performance Reporting

Financial markets work most efficiently when investors have timely, reliable, and comparable information about material aspects of a firm's performance. Transparency of a firm's key financial and operating performance is critical for investors to assess the firm's financial viability and prospects. Independent verification of a firm's financial disclosures promotes investor confidence.

LACERA supports clear and comprehensive disclosure of relevant financial and operating performance indicators (including environmental, social, and governance matters) that may provide valuable information for investors to assess a firm's prospects for delivering sustainable value.

A. Financial Reports

Financial statements and auditor reports are essential in evaluating a firm's performance. Financial reports should present clear, reliable, and comprehensive data and information. There should be no unresolved concerns about the accounts presented or audit procedures, inadequate disclosures, or unresponsiveness regarding investor or regulatory questions on specific items.

B. Fiscal Term

Firms should define an appropriate fiscal term. The fiscal term should not be altered for the purpose of postponing an annual meeting.

C. Auditors

Firms should ensure independent, high-quality, and timely provision of audited financial statements by a clearly disclosed external auditing firm.

1. **Ratification:** Auditors should be clearly disclosed and presented to investors for ratification. LACERA takes into consideration the following factors when evaluating auditor ratification:

   1.1. Independence: The external auditor should be objective and free of conflicts of interest in providing auditing services. Accordingly, non-audit fees paid to an external auditor should not be excessive. Specifically, non-audit fees should not exceed the total of audit and audit-related (such as permissible tax) fees, and the auditing firm should have no financial interest or association with the company.

   1.2. Quality: There should be no question as to the accuracy of the external auditor's opinion, the financial report's indication of the company's financial position, and the accurate application of established accounting standards. There should be no aggressive accounting practices or significant audit-related issues at the company, such as a history of restated financial results or material weaknesses in internal controls.

   1.3. Timeliness: There should be no unjustified delays in the publication of audited financial statements.

2. **Rotation:** Requests to rotate auditors should be evaluated in consideration of the audit firm's tenure, any proposed length of rotation, the presence of significant audit-related issues at the company, the extent to which the company periodically

assesses audit pricing and quality, and the robustness of the audit committee's functions, such as the presence of financial experts and how often the committee meets.

3. **Indemnification:** To avoid any impairment of the external auditor's objectivity and independence, companies should not enter into engagement letters that indemnify or otherwise limit the external auditor's liability.

V. Environmental and Social Factors

Environmental and social factors – such as management of human capital, access to natural resources, and environmental risks – may shape and impact a firm's ability to generate and sustain value. Firms should identify and prudently manage social and environmental factors relevant to the firm's business strategy, industry, and geographic markets. Social and environmental factors may present opportunities to drive value or risks to a firm's strategic objectives.

Firms should ensure diligent board oversight and provide reasonable disclosures of relevant environmental and social factors and how they are managed. Reporting enables investors to make informed investment decisions when evaluating companies and the long-term viability and sustainability of their business practices.

In addition to identifying, evaluating, and mitigating the risks presented by social and environmental factors, firms should carefully consider the impact of their business activities. 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.

A. Social Factors

1. **Human Capital Management:** Effective management of human capital – including the development, incentives, and retention of the firm's workforce – is key to accomplishing a firm's strategic objectives. Companies should identify, ensure board oversight, and disclose information about significant human capital value drivers that are related to the firm's ability to create and protect firm value. Central to effective human capital management is the assurance of equal employment opportunity, including non-bias in compensation and employment terms.

2. **Human Rights Risk:** Firms should mitigate the risks of human rights abuses in global operations and supply chains by adopting robust human rights policies and ensuring effective internal controls to monitor compliance with stated human rights standards.

B. Environmental Factors

1. **Natural Resource Stewardship:** Firms should give consideration to efficient, sustainable use and stewardship of natural resources, such as energy and water, to enhance operational efficiency and safeguard firm value from the risks of resource scarcity.

2. **Environmental Risk:** Firms should ensure reasonable oversight mechanisms and mitigation of environmental risks, such as hazardous waste disposal and pollution, to mitigate prospective legal, regulatory, and operational risks to firm value.

3. **Climate Risk:** Climate change may present financial, operational, and regulatory risks to a firm's ability to generate sustainable value, as well as to the broader economy. Firms should assess and disclose material climate-related risks and sufficient, non-proprietary information to enable investors to prudently and adequately evaluate the prospective impact of climate risk on firm value.

Document History

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ATTACHMENT 2

[REDLINED VERSION]

Corporate Governance Principles

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About LACERA

The Los Angeles County Employees Retirement Association ("LACERA") administers defined benefit retirement plans and other post-employment benefits for employees of Los Angeles County and certain other districts.

The Los Angeles County Board of Supervisors established LACERA in 1937 under the terms of California's County Employees Retirement Law. LACERA is governed by the California Constitution (Article XVI, Section 17), the California County Employees Retirement Act of 1937, and the California Public Employees' Pension Reform Act of 2013. Today, LACERA serves over 160,000 active and retired members.

LACERA Mission Statement

We Produce, Protect, and Provide the Promised Benefits

LACERA's mission is to "produce, protect, and provide the promised benefits." LACERA aims to fulfill its mission through prudent investment and conservation of plan assets, in accordance with its *Investment Beliefs* and in consideration of actuarial analysis.

LACERA's Board of Investments is responsible for establishing LACERA's investment policy and objectives, as well as exercising oversight of the investment management of the fund.

Statement of Purpose

The fundamental objective of LACERA's *Corporate Governance Principles* is to safeguard and promote the economic interests of the trust. LACERA believes that strong corporate governance practices and policies at the firms in which it invests help generate long-term economic performance.

The *Corporate Governance Principles* identify LACERA's fundamental principles of corporate governance. They are intended to advance LACERA's *Investment Beliefs* by articulating~~e~~ LACERA's view on sound governance and guiding~~e~~ LACERA's proxy votes at public companies. In advocating practices in line with these *Corporate Governance Principles*, LACERA aims to maximize the long-term value of plan holdings.

The *Corporate Governance Principles* are organized into five sections. Each section addresses common corporate governance and proxy voting issues. The five sections address issues pertaining to boards of directors, investor rights and capital structure, executive compensation and incentives, performance reporting, and environmental and social factors.

The *Corporate Governance Principles* are guided by five core concepts that collectively provide a framework by which LACERA aims to promote sustainable investment returns and responsible stewardship of fund assets:

> **Accountability**: Governance structures and practices should be designed to promote~~ensure~~ the accountability of a firm's board of directors to the investors who provide the firm with capital. Accountability helps to ensure~~promotes~~ that a firm is managed in the best interests of its investors.
>
> **Integrity**: Integrity and trust are the cornerstone of financial markets and essential for economic stability. Core investor rights and protections are crucial to promoting integrity in financial markets.
>
> **Aligned Interests**: Compensation and incentive~~s~~ practices should align the interests of senior executives with those of investors.
>
> **Transparency**: Firms should provide investors with clear, comprehensive, and timely disclosures about fundamental elements of the firm's business and financial activities.
>
> **Prudence**: Firms should prudently identify, assess, and manage environmental and social factors that may impact the firm's ability to generate sustainable economic value.

Fiduciary duty guides LACERA's *Corporate Governance Principles* and their application. LACERA evaluates the financial impact of each issue presented on corporate proxies and votes proxies for the exclusive benefit of plan participants and beneficiaries in all instances.

LACERA recognizes that sound governance balances the rights of investors providing a firm with capital with the role and responsibility of corporate boards to direct and manage the firm. LACERA may oppose overly prescriptive or unduly burdensome measures proposed on corporate proxies, or resolutions that may otherwise restrict a firm's board of directors from acting in the best economic interests of investors.

LACERA also recognizes that the laws, regulations, and customs guiding corporate governance practices vary by market. LACERA seeks to apply its *Corporate Governance Principles* in a universal and consistent manner, while observing and taking into consideration – as applicable and appropriate – local laws, regulations, and customs.

The procedures by which LACERA applies and promotes the *Corporate Governance Principles*, including ~~and ~~executing~~es~~ proxy votes, engaging policymakers and portfolio companies, and collaborating with other institutional investors when it shares common objectives (such as actively participating in investor associations), are described in LACERA's *Corporate Governance Policy.*

Principles

I. Directors

The board of directors drives the strategic direction and oversight of the firm and its management. LACERA relies upon the directors it elects to exercise effective oversight and ensure that the firm is managed in the best interests of investors. Directors should understand the firm's long-term business strategy as well as risks that may impact the firm's value, and demonstrate a record of sound stewardship and performance. LACERA advocates policies and practices that encourage directors to be accountable to investors. Accountability ensures that a firm's operations and reporting are managed in the best interests of investors.

A. Independent Oversight

1. **Board Independence:** At least two-thirds of the board should be composed of independent directors in order to oversee management on behalf of investors, promote accountability to investors, and avoid potential conflicts of interest~~s~~.

   An independent director is defined as someone who has no material affiliation to the company, its chief executive officer, chairperson, or other executive officers, other than the board seat.

   Materiality is defined as any financial, personal, or other relationship that a reasonable person might conclude could potentially influence one's objectivity in a manner that would have a meaningful impact on the individual's ability to satisfy requisite fiduciary standards on behalf of investors. Directors may not be considered independent if they, or a family member, are or have been an employee of the company (or a subsidiary or affiliate thereof) in the last five years; have a 20 percent or greater economic interest in the company; are or have been part of an interlocking director relationship with the CEO; receive direct payments for professional services unrelated to their service as a director in excess of $10,000 per year; or engage in any related party transaction in excess of $10,000 per year.

2. **Board Leadership:** The board should be chaired by an independent director.

3. **Board Committees:** Each board should establish an audit committee, a nominating and governance committee, and a compensation committee, each composed exclusively of independent directors.

   Deference generally should be afforded to boards in determining appropriate oversight structures, such as the establishment and role of additional board committees. LACERA may support proposals to appoint an additional board committee in limited circumstances where a firm's performance, oversight structures, and peer comparisons demonstrate that inadequate board consideration and focus has been accorded to a compelling issue related to firm value.

LACERA may oppose or withhold support from non-independent board nominees or key board leadership positions where the board or key committees lack adequate independence.

B. Board Quality and Composition

1. **Composition:** The board should be composed of highly -talented individuals who are best positioned to oversee the company's strategy for creating and sustaining value. Boards should give consideration to ensuring that directors collectively possess a diverse set of relevant skills, competencies, and attributes to exercise oversight on investors' behalf, including expertise, geographic familiarity, and professional backgrounds relevant to the company's strategic objectives. The board should strive for a suitable mix of tenures to ensure both institutional familiarity and fresh perspectives on the board, as a firm's market environment and business strategies evolve.

2. **Diversity:** The board should establish and disclose policies and processes for ensuring that it identifies and nominates suitable directors from a wide pool of candidates relevant to its business strategy, including, but not limited to, diverse gender, racial, and ethnic backgrounds. A diverse and inclusive board is better positioned to effectively deliberate and oversee business strategy in investors' interests.

3. **Board Size:** The board should define and disclose in governance documents an appropriate size or range of directors that ensures the board is composed of adequately diverse viewpoints and experience to effectively oversee the firm's business strategy, while not being so large as to diminish the board's operational effectiveness. Modifications to governing documents defining board size and structure should be submitted for investor approval and not be proposed for the purpose of impeding a change in firm control.

4. **Excessive Commitments:** Directors should have adequate time to dedicate to their board service, fulfill their responsibilities, and represent investors' interests. Accordingly, directors should not serve on more than four public company boards. Currently -serving chief executive officers should not serve on more than three public boards (including their own).

5. **Tenure and Age Restrictions:** LACERA does not support arbitrary restrictions on director qualifications, such as tenure limits or mandatory retirement ages. Such limitations may impede a firm from benefiting from the expertise of an otherwise highly -qualified director.

C. Director Selection and Elections

1. **Annual Elections:** Each director should be elected annually. Directors should not be elected by classes, or to "staggered" terms.

2. **Vote Standard for Director Elections:** Director nominees in uncontested elections should be elected by a majority of votes cast. In contested director elections, a plurality of votes should determine the election.

3. **Universal Proxy Card:** In the event of a contested director election, investors should have the right to select and vote for individual director nominees on a consolidated, or "universal," proxy ballot, regardless of whether the director nominee is put forward by management or a dissident investor.

4. **Cumulative Voting:** LACERA supports cumulative voting in director elections, in compliance with California Government Code Section 6900.[1]

5. **Proxy Access:** Long-term investors who have held a significant ownership interest for a reasonable amount of time should have the right to nominate alternative directors for consideration on a firm's proxy, otherwise known as "proxy access." Proxy access procedures should have sound safeguards in place to ensure an orderly nominating process and prevent proxy access from being used to effectuate a change in control.

6. **Ability to Remove Directors:** Investors should have the right to remove directors with or without cause, in order to allow investors to take action when a director is not serving investors' best interests.

D. Board Roles and Responsibilities

1. **Governance Guidance:** The board should develop, adopt, disclose, and periodically review clearly defined governance guidelines that govern the board's operations.

2. **Resources:** The board should have adequate resources and access to information to enable it to execute its responsibilities and duties. Directors should be provided information in advance of meetings. Directors should have full access to senior management and information concerning the firm's operations. Directors should be familiar with a firm's operations independent of the chief executive officer and senior management. Directors should have the authority and adequate budget to hire outside experts, if necessary.

3. **Independent Proceedings:** Directors should work with the chief executive officer to establish board agendas. Independent directors should meet at least annually without management or non-independent directors' participation.

4. **Board Communication and Engagement:** Firms should establish reasonable policies that permit effective communication between investors and directors regarding business strategy and corporate governance matters.

5. **Management Succession Planning:** The board should conduct a regular evaluation of the chief executive officer and plan for business continuity, including establishing and disclosing a succession plan for the chief executive officer and key senior executives.

6. **Board Self-Evaluation and Refreshment:** Boards should adopt and disclose a process for regular, rigorous, and earnest self-assessment and evaluation. The evaluation process should be conducted under the direction of independent directors and ensure candor, confidentiality, trust, and effective interaction among directors. Board self-evaluation should be tailored to meet the firm's and board's strategic objectives and requirements. In order to promote long-term planning aligned with business needs, the board's self-evaluation process should assess the board's size and operational effectiveness, identify emerging business risks and relevant skills gaps among its composition, and prudently

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[1] Section 6900. Cumulative Voting. "Government Body." Whenever any government body is a shareholder of any corporation, and a resolution is before the shareholders which will permit or authorize cumulative voting for directors, such government body shall vote its shares to permit or authorize cumulative voting. As used in this section, the term "government body" means the state, and any office, department, division, bureau, board, commission or agency thereof, and all counties, cities, districts, public authorities, public agencies and other political subdivisions or public corporations in the state.

anticipate and proactively plan for board vacancies and refreshment. It should appraise the alignment and adequacy of director education and development, as well as the delineation of management and board powers, while positioning the board to efficaciously exercise oversight in investors' interests.

7. **Charitable and Political Contributions:** Corporate charitable contributions may accrue direct and indirect benefits to a firm and its investors, including goodwill in communities in which it operates and favorable tax treatment. Charitable contributions should not be directed, eliminated, or otherwise restricted by investors.

   The board should monitor, assess, and approve all charitable and political contributions (including trade association contributions) made by the firm. Political and charitable contributions should be consistent with the interests of the firm and its investors. The board should clearly define and approve the terms and conditions by which corporate assets may be provided to charitable and political activities, including developing and publicly disclosing guidelines for the approval of such contributions. The board should disclose on an annual basis the amounts and recipients of all monetary and non-monetary contributions made by the firm during the previous fiscal year, including any expenditures earmarked for political or charitable activities that were provided to or through a third ~~-~~party.

8. **Director Indemnification:** Directors may be provided reasonable and limited protections, including indemnification and limited personal liability for damages resulting from violating duty of care, where the director is found to have acted in good faith and in a manner the director believed to be in the best interests of the firm. Reasonable limitations may ensure the board is positioned to recruit qualified directors.

E. Board Performance and Effectiveness

1. **Performance Evaluation:** The board's performance, and that of individual directors, should be assessed within the context of the board's suitability for and track record of serving and protecting investors' interests. LACERA may withhold support or oppose individual directors, members of a board committee, or the entire board where the track record demonstrates directors' failure to serve investors' best interests. Director and board performance is evaluated in consideration of the following factors:

   1.1. Stewardship and Risk Oversight: Directors should demonstrate a sound track record of stewardship and risk oversight, including avoiding any material failures of governance, risk oversight, or fiduciary responsibilities at the company.

   1.2. Effective Oversight of Management: Directors should conduct effective oversight of management, including avoiding any failure to replace management as appropriate.

   1.3. Attendance: Each director should attend at least 75 percent of scheduled board meetings each year, including attendance at assigned committees, absent a compelling, clearly disclosed justification.

   1.4. Board Service: Directors' track records and performance on other boards may be considered in evaluating director nominees. In particular, a director's failure to effectively exercise oversight on other boards or any egregious actions that raise substantial doubt about the director's ability to fulfill a director's obligations and serve the best interests of investors may prompt opposition to the director's nomination.

1.5. Ethics: Directors should demonstrate the utmost integrity and be free of any criminal wrongdoing, breaches of fiduciary responsibilities, or questionable transactions with conflicts of interest.

1.6. Transparency in Reporting: Financial reports and material disclosures should be published in a satisfactorily diligent and timely manner.

1.7. Investor Responsiveness: Directors should demonstrate accountability and responsiveness to investors. Directors should not unilaterally amend a firm's governing documents in a manner that materially diminishes investor rights or otherwise adversely impacts investors without seeking investor approval. Directors should not adopt a poison pill or make a material change to an existing poison pill without submitting the plan for investor approval within the following 12 months. Directors should take reasonable steps to implement resolutions approved within the previous 12 months by a majority of investors, within the confines of legal and regulatory constraints. Directors should respond to tender offers where a majority of shares have been tendered. There should be no record of abuse against minority investor interests.

2. **Committee Performance:** Each committee should demonstrably fulfill its core duties and the specific responsibilities outlined in its committee charter. LACERA may oppose incumbent directors who have served on committees that have failed to perform their duties in investors' best interests.

   Audit Committee members should ensure that non-audit fees are not excessive, no adverse opinion has been rendered on the company's audited financial statements, and the firm has not entered into an inappropriate indemnification agreement that limits legal recourse against the external auditor.

   Compensation Committee members should demonstrate a clear and proven track record of aligning executive pay with the firm's strategic objectives and performance, refrain from permitting problematic pay practices, ensure clear disclosures of all key components of pay plan design and practices, and exhibit reasonable and timely responsiveness to investors.

3. **Contested Director Elections:** In assessing director nominees in contested elections, LACERA may consider all relevant factors to identify and support the nominees best suited to enhance sustainable firm value and serve investors' economic interests. Consideration may be given to the long-term financial performance of the firm, its governance profile, and management's track record; nominees' proposed strategies for value creation; the qualifications and suitability of director nominees, including their alignment with LACERA's governance principles; and the dissidents' ownership stake and history of generating sustainable returns at other firms.

LACERA may support requests to reimburse dissident nominees for reasonable, incurred expenses when dissident nominees have presented a compelling case and support for their nomination is warranted.

II. Investor Rights and Capital Structure

Integrity and trust are the cornerstones of capital markets and essential for economic stability. Core investor rights ensure fair and equitable treatment of investors and help instill investor confidence, thereby facilitating capital formation and economic stability.

LACERA supports core rights and protections at portfolio companies and within financial market policies in order to safeguard its investments and foster a stable investment climate within the broader financial markets in which it invests. Financial rules and regulations should promote fair, orderly, and competitive markets and provide for investor protections. Investor rights extend to key decisions that may fundamentally impact or modify a firm's capital structure, such as share issuances, restructuring, and mergers and acquisitions.

A. Investor Rights

1. **Rights Proportionate to Economic Interest:** Investors should have voting rights proportionate to their economic interests. Multi-class ownership structures may entrench certain investors and management, insulating them from acting in the interests of all investors. LACERA therefore supports the principle of "one-share, one- vote."

2. **Voting Requirements and Procedures:** Investors should have the right to act on fundamental corporate matters by a simple majority of votes cast. Fundamental matters may include, but are not limited to, amending a firm's governing documents (such as its charter or bylaws) and effecting corporate transactions, such as a merger or acquisition.

   2.1 Simple Majority Voting: Companies should not adopt supermajority voting requirements except when such provisions may protect outside or minority investors from unilateral action being taken by an entity (or entities) with controlling interest or significant insider ownership.

   2.2 Voting Procedures: Voting and tabulation of matters put before investors by proxy or otherwise should be guided by transparent procedures, consistent application of rules, and fairness for all eligible voters. Votes should be counted by an independent tabulator and kept confidential. Voting results should be promptly disclosed once tabulation has been finalized.

   2.3 Bundled Voting: Investors should be able to review and cast votes on unrelated matters as separate and distinct ballot items. Disparate matters should not be presented for investor consideration as a "bundled" voting item. LACERA may oppose "bundled" proposals that combine supportable voting items with matters that LACERA opposes.

   2.4 Broker Non-Votes: Uninstructed broker votes and abstentions should be counted for quorum purposes only.

3. **Annual Meetings**

   3.1 Quorum Requirements: Quorum requirements should promote that a broad range of investors are represented at meetings. Quorum requirements should not be unduly low, in either absolute terms or relative to the economic interest of a controlling investor or significant

investor, in order to protect investors from unrepresentative action being conducted.

3.2 Technology: Investors should have the right to attend an annual meeting of a firm in person. Any use of technology, such as audiocasts or webcasts, should expand and enhance, and not restrict or otherwise impede, investors' ability to participate in an annual meeting, and should afford opportunities for meeting participation equal to those afforded investors attending the meeting in person.

3.3 Resolutions: Investors with a reasonable ownership interest in a firm should have the right to put forward a resolution for investors' consideration and vote at the firm's annual meeting.

3.4 Advance Notice Requirements: Investors should be able to submit items for formal consideration at an annual meeting, such as proposals or director nominees, as close to the meeting date as reasonably possible and within the broadest timeframe possible, recognizing the need to allow sufficient notice for company, regulatory, and investor review.

3.5 Transaction of Other Business: LACERA generally opposes requests for advance approval by proxy of undisclosed business items that may come before an investor meeting for consideration.

4. **Special Meetings:** Investors should be able to call a special meeting to take action on certain matters that may occur between regularly scheduled annual meetings. The right to call a special meeting should require aggregating a minimum of 10~~ten~~ percent ownership interest and be subject to reasonable terms and conditions.

5. **Action by Written Consent:** Investors should have the right to act by written consent on key governance matters under reasonable terms and conditions.

6. **Access to Research:** Investors should have access to competitive, timely, and independent market, investment, and proxy research services of their choosing. Market regulation should support and not impede a competitive market of service providers.

7. **Ownership Disclosure:** Significant ownership interests above ~~five~~5 percent should be disclosed.

8. **Incorporation:** A firm's country or state of incorporation may significantly impact the firm's financial health, competitive position, governance profile, and the legal rights afforded to investors, as defined by the jurisdiction of incorporation. When selecting a jurisdiction for incorporation (such as in relation to a merger or acquisition or a proposed reincorporation), firms should give due consideration to competitively positioning the firm for financial success while also ensuring sound governance practices and strong legal rights and protections for investors. LACERA may oppose proposals for reincorporation where the business and financial rationale for reincorporation do not outweigh the detrimental impact of a reincorporation on investor rights and governance provisions.

9. **Litigation Rights:** Robust and viable litigation rights enable investors to protect firm value, deter misconduct, and seek recourse in the event of egregious corporate malfeasance or fraud. Corporations should not curtail or otherwise

diminish investor~~'~~s' prospective legal recourse through governance provisions, such as exclusive forum designations for legal disputes, mandatory arbitration clauses, or ~~‘~~“fee-shifting~~’~~” provisions by which an investor who unsuccessfully brings legal action must bear the entirety of the corporation's legal costs.

B. Capital Structure

Finding the optimal mix of equity, long-term debt, and short-term financing is critical to driving economic returns. A firm's capital structure should support the generation of long-term, sustainable returns. The board should determine and drive a firm's capital structure, in coordination with senior management. Capital structure should coordinate and balance multiple factors, including the firm's business profile, strategy, and opportunities for growth; access to and cost of capital; and capital distributions such as the firm's dividend policy.

Investors should be able to vote on matters that may fundamentally modify or impact a firm's capital structure, such as common share issuances, and mergers and acquisitions.

1. **Share Issuances and Authorizations:** Share issuances enable firms to raise funds for financing purposes.

   1.1 Authorization of Common Shares Issuance: Requests to authorize capital or approve share issuances should specify the quantity of shares for which approval is sought. Requests should be evaluated upon careful consideration of the individual details and merits of each request and according to LACERA's economic interests. Firms should present a compelling purpose for the share issuance, demonstrate a track record of responsibly using authorized shares in investors' interests, and provide for rights and restrictions attached to proposed equity that are aligned with investors' interests. In evaluating requests, the availability of preemptive rights and any risks of authorizing the share issuance, including the dilutive impact of the request, may also be considered. Capital authorization terms should not facilitate an anti-takeover device or otherwise adversely impact investors' interests.

   1.2 Preemptive Rights: Preemptive rights provide current investors the right to maintain a proportionate interest in a firm by exercising a right to purchase shares proportionate to what they already own in any new issuances of equity. Requests to create or abolish preemptive rights should consider the size of the firm, the characteristics of its investor base, and the liquidity of its equity to ensure that preemptive rights may be pragmatically exercised and do not impose an onerous restriction on capital raising.

   1.3 Preferred Shares Authorization: Preferred shares, which provide distinct features such as fixed dividend payments or seniority of claims relative to common shares, may be supportable when the purpose of such issuance is in connection with a proposed transaction appearing on the same ballot that merits support. Otherwise, requests for authorization are evaluated in consideration of the request's stated purpose, the firm's past use of authorized preferred shares, and an assessment of the risk of authorizing the share issuance, including the dilutive impact of the request, and should not create or increase shares that carry superior voting rights to common shares. Any conversion rights should define reasonable conversion ratios and not result in excessive dilution of common shares.

1.4 Blank Check Preferred Shares: Firms generally should not create classes of shares providing the board with broad discretion to define voting, conversion, dividend distribution, and other rights, absent a compelling rationale and clearly ~~-~~stated restrictions in line with investors' interests. The voting rights of unissued shares should be presented for investor approval and not be subject to board discretion.

1.5 Blank Check Preferred Share Placements: Investor approval should be required for the placement of preferred shares with any person or group for other than general corporate purposes to enable investor review of the business purpose, prospective impact on dilution and voting positions, and any adverse impact on existing investors.

1.6 Reverse Stock Split: Reverse stock splits, by which multiple shares are exchanged for a lesser amount to increase share price, generally should be accompanied by a proportionate reduction in authorized shares.

2. **Debt Issuance and Borrowing Powers:** Debt issuances and restructuring, amendments to a firm's aggregate limit on the board's ability to borrow money, and other debt-related items should serve a compelling and clearly ~~-~~articulated business purpose, be in line with and supportive of generating sustainable and viable financial returns, and take into reasonable consideration any detrimental impact on existing investors. LACERA evaluates debt-related proposals upon careful consideration of the individual terms and merits of the request.

3. **Capital Allocation and Income Distributions:** A firm should allocate capital, including distribution of income through dividends or share repurchases, in a disciplined and balanced manner that supports the generation of long-term value.

3.1 Allocation of Income: Firms should provide adequate justification when seeking investor approval for the allocation of income when the payout ratio appears unbalanced or unsustainable (either inordinately low, such as below 30 percent, or excessive, given the firm's financial position).

3.2 Stock (Scrip) Dividend Policy: Firms may provide investors the option to receive dividend payments in the form of common equity in lieu of cash. Such provisions enable a firm to retain cash and may strengthen the position and commitment of long-term investors. In all circumstances, firms should provide a cash option, absent a compelling justification that such an option may be harmful to investors.

3.3 Share Repurchase Programs: Open market share repurchase plans should enable investors to participate on equal terms and support balanced and disciplined capital allocation. Requests to authorize share repurchases should have a defined and limited duration, incorporate clear and reasonable terms and conditions, and generally not exceed 10~~ten~~ percent for market repurchases within any single authority, absent a compelling rationale in line with investors' interests and market practice.

4. **Mergers, Acquisitions, and Other Corporate Restructuring:** Mergers and corporate restructuring (including spin-offs, leveraged buyouts, and reorganizations) have major financial implications for investors.

4.1 Evaluation: LACERA carefully examines all relevant facts and circumstances of each proposal to determine whether the proposal, in its entirety, is in LACERA's best interests. Assessment of each proposed transaction takes into account multiple factors. The valuation should be reasonable. Market reaction may be considered. The strategic rationale and expected benefits should be sensible, with any projected synergies or financial impact reasonably achievable. Management should have a favorable track record of successful integration of acquisitions or business combinations. The negotiation and deal process should be fair and equitable. There should be no conflicts of interest, such as factors enabling insiders to disproportionately benefit from the proposed transaction. The resulting entity should observe sound corporate governance practices. The risks of not completing the transaction or corporate restructuring may be considered. Sufficient information should be provided to enable investors to make an informed decision.

4.2 Appraisal Rights: Investors should be afforded appraisal rights~~,~~ by which they may seek a judicial review of the terms of certain corporate transactions in order to determine fair market value.

5. **Anti-Takeover Measures:** Investors should be afforded the reasonable opportunity to deliberate and decide on the merits of takeover bids and acquisitions. Practices and provisions, including corporate bylaws, charters, laws, and statutes, that may impede or deter a corporate transaction that is otherwise in investors' interests, may take a variety of forms and generally should be submitted for investor review and approval.

5.1 Poison Pills: The board should not enact or amend a poison pill without investor approval. LACERA generally supports the redemption of existing poison pills, except in unique circumstances where a carefully designed, short-term plan may enable a firm to negotiate more favorable terms with a potential bidder. Such plans should require a minimum 20 percent ownership threshold to trigger, provide for limited and reasonable duration, exclude provisions by which only continuing directors may remove the pill, and otherwise provide ~~for~~ adequate investor protections so that the plan will not unduly impede a bid that is otherwise in investors' interests.

5.2 Net Operating Loss (NOL) Protective Amendments: Protective amendments with the stated purpose of preserving a company's net operating losses for a tax benefit, such as under the terms of Section 382 of the Internal Revenue Code, should balance the anticipated benefit to investors of preserving the tax value and the risk of potential abuse of such provisions as an anti-takeover measure. Because NOL protective amendments may serve as a poison pill, the board should submit related items for investor review and approval. Such provisions should only be used under limited, clearly justified circumstances and include adequate protections, such as an appropriate ownership threshold and clearly~~-~~ defined and reasonable duration limits.

5.3 Greenmail: Greenmail, by which a firm repurchases shares of a potential acquirer at an above-market price to deter a takeover, should be prohibited.

5.4 Other Anti-Takeover Measures: LACERA generally opposes provisions that impose onerous restrictions or impediments on prospectively beneficial takeover bids, taking into account the specific terms and circumstances of such provisions to determine the provision's alignment

with LACERA's economic interests. LACERA supports firms opting out of related anti-takeover laws and statutes, where legally permitted.

Fair price provisions that require an investor seeking to purchase control of a firm to pay a defined fair price~~,~~ should not impose onerous requirements that may deter a competitive bid from being considered by investors.

Firms should opt out of control share acquisition statutes that void the voting rights of an investor surpassing certain ownership thresholds; control share cash-out provisions requiring an investor above a specified ownership threshold to purchase shares from remaining investors at the highest acquiring price if remaining investors exercise their right to sell their shares; and freeze-out provisions requiring an investor who meets a defined ownership threshold to wait a specified period of time before gaining control of the firm.

Disgorgement provisions, by which an investor who acquires ownership interest above a specified threshold must pay the firm any profits realized from the sale of the firm's equity purchased within a defined time period prior to exceeding the defined ownership threshold, should be avoided.

Firms should not provide designated investors (such as the government of a related, formerly state-owned enterprise) "golden shares" that provide for exceptional veto power or voting rights regarding specific corporate proposals.

6. **Related-Party Transactions:** Investors should have the right to approve significant related-party transactions. Investor approval helps to protect investors against self-dealing. Firms should provide clear information regarding such transactions – ~~, ~~including all fees, a compelling rationale for the service or services provided, and the assessment of independent directors and an independent financial advisor of the transactions – in order to permit an informed assessment of prospective conflicts of interest.

III. Compensation and Incentives

Compensation and incentives should align the interests of senior executives and investors. Executive compensation and incentives serve a critical role in recruiting, motivating, and retaining talent. Pay plan design, structure, and goals should be fundamentally derived from and relevant to a firm's core business objectives and collectively promote sustainable value creation. Accordingly, pay and incentives should incentivize and reward executives for the achievement of outstanding performance, while encompassing prudent risk mitigation and taking care to avoid excessive risks that may be detrimental to the firm's long-term financial returns.

Boards should determine core components of executive pay design, including target pay levels and incentives. Boards oversee compensation paid to senior executives, award bonuses, and establish incentive plans that may include equity and performance-based grants and awards. The board may also review and approve supplemental compensation plans for firm employees, including employee equity and retirement plans.

Firms should provide investors with transparent, clear, and comprehensive disclosure of senior executives' total compensation package. This includes disclosure of salary, short and long-term incentive compensation, and all benefits and perquisites. Selected performance metrics and targets upon which compensation is contingent should be provided in a plain and clear format.

A. Advisory Vote on Executive Compensation

Executive compensation design and practices should be submitted for investor review and non-binding approval on an annual basis (also known as "say~~-~~ on~~-~~ pay"). Advisory votes should consider the firm's pay design and practices as a whole, taking into account the alignment of executive pay with long-term firm performance, the absence of significant problematic pay practices and excessive risk in targets and reward incentives, and the clarity of the firm's pay disclosures.

B. Compensation Plan Design

Executive compensation and practices should link pay to firm performance. Compensation should be commensurate with the firm's long-term performance, appropriately aligned with firms with which the firm competes for executive talent, (such as industry peers and firms of comparable size and profile), and properly consider the firm's long-term outlook for generating sustainable returns.

1. **Performance Criteria:** Incentive compensation should incorporate clearly defined, rigorous, and disclosed performance criteria upon which incentive pay is contingent. Performance metrics, targets, and hurdles should be consistent with and promote the firm's strategy for generating sustainable value, including key financial and operating objectives, and effective management of relevant business risks.

2. **Peer Benchmarking:** Peer groups used to benchmark compensation should be clearly disclosed and relevant to the firm's business profile and size.

3. **Compensation Consultants:** Compensation consultants providing strategy, design, and implementation services related to executive compensation to the board's compensation committees should be at the exclusive hire and service of the committee, unquestionably independent, and clearly disclosed.

4. **Equity Ownership, Retention, and Holding Requirements:** Equity ownership among senior executives may strengthen the alignment of interests between executives and investors and~~,~~ promote prudent risk mitigation, and should be encouraged. Equity ownership guidelines providing that executives should maintain reasonable equity in the firm, requirements for executives to retain a meaningful portion of equity acquired through compensation plans, and ~~holding periods for~~ equity grant holding requirements should strike an appropriate balance to promote equity ownership while avoiding overly restrictive or onerous provisions that may undermine talent motivation and retention to the detriment of investors' interests.

5. **Pre-Arranged Trading Plans:** Pre-arranged trading plans, as provided under Securities and Exchange Commission Rule 10b5-1, define parameters for executives' predetermined securities transactions in advance of an executive becoming aware of material non-public information regarding the firm's securities and are intended to mitigate the risks of insider trading. The adoption, amendment, or termination of pre-arranged trading plans for senior executives should be governed by the board, promptly disclosed, and provide for timely disclosure of transactions made pursuant to the plan's provisions.

6. **Hedging and Speculative Transactions:** Senior executives should be prohibited from engaging in derivative or speculative transactions involving equity of the firm, including hedging, holding equity in a margin account, or pledging equity as collateral for a loan.

7. **Internal Pay Disparity:** Executive compensation should be considered in the context of how a firm compensates its employees, including in relation to industry peers. Firms should disclose the ratio of the chief executive officer's total pay to that of the average firm employee.

8. **Restrictions:** Executive pay should not be subject to arbitrary restrictions or limitations on the magnitude or form of compensation, such as linking executive pay to average employee compensation. Arbitrary limits and restrictions may undermine a firm's ability to attract and retain competent talent and create a competitive disadvantage for the firm.

9. **Recoupment Policies:** Firms should adopt and disclose rigorous policies defining the terms and conditions by which incentive compensation may be recouped, in order to align pay with performance, promote accurate financial reporting, and deter misconduct. Robust clawback policies should enable the board to review and recoup senior executive incentive compensation in the event that compensation was calculated using inaccurate financial reports, or in the event of fraud or misconduct. Application of the recoupment policy should be reasonably disclosed.

C. Equity Plans

Equity plans should motivate plan participants to focus on long-term firm value and returns, encourage equity ownership, and advance the principle of aligning employee interests with those of investors.

Firms should submit equity plans for investor approval. Equity plans should be reviewed taking into account plan features, impact on equity dilution, and prospects to align pay with performance.

1. **Performance-Based:** Equity plans should define robust and appropriate performance requirements by which equity may be granted that are aligned with~~,~~ and justifiable by~~,~~ the firm's business strategy and strategic objectives. Such provisions may include terms and performance criteria permitting a plan to qualify for favorable tax treatment.~~ (such as the Omnibus Budget Reconciliation Act of 1987, Section 162(m)).~~

2. **Track Record:** The firm should demonstrate a history of responsibly linking equity awards to performance and avoiding grants of excessive awards.

3. **Impact:** The total cost and potential dilution of the plan should be reasonable.

4. **Re~~-P~~pricing:** Equity granted under the terms of the plan, such as share options and stock appreciation rights, should not be re~~-~~priced without investor approval, as re-pricing may sever the link between pay and performance. Requests to reprice underwater options should clearly define and compellingly justify the rationale and intent, timing, defined participants, and terms, such as a value-for-value exchange, exercise price, and vesting requirements.

D. Employee Equity Programs

1. **Employee Stock Purchase Plans:** Employee stock purchase plans encourage firm employees to acquire an ownership stake in the firms for which they work by providing employees the right to purchase the firm's equity at a set price within a certain period of time. Employee stock purchase plans should define reasonable terms, such as designating exercise prices at no lower than 85 percent of fair market value, fixing a justifiable offering period, and limiting voting power dilution to less than 10~~ten~~ percent.

2. **Employee Stock Ownership Plans:** Employee stock ownership plans (ESOPs) enable employees to accumulate firm equity. ESOPs should balance encouraging employee equity ownership while avoiding harm to existing investors. Shares allocated to ESOPs should not be excessive (generally no more than 5~~five~~ percent of outstanding shares).

E. Severance and Retirement Arrangements

Severance payments to executives in the event of an employment termination, separation, or change in firm control should be justifiable by the executive's performance, serve the long-term interests of the firm and its investors, and not be excessive.

1. **Golden Parachutes:** Firms should submit for investor approval arrangements to provide executives with extraordinary severance payments in certain circumstances, such as a change in firm control. Extraordinary payments may be assessed in relation to market and peer practice and should not exceed payments greater than three times base salary and bonus. Severance payments should not be so attractive as to influence merger agreements that may not be in the best interests of investors and should have triggering mechanisms beyond the control of senior executives. Any payments in the event of a change~~-~~ in ~~-~~control should be "double~~-~~ triggered," i.e., contingent upon both an actual change~~-~~ in~~-~~ control and an employment separation related to the change-in-control event. Unvested equity should not accelerate upon the change~~-~~ in~~-~~control. Payments should not trigger, and firms should not commit to paying, executives' excise taxes ("gross~~-~~ ups"). A change ~~-~~in ~~-~~control should not be contingent upon investor approval of executives' severance payments.

2. **Supplemental Executive Retirement Plans:** Retirement plans that provide extraordinary retirement benefits exclusive to executives should be presented for investor approval and avoid excessive payouts, such as excluding all incentive or bonus pay from covered compensation calculations.

3. **Golden Coffins:** Firms should refrain from providing extraordinary compensation upon an executive's death. Firms should submit for investor approval agreements and policies that oblige the firm to make payments or awards following the death of a senior executive, including unearned salary or bonuses, accelerated vesting or continuation in force of unvested equity grants, and other extraordinary payments or awards.

F. Director Compensation

Firms should disclose the philosophy and process used for determining compensation paid to directors serving on the board and the value of all elements of director compensation.

1. **Structure and Design of Director Compensation:** Directors may be compensated in both cash and equity. Fees and compensation paid to directors should be appropriate relevant to market norms, the firm's industry, and its financial performance. Equity should not constitute the entirety of director compensation, as this may undermine directors' incentive to monitor and exercise oversight of long-term risks to firm value.

2. **Equity Ownership:** Equity ownership by directors promotes the alignment of directors' interests with those of investors. Firms should adopt and disclose equity ownership guidelines to encourage directors to acquire and hold a meaningful amount of equity in the firm. Equity ownership should not, however, be a qualification for board service, as such restrictions may impede otherwise highly qualified individuals from serving as directors.

3. **Retirement Benefits:** Retirement benefits for director service are improper, as such benefits may impede objectivity and sever the alignment of interest between directors and investors.

IV. Performance Reporting

Financial markets work most efficiently when investors have timely, reliable, and comparable information about material aspects of a firm's performance. Transparency of a firm's key financial and operating performance is critical for investors to assess the firm's financial viability and prospects. Independent verification of a firm's financial disclosures promotes investor confidence.

LACERA supports clear and comprehensive disclosure of relevant financial and operating performance indicators (including environmental, social, and governance ~~– or ESG –~~ matters) that may provide valuable information for investors to assess a firm's prospects for delivering sustainable value.

A. Financial Reports

Financial statements and auditor reports are essential in evaluating a firm's performance. Financial reports should present clear, reliable, and comprehensive data and information. There should be no unresolved concerns about the accounts presented or audit procedures, inadequate disclosures, or unresponsiveness regarding investor or regulatory questions on specific items.

B. Fiscal Term

Firms should define an appropriate fiscal term. The fiscal term should not be altered for the purpose of postponing an annual meeting.

C. Auditors

Firms should ensure independent, high-quality, and timely provision of audited financial statements by a clearly disclosed external auditing firm.

1. **Ratification:** Auditors should be clearly disclosed and presented to investors for ratification. LACERA takes into consideration the following factors when evaluating auditor ratification:

   1.1. Independence: The external auditor should be objective and free of conflicts of interest in providing auditing services. Accordingly, non-audit fees paid to an external auditor should not be excessive. Specifically, non-audit fees should not exceed the total of audit and audit-related (such as permissible tax) fees, and the auditing firm should have no financial interest or association with the company.

   1.2. Quality: There should be no question as to the accuracy of the external auditor's opinion, the financial report's indication of the company's financial position, and the accurate application of established accounting standards. There should be no aggressive accounting practices or significant audit-related issues at the company, such as a history of restated financial results or material weaknesses in internal controls.

   1.3. Timeliness: There should be no unjustified delays in the publication of audited financial statements.

2. **Rotation:** Requests to rotate auditors should be evaluated in consideration of the audit firm's tenure, any proposed length of rotation, the presence of significant audit-related issues at the company, the extent to which the company periodically

assesses audit pricing and quality, and the robustness of the audit committee's functions, such as the presence of financial experts and how often the committee meets.

3. **Indemnification:** To avoid any impairment of the external auditor's objectivity and independence, companies should not enter into engagement letters that indemnify or otherwise limit the external auditor's liability.

V. Environmental and Social Factors

Environmental and social factors – such as management of human capital, access to natural resources, and environmental risks – may shape and impact a firm's ability to generate and sustain value. Firms should identify and prudently manage social and environmental factors relevant to the firm's business strategy, industry, and geographic markets. Social and environmental factors may present opportunities to drive value or risks to a firm's strategic objectives.

Firms should ensure diligent board oversight and provide reasonable disclosures of relevant environmental and social factors and how they are managed. Reporting enables investors to make informed investment decisions when evaluating companies and the long-term viability and sustainability of their business practices.

In addition to identifying, evaluating, and mitigating the risks presented by social and environmental factors, firms should carefully consider the impact of their business activities. 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.

A. Social Factors

1. **Human Capital Management:** Effective management of human capital – including the development, incentives, and retention of the firm's workforce – is key to accomplishing a firm's strategic objectives. Companies should identify, ensure board oversight, and disclose information about significant human capital value drivers that are related to the firm's ability to create and protect firm value. Central to effective human capital management is the assurance of equal employment opportunity, including non-bias in compensation and employment terms.

2. **Human Rights Risk:** Firms should mitigate the risks of human rights abuses in global operations and supply chains by adopting robust human rights policies and ensuring effective internal controls to monitor compliance with stated human rights standards.

B. Environmental Factors

1. **Natural Resource Stewardship:** Firms should give consideration to efficient, sustainable use and stewardship of natural resources, such as energy and water, to enhance operational efficiency and safeguard firm value from the risks of resource scarcity.

2. **Environmental Risk:** Firms should ensure reasonable oversight mechanisms and mitigation of environmental risks, such as hazardous waste disposal and pollution, to mitigate prospective legal, regulatory, and operational risks to firm value.

3. **Climate Risk:** Climate change may present financial, operational, and regulatory risks to a firm's ability to generate sustainable value, as well as to the broader economy. Firms should assess and disclose material climate-related risks and sufficient, non-proprietary information to enable investors to prudently and adequately evaluate the prospective impact of climate risk on firm value.

Document History

Consolidated, reorganized, and adopted by the Board of Investments on _[insert date]___.
Revisions adopted by the Board of Investments on August 9, 2017.
Reviewed by the Board of Investments on October 12, 2016.
Reviewed by the Board of Investments on November 19, 2014.
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.

L//.CERA

December 20, 2017

TO: Each Member
Corporate Governance Committee

FROM: Scott Zdrazil
Senior Investment Officer

Dale Johnson
Investment Officer

FOR: January 10, 2018 Corporate Governance Committee Meeting

SUBJECT: **ADOPTION OF CONSOLIDATED *CORPORATE GOVERNANCE PRINCIPLES***

RECOMMENDATION

That the Corporate Governance Committee ("Committee") advance for Board of Investments approval a consolidated *Corporate Governance Principles* policy, which – if adopted – would combine and replace LACERA's current *Corporate Governance Principles, U.S. Proxy Voting Guidelines,* and *Non-U.S. Proxy Voting Guidelines.*

LEGAL AUTHORITY

LACERA's *Corporate Governance Policy* ("Policy") provides that the Committee "[r]ecommends the *Corporate Governance Principles*, and other items concerning environmental, social, and governance matters to the Board of Investments for consideration and approval" (page 1).

The Policy provides that the Board of Investments, "[a]pproves and promulgates policies addressing environmental, social, and governance issues, such as corporate governance and proxy voting matters and including but not limited to *Corporate Governance Principles…*as recommended by the Corporate Governance Committee of the Board" (page 1).

BACKGROUND

LACERA currently has three policies that articulate LACERA's views on corporate governance matters and guide LACERA's proxy votes for public equities investments for which LACERA has beneficial ownership rights and has retained proxy voting authority. The three current policies are:

1. *Corporate Governance Principles*
2. *U.S. Proxy Voting Guidelines*
3. *Non-U.S. Proxy Voting Guidelines*

This memo recommends that LACERA adopt a consolidated *Corporate Governance Principles* policy, thereby replacing the three existing policies, consistent with the Committee's discussion at its January 11, 2017, and September 11, 2017, meetings (as well as materials distributed for the April 12, May 10, and June 14, 2017 Committee meetings).

The proposed consolidated policy aims to achieve multiple objectives, including:

- A customized, "LACERA-specific" policy, whereas LACERA's current policies are largely derived from language and guidelines of Institutional Shareholder Services (ISS);

- A clear, cohesive, and comprehensive statement of LACERA's position on corporate governance matters, whereas LACERA's current views are spread across three policies, with multiple policies often addressing similar topics;

- A "principles-based" approach to articulate LACERA's position on common corporate governance issues, whereas current policies contain more granular level, "rules-based" instructions prescribing how to vote specific proxy voting items that may be detached from the underlying rationale found in one of the other three policies; and

- An accessible, "reader-friendly" policy, which may be publicly posted on LACERA's website, to enhance transparency of LACERA's corporate governance policy to members and stakeholders and further align LACERA with the UN Principles for Responsible Investment (PRI).

The attached spiral binder provides materials for the Committee's review and is divided into the following tabs:

Tab 1 ***Corporate Governance Principles:*** **Overview of Draft Consolidated Policy**

Tab 1 provides an overview of the draft policy. It includes a brief summary of each of the five sections' core components. It also provides a summary of LACERA's FY2016/2017 proxy voting results and how the draft policy, if adopted, may impact proxy votes. An Appendix provides additional information related to the Committee's October discussion.

Tab 2 **Draft Consolidated** ***Corporate Governance Principles*** **(Clean Version)**

Tab 2 presents the clean version of the draft consolidated policy for the Committee's review. It synthesizes the three current policies' total of 84 pages into a more concise, 21-page document, incorporating language and principles derived from each of the three current policies, as well as language addressing eleven specific subjects that was presented for Committee review at its October 2017 meeting. Language in the draft policy has been modified in parts for clarity, cohesion, and consistency in tone. It is organized around five core concepts that are outlined in current policies pertaining to boards of directors, investor rights, executive compensation, and performance reporting, as well as materials reviewed at the Committee's October meeting addressing environmental and social factors.

Tab 3 Draft Consolidated *Corporate Governance Principles* (Color-Coded Version)

Tab 3 contains a "color-coded" version of the draft policy for reference. It highlights the original document from which each principle or exact language of the draft policy is derived. The text of the color-coded version is the same in all respects to the "clean version," other than the color-coding.

Tab 4 Current *Corporate Governance Principles*

Tab 4 contains LACERA's current *Corporate Governance Principles* for reference.

Tab 5 Current *U.S. Proxy Voting Guidelines*

Tab 5 contains LACERA's current *U.S. Proxy Voting Guidelines* for reference.

Tab 6 Current *Non-U.S. Proxy Voting Guidelines*

Tab 5 contains LACERA's current *Non-U.S. Proxy Voting Guidelines* for reference.

Tab 7 Side-By-Side Comparison Chart of Policy Language

Tab 8 presents a side-by-side comparison by subject of how each of the draft policy's sections relate to current language on the topic extracted from the three current policies. This has been developed for reference.

Tab 8 FYI2016/2017 Proxy Voting Results and Trends

Tab 8 summarizes LACERA's proxy voting activities for Fiscal Year 2016/2017.

Attachment

Noted and Reviewed:

____

Jonathan Grabel
Chief Investment Officer

Draft Consolidated
Corporate Governance Principles
Materials For Review

Board of Investments
Corporate Governance Committee
January 10, 2018

SCOTT ZDRAZIL
Senior Investment Officer

DALE JOHNSON
Investment Officer

LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION

Draft Consolidated
Corporate Governance Principles
Materials for Review

Board of Investments
Corporate Governance Committee
January 10, 2018

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Corporate Governance Principles:
Overview of Draft Consolidated Policy

Corporate Governance Committee
January 10, 2018

LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION

Topics for Discussion

I. **Review draft consolidated *Corporate Governance Principles***

II. **Review FY2016-2017 proxy voting trends and results**
   Prospective impact of implementing the draft consolidated policy

III. **Identify questions, receive feedback, determine next steps**

I. Review Draft Consolidated *Principles* Policy

Recap of objectives and proposed structure of consolidated policy:

1. <u>Project</u>: Consolidate three LACERA policies addressing corporate governance principles (*Corporate Governance Principles, U.S. Proxy Voting Guidelines,* and *Non-U.S. Proxy Voting Guidelines*)

2. <u>Objectives</u>:
   - Harmonized, cohesive, and custom LACERA-specific policy
   - "Principles-based" approach applicable to all markets
   - Simplified and clarified language, publicly accessible and understandable

3. <u>Application</u>:
   - Guide proxy votes
   - Reference point for promoting "best practices" in public equities

4. <u>Draft Policy Structure</u>:

Draft Consolidated Policy Organized into **Five Discrete Sections** Reflecting Common Governance Categories and Incorporating Eleven Topics Presented for Review in October

Board of Directors	Investor Rights & Capital Structure	Compensation & Incentives	Performance Reporting	Social and Environmental
Practices to Promote Board Accountability, Performance, and Responsiveness to Investors	Integrity in Financial Markets and Equitable, Fair Treatment of Investors	Align Interests of Executives with Investors; Pay-for-Performance	Transparent, Accurate, and Timely Reporting of Financial Performance	Prudent Mitigation of Risks Posed by Social and Environmental Factors
63% of vote items*	37% of vote items*			

*Percentage of proxy items voted by LACERA during FY2016-17

Overview of Section 1: Directors

Practices to Promote Board Accountability, Performance, and Responsiveness to Investors

✓ **Board Quality and Composition**
- Skills and experience relevant to business strategy
- Independence
- Diversity

✓ **Measures to Promote Accountability**
- Regular review through annual elections
- Directors elected by majority vote of investors
- Ability for investors to nominate directors

✓ **Roles, Responsibilities, & Resources**

✓ **Board Effectiveness and Performance**
- Track record of effective oversight, risk mitigation
- Lack of material weaknesses or egregious actions
- Responsiveness to investor concerns

Overview of Section 2: Investor Rights and Capital Structure

Integrity in Financial Markets and Equitable, Fair Treatment of Investors

- ✓ Capital market rules, regulations
  - Fair, orderly, and competitive markets
  - Investor protections
- ✓ Investor Rights
  - Rights proportionate to economic interest (1-share, 1-vote)
  - Investor approval of key bylaws/charter changes
  - Litigation rights
- ✓ Votes on Capital Structure
  - Mergers, acquisitions, corporate restructuring
  - Evaluation of share issuances
- ✓ Anti-Takeover Provisions
  - Poison pills, etc.

Overview of Section 3: Compensation and Incentives

Align Interests of Executives with Investors;
Pay-for-Performance

- ✓ Pay Aligned With Performance
- ✓ Discourage Pay Practices Unjustified by Performance
  - Excessive severance, or "golden parachutes"
- ✓ Robust, Clear Disclosures
- ✓ Opportunity for Investor Review
  - Annual non-binding investor "say on pay" vote

Overview of Section 4: Performance Reporting

Transparent, Accurate, and Timely Reporting of Financial Performance

- ✓ Financial Reports
  - Clear, reliable, and comprehensive
  - No material weaknesses or unresolved matters
- ✓ Independent, High-Quality Auditors

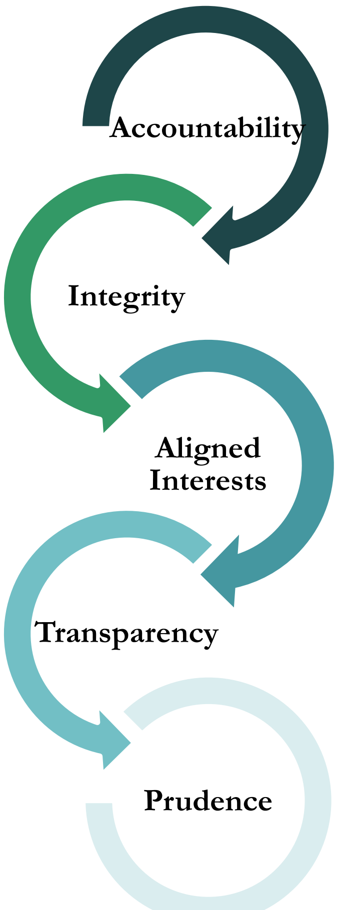
Overview of Section 5: Social and Environmental Factors

Prudent Mitigation of Risks Posed by Social and Environmental Factors

- ✓ Human Capital
- ✓ Human Rights Risk Mitigation
- ✓ Environmental Risks
  - Natural resource efficiency (energy, water, etc.)
  - Hazard waste disposal, pollution
  - Climate-related risk

Framework For Sustainable Value Creation

Five core concepts collectively provide **a framework that aims to promote sustainable investment returns** and **responsible stewardship** of fund assets, in line with LACERA's mission and fiduciary duty



Accountability from directors to investors who provide capital

"LACERA advocates policies and practices that encourage directors to be accountable to investors. Accountability ensures that a firm's operations and reporting are managed in the best interests of investors."

Integrity in capital markets and fair and equitable treatment of investors

"Integrity and trust are the cornerstones of capital markets and essential for economic stability. Core investor rights ensure fair and equitable treatment of investors and help instill investor confidence."

Aligned interests between executives and the investors who provide the firm with capital

"Compensation and incentives should align the interests of senior executives with investors who provide the firm with capital. Pay plan design, structure, and goals should be fundamentally derived from and relevant to a firm's core business objectives and collectively promote sustainable value creation."

Transparency in reporting of key financial and operating performance

"Transparency of a firm's key financial and operating performance is critical. Financial markets work most efficiently when investors have timely, reliable, and comparable information about material aspects of a firm's performance."

Prudent risk mitigation and management of social and environmental factors

"Environmental and social factors may shape and impact a firm's ability to generate and sustain value. Firms should identify and prudently manage social and environmental factors relevant to the firm's business strategy, industry, and geographic markets."

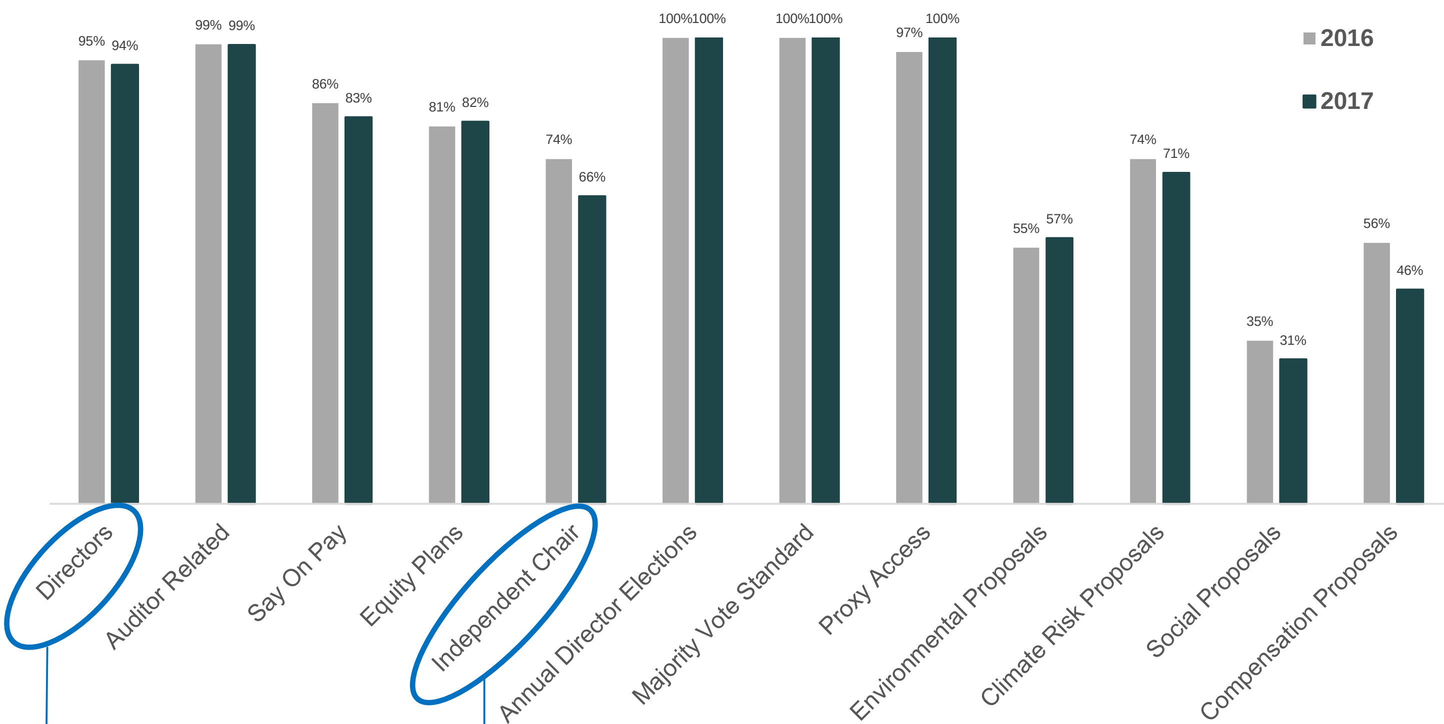
Concepts and language derived from current Corporate Governance Principles, Proxy Voting Guidelines, and October Committee materials.

II. Proxy Vote Trends and Prospective Policy Impact

LACERA Proxy Vote Trends and Results By Key Categories – FY2016 and FY2017

1,780
corporate annual and special meetings voted

32,032
individual agenda items voted



KEY PROSPECTIVE IMPACTS OF DRAFT POLICY

Draft *Principles* would **decrease** support of directors due to lack of adequate independence and excessive board commitments

Draft *Principles* would **increase** support for proposals requesting the board appoint an independent chair

Tab 8 of the Committee materials provides further details of voting trends and results.

Sample Illustrations of FY2016/2017 Proxy Votes

Director Accountability at Wells Fargo

Vote
Opposed numerous directors for failed risk oversight, stemming from prolonged fraudulent account opening scandal

Impact
- 12 of 15 directors received low support (from 53% to 79%)
- Board announced reorganization (new chair, three retiring directors, and a new appointment)

Aligned Interests in Compensation at CSX

Vote
Opposed board's request to approve one-time $84 million hiring bonus for new CEO for lack of any performance link and known health concerns

Impact
- Investors approved the request
- New CEO placed on medical leave six months later and passed away

Prudent Mitigation of Environmental Risks at Exxon

Vote
Supported a non-binding shareholder resolution requesting a report assessing impacts of climate change policies on the company's reserves, operations, and finances

Impact
- Resolution passed with 62% support
- Company announced in December 2017 it will issue the requested report

- The examples above highlight several key votes during FY2016/2017.
- Votes were cast in alignment with existing policies.
- If adopted, the draft consolidated policy would provide guidance resulting in similar votes on these items.

III. Prospective Next Steps

April to October 2017	January 2018	TBD	Early 2018
ESG Education Series	**Committee Review of Draft Consolidated *Governance Principles***	Board Consideration for Approval	Implementation for 2018 Proxy Season If Approved Early 2018
Developed *Corporate Governance Committee Charter* to Affirm Authorities	**Receive Feedback, Identify Questions, and Determine Next Steps**		
Revised *Corporate Governance Policy* to Clarify Program Procedures			
Updated Proxy Contract to Enable Customized Policy			
Reviewed Approach to *Corporate Governance Principles* Harmonization			
Clarified Select Topics for Integration into Draft Consolidated Principles Policy			

Appendix

Appendix A: Committee Comments and Guidance

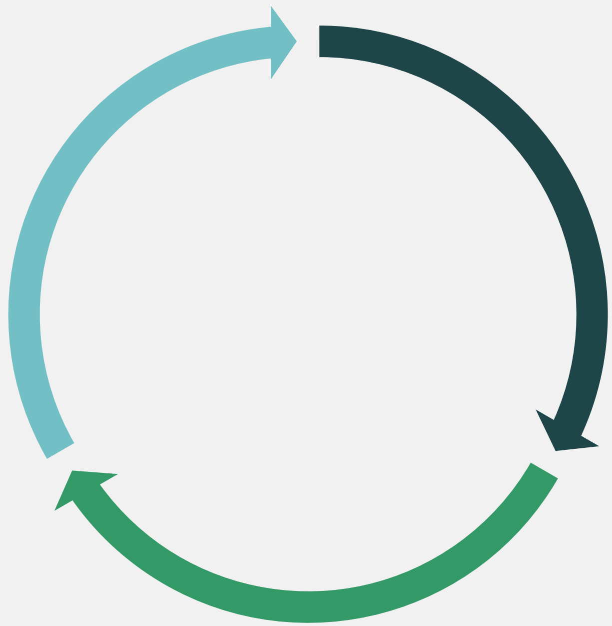
The table below lists and provides a status description regarding the Committee's questions and comments during the October 11, 2017 Committee discussion.

	October 11, 2017 Committee Discussion and Comment	**Status**
1.	Description of process to apply *Principles* to proxy votes	See Appendix B
2.	Discussion of alternative approaches for board independence standard	See Appendix C
3.	Discussion of use of "materiality" standard in social and environmental principles versus uniform standards	Language modified to describe "significant" rather than "material" factors (draft policy, p 4)
4.	Request for status of Iran/Sudan policies and procedures for considering investment exclusions	Reported to Board of Investments November 2, 2017. Incorporated into quarterly compliance reporting
5.	Request to incorporate reference in board materials when proposed mandates and managers are subject to the *Principles*	Under review as part of developing manager ESG due diligence and related protocols
6.	Discussion of applying *Principles* or core ESG expectations to private markets	Under review as part of developing asset class specific ESG approaches

Appendix B: Proxy Voting Process

1. Define *Principles*

- Developed and recommended by the Committee
- Approved by the Board



3. Board Oversight

- Regular review of proxy voting trends and results to the Committee
- Opportunity to revise and update *Principles* to ensure accurate reflection of Board's philosophy and to address evolving market trends and issues

2. Implementation

- Investment Division integrates *Principles* into voting platform to apply policy parameters and generate vote recommendations for each annual and special meeting
- Reviews and executes individual vote recommendation to ensure alignment with *Principles* using all available resources (two proxy research firms, company reports, company dialogue if useful)
- Internal oversight – CIO and Chief Counsel consulted on unique voting items, per policy

Appendix C: Board Independence Principle

Alternative Approaches for Voting Board Director Independence

	#1: Require Substantial Independence **[Consistent with current and draft policy]**	**#2: Require Majority Independence**	**#3: Promote "Substantial Independence" But Consider Local Market Practice In Determining Director Votes**
Description	Require at least 2/3rds of directors to be independent, absent which LACERA opposes non-independent directors	Require greater than 50% of directors to be independent, absent which LACERA opposes non-independent directors	Define expectation for 2/3rds board independence. Consider local market practices in determining opposition to non-independent directors or key board leadership positions.
Sample Policy Language	At least 2/3rds of the board should be composed of independent directors in order to oversee management on behalf of investors, promote accountability to investors, and avoid potential conflicts of interests. LACERA may oppose or withhold support from non-independent board nominees or key board leadership positions where the board or key committees lack adequate independence.	At least a majority of the board should be composed of independent directors in order to oversee management on behalf of investors, promote accountability to investors, and avoid potential conflicts of interests. LACERA may oppose or withhold support from non-independent board nominees or key board leadership positions where the board or key committees lack adequate independence.	At least 2/3rds of board directors should be composed of independent directors in order to oversee management on behalf of investors, promote accountability to investors, and avoid potential conflicts of interests. LACERA may oppose or withhold support from non-independent board nominees or key board leadership positions where the board or key committees lack adequate independence, taking into consideration local market regulations and practice.
Impact	▪ Minimal in U.S.; where board independence averages 89% ▪ Higher votes against directors in markets with majority or one-third independence standard (and Japan)	▪ Minimal in U.S.; independence averages 89% ▪ Higher votes against directors in markets with one-third independence standard (and Japan)	▪ Minimal in U.S.; independence averages 89% ▪ Staff will consider best practice on market-by-market basis to determine select votes against non-independent directors or key board positions (such as board chair) where boards fail to meet independence standard
Merit	▪ Robust and universal expectation ▪ Minimize insiders on boards ▪ Enhance oversight for investors ▪ Markets respond to investor signals: investor pressure changed U.S. practice in 1990s, Japan practice currently improving ▪ Consistent with CII, other standards	▪ Universal expectation ▪ Minimize insider influence on boards ▪ Affirms board's role as oversight for investors ▪ Markets respond to investor signals: investor pressure changed U.S. practice in 1990s, Japan practice currently evolving ▪ Consistent with U.S. listing standards	▪ Defines aspirational universal principle for substantial independence ▪ Recognizes disperse local market practices ▪ Pragmatic and nuanced voting approach ▪ Permits evolving, achievable standards for companies to meet
Risk	▪ Some local markets may consider the bar too high to reach in the near term	▪ Some local markets may consider the bar too high to reach in the near term	▪ Complexity in vote application ▪ Requires staff delegation (with annual board-level review)
Current Policy or Practice	Current *Corporate Governance Principles*	Current *U.S. Proxy Guidelines*	Current voting practice in line with ISS benchmark policy

[DRAFT CONSOLIDATED VERSION]
[CLEAN VERSION]

Corporate Governance Principles

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About LACERA

The Los Angeles County Employees Retirement Association ("LACERA") administers defined benefit retirement plans and other post-employment benefits for employees of Los Angeles County and certain other districts.

The Los Angeles County Board of Supervisors established LACERA in 1937 under the terms of California's County Employees Retirement Law. LACERA is governed by the California Constitution (Article XVI, Section 17), the California County Employees Retirement Act of 1937, and the California Public Employees' Pension Reform Act of 2013. Today, LACERA serves over 160,000 active and retired members.

LACERA Mission Statement

We Produce, Protect, and Provide the Promised Benefits

LACERA's mission is to, "produce, protect, and provide the promised benefits." LACERA aims to fulfill its mission through prudent investment and conservation of plan assets.

LACERA's Board of Investments is responsible for establishing LACERA's investment policy and objectives, as well as exercising oversight of the investment management of the fund.

Statement of Purpose

The fundamental objective of LACERA's *Corporate Governance Principles* is to safeguard and promote the economic interests of the trust. LACERA believes that strong corporate governance practices and policies at the firms in which it invests help generate long-term economic performance.

The *Corporate Governance Principles* identify LACERA's fundamental principles of corporate governance. They are intended to articulate LACERA's view on sound governance and guide LACERA's proxy votes at public companies. In advocating practices in line with these *Corporate Governance Principles*, LACERA aims to maximize the long-term value of plan holdings.

The *Corporate Governance Principles* are organized into five sections. Each section addresses common corporate governance and proxy voting issues. The five sections address issues pertaining to boards of directors, investor rights and capital structure, executive compensation and incentives, performance reporting, and environmental and social factors.

The *Corporate Governance Principles* are guided by five core concepts that collectively provide a framework by which LACERA aims to promote sustainable investment returns and responsible stewardship of fund assets:

> Accountability: Governance structures and practices should be designed to ensure the accountability of a firm's board of directors to the investors who provide the firm with capital. Accountability promotes that a firm is managed in the best interests of its investors.
>
> Integrity: Integrity and trust are the cornerstone of financial markets and essential for economic stability. Core investor rights and protections are crucial to promoting integrity in financial markets.
>
> Aligned Interests: Compensation and incentives practices should align the interests of senior executives with those of investors.
>
> Transparency: Firms should provide investors with clear, comprehensive, and timely disclosures about fundamental elements of the firm's business and financial activities.
>
> Prudence: Firms should prudently identify, assess, and manage environmental and social factors that may impact the firm's ability to generate sustainable economic value.

Fiduciary duty guides LACERA's *Corporate Governance Principles* and their application. LACERA evaluates the financial impact of each issue presented on corporate proxies and votes proxies for the exclusive benefit of plan participants and beneficiaries in all instances.

LACERA recognizes that sound governance balances the rights of investors providing a firm with capital with the role and responsibility of corporate boards to direct and manage the firm. LACERA may oppose overly prescriptive or unduly burdensome measures proposed on corporate proxies, or resolutions that may otherwise restrict a firm's board of directors from acting in the best economic interests of investors.

LACERA also recognizes that the laws, regulations, and customs guiding corporate governance practices vary by market. LACERA seeks to apply its *Corporate Governance Principles* in a universal and consistent manner, while observing and taking into consideration – as applicable and appropriate – local laws, regulations, and customs.

The procedures by which LACERA applies and promotes the *Corporate Governance Principles* and executes proxy votes are described in LACERA's *Corporate Governance Policy.*

Principles

I. Directors

The board of directors drives the strategic direction and oversight of the firm and its management. LACERA relies upon the directors it elects to exercise effective oversight and ensure that the firm is managed in the best interests of investors. Directors should understand the firm's long-term business strategy as well as risks that may impact the firm's value, and demonstrate a record of sound stewardship and performance. LACERA advocates policies and practices that encourage directors to be accountable to investors. Accountability ensures that a firm's operations and reporting are managed in the best interests of investors.

A. Independent Oversight

1. **Board Independence:** At least two-thirds of the board should be composed of independent directors in order to oversee management on behalf of investors, promote accountability to investors, and avoid potential conflicts of interests.

   An independent director is defined as someone who has no material affiliation to the company, its chief executive officer, chairperson, or other executive officers, other than the board seat.

   Materiality is defined as any financial, personal, or other relationship that a reasonable person might conclude could potentially influence one's objectivity in a manner that would have a meaningful impact on the individual's ability to satisfy requisite fiduciary standards on behalf of investors. Directors may not be considered independent if they, or a family member, are or have been an employee of the company (or a subsidiary or affiliate thereof) in the last five years; have a 20 percent or greater economic interest in the company; are or have been part of an interlocking director relationship with the CEO; receive direct payments for professional services unrelated to their service as a director in excess of $10,000 per year; or engage in any related party transaction in excess of $10,000 per year.

2. **Board Leadership:** The board should be chaired by an independent director.

3. **Board Committees:** Each board should establish an audit committee, a nominating and governance committee, and a compensation committee, each composed exclusively of independent directors.

   Deference generally should be afforded to boards in determining appropriate oversight structures, such as the establishment and role of additional board committees. LACERA may support proposals to appoint an additional board committee in limited circumstances where a firm's performance, oversight structures, and peer comparisons demonstrate that inadequate board consideration and focus has been accorded to a compelling issue related to firm value.

LACERA may oppose or withhold support from non-independent board nominees or key board leadership positions where the board or key committees lack adequate independence.

B. Board Quality and Composition

1. **Composition:** The board should be composed of highly-talented individuals who are best positioned to oversee the company's strategy for creating and sustaining value. Boards should give consideration to ensuring directors collectively possess a diverse set of relevant skills, competencies, and attributes to exercise oversight on investors' behalf, including expertise, geographic familiarity, and professional backgrounds relevant to the company's strategic objectives. The board should strive for a suitable mix of tenures to ensure both institutional familiarity and fresh perspectives on the board, as a firm's market environment and business strategies evolve.

2. **Diversity:** The board should establish and disclose policies and processes for ensuring that it identifies and nominates suitable directors from a wide pool of candidates relevant to its business strategy, including but not limited to diverse gender, racial, and ethnic backgrounds. A diverse and inclusive board is better positioned to effectively deliberate and oversee business strategy in investors' interests.

3. **Board Size:** The board should define and disclose in governance documents an appropriate size or range of directors that ensures the board is composed of adequately diverse viewpoints and experience to effectively oversee the firm's business strategy, while not being so large as to diminish the board's operational effectiveness. Modifications to governing documents defining board size and structure should be submitted for investor approval and not be proposed for the purpose of impeding a change in firm control.

4. **Excessive Commitments:** Directors should have adequate time to dedicate to their board service, fulfill their responsibilities, and represent investors' interests. Accordingly, directors should not serve on more than four public company boards. Currently-serving chief executive officers should not serve on more than three public boards (including their own).

5. **Tenure and Age Restrictions:** LACERA does not support arbitrary restrictions on director qualifications, such as tenure limits or mandatory retirement ages. Such limitations may impede a firm from benefiting from the expertise of an otherwise highly-qualified director.

C. Director Selection and Elections

1. **Annual Elections:** Each director should be elected annually. Directors should not be elected by classes, or to "staggered" terms.

2. **Vote Standard for Director Elections:** Director nominees in uncontested elections should be elected by a majority of votes cast. In contested director elections, a plurality of votes should determine the election.

3. **Universal Proxy Card:** In the event of a contested director election, investors should have the right to select and vote for individual director nominees on a consolidated, or "universal," proxy ballot, regardless of whether the director nominee is put forward by management or a dissident investor.

4. **Cumulative Voting:** LACERA supports cumulative voting in director elections, in compliance with California Government Code Section 6900.[1]

5. **Proxy Access:** Long-term investors who have held a significant ownership interest for a reasonable amount of time should have the right to nominate alternative directors for consideration on a firm's proxy, otherwise known as "proxy access." Proxy access procedures should have sound safeguards in place to ensure an orderly nominating process and prevent proxy access from being used to effectuate a change in control.

6. **Ability to Remove Directors:** Investors should have the right to remove directors with or without cause, in order to allow investors to take action when a director is not serving investors' best interests.

D. Board Roles and Responsibilities

1. **Governance Guidance:** The board should develop, adopt, disclose, and periodically review clearly defined governance guidelines that govern the board's operations.

2. **Resources:** The board should have adequate resources and access to information to enable it to execute its responsibilities and duties. Directors should be provided information in advance of meetings. Directors should have full access to senior management and information concerning the firm's operations. Directors should be familiar with a firm's operations independent of the chief executive officer and senior management. Directors should have the authority and adequate budget to hire outside experts, if necessary.

3. **Independent Proceedings:** Directors should work with the chief executive officer to establish board agendas. Independent directors should meet at least annually without management or non-independent directors' participation.

4. **Board Communication and Engagement:** Firms should establish reasonable policies that permit effective communication between investors and directors regarding business strategy and corporate governance matters.

5. **Management Succession Planning:** The board should conduct a regular evaluation of the chief executive officer and plan for business continuity, including establishing and disclosing a succession plan for the chief executive officer and key senior executives.

6. **Board Self-Evaluation and Refreshment:** Boards should adopt and disclose a process for regular, rigorous, and earnest self-assessment and evaluation. The evaluation process should be conducted under the direction of independent directors and ensure candor, confidentiality, trust, and effective interaction among directors. Board self-evaluation should be tailored to meet the firm's and board's strategic objectives and requirements. In order to promote long-term planning aligned with business needs, the board's self-evaluation process should assess the board's size and operational effectiveness, identify emerging business risks and relevant skills gaps among its composition, and prudently

[1] Section 6900. Cumulative Voting. 'Government Body." Whenever any government body is a shareholder of any corporation, and a resolution is before the shareholders which will permit or authorize cumulative voting for directors, such government body shall vote its shares to permit or authorize cumulative voting. As used in this section the term "government body" means the state, and any office, department, division, bureau, board, commission or agency thereof, and all counties, cities, districts, public authorities, public agencies and other political subdivisions or public corporations in the state.

anticipate and proactively plan for board vacancies and refreshment. It should appraise the alignment and adequacy of director education and development, as well as the delineation of management and board powers, while positioning the board to efficaciously exercise oversight in investors' interests.

7. **Charitable and Political Contributions:** Corporate charitable contributions may accrue direct and indirect benefits to a firm and its investors, including goodwill in communities in which it operates and favorable tax treatment. Charitable contributions should not be directed, eliminated, or otherwise restricted by investors.

   The board should monitor, assess, and approve all charitable and political contributions (including trade association contributions) made by the firm. Political and charitable contributions should be consistent with the interests of the firm and its investors. The board should clearly define and approve the terms and conditions by which corporate assets may be provided to charitable and political activities, including developing and publicly disclosing guidelines for the approval of such contributions. The board should disclose on an annual basis the amounts and recipients of all monetary and non-monetary contributions made by the firm during the previous fiscal year, including any expenditures earmarked for political or charitable activities that were provided to or through a third-party.

8. **Director Indemnification:** Directors may be provided reasonable and limited protections, including indemnification and limited personal liability for damages resulting from violating duty of care, where the director is found to have acted in good faith and in a manner the director believed to be in the best interests of the firm. Reasonable limitations may ensure the board is positioned to recruit qualified directors.

E. Board Performance and Effectiveness

1. **Performance Evaluation:** The board's performance, and that of individual directors, should be assessed within the context of the board's suitability for and track record of serving and protecting investors' interests. LACERA may withhold support or oppose individual directors, members of a board committee, or the entire board where the track record demonstrates directors' failure to serve investors' best interests. Director and board performance is evaluated in consideration of the following factors:

   1.1. Stewardship and Risk Oversight: Directors should demonstrate a sound track record of stewardship and risk oversight, including avoiding any material failures of governance, risk oversight, or fiduciary responsibilities at the company.

   1.2. Effective Oversight of Management: Directors should conduct effective oversight of management, including avoiding any failure to replace management as appropriate.

   1.3. Attendance: Each director should attend at least 75 percent of scheduled board meetings each year, including attendance at assigned committees, absent a compelling, clearly disclosed justification.

   1.4. Board Service: Directors' track record and performance on other boards may be considered in evaluating director nominees. In particular, a director's failure to effectively exercise oversight on other boards or any egregious actions that raise substantial doubt about the director's ability to fulfil a director's obligations and serve the best interests of investors may prompt opposition to the director's nomination.

1.5. **Ethics:** Directors should demonstrate the utmost integrity and be free of any criminal wrongdoing, breaches of fiduciary responsibilities, or questionable transactions with conflicts of interest.

1.6. **Transparency in Reporting:** Financial reports and material disclosures should be published in a satisfactorily diligent and timely manner.

1.7. **Investor Responsiveness:** Directors should demonstrate accountability and responsiveness to investors. Directors should not unilaterally amend a firm's governing documents in a manner that materially diminishes investor rights or otherwise adversely impacts investors without seeking investor approval. Directors should not adopt a poison pill or make a material change to an existing poison pill without submitting the plan for investor approval within the following 12 months. Directors should take reasonable steps to implement resolutions approved within the previous 12 months by a majority of investors, within the confines of legal and regulatory constraints. Directors should respond to tender offers where a majority of shares have been tendered. There should be no record of abuse against minority investor interests.

2. **Committee Performance:** Each committee should demonstrably fulfill its core duties and the specific responsibilities outlined in its committee charter. LACERA may oppose incumbent directors who have served on committees that have failed to perform their duties in investors' best interests.

   Audit Committee members should ensure that non-audit fees are not excessive, no adverse opinion has been rendered on the company's audited financial statements, and the firm has not entered into an inappropriate indemnification agreement that limits legal recourse against the external auditor.

   Compensation Committee members should demonstrate a clear and proven track record of aligning executive pay with the firm's strategic objectives and performance, refrain from permitting problematic pay practices, ensure clear disclosures of all key components of pay plan design and practices, and exhibit reasonable and timely responsiveness to investors.

3. **Contested Director Elections:** In assessing director nominees in contested elections, LACERA may consider all relevant factors to identify and support the nominees best suited to enhance sustainable firm value and serve investors' economic interests. Consideration may be given to the long-term financial performance of the firm, its governance profile, and management's track record; nominees' proposed strategies for value creation; the qualifications and suitability of director nominees, including their alignment with LACERA's governance principles; and the dissidents' ownership stake and history of generating sustainable returns at other firms.

LACERA may support requests to reimburse dissident nominees for reasonable, incurred expenses when dissident nominees have presented a compelling case and support for their nomination is warranted.

II. Investor Rights and Capital Structure

Integrity and trust are the cornerstones of capital markets and essential for economic stability. Core investor rights ensure fair and equitable treatment of investors and help instill investor confidence, thereby facilitating capital formation and economic stability.

LACERA supports core rights and protections at portfolio companies and within financial market policies in order to safeguard its investments and foster a stable investment climate within the broader financial markets in which it invests. Financial rules and regulations should promote fair, orderly, and competitive markets and provide for investor protections. Investor rights extend to key decisions that may fundamentally impact or modify a firm's capital structure, such as share issuances, restructuring, and mergers and acquisitions.

A. Investor Rights

1. **Rights Proportionate to Economic Interest:** Investors should have voting rights proportionate to their economic interests. Multi-class ownership structures may entrench certain investors and management, insulating them from acting in the interests of all investors. LACERA therefore supports the principle of "one-share, one-vote."

2. **Voting Requirements and Procedures:** Investors should have the right to act on fundamental corporate matters by a simple majority of votes cast. Fundamental matters may include, but are not limited to, amending a firm's governing documents (such as its charter or bylaws) and effecting corporate transactions, such as a merger or acquisition.

   2.1 Simple Majority Voting: Companies should not adopt supermajority voting requirements except when such provisions may protect outside or minority investors from unilateral action being taken by an entity (or entities) with controlling interest or significant insider ownership.

   2.2 Voting Procedures: Voting and tabulation of matters put before investors by proxy or otherwise should be guided by transparent procedures, consistent application of rules, and fairness for all eligible voters. Votes should be counted by an independent tabulator and kept confidential. Voting results should be promptly disclosed once tabulation has been finalized.

   2.3 Bundled Voting: Investors should be able to review and cast votes on unrelated matters as separate and distinct ballot items. Disparate matters should not be presented for investor consideration as a "bundled" voting item. LACERA may oppose "bundled" proposals that combine supportable voting items with matters that LACERA opposes.

   2.4 Broker Non-Votes: Uninstructed broker votes and abstentions should be counted for quorum purposes only.

3. **Annual Meetings**

   3.1 Quorum Requirements: Quorum requirements should promote that a broad range of investors are represented at meetings. Quorum requirements should not be unduly low, in either absolute terms or relative to the economic interest of a controlling investor or significant

investor, in order to protect investors from unrepresentative action being conducted.

3.2 Technology: Investors should have the right to attend an annual meeting of a firm in person. Any use of technology, such as audiocasts or webcasts, should expand and enhance, and not restrict or otherwise impede, investors' ability to participate in an annual meeting, and should afford opportunities for meeting participation equal to those afforded investors attending the meeting in person.

3.3 Resolutions: Investors with a reasonable ownership interest in a firm should have the right to put forward a resolution for investors' consideration and vote at the firm's annual meeting.

3.4 Advance Notice Requirements: Investors should be able to submit items for formal consideration at an annual meeting, such as proposals or director nominees, as close to the meeting date as reasonably possible and within the broadest timeframe possible, recognizing the need to allow sufficient notice for company, regulatory, and investor review.

3.5 Transaction of Other Business: LACERA generally opposes requests for advance approval by proxy of undisclosed business items that may come before an investor meeting for consideration.

4. **Special Meetings:** Investors should be able to call a special meeting to take action on certain matters that may occur between regularly scheduled annual meetings. The right to call a special meeting should require aggregating a minimum of ten percent ownership interest and be subject to reasonable terms and conditions.

5. **Action by Written Consent:** Investors should have the right to act by written consent on key governance matters under reasonable terms and conditions.

6. **Access to Research:** Investors should have access to competitive, timely, and independent market, investment, and proxy research services of their choosing. Market regulation should support and not impede a competitive market of service providers.

7. **Ownership Disclosure:** Significant ownership interests above five percent should be disclosed.

8. **Incorporation:** A firm's country or state of incorporation may significantly impact the firm's financial health, competitive position, governance profile, and the legal rights afforded to investors, as defined by the jurisdiction of incorporation. When selecting a jurisdiction for incorporation (such as in relation to a merger or acquisition or a proposed reincorporation), firms should give due consideration to competitively positioning the firm for financial success while also ensuring sound governance practices and strong legal rights and protections for investors. LACERA may oppose proposals for reincorporation where the business and financial rationale for reincorporation do not outweigh the detrimental impact of a reincorporation on investor rights and governance provisions.

9. **Litigation Rights:** Robust and viable litigation rights enable investors to protect firm value, deter misconduct, and seek recourse in the event of egregious corporate malfeasance or fraud. Corporations should not curtail or otherwise

diminish investor's prospective legal recourse through governance provisions, such as exclusive forum designations for legal disputes, mandatory arbitration clauses, or 'fee-shifting' provisions by which an investor who unsuccessfully brings legal action must bear the entirety of the corporation's legal costs.

B. Capital Structure

Finding the optimal mix of equity, long-term debt, and short-term financing is critical to driving economic returns. A firm's capital structure should support the generation of long-term, sustainable returns. The board should determine and drive a firm's capital structure, in coordination with senior management. Capital structure should coordinate and balance multiple factors, including the firm's business profile, strategy, and opportunities for growth; access to and cost of capital; and capital distributions such as the firm's dividend policy.

Investors should be able to vote on matters that may fundamentally modify or impact a firm's capital structure, such as common share issuances and mergers and acquisitions.

1. **Share Issuances and Authorizations:** Share issuances enable firms to raise funds for financing purposes.

   1.1 Authorization of Common Shares Issuance: Requests to authorize capital or approve share issuances should specify the quantity of shares for which approval is sought. Requests should be evaluated upon careful consideration of the individual details and merits of each request and according to LACERA's economic interests. Firms should present a compelling purpose for the share issuance, demonstrate a track record of responsibly using authorized shares in investors' interests, and provide for rights and restrictions attached to proposed equity that are aligned with investors' interests. In evaluating requests, the availability of preemptive rights and any risks of authorizing the share issuance, including the dilutive impact of the request, may also be considered. Capital authorization terms should not facilitate an anti-takeover device or otherwise adversely impact investors' interests.

   1.2 Preemptive Rights: Preemptive rights provide current investors the right to maintain a proportionate interest in a firm by exercising a right to purchase shares proportionate to what they already own in any new issuances of equity. Requests to create or abolish preemptive rights should consider the size of the firm, the characteristics of its investor base, and the liquidity of its equity to ensure preemptive rights may be pragmatically exercised and do not impose an onerous restriction on capital raising.

   1.3 Preferred Shares Authorization: Preferred shares, which provide distinct features such as fixed dividend payments or seniority of claims relative to common shares, may be supportable when the purpose of such issuance is in connection with a proposed transaction appearing on the same ballot that merits support. Otherwise, requests for authorization are evaluated in consideration of the request's stated purpose, the firm's past use of authorized preferred shares, and an assessment of the risk of authorizing the share issuance, including the dilutive impact of the request, and should not create or increase shares that carry superior voting rights to common shares. Any conversion rights should define reasonable conversion ratios and not result in excessive dilution of common shares.

1.4 Blank Check Preferred Shares: Firms generally should not create classes of shares providing the board with broad discretion to define voting, conversion, dividend distribution, and other rights, absent a compelling rationale and clearly-stated restrictions in line with investors' interests. The voting rights of unissued shares should be presented for investor approval and not be subject to board discretion.

1.5 Blank Check Preferred Share Placements: Investor approval should be required for the placement of preferred shares with any person or group for other than general corporate purposes to enable investor review of the business purpose, prospective impact on dilution and voting positions, and any adverse impact on existing investors.

1.6 Reverse Stock Split: Reverse stock splits, by which multiple shares are exchanged for a lesser amount to increase share price, generally should be accompanied by a proportionate reduction in authorized shares.

2. **Debt Issuance and Borrowing Powers:** Debt issuances and restructuring, amendments to a firm's aggregate limit on the board's ability to borrow money, and other debt-related items should serve a compelling and clearly-articulated business purpose, be in line with and supportive of generating sustainable and viable financial returns, and take into reasonable consideration any detrimental impact on existing investors. LACERA evaluates debt-related proposals upon careful consideration of the individual terms and merits of the request.

3. **Capital Allocation and Income Distributions:** A firm should allocate capital, including distribution of income through dividends or share repurchases, in a disciplined and balanced manner that supports the generation of long-term value.

3.1 Allocation of Income: Firms should provide adequate justification when seeking investor approval for the allocation of income when the payout ratio appears unbalanced or unsustainable (either inordinately low, such as below 30 percent, or excessive given the firm's financial position).

3.2 Stock (Scrip) Dividend Policy: Firms may provide investors the option to receive dividend payments in the form of common equity in lieu of cash. Such provisions enable a firm to retain cash and may strengthen the position and commitment of long-term investors. In all circumstances, firms should provide a cash option, absent a compelling justification that such an option may be harmful to investors.

3.3 Share Repurchase Programs: Open market share repurchase plans should enable investors to participate on equal terms and support balanced and disciplined capital allocation. Requests to authorize share repurchases should have a defined and limited duration, incorporate clear and reasonable terms and conditions, and generally not exceed ten percent for market repurchases within any single authority, absent a compelling rationale in line with investors' interests and market practice.

4. **Mergers, Acquisitions, and Other Corporate Restructuring:** Mergers and corporate restructuring (including spin-offs, leveraged buyouts, and reorganizations) have major financial implications for investors.

4.1 Evaluation: LACERA carefully examines all relevant facts and circumstances of each proposal to determine whether the proposal, in its entirety, is in LACERA's best interests. Assessment of each proposed transaction takes into account multiple factors. The valuation should be reasonable. Market reaction may be considered. The strategic rationale and expected benefits should be sensible, with any projected synergies or financial impact reasonably achievable. Management should have a favorable track record of successful integration of acquisitions or business combinations. The negotiation and deal process should be fair and equitable. There should be no conflicts of interest, such as factors enabling insiders to disproportionately benefit from the proposed transaction. The resulting entity should observe sound corporate governance practices. The risks of not completing the transaction or corporate restructuring may be considered. Sufficient information should be provided to enable investors to make an informed decision.

4.2 Appraisal Rights: Investors should be afforded appraisal rights, by which they may seek a judicial review of the terms of certain corporate transactions in order to determine fair market value.

5. Anti-Takeover Measures: Investors should be afforded the reasonable opportunity to deliberate and decide on the merits of takeover bids and acquisitions. Practices and provisions, including corporate bylaws, charters, laws, and statutes, that may impede or deter a corporate transaction that is otherwise in investors' interests, may take a variety of forms and generally should be submitted for investor review and approval.

5.1 Poison Pills: The board should not enact or amend a poison pill without investor approval. LACERA generally supports the redemption of existing poison pills, except in unique circumstances where a carefully designed, short-term plan may enable a firm to negotiate more favorable terms with a potential bidder. Such plans should require a minimum 20 percent ownership threshold to trigger, provide for limited and reasonable duration, exclude provisions by which only continuing directors may remove the pill, and otherwise provide for adequate investor protection that the plan will not unduly impede a bid that is otherwise in investors' interests.

5.2 Net Operating Loss (NOL) Protective Amendments: Protective amendments with the stated purpose of preserving a company's net operating losses for a tax benefit, such as under the terms of Section 382 of the Internal Revenue Code, should balance the anticipated benefit to investors of preserving the tax value and the risk of potential abuse of such provisions as an anti-takeover measure. Because NOL protective amendments may serve as a poison pill, the board should submit related items for investor review and approval. Such provisions should only be used under limited, clearly justified circumstances and include adequate protections, such as an appropriate ownership threshold and clearly-defined and reasonable duration limits.

5.3 Greenmail: Greenmail, by which a firm repurchases shares of a potential acquirer at an above-market price to deter a takeover, should be prohibited.

5.4 Other Anti-Takeover Measures: LACERA generally opposes provisions that impose onerous restrictions or impediments on prospectively beneficial takeover bids, taking into account the specific terms and circumstances of such provisions to determine the provision's alignment

with LACERA's economic interests. LACERA supports firms opting out of related anti-takeover laws and statutes, where legally permitted.

Fair price provisions that require an investor seeking to purchase control of a firm to pay a defined fair price, should not impose onerous requirements that may deter a competitive bid from being considered by investors.

Firms should opt out of control share acquisition statutes that void the voting rights of an investor surpassing certain ownership thresholds; control share cash-out provisions requiring an investor above a specified ownership threshold to purchase shares from remaining investors at the highest acquiring price if remaining investors exercise their right to sell their shares; and freeze-out provisions requiring an investor who meets a defined ownership threshold to wait a specified period of time before gaining control of the firm.

Disgorgement provisions, by which an investor who acquires ownership interest above a specified threshold must pay the firm any profits realized from the sale of the firm's equity purchased within a defined time period prior to exceeding the defined ownership threshold, should be avoided.

Firms should not provide designated investors (such as the government of a related, formerly state-owned enterprise) "golden shares" that provide for exceptional veto power or voting rights regarding specific corporate proposals.

6. **Related-Party Transactions:** Investors should have the right to approve significant related-party transactions. Investor approval helps to protect investors against self-dealing. Firms should provide clear information regarding such transactions, including all fees, a compelling rationale for the service or services provided, and the assessment of independent directors and an independent financial advisor of the transactions in order to permit an informed assessment of prospective conflicts of interest.

III. Compensation and Incentives

Compensation and incentives should align the interests of senior executives and investors. Executive compensation and incentives serve a critical role in recruiting, motivating, and retaining talent. Pay plan design, structure, and goals should be fundamentally derived from and relevant to a firm's core business objectives and collectively promote sustainable value creation. Accordingly, pay and incentives should incentivize and reward executives for the achievement of outstanding performance, while encompassing prudent risk mitigation and taking care to avoid excessive risks that may be detrimental to the firm's long-term financial returns.

Boards should determine core components of executive pay design, including target pay levels and incentives. Boards oversee compensation paid to senior executives, award bonuses, and establish incentive plans that may include equity and performance-based grants and awards. The board may also review and approve supplemental compensation plans for firm employees, including employee equity and retirement plans.

Firms should provide investors with transparent, clear, and comprehensive disclosure of senior executives' total compensation package. This includes disclosure of salary, short and long-term incentive compensation, and all benefits and perquisites. Selected performance metrics and targets upon which compensation is contingent should be provided in a plain and clear format.

A. Advisory Vote on Executive Compensation

Executive compensation design and practices should be submitted for investor review and non-binding approval on an annual basis (also known as "say-on-pay"). Advisory votes should consider the firm's pay design and practices as a whole, taking into account the alignment of executive pay with long-term firm performance, the absence of significant problematic pay practices and excessive risk in targets and reward incentives, and the clarity of the firm's pay disclosures.

B. Compensation Plan Design

Executive compensation and practices should link pay to firm performance. Compensation should be commensurate with the firm's long-term performance, appropriately aligned with firms with which the firm competes for executive talent, such as industry peers and firms of comparable size and profile, and properly consider the firm's long-term outlook for generating sustainable returns.

1. **Performance Criteria:** Incentive compensation should incorporate clearly defined, rigorous, and disclosed performance criteria upon which incentive pay is contingent. Performance metrics, targets, and hurdles should be consistent with and promote the firm's strategy for generating sustainable value, including key financial and operating objectives and effective management of relevant business risks.

2. **Peer Benchmarking:** Peer groups used to benchmark compensation should be clearly disclosed and relevant to the firm's business profile and size.

3. **Compensation Consultants:** Compensation consultants providing strategy, design, and implementation services related to executive compensation to the board's compensation committees should be at the exclusive hire and service of the committee, unquestionably independent, and clearly disclosed.

4. **Equity Ownership, Retention, and Holding Requirements:** Equity ownership among senior executives may strengthen the alignment of interests between executives and investors, promote prudent risk mitigation, and should be encouraged. Equity ownership guidelines providing that executives should maintain reasonable equity in the firm, requirements for executives to retain a meaningful portion of equity acquired through compensation plans, and holding periods for equity grants should strike an appropriate balance to promote equity ownership while avoiding overly restrictive or onerous provisions that may undermine talent motivation and retention to the detriment of investors' interests.

5. **Pre-Arranged Trading Plans:** Pre-arranged trading plans, as provided under Securities and Exchange Commission Rule 10b5-1, define parameters for executives' predetermined securities transactions in advance of an executive becoming aware of material nonpublic information regarding the firm's securities and are intended to mitigate the risks of insider trading. The adoption, amendment, or termination of pre-arranged trading plans for senior executives should be governed by the board, promptly disclosed, and provide for timely disclosure of transactions made pursuant to the plan's provisions.

6. **Hedging and Speculative Transactions:** Senior executives should be prohibited from engaging in derivative or speculative transactions involving equity of the firm, including hedging, holding equity in a margin account, or pledging equity as collateral for a loan.

7. **Internal Pay Disparity:** Executive compensation should be considered in the context of how a firm compensates its employees, including in relation to industry peers. Firms should disclose the ratio of the chief executive officer's total pay to that of the average firm employee.

8. **Restrictions:** Executive pay should not be subject to arbitrary restrictions or limitations on the magnitude or form of compensation, such as linking executive pay to average employee compensation. Arbitrary limits and restrictions may undermine a firm's ability to attract and retain competent talent and create a competitive disadvantage for the firm.

9. **Recoupment Policies:** Firms should adopt and disclose rigorous policies defining the terms and conditions by which incentive compensation may be recouped, in order to align pay with performance, promote accurate financial reporting, and deter misconduct. Robust clawback policies should enable the board to review and recoup senior executive incentive compensation in the event that compensation was calculated using inaccurate financial reports or in the event of fraud or misconduct. Application of the recoupment policy should be reasonably disclosed.

C. Equity Plans

Equity plans should motivate plan participants to focus on long-term firm value and returns, encourage equity ownership, and advance the principle of aligning employee interests with those of investors.

Firms should submit equity plans for investor approval. Equity plans should be reviewed taking into account plan features, impact on equity dilution, and prospects to align pay with performance.

1. **Performance-Based:** Equity plans should define robust and appropriate performance requirements by which equity may be granted that are aligned with,

and justifiable by, the firm's business strategy and strategic objectives. Such provisions may include terms and performance criteria permitting a plan to qualify for favorable tax treatment (such as the Omnibus Budget Reconciliation Act of 1987, Section 162(m)).

2. **Track Record:** The firm should demonstrate a history of responsibly linking equity awards to performance and avoiding grants of excessive awards.

3. **Impact:** The total cost and potential dilution of the plan should be reasonable.

4. **Re-Pricing:** Equity granted under the terms of the plan, such as share options and stock appreciation rights, should not be re-priced without investor approval, as re-pricing may sever the link between pay and performance. Requests to reprice underwater options should clearly define and compellingly justify the rationale and intent, timing, defined participants, and terms, such as a value-for-value exchange, exercise price, and vesting requirements.

D. Employee Equity Programs

1. **Employee Stock Purchase Plans:** Employee stock purchase plans encourage firm employees to acquire an ownership stake in the firms for which they work by providing employees the right to purchase the firm's equity at a set price within a certain period of time. Employee stock purchase plans should define reasonable terms, such as designating exercise prices at no lower than 85 percent of fair market value, fixing a justifiable offering period, and limiting voting power dilution to less than ten percent.

2. **Employee Stock Ownership Plans:** Employee stock ownership plans (ESOPs) enable employees to accumulate firm equity. ESOPs should balance encouraging employee equity ownership while avoiding harm to existing investors. Shares allocated to ESOPs should not be excessive (generally no more than five percent of outstanding shares).

E. Severance and Retirement Arrangements

Severance payments to executives in the event of an employment termination, separation, or change in firm control should be justifiable by the executive's performance, serve the long-term interests of the firm and its investors, and not be excessive.

1. **Golden Parachutes:** Firms should submit for investor approval arrangements to provide executives with extraordinary severance payments in certain circumstances, such as a change in firm control. Extraordinary payments may be assessed in relation to market and peer practice and should not exceed payments greater than three times base salary and bonus. Severance payments should not be so attractive as to influence merger agreements that may not be in the best interests of investors and should have triggering mechanisms beyond the control of senior executives. Any payments in the event of a change-in-control should be "double-triggered," i.e. contingent upon both an actual change-in-control and an employment separation related to the change-in-control event. Unvested equity should not accelerate upon the change-in-control. Payments should not trigger, and firms should not commit to paying, executives' excise taxes ("gross-ups"). A change-in-control should not be contingent upon investor approval of executives' severance payments.

2. **Supplemental Executive Retirement Plans:** Retirement plans that provide extraordinary retirement benefits exclusive to executives should be presented for

investor approval and avoid excessive payouts, such as excluding all incentive or bonus pay from covered compensation calculations.

3. **Golden Coffins:** Firms should refrain from providing extraordinary compensation upon an executive's death. Firms should submit for investor approval agreements and policies that oblige the firm to make payments or awards following the death of a senior executive, including unearned salary or bonuses, accelerated vesting or continuation in force of unvested equity grants, and other extraordinary payments or awards.

F. Director Compensation

Firms should disclose the philosophy and process used for determining compensation paid to directors serving on the board and the value of all elements of director compensation.

1. **Structure and Design of Director Compensation:** Directors may be compensated in both cash and equity. Fees and compensation paid to directors should be appropriate relevant to market norms, the firm's industry, and its financial performance. Equity should not constitute the entirety of director compensation as this may undermine directors' incentive to monitor and exercise oversight of long-term risks to firm value.

2. **Equity Ownership:** Equity ownership by directors promotes the alignment of directors' interests with those of investors. Firms should adopt and disclose equity ownership guidelines to encourage directors to acquire and hold a meaningful amount of equity in the firm. Equity ownership should not, however, be a qualification for board service, as such restrictions may impede otherwise highly qualified individuals from serving as directors.

3. **Retirement Benefits:** Retirement benefits for director service are improper, as such benefits may impede objectivity and sever the alignment of interest between directors and investors.

IV. Performance Reporting

Financial markets work most efficiently when investors have timely, reliable, and comparable information about material aspects of a firm's performance. Transparency of a firm's key financial and operating performance is critical for investors to assess the firm's financial viability and prospects. Independent verification of a firm's financial disclosures promote investor confidence.

LACERA supports clear and comprehensive disclosure of relevant financial and operating performance indicators (including environmental, social, and governance – or ESG – matters) that may provide valuable information for investors to assess a firm's prospects for delivering sustainable value.

A. Financial Reports

Financial statements and auditor reports are essential in evaluating a firm's performance. Financial reports should present clear, reliable, and comprehensive data and information. There should be no unresolved concerns about the accounts presented or audit procedures, inadequate disclosures, or unresponsiveness regarding investor or regulatory questions on specific items.

B. Fiscal Term

Firms should define an appropriate fiscal term. The fiscal term should not be altered for the purpose of postponing an annual meeting.

C. Auditors

Firms should ensure independent, high-quality, and timely provision of audited financial statements by a clearly disclosed external auditing firm.

1. **Ratification:** Auditors should be clearly disclosed and presented to investors for ratification. LACERA takes into consideration the following factors when evaluating auditor ratification:

    1.1. Independence: The external auditor should be objective and free of conflicts of interest in providing auditing services. Accordingly, non-audit fees paid to an external auditor should not be excessive. Specifically, non-audit fees should not exceed the total of audit and audit-related (such as permissible tax) fees and the auditing firm should have no financial interest or association with the company.

    1.2. Quality: There should be no question as to the accuracy of the external auditor's opinion, the financial report's indication of the company's financial position, and the accurate application of established accounting standards. There should be no aggressive accounting practices or significant audit-related issues at the company, such as a history of restated financial results or material weaknesses in internal controls.

    1.3. Timeliness: There should be no unjustified delays in the publication of audited financial statements.

2. **Rotation:** Requests to rotate auditors should be evaluated in consideration of the audit firm's tenure, any proposed length of rotation, the presence of significant audit-related issues at the company, the extent to which the company periodically

assesses audit pricing and quality, and the robustness of the audit committee's functions, such as the presence of financial experts and how often the committee meets.

3. **Indemnification:** To avoid any impairment of the external auditor's objectivity and independence, companies should not enter into engagement letters that indemnify or otherwise limit the external auditor's liability.

V. Environmental and Social Factors

Environmental and social factors – such as management of human capital, access to natural resources, and environmental risks – may shape and impact a firm's ability to generate and sustain value. Firms should identify and prudently manage social and environmental factors relevant to the firm's business strategy, industry, and geographic markets. Social and environmental factors may present opportunities to drive value or risks to a firm's strategic objectives.

Firms should ensure diligent board oversight and provide reasonable disclosures of relevant environmental and social factors and how they are managed. Reporting enables investors to make informed investment decisions when evaluating companies and the long-term viability and sustainability of their business practices.

In addition to identifying, evaluating, and mitigating the risks presented by social and environmental factors, firms should carefully consider the impact of their business activities. 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.

A. Social Factors

1. **Human Capital Management:** Effective management of human capital – including the development, incentives, and retention of the firm's workforce – is key to accomplishing a firm's strategic objectives. Companies should identify, ensure board oversight, and disclose information about significant ~~material~~ human capital value drivers that are related to the firm's ability to create and protect firm value. Central to effective human capital management is the assurance of equal employment opportunity, including non-bias in compensation and employment terms.

2. **Human Rights Risk:** Firms should mitigate the risks of human rights abuses in global operations and supply chains by adopting robust human rights policies and ensuring effective internal controls to monitor compliance with stated human rights standards.

B. Environmental Factors

1. **Natural Resource Stewardship:** Firms should give consideration to efficient, sustainable use and stewardship of natural resources, such as energy and water, to enhance operational efficiency and safeguard firm value from the risks of resource scarcity.

2. **Environmental Risk:** Firms should ensure reasonable oversight mechanisms and mitigation of environmental risks, such as hazardous waste disposal and pollution, to mitigate prospective legal, regulatory, and operational risks to firm value.

3. **Climate Risk:** Climate change may present financial, operational, and regulatory risks to a firm's ability to generate sustainable value, as well as to the broader economy. Firms should assess and disclose material climate-related risks and sufficient, non-proprietary information to enable investors to prudently and adequately evaluate the prospective impact of climate risk on firm value.

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Corporate Governance Principles

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About LACERA

The Los Angeles County Employees Retirement Association ("LACERA") administers defined benefit retirement plans and other post-employment benefits for employees of Los Angeles County and certain other districts.

The Los Angeles County Board of Supervisors established LACERA in 1937 under the terms of California's County Employees Retirement Law. LACERA is governed by the California Constitution (Article XVI, Section 17), the California County Employees Retirement Act of 1937, and the California Public Employees' Pension Reform Act of 2013. Today, LACERA serves over 160,000 active and retired members.

LACERA Mission Statement

We Produce, Protect, and Provide the Promised Benefits

LACERA's mission is to, "produce, protect, and provide the promised benefits." LACERA aims to fulfill its mission through prudent investment and conservation of plan assets.

LACERA's Board of Investments is responsible for establishing LACERA's investment policy and objectives, as well as exercising oversight of the investment management of the fund.

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YELLOW = Sourced from www.lacera.com
DARK BLUE = Sourced from LACERA Board Handbook Document
BROWN = Sourced from LACERA Mission Statement

Statement of Purpose

The fundamental objective of LACERA's *Corporate Governance Principles* is to safeguard and promote the economic interests of the trust. LACERA believes that strong corporate governance practices and policies at the firms in which it invests help generate long-term economic performance. [p1; p2]

The *Corporate Governance Principles* identify LACERA's fundamental principles of corporate governance. They are intended to articulate LACERA's view on sound governance and guide LACERA's proxy votes at public companies. In advocating practices in line with these *Corporate Governance Principles*, LACERA aims to maximize the long-term value of plan holdings. [p2]

The *Corporate Governance Principles* are organized into five sections. Each section addresses common corporate governance and proxy voting issues. The five sections address issues pertaining to boards of directors, investor rights and capital structure, executive compensation and incentives, performance reporting, and environmental and social factors. [p2; October Committee review]

The *Corporate Governance Principles* are guided by five core concepts that collectively provide a framework by which LACERA aims to promote sustainable investment returns and responsible stewardship of fund assets:

> Accountability: Governance structures and practices should be designed to ensure the accountability of a firm's board of directors to the investors who provide the firm with capital. Accountability promotes that a firm is managed in the best interests of its investors. [p1, 2]
>
> Integrity: Integrity and trust are the cornerstone of financial markets and essential for economic stability. Core investor rights and protections are crucial to promoting integrity in financial markets. [p1]
>
> Aligned Interests: Compensation and incentives practices should align the interests of senior executives with those of investors [p33, p11].
>
> Transparency: Firms should provide investors with clear, comprehensive, and timely disclosures about fundamental elements of the firm's business and financial activities. [p1]
>
> Prudence: Firms should prudently identify, assess, and manage environmental and social factors that may impact the firm's ability to generate sustainable economic value. [October Cmte review]

Fiduciary duty guides LACERA's *Corporate Governance Principles* and their application. LACERA evaluates the financial impact of each issue presented on corporate proxies and votes proxies for the exclusive benefit of plan participants and beneficiaries in all instances. [p1; p2]

LACERA recognizes that sound governance balances the rights of investors providing a firm with capital with the role and responsibility of corporate boards to direct and manage the firm. LACERA may oppose overly prescriptive or unduly burdensome measures proposed on corporate proxies, or resolutions that may otherwise restrict a firm's board of directors from acting in the best economic interests of investors. [p1; p2, 51; p22]

LACERA also recognizes that the laws, regulations, and customs guiding corporate governance practices vary by market. LACERA seeks to apply its *Corporate Governance Principles* in a universal and consistent manner, while observing and taking into consideration – as applicable and appropriate – local laws, regulations, and customs.

LEGEND
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PURPLE = Sourced from Non-U.S. Proxy Voting Guidelines
RED = Sourced from materials reviewed at October Committee meeting
~~STRIKETHROUGH~~ = Language modified per Committee input at October meeting
BLACK = Language inserted for clarity, cohesion, or consistency in tone

The procedures by which LACERA applies and promotes the *Corporate Governance Principles* and executes proxy votes are described in LACERA's *Corporate Governance Policy.*

Principles

I. Directors

The board of directors drives the strategic direction and oversight of the firm and its management. LACERA relies upon the directors it elects to exercise effective oversight and ensure that the firm is managed in the best interests of investors. Directors should understand the firm's long-term business strategy as well as risks that may impact the firm's value, and demonstrate a record of sound stewardship and performance. LACERA advocates policies and practices that encourage directors to be accountable to investors. Accountability ensures that a firm's operations and reporting are managed in the best interests of investors. [pp1-3; p6; p5]

A. Independent Oversight

1. **Board Independence:** At least two-thirds of the board should be composed of independent directors in order to oversee management on behalf of investors, promote accountability to investors, and avoid potential conflicts of interests. ["substantial independence" cited on pp1-2; Reviewed at 10/11/2017 CG Cmte meeting]

   An independent director is defined as someone who has no material affiliation to the company, its chief executive officer, chairperson, or other executive officers, other than the board seat. [p10; Reviewed at 10/11/2017 CG Cmte meeting]

   Materiality is defined as any financial, personal, or other relationship that a reasonable person might conclude could potentially influence one's objectivity in a manner that would have a meaningful impact on the individual's ability to satisfy requisite fiduciary standards on behalf of investors. Directors may not be considered independent if they, or a family member, are or have been an employee of the company (or a subsidiary or affiliate thereof) in the last five years; have a 20 percent or greater economic interest in the company; are or have been part of an interlocking director relationship with the CEO; receive direct payments for professional services unrelated to their service as a director in excess of $10,000 per year; or engage in any related party transaction in excess of $10,000 per year. [pp9-10; p6; Reviewed at 10/11/2017 CG Cmte meeting]

2. **Board Leadership:** The board should be chaired by an independent director. [p2; p13; 10/11/2017 CG Cmte meeting.]

3. **Board Committees:** Each board should establish an audit committee, a nominating and governance committee, and a compensation committee, each composed exclusively of independent directors. [p2; p11]

   Deference generally should be afforded to boards in determining appropriate oversight structures, such as the establishment and role of additional board committees. LACERA may support proposals to appoint an additional board committee in limited circumstances where a firm's performance, oversight structures, and peer comparisons demonstrate that inadequate board consideration and focus has been accorded to a compelling issue related to firm value. [p11]

LACERA may oppose or withhold support from non-independent board nominees or key board leadership positions where the board or key committees lack adequate independence. [pp8-9; see also Tab 1, Appendix C of the Committee materials]

B. Board Quality and Composition

1. **Composition:** The board should be composed of highly-talented individuals who are best positioned to oversee the company's strategy for creating and sustaining value. Boards should give consideration to ensuring directors collectively possess a diverse set of relevant skills, competencies, and attributes to exercise oversight on investors' behalf, including expertise, geographic familiarity, and professional backgrounds relevant to the company's strategic objectives. The board should strive for a suitable mix of tenures to ensure both institutional familiarity and fresh perspectives on the board, as a firm's market environment and business strategies evolve. [Language reviewed at 10/11/2017 CG Cmte]

2. **Diversity:** The board should establish and disclose policies and processes for ensuring that it identifies and nominates suitable directors from a wide pool of candidates relevant to its business strategy, including but not limited to diverse gender, racial, and ethnic backgrounds. A diverse and inclusive board is better positioned to effectively deliberate and oversee business strategy in investors' interests. [pp11-12; Language reviewed at 10/11/2017 CG Cmte]

3. **Board Size:** The board should define and disclose in governance documents an appropriate size or range of directors that ensures the board is composed of adequately diverse viewpoints and experience to effectively oversee the firm's business strategy, while not being so large as to diminish the board's operational effectiveness. Modifications to governing documents defining board size and structure should be submitted for investor approval and not be proposed for the purpose of impeding a change in firm control. [pp3-4; pp19-20; p7-8]

4. **Excessive Commitments:** Directors should have adequate time to dedicate to their board service, fulfill their responsibilities, and represent investors' interests. Accordingly, directors should not serve on more than four public company boards. Currently-serving chief executive officers should not serve on more than three public boards (including their own). [pp8, 10; Reviewed at 10/11/2017 CG Cmte]

5. **Tenure and Age Restrictions:** LACERA does not support arbitrary restrictions on director qualifications, such as tenure limits or mandatory retirement ages. Such limitations may impede a firm from benefiting from the expertise of an otherwise highly-qualified director. [p12; p7]

C. Director Selection and Elections

1. **Annual Elections:** Each director should be elected annually. Directors should not be elected by classes, or to "staggered" terms. [p5; p17; p7]

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2. **Vote Standard for Director Elections:** Director nominees in uncontested elections should be elected by a majority of votes cast. In contested director elections, a plurality of votes should determine the election. [p6; p13]

3. **Universal Proxy Card:** In the event of a contested director election, investors should have the right to select and vote for individual director nominees on a consolidated, or "universal," proxy ballot, regardless of whether the director nominee is put forward by management or a dissident investor. [p5]

4. **Cumulative Voting:** LACERA supports cumulative voting in director elections, in compliance with California Government Code Section 6900.[1] [p18]

5. **Proxy Access:** Long-term investors who have held a significant ownership interest for a reasonable amount of time should have the right to nominate alternative directors for consideration on a firm's proxy, otherwise known as "proxy access." Proxy access procedures should have sound safeguards in place to ensure an orderly nominating process and prevent proxy access from being used to effectuate a change in control. [p5; p26]

6. **Ability to Remove Directors:** Investors should have the right to remove directors with or without cause, in order to allow investors to take action when a director is not serving investors' best interests. [p17]

D. Board Roles and Responsibilities

1. **Governance Guidance:** The board should develop, adopt, disclose, and periodically review clearly defined governance guidelines that govern the board's operations. [pp2-3]

2. **Resources:** The board should have adequate resources and access to information to enable it to execute its responsibilities and duties. Directors should be provided information in advance of meetings. Directors should have full access to senior management and information concerning the firm's operations. Directors should be familiar with a firm's operations independent of the chief executive officer and senior management. Directors should have the authority and adequate budget to hire outside experts, if necessary. [pp2-3]

3. **Independent Proceedings:** Directors should work with the chief executive officer to establish board agendas. Independent directors should meet at least annually without management or non-independent directors' participation. [pp2-3]

4. **Board Communication and Engagement:** Firms should establish reasonable policies that permit effective communication between investors and directors regarding business strategy and corporate governance matters. [p7; p26]

5. **Management Succession Planning:** The board should conduct a regular evaluation of the chief executive officer and plan for business continuity,

[1] Section 6900. Cumulative Voting. 'Government Body." Whenever any government body is a shareholder of any corporation, and a resolution is before the shareholders which will permit or authorize cumulative voting for directors, such government body shall vote its shares to permit or authorize cumulative voting. As used in this section the term "government body" means the state, and any office, department, division, bureau, board, commission or agency thereof, and all counties, cities, districts, public authorities, public agencies and other political subdivisions or public corporations in the state.

including establishing and disclosing a succession plan for the chief executive officer and key senior executives. [p3; p14]

6. **Board Self-Evaluation and Refreshment:** Boards should adopt and disclose a process for regular, rigorous, and earnest self-assessment and evaluation. The evaluation process should be conducted under the direction of independent directors and ensure candor, confidentiality, trust, and effective interaction among directors. Board self-evaluation should be tailored to meet the firm's and board's strategic objectives and requirements. In order to promote long-term planning aligned with business needs, the board's self-evaluation process should assess the board's size and operational effectiveness, identify emerging business risks and relevant skills gaps among its composition, and prudently anticipate and proactively plan for board vacancies and refreshment. It should appraise the alignment and adequacy of director education and development, as well as the delineation of management and board powers, while positioning the board to efficaciously exercise oversight in investors' interests. [pp3-4]

7. **Charitable and Political Contributions:** Corporate charitable contributions may accrue direct and indirect benefits to a firm and its investors, including goodwill in communities in which it operates and favorable tax treatment. Charitable contributions should not be directed, eliminated, or otherwise restricted by investors. [pp25-26]

   The board should monitor, assess, and approve all charitable and political contributions (including trade association contributions) made by the firm. Political and charitable contributions should be consistent with the interests of the firm and its investors. The board should clearly define and approve the terms and conditions by which corporate assets may be provided to charitable and political activities, including developing and publicly disclosing guidelines for the approval of such contributions. The board should disclose on an annual basis the amounts and recipients of all monetary and non-monetary contributions made by the firm during the previous fiscal year, including any expenditures earmarked for political or charitable activities that were provided to or through a third-party. [p6]

8. **Director Indemnification:** Directors may be provided reasonable and limited protections, including indemnification and limited personal liability for damages resulting from violating duty of care, where the director is found to have acted in good faith and in a manner the director believed to be in the best interests of the firm. Reasonable limitations may ensure the board is positioned to recruit qualified directors. [pp24-25; p12]

E. Board Performance and Effectiveness

1. **Performance Evaluation:** The board's performance, and that of individual directors, should be assessed within the context of the board's suitability for and track record of serving and protecting investors' interests. LACERA may withhold support or oppose individual directors, members of a board committee, or the entire board where the track record demonstrates directors' failure to serve investors' best interests. Director and board performance is evaluated in consideration of the following factors: [p7-8; p5]

   1.1. **Stewardship and Risk Oversight:** Directors should demonstrate a sound track record of stewardship and risk oversight, including avoiding any material failures of governance, risk oversight, or fiduciary responsibilities at the company. [pp6-7; p5]

1.2. **Effective Oversight of Management:** Directors should conduct effective oversight of management, including avoiding any failure to replace management as appropriate. [pp6-7; p5]

1.3. **Attendance:** Each director should attend at least 75 percent of scheduled board meetings each year, including attendance at assigned committees, absent a compelling, clearly disclosed justification. [p10]

1.4. **Board Service:** Directors' track record and performance on other boards may be considered in evaluating director nominees. In particular, a director's failure to effectively exercise oversight on other boards or any egregious actions that raise substantial doubt about the director's ability to fulfil a director's obligations and serve the best interests of investors may prompt opposition to the director's nomination. [pp6-7; p5]

1.5. **Ethics:** Directors should demonstrate the utmost integrity and be free of any criminal wrongdoing, breaches of fiduciary responsibilities, or questionable transactions with conflicts of interest.

1.6. **Transparency in Reporting:** Financial reports and material disclosures should be published in a satisfactorily diligent and timely manner. [p5]

1.7. **Investor Responsiveness:** Directors should demonstrate accountability and responsiveness to investors. Directors should not unilaterally amend a firm's governing documents in a manner that materially diminishes investor rights or otherwise adversely impacts investors without seeking investor approval. Directors should not adopt a poison pill or make a material change to an existing poison pill without submitting the plan for investor approval within the following 12 months. Directors should take reasonable steps to implement resolutions approved within the previous 12 months by a majority of investors, within the confines of legal and regulatory constraints. Directors should respond to tender offers where a majority of shares have been tendered. There should be no record of abuse against minority investor interests. [p6; pp7-8; p5]

2. **Committee Performance:** Each committee should demonstrably fulfill its core duties and the specific responsibilities outlined in its committee charter. LACERA may oppose incumbent directors who have served on committees that have failed to perform their duties in investors' best interests. [pp7-8]

   Audit Committee members should ensure that non-audit fees are not excessive, no adverse opinion has been rendered on the company's audited financial statements, and the firm has not entered into an inappropriate indemnification agreement that limits legal recourse against the external auditor. [p7]

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Compensation Committee members should demonstrate a clear and proven track record of aligning executive pay with the firm's strategic objectives and performance, refrain from permitting problematic pay practices, ensure clear disclosures of all key components of pay plan design and practices, and exhibit reasonable and timely responsiveness to investors. [p8]

3. **Contested Director Elections**: In assessing director nominees in contested elections, LACERA may consider all relevant factors to identify and support the nominees best suited to enhance sustainable firm value and serve investors' economic interests. Consideration may be given to the long-term financial performance of the firm, its governance profile, and management's track record; nominees' proposed strategies for value creation; the qualifications and suitability of director nominees, including their alignment with LACERA's governance principles; and the dissidents' ownership stake and history of generating sustainable returns at other firms. [pp15-16; pp5-6]

   LACERA may support requests to reimburse dissident nominees for reasonable, incurred expenses when dissident nominees have presented a compelling case and support for their nomination is warranted. [p16]

II. Investor Rights and Capital Structure

Integrity and trust are the cornerstones of capital markets and essential for economic stability. Core investor rights ensure fair and equitable treatment of investors and help instill investor confidence, thereby facilitating capital formation and economic stability. [p1]

LACERA supports core rights and protections at portfolio companies and within financial market policies in order to safeguard its investments and foster a stable investment climate within the broader financial markets in which it invests. Financial rules and regulations should promote fair, orderly, and competitive markets and provide for investor protections. Investor rights extend to key decisions that may fundamentally impact or modify a firm's capital structure, such as share issuances, restructuring, and mergers and acquisitions. [p27]

A. Investor Rights

1. **Rights Proportionate to Economic Interest:** Investors should have voting rights proportionate to their economic interests. Multi-class ownership structures may entrench certain investors and management, insulating them from acting in the interests of all investors. LACERA therefore supports the principle of "one-share, one-vote." [p5; pp21-22; p14]

2. **Voting Requirements and Procedures:** Investors should have the right to act on fundamental corporate matters by a simple majority of votes cast. Fundamental matters may include, but are not limited to, amending a firm's governing documents (such as its charter or bylaws) and effecting corporate transactions, such as a merger or acquisition. [pp22, 45, 48; p13]

   2.1 Simple Majority Voting: Companies should not adopt supermajority voting requirements except when such provisions may protect outside or minority investors from unilateral action being taken by an entity (or entities) with controlling interest or significant insider ownership. [p22, p13]

   2.2 Voting Procedures: Voting and tabulation of matters put before investors by proxy or otherwise should be guided by transparent procedures, consistent application of rules, and fairness for all eligible voters. Votes should be counted by an independent tabulator and kept confidential. Voting results should be promptly disclosed once tabulation has been finalized. [p24]

   2.3 Bundled Voting: Investors should be able to review and cast votes on unrelated matters as separate and distinct ballot items. Disparate matters should not be presented for investor consideration as a "bundled" voting item. LACERA may oppose "bundled" proposals that combine supportable voting items with matters that LACERA opposes. [p24]

   2.4 Broker Non-Votes: Uninstructed broker votes and abstentions should be counted for quorum purposes only. [p5]

3. **Annual Meetings**

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3.1 Quorum Requirements: Quorum requirements should promote that a broad range of investors are represented at meetings. Quorum requirements should not be unduly low, in either absolute terms or relative to the economic interest of a controlling investor or significant investor, in order to protect investors from unrepresentative action being conducted. [p13]

3.2 Technology: Investors should have the right to attend an annual meeting of a firm in person. Any use of technology, such as audiocasts or webcasts, should expand and enhance, and not restrict or otherwise impede, investors' ability to participate in an annual meeting, and should afford opportunities for meeting participation equal to those afforded investors attending the meeting in person. [p6]

3.3 Resolutions: Investors with a reasonable ownership interest in a firm should have the right to put forward a resolution for investors' consideration and vote at the firm's annual meeting. [p6]

3.4 Advance Notice Requirements: Investors should be able to submit items for formal consideration at an annual meeting, such as proposals or director nominees, as close to the meeting date as reasonably possible and within the broadest timeframe possible, recognizing the need to allow sufficient notice for company, regulatory, and investor review. [p24]

3.5 Transaction of Other Business: LACERA generally opposes requests for advance approval by proxy of undisclosed business items that may come before an investor meeting for consideration. [p10]

4. **Special Meetings:** Investors should be able to call a special meeting to take action on certain matters that may occur between regularly scheduled annual meetings. The right to call a special meeting should require aggregating a minimum of ten percent ownership interest and be subject to reasonable terms and conditions. [p18]

5. **Action by Written Consent:** Investors should have the right to act by written consent on key governance matters under reasonable terms and conditions. [p19]

6. **Access to Research:** Investors should have access to competitive, timely, and independent market, investment, and proxy research services of their choosing. Market regulation should support and not impede a competitive market of service providers. [p6]

7. **Ownership Disclosure:** Significant ownership interests above five percent should be disclosed. [p13]

8. **Incorporation:** A firm's country or state of incorporation may significantly impact the firm's financial health, competitive position, governance profile, and the legal rights afforded to investors, as defined by the jurisdiction of incorporation. When selecting a jurisdiction for incorporation (such as in relation to a merger or acquisition or a proposed reincorporation), firms should give due consideration to competitively positioning the firm for financial success while also ensuring sound

governance practices and strong legal rights and protections for investors. LACERA may oppose proposals for reincorporation where the business and financial rationale for reincorporation do not outweigh the detrimental impact of a reincorporation on investor rights and governance provisions. [p42, p10]

9. **Litigation Rights:** Robust and viable litigation rights enable investors to protect firm value, deter misconduct, and seek recourse in the event of egregious corporate malfeasance or fraud. Corporations should not curtail or otherwise diminish investor's prospective legal recourse through governance provisions, such as exclusive forum designations for legal disputes, mandatory arbitration clauses, or 'fee-shifting' provisions by which an investor who unsuccessfully brings legal action must bear the entirety of the corporation's legal costs. [p44 and reviewed at 10/11/2017 CG Cmte]

B. Capital Structure

Finding the optimal mix of equity, long-term debt, and short-term financing is critical to driving economic returns. A firm's capital structure should support the generation of long-term, sustainable returns. The board should determine and drive a firm's capital structure, in coordination with senior management. Capital structure should coordinate and balance multiple factors, including the firm's business profile, strategy, and opportunities for growth; access to and cost of capital; and capital distributions such as the firm's dividend policy. [p14]

Investors should be able to vote on matters that may fundamentally modify or impact a firm's capital structure, such as common share issuances and mergers and acquisitions. [p22]

1. **Share Issuances and Authorizations:** Share issuances enable firms to raise funds for financing purposes. [pp14-15]

   1.1 Authorization of Common Shares Issuance: Requests to authorize capital or approve share issuances should specify the quantity of shares for which approval is sought. Requests should be evaluated upon careful consideration of the individual details and merits of each request and according to LACERA's economic interests. Firms should present a compelling purpose for the share issuance, demonstrate a track record of responsibly using authorized shares in investors' interests, and provide for rights and restrictions attached to proposed equity that are aligned with investors' interests. In evaluating requests, the availability of preemptive rights and any risks of authorizing the share issuance, including the dilutive impact of the request, may also be considered. Capital authorization terms should not facilitate an anti-takeover device or otherwise adversely impact investors' interests. [pp27, 30; pp14-15]

   1.2 Preemptive Rights: Preemptive rights provide current investors the right to maintain a proportionate interest in a firm by exercising a right to purchase shares proportionate to what they already own in any new issuances of equity. Requests to create or abolish preemptive rights should consider the size of the firm, the characteristics of its investor base, and the liquidity of its equity to ensure preemptive rights may be pragmatically exercised and do not impose an onerous restriction on capital raising. [p30; pp14-15]

1.3 Preferred Shares Authorization: Preferred shares, which provide distinct features such as fixed dividend payments or seniority of claims relative to common shares, may be supportable when the purpose of such issuance is in connection with a proposed transaction appearing on the same ballot that merits support. Otherwise, requests for authorization are evaluated in consideration of the request's stated purpose, the firm's past use of authorized preferred shares, and an assessment of the risk of authorizing the share issuance, including the dilutive impact of the request, and should not create or increase shares that carry superior voting rights to common shares. Any conversion rights should define reasonable conversion ratios and not result in excessive dilution of common shares. [p29; p16]

1.4 Blank Check Preferred Shares: Firms generally should not create classes of shares providing the board with broad discretion to define voting, conversion, dividend distribution, and other rights, absent a compelling rationale and clearly-stated restrictions in line with investors' interests. The voting rights of unissued shares should be presented for investor approval and not be subject to board discretion. [p5; pp29-30; p16]

1.5 Blank Check Preferred Share Placements: Investor approval should be required for the placement of preferred shares with any person or group for other than general corporate purposes to enable investor review of the business purpose, prospective impact on dilution and voting positions, and any adverse impact on existing investors. [p31]

1.6 Reverse Stock Split: Reverse stock splits, by which multiple shares are exchanged for a lesser amount to increase share price, generally should be accompanied by a proportionate reduction in authorized shares. [pp29-30]

2. **Debt Issuance and Borrowing Powers:** Debt issuances and restructuring, amendments to a firm's aggregate limit on the board's ability to borrow money, and other debt-related items should serve a compelling and clearly-articulated business purpose, be in line with and supportive of generating sustainable and viable financial returns, and take into reasonable consideration any detrimental impact on existing investors. LACERA evaluates debt-related proposals upon careful consideration of the individual terms and merits of the request. [pp 30; p17, 18]

3. **Capital Allocation and Income Distributions:** A firm should allocate capital, including distribution of income through dividends or share repurchases, in a disciplined and balanced manner that supports the generation of long-term value. [p9; 17-18]

3.1 Allocation of Income: Firms should provide adequate justification when seeking investor approval for the allocation of income when the payout ratio appears unbalanced or unsustainable (either inordinately low, such as below 30 percent, or excessive given the firm's financial position). [p9]

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3.2 Stock (Scrip) Dividend Policy: Firms may provide investors the option to receive dividend payments in the form of common equity in lieu of cash. Such provisions enable a firm to retain cash and may strengthen the position and commitment of long-term investors. In all circumstances, firms should provide a cash option, absent a compelling justification that such an option may be harmful to investors. [pp9-10]

3.3 Share Repurchase Programs: Open market share repurchase plans should enable investors to participate on equal terms and support balanced and disciplined capital allocation. Requests to authorize share repurchases should have a defined and limited duration, incorporate clear and reasonable terms and conditions, and generally not exceed ten percent for market repurchases within any single authority, absent a compelling rationale in line with investors' interests and market practice. [p31; pp 17-18]

4. Mergers, Acquisitions, and Other Corporate Restructuring: Mergers and corporate restructuring (including spin-offs, leveraged buyouts, and reorganizations) have major financial implications for investors.

4.1 Evaluation: LACERA carefully examines all relevant facts and circumstances of each proposal to determine whether the proposal, in its entirety, is in LACERA's best interests. Assessment of each proposed transaction takes into account multiple factors. The valuation should be reasonable. Market reaction may be considered. The strategic rationale and expected benefits should be sensible, with any projected synergies or financial impact reasonably achievable. Management should have a favorable track record of successful integration of acquisitions or business combinations. The negotiation and deal process should be fair and equitable. There should be no conflicts of interest, such as factors enabling insiders to disproportionately benefit from the proposed transaction. The resulting entity should observe sound corporate governance practices. The risks of not completing the transaction or corporate restructuring may be considered. Sufficient information should be provided to enable investors to make an informed decision. [p45, 46, 47; p20]

4.2 Appraisal Rights: Investors should be afforded appraisal rights, by which they may seek a judicial review of the terms of certain corporate transactions in order to determine fair market value. [p47]

5. Anti-Takeover Measures: Investors should be afforded the reasonable opportunity to deliberate and decide on the merits of takeover bids and acquisitions. Practices and provisions, including corporate bylaws, charters, laws, and statutes, that may impede or deter a corporate transaction that is otherwise in investors' interests, may take a variety of forms and generally should be submitted for investor review and approval. [p6; pp42-43; pp 12-13]

5.1 Poison Pills: The board should not enact or amend a poison pill without investor approval. LACERA generally supports the redemption of existing poison pills, except in unique circumstances where a carefully designed, short-term plan may enable a firm to negotiate more favorable terms with a potential bidder. Such plans should require a minimum 20 percent ownership threshold to trigger, provide for limited and reasonable duration, exclude provisions by which only continuing directors may remove the pill, and otherwise provide for adequate investor protection that the plan will not unduly impede a bid that is otherwise in investors' interests. [p6; pp20-21; pp12-13]

5.2 Net Operating Loss (NOL) Protective Amendments: Protective amendments with the stated purpose of preserving a company's net operating losses for a tax benefit, such as under the terms of Section 382 of the Internal Revenue Code, should balance the anticipated benefit to investors of preserving the tax value and the risk of potential abuse of such provisions as an anti-takeover measure. Because NOL protective amendments may serve as a poison pill, the board should submit related items for investor review and approval. Such provisions should only be used under limited, clearly justified circumstances and include adequate protections, such as an appropriate ownership threshold and clearly-defined and reasonable duration limits. [p6; p23]

5.3 Greenmail: Greenmail, by which a firm repurchases shares of a potential acquirer at an above-market price to deter a takeover, should be prohibited. [p5]

5.4 Other Anti-Takeover Measures: LACERA generally opposes provisions that impose onerous restrictions or impediments on prospectively beneficial takeover bids, taking into account the specific terms and circumstances of such provisions to determine the provision's alignment with LACERA's economic interests. LACERA supports firms opting out of related anti-takeover laws and statutes, where legally permitted.

Fair price provisions that require an investor seeking to purchase control of a firm to pay a defined fair price, should not impose onerous requirements that may deter a competitive bid from being considered by investors. [p43]

Firms should opt out of control share acquisition statutes that void the voting rights of an investor surpassing certain ownership thresholds; control share cash-out provisions requiring an investor above a specified ownership threshold to purchase shares from remaining investors at the highest acquiring price if remaining investors exercise their right to sell their shares; and freeze-out provisions requiring an investor who meets a defined ownership threshold to wait a specified period of time before gaining control of the firm. [pp42-43]

Disgorgement provisions, by which an investor who acquires ownership interest above a specified threshold must pay the firm any profits realized from the sale of the firm's equity purchased within a defined time period prior to exceeding the defined ownership threshold, should be avoided. [p43]

Firms should not provide designated investors (such as the government of a related, formerly state-owned enterprise) "golden shares" that provide for exceptional veto power or voting rights regarding specific corporate proposals. [pp12-13]

6. **Related-Party Transactions:** Investors should have the right to approve significant related-party transactions. Investor approval helps to protect investors against self-dealing. Firms should provide clear information regarding such transactions, including all fees, a compelling rationale for the service or services provided, and the assessment of independent directors and an independent financial advisor of the transactions in order to permit an informed assessment of prospective conflicts of interest. [p10]

III. Compensation and Incentives

Compensation and incentives should align the interests of senior executives and investors [p33, p11]. Executive compensation and incentives serve a critical role in recruiting, motivating, and retaining talent. Pay plan design, structure, and goals should be fundamentally derived from and relevant to a firm's core business objectives and collectively promote sustainable value creation. Accordingly, pay and incentives should incentivize and reward executives for the achievement of outstanding performance, while encompassing prudent risk mitigation and taking care to avoid excessive risks that may be detrimental to the firm's long-term financial returns. [p4, pp33, 35, 39]

Boards should determine core components of executive pay design, including target pay levels and incentives. Boards oversee compensation paid to senior executives, award bonuses, and establish incentive plans that may include equity and performance-based grants and awards. The board may also review and approve supplemental compensation plans for firm employees, including employee equity and retirement plans.

Firms should provide investors with transparent, clear, and comprehensive disclosure of senior executives' total compensation package. This includes disclosure of salary, short and long-term incentive compensation, and all benefits and perquisites. Selected performance metrics and targets upon which compensation is contingent should be provided in a plain and clear format. [p4; p33, 36; p19]

A. Advisory Vote on Executive Compensation

Executive compensation design and practices should be submitted for investor review and non-binding approval on an annual basis (also known as "say-on-pay"). Advisory votes should consider the firm's pay design and practices as a whole, taking into account the alignment of executive pay with long-term firm performance, the absence of significant problematic pay practices and excessive risk in targets and reward incentives, and the clarity of the firm's pay disclosures.

B. Compensation Plan Design

Executive compensation and practices should link pay to firm performance. Compensation should be commensurate with the firm's long-term performance, appropriately aligned with firms with which the firm competes for executive talent, such as industry peers and firms of comparable size and profile, and properly consider the firm's long-term outlook for generating sustainable returns. [p 34, 36]

1. **Performance Criteria:** Incentive compensation should incorporate clearly defined, rigorous, and disclosed performance criteria upon which incentive pay is contingent. Performance metrics, targets, and hurdles should be consistent with and promote the firm's strategy for generating sustainable value, including key financial and operating objectives and effective management of relevant business risks. [p4, pp33, 35, 39]

2. **Peer Benchmarking:** Peer groups used to benchmark compensation should be clearly disclosed and relevant to the firm's business profile and size. [p5, p37]

3. **Compensation Consultants:** Compensation consultants providing strategy, design, and implementation services related to executive compensation to the

board's compensation committees should be at the exclusive hire and service of the committee, unquestionably independent, and clearly disclosed. [p5; p 37]

4. **Equity Ownership, Retention, and Holding Requirements:** Equity ownership among senior executives may strengthen the alignment of interests between executives and investors, promote prudent risk mitigation, and should be encouraged. Equity ownership guidelines providing that executives should maintain reasonable equity in the firm, requirements for executives to retain a meaningful portion of equity acquired through compensation plans, and holding periods for equity grants should strike an appropriate balance to promote equity ownership while avoiding overly restrictive or onerous provisions that may undermine talent motivation and retention to the detriment of investors' interests. [p16]

5. **Pre-Arranged Trading Plans:** Pre-arranged trading plans, as provided under Securities and Exchange Commission Rule 10b5-1, define parameters for executives' predetermined securities transactions in advance of an executive becoming aware of material nonpublic information regarding the firm's securities and are intended to mitigate the risks of insider trading. The adoption, amendment, or termination of pre-arranged trading plans for senior executives should be governed by the board, promptly disclosed, and provide for timely disclosure of transactions made pursuant to the plan's provisions. [p40]

6. **Hedging and Speculative Transactions:** Senior executives should be prohibited from engaging in derivative or speculative transactions involving equity of the firm, including hedging, holding equity in a margin account, or pledging equity as collateral for a loan. [p37]

7. **Internal Pay Disparity:** Executive compensation should be considered in the context of how a firm compensates its employees, including in relation to industry peers. Firms should disclose the ratio of the chief executive officer's total pay to that of the average firm employee. [p4; pp35, 37]

8. **Restrictions:** Executive pay should not be subject to arbitrary restrictions or limitations on the magnitude or form of compensation, such as linking executive pay to average employee compensation. Arbitrary limits and restrictions may undermine a firm's ability to attract and retain competent talent and create a competitive disadvantage for the firm. [pp35-36]

9. **Recoupment Policies:** Firms should adopt and disclose rigorous policies defining the terms and conditions by which incentive compensation may be recouped, in order to align pay with performance, promote accurate financial reporting, and deter misconduct. Robust clawback policies should enable the board to review and recoup senior executive incentive compensation in the event that compensation was calculated using inaccurate financial reports or in the event of fraud or misconduct. Application of the recoupment policy should be reasonably disclosed. [p40]

C. Equity Plans

Equity plans should motivate plan participants to focus on long-term firm value and returns, encourage equity ownership, and advance the principle of aligning employee interests with those of investors. [p11]

Firms should submit equity plans for investor approval. Equity plans should be reviewed taking into account plan features, impact on equity dilution, and prospects to align pay with performance. [p 6; pp 33-34, 36, 40; p 11]

1. **Performance-Based:** Equity plans should define robust and appropriate performance requirements by which equity may be granted that are aligned with, and justifiable by, the firm's business strategy and strategic objectives. Such provisions may include terms and performance criteria permitting a plan to qualify for favorable tax treatment (such as the Omnibus Budget Reconciliation Act of 1987, Section 162(m)). [pp 33-34, 36, 40]

2. **Track Record:** The firm should demonstrate a history of responsibly linking equity awards to performance and avoiding grants of excessive awards. [pp 33-34, 36, 40]

3. **Impact:** The total cost and potential dilution of the plan should be reasonable.

4. **Re-Pricing:** Equity granted under the terms of the plan, such as share options and stock appreciation rights, should not be re-priced without investor approval, as re-pricing may sever the link between pay and performance. Requests to reprice underwater options should clearly define and compellingly justify the rationale and intent, timing, defined participants, and terms, such as a value-for-value exchange, exercise price, and vesting requirements. [p 6; pp 33-34, 36, 40]

D. Employee Equity Programs

1. **Employee Stock Purchase Plans:** Employee stock purchase plans encourage firm employees to acquire an ownership stake in the firms for which they work by providing employees the right to purchase the firm's equity at a set price within a certain period of time. Employee stock purchase plans should define reasonable terms, such as designating exercise prices at no lower than 85 percent of fair market value, fixing a justifiable offering period, and limiting voting power dilution to less than ten percent. [p35]

2. **Employee Stock Ownership Plans:** Employee stock ownership plans (ESOPs) enable employees to accumulate firm equity. ESOPs should balance encouraging employee equity ownership while avoiding harm to existing investors. Shares allocated to ESOPs should not be excessive (generally no more than five percent of outstanding shares). [p38]

E. Severance and Retirement Arrangements

Severance payments to executives in the event of an employment termination, separation, or change in firm control should be justifiable by the executive's performance, serve the long-term interests of the firm and its investors, and not be excessive. [p5; p37]

1. **Golden Parachutes:** Firms should submit for investor approval arrangements to provide executives with extraordinary severance payments in certain circumstances, such as a change in firm control. Extraordinary payments may be assessed in relation to market and peer practice and should not exceed payments greater than three times base salary and bonus. Severance payments should not be so attractive as to influence merger agreements that may not be in

the best interests of investors and should have triggering mechanisms beyond the control of senior executives. Any payments in the event of a change-in-control should be "double-triggered," i.e. contingent upon both an actual change-in-control and an employment separation related to the change-in-control event. Unvested equity should not accelerate upon the change-in-control. Payments should not trigger, and firms should not commit to paying, executives' excise taxes ("gross-ups"). A change-in-control should not be contingent upon investor approval of executives' severance payments. [p5; p37]

2. **Supplemental Executive Retirement Plans:** Retirement plans that provide extraordinary retirement benefits exclusive to executives should be presented for investor approval and avoid excessive payouts, such as excluding all incentive or bonus pay from covered compensation calculations. [p40]

3. **Golden Coffins:** Firms should refrain from providing extraordinary compensation upon an executive's death. Firms should submit for investor approval agreements and policies that oblige the firm to make payments or awards following the death of a senior executive, including unearned salary or bonuses, accelerated vesting or continuation in force of unvested equity grants, and other extraordinary payments or awards. [p39]

F. Director Compensation

Firms should disclose the philosophy and process used for determining compensation paid to directors serving on the board and the value of all elements of director compensation. [p2, p12]

1. **Structure and Design of Director Compensation:** Directors may be compensated in both cash and equity. Fees and compensation paid to directors should be appropriate relevant to market norms, the firm's industry, and its financial performance. Equity should not constitute the entirety of director compensation as this may undermine directors' incentive to monitor and exercise oversight of long-term risks to firm value. [p2; p12; p19]

2. **Equity Ownership:** Equity ownership by directors promotes the alignment of directors' interests with those of investors. Firms should adopt and disclose equity ownership guidelines to encourage directors to acquire and hold a meaningful amount of equity in the firm. Equity ownership should not, however, be a qualification for board service, as such restrictions may impede otherwise highly qualified individuals from serving as directors. [p2; p12; p19]

3. **Retirement Benefits:** Retirement benefits for director service are improper, as such benefits may impede objectivity and sever the alignment of interest between directors and investors. [p19]

IV. Performance Reporting

Financial markets work most efficiently when investors have timely, reliable, and comparable information about material aspects of a firm's performance. Transparency of a firm's key financial and operating performance is critical for investors to assess the firm's financial viability and prospects. Independent verification of a firm's financial disclosures promote investor confidence.

LACERA supports clear and comprehensive disclosure of relevant financial and operating performance indicators (including environmental, social, and governance – or ESG – matters) that may provide valuable information for investors to assess a firm's prospects for delivering sustainable value. [p1; p9]

A. Financial Reports

Financial statements and auditor reports are essential in evaluating a firm's performance. Financial reports should present clear, reliable, and comprehensive data and information. There should be no unresolved concerns about the accounts presented or audit procedures, inadequate disclosures, or unresponsiveness regarding investor or regulatory questions on specific items. [p1; p9]

B. Fiscal Term

Firms should define an appropriate fiscal term. The fiscal term should not be altered for the purpose of postponing an annual meeting. [p1; p9]

C. Auditors

Firms should ensure independent, high-quality, and timely provision of audited financial statements by a clearly disclosed external auditing firm.

1. **Ratification:** Auditors should be clearly disclosed and presented to investors for ratification. LACERA takes into consideration the following factors when evaluating auditor ratification: [p49-50; p9]

   1.1. Independence: The external auditor should be objective and free of conflicts of interest in providing auditing services. Accordingly, non-audit fees paid to an external auditor should not be excessive. Specifically, non-audit fees should not exceed the total of audit and audit-related (such as permissible tax) fees and the auditing firm should have no financial interest or association with the company. [p49-50; p9]

   1.2. Quality: There should be no question as to the accuracy of the external auditor's opinion, the financial report's indication of the company's financial position, and the accurate application of established accounting standards. There should be no aggressive accounting practices or significant audit-related issues at the company, such as a history of restated financial results or material weaknesses in internal controls. [p49-50; p9]

   1.3. Timeliness: There should be no unjustified delays in the publication of audited financial statements.

2. **Rotation:** Requests to rotate auditors should be evaluated in consideration of the audit firm's tenure, any proposed length of rotation, the presence of significant audit-related issues at the company, the extent to which the company periodically assesses audit pricing and quality, and the robustness of the audit committee's functions, such as the presence of financial experts and how often the committee meets. [p49]

3. **Indemnification:** To avoid any impairment of the external auditor's objectivity and independence, companies should not enter into engagement letters that indemnify or otherwise limit the external auditor's liability. [p 12, and reviewed at 10/11/2017 CG Cmte]

V. Environmental and Social Factors

Environmental and social factors – such as management of human capital, access to natural resources, and environmental risks – may shape and impact a firm's ability to generate and sustain value. Firms should identify and prudently manage social and environmental factors relevant to the firm's business strategy, industry, and geographic markets. Social and environmental factors may present opportunities to drive value or risks to a firm's strategic objectives. [Reviewed at 10/11/2017 CG Cmte]

Firms should ensure diligent board oversight and provide reasonable disclosures of relevant environmental and social factors and how they are managed. Reporting enables investors to make informed investment decisions when evaluating companies and the long-term viability and sustainability of their business practices. [Reviewed at 10/11/2017 CG Cmte]

In addition to identifying, evaluating, and mitigating the risks presented by social and environmental factors, firms should carefully consider the impact of their business activities. 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. [p6, p51]

A. Social Factors

1. **Human Capital Management:** Effective management of human capital – including the development, incentives, and retention of the firm's workforce – is key to accomplishing a firm's strategic objectives. Companies should identify, ensure board oversight, and disclose information about significant ~~material~~ human capital value drivers that are related to the firm's ability to create and protect firm value. Central to effective human capital management is the assurance of equal employment opportunity, including non-bias in compensation and employment terms. [Reviewed at 10/11/2017 CG Cmte]

2. **Human Rights Risk:** Firms should mitigate the risks of human rights abuses in global operations and supply chains by adopting robust human rights policies and ensuring effective internal controls to monitor compliance with stated human rights standards. [Reviewed at 10/11/2017 CG Cmte]

B. Environmental Factors

1. **Natural Resource Stewardship:** Firms should give consideration to efficient, sustainable use and stewardship of natural resources, such as energy and water, to enhance operational efficiency and safeguard firm value from the risks of resource scarcity. [Reviewed at 10/11/2017 CG Cmte]

2. **Environmental Risk:** Firms should ensure reasonable oversight mechanisms and mitigation of environmental risks, such as hazardous waste disposal and pollution, to mitigate prospective legal, regulatory, and operational risks to firm value. [Reviewed at 10/11/2017 CG Cmte]

3. **Climate Risk:** Climate change may present financial, operational, and regulatory risks to a firm's ability to generate sustainable value, as well as to the broader economy. Firms should assess and disclose material climate-related risks and sufficient, non-proprietary information to enable investors to prudently and

adequately evaluate the prospective impact of climate risk on firm value. [Reviewed at 10/11/2017 CG Cmte]

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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 investor's 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 management" and

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

"[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.

Separation of CEO and Chairman

"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.

Director Compensation

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]

Key Committee Structures

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.

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.

[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.

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:

- 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.

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

- 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.

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

- 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

- Investors should have the right to attend an annual meeting of a company in-person. Any use of technology, such as audiocasts or webcasts, should expand and enhance, and not restrict or otherwise impede, investors' ability to participate in an annual meeting, and should afford opportunities for meeting participation equal to those afforded investors attending the meeting in person.

- 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 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.

- In the event of a contested director election, investors should have the right to select and vote for individual director nominees on a consolidated, or "universal," proxy ballot, regardless of whether the director nominee is put forward by management or a dissident investor.

- Investors with a reasonable ownership stake in a company should have the right to put forward a resolution for investors' consideration and vote at the company's annual meeting.

- 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.

- Investors should have access to competitive, timely, and independent market, investment, and proxy research services of their choosing. Market regulation should support and not impede a competitive market of service providers.

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.

Shareholder/Director Communication

"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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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.

[13] NACD Key Agreed Principles (2008).

U.S. PROXY VOTING GUIDELINES
LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION

February 10, 2016

Guidelines Are Derived in Large Part From the
Institutional Shareholder Services U.S. Proxy Voting Guidelines

Introduction

The U.S. proxy voting guidelines contained in this document are designed to provide guidance to investment staff when voting proxies on behalf of the Board of Investments and the plan participants of the Los Angeles County Employees Retirement Association (LACERA).

Institutional Shareholder Services Inc (ISS)[1] and Glass Lewis & Company are LACERA's proxy voting advisors. ISS[2], LACERA's principal proxy advisor, provides investment staff with corporate governance research and analysis, and proxy voting recommendations for annual and special meetings of publicly-held U.S. companies. LACERA's proxy voting guidelines are based in large part on ISS's Proxy Voting Guidelines. Glass Lewis provides staff with supplemental research, analysis, and proxy voting recommendations.

The guidelines are divided into eleven sections:

I. The Board of Directors
II. Contested Elections
III. Takeover Defenses
IV. Miscellaneous Corporate Governance Provisions
V Capital Structure
VI. Executive and Director Compensation
VII. State of Incorporation
VIII. Mergers and Corporate Restructuring
IX. Auditors
X. Social and Environmental Issues
XI. Other Issues

Each section addresses the most common types of proxy voting issues in that specific category. Each section also indicates whether the voting issues discussed appear in proxy statements as management proposals, shareholder proposals, or as both. LACERA's proxy voting recommendations--for, against, or case-by-case--are listed in underlined, boldface type.

In all cases, when voting LACERA proxies, staff and/or proxy advisor are obligated to evaluate the financial impact of the issues. All votes must be cast for the exclusive benefit of plan participants and beneficiaries. All votes must be made with a view to maximize the long-term value of plan holdings.

On August 27, 2007, the Board of Investments created a new Corporate Governance Committee (CGC) comprised of four Board members. This committee replaces the

[1] On June 1, 2010, MSCI acquired RiskMetrics Group, of which ISS was a subsidiary.
[2] ISS also provides staff with research, analysis, and recommendations for voting environmental and social responsibility issues.

original management-based CGC established in March 2003. Section XI discusses the authority of the Corporate Governance Committee: 1) to instruct the investment staff to cast votes on certain shareholder proposals, and 2) addresses other actions the Committee may take with respect to the voting of proxies.

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I. Board of Directors

Although the election of directors is a customary voting item at all corporate annual meetings, electing directors is still considered to be the most important stock ownership right that institutional shareholders can exercise. Directors oversee the management of a corporation and make decisions on the most important issues including the hiring and, if necessary, firing of the CEO, restructuring, the sale of major assets, mergers, acquisitions, and, in the event of a bid, the sale of the company.

Generally, the practice of electing directors rarely allows a shareholder any choice in the voting process. In most cases, the option recommended to shareholders is a blanket endorsement of a slate of management nominees.

Given that most directors fulfill their fiduciary obligations exceptionally well, most of management's recommendations should be supported. However, when available information confirms a poor performance record for specific nominees, shareholders should withhold votes from those candidates.

A. Voting on Director Nominees in Uncontested Elections

- ➢ *LACERA votes for/against director nominees on a* ***case-by-case*** *basis. The following factors should be examined when evaluating nominees for election as director:*
  - *Board accountability;*
  - *Board responsiveness;*
  - *Director independence; and*
  - *Director competence.*

1. Board Accountability

- Transparency into a company's governance practices,
- Annual board elections, and
- Providing shareholders the ability to remove problematic directors and to vote on takeover defenses or other charter/bylaw amendments.

- ➢ *LACERA votes* ***withhold*** *from director nominees if the board has implemented or renewed a dead-hand or modified dead-hand poison pill without shareholder approval.*
- ➢ *LACERA votes* ***withhold*** *from directors individually, on a committee, or the entire board, due to:*
  - *Material failures of governance, stewardship, or fiduciary responsibilities at the company;*
  - *Failure to replace management as appropriate; or*
  - *Egregious actions related to the director(s)' service on other boards that raise substantial doubt about his or her ability to effectively oversee management and serve the best interests of shareholders at any company.*

- *LACERA votes* ***withhold*** *from directors individually, committee members, or the entire board(except new nominees, who should be considered case-by-case) if the board amends the company's bylaws or charter without shareholder approval in a manner that materially diminishes shareholders' rights or that could adversely impact shareholders, considering the following factors:*
  - *The board's rationale for adopting the bylaw/charter amendment without shareholder ratification;*
  - *Disclosure by the company of any significant engagement with shareholders regarding the amendment;*
  - *The level of impairment of shareholders' rights caused by the board's unilateral amendment to the bylaws/charter;*
  - *The board's track record with regard to unilateral board action on bylaw/charter amendments or other entrenchment provisions;*
  - *The company's ownership structure;*
  - *The company's existing governance provisions;*
  - *The timing of the board's amendment to the bylaws/charter in connection with a significant business development; and,*
  - *Other factors, as deemed appropriate, that may be relevant to determine the impact of the amendment on shareholders.*
- *LACERA votes* ***withhold*** *from directors who sit on the audit committee if;*
  - *Non-audit fees paid to the auditor are excessive.*
  - *The company receives an adverse opinion on the company's financial statements from its auditor.*
  - *There is persuasive evidence that the audit committee entered into an inappropriate indemnification agreement with its auditor that limits the ability of the company, or its shareholders, to pursue legitimate legal recourse against the audit firm.*
- *LACERA votes* ***withhold*** *from all nominees of the board of directors (except new nominees, who should be considered on a* ***case-by-case*** *basis) if:*
  - *The board adopts a poison pill with a term of more than 12 months ("long-term pill"), or*
  - *Renews any existing pill, including any "short-term" pill (12 months or less), without shareholder approval. A commitment or policy that puts a newly-adopted pill to a binding shareholder vote may potentially offset an adverse vote recommendation.*
  - *The board makes a material, adverse change to an existing poison pill without shareholder approval.*
- *LACERA reviews* ***case-by-case*** *all nominees if the board adopts a poison pill with a term of 12 months or less ("short-term pill") without shareholder approval, taking into account the following factors:*
  - *The date of the pill's adoption relative to the date of the next meeting of shareholders- i.e. whether the company had time to put the pill on ballot for shareholder ratification given the circumstances;*
  - *The issuer's rationale;*
  - *The issuer's governance structure and practices; and*

- *The issuer's track record of accountability to shareholders.*

➢ *LACERA votes* ***withhold*** *from the members of the Compensation Committee and potentially the full board in the absence of an Advisory Vote on Executive Compensation ballot item or in egregious situations if:*
  - *There is a significant misalignment between CEO pay and company performance;*
  - *The company maintains significant problematic pay practices;*
  - *The board exhibits a significant level of poor communication and responsiveness to shareholders;*
  - *The company fails to submit one-time transfers of stock options to a shareholder vote; or*
  - *The company fails to fulfill the terms of a burn rate commitment made to shareholders.*

2. Board Responsiveness

- Respond to shareholder proposals that receive a majority vote,
- Respond to tender offers where a majority of shares are tendered, and
- Devote sufficient time and resources to oversight of the company.

➢ *LACERA votes* ***withhold*** *from any director who has failed to act on takeover offers where the majority of the shareholders have tendered their shares.*

➢ *LACERA votes* ***withhold*** *for all director nominees that have not implemented a shareholder proposal that was approved by a majority of the votes cast after one year of Board inaction.*

3. Director Independence

Independent outside directors can bring objectivity and a new perspective to the numerous issues facing a corporation. They also bring new contacts and specialized skills to a board of directors. When formulating executive compensation policies and responding to takeover offers, the inherent conflict of interest problem is much less severe for outsiders than it is for executive officers.

➢ *LACERA votes* ***for*** *shareholder proposals requiring that the board consist of a majority or more of independent directors unless the board composition already meets the proposed threshold (by ISS's definition of independence).*

➢ *LACERA votes* ***withhold*** *from insiders and affiliated outsiders sitting on the audit, compensation, or nominating committees.*

➢ *LACERA votes* ***withhold*** *from insiders and affiliated outsiders on the board where the full board is less than majority independent.*

➢ *LACERA votes* ***withhold*** *from any director nominees if the board has failed to establish a nominating, compensation, or audit committee, solely comprised of independent directors.*

Directors Definitions[3]

Inside Director

- Employee of the company or its affiliates (subsidiary, sibling company, or parent company).
- Beneficial ownership[45] of more than 50 percent of the company's voting power (this may be aggregated if voting power is distributed among more than one member of a defined group; e.g., members of a family beneficially own less than 50 percent individually, but combined own more than 50 percent).
- Director named in the Summary Compensation Table (excluding former interim officers).

Affiliated Outside Director

- Board attestation that an outside director in not independent.
- Former CEO of the company or its affiliate.
- Former CEO of an acquired company within the past five years.
- Former interim officer if the service was longer than 18 months. If the service was between twelve and eighteen months, then an assessment of the interim officer's employment agreement will be made.
- Former officer of the company, an affiliate or an acquired firm within the past five years.
- Officer of a former parent or predecessor firm at the time the company was sold or split off from the parent/predecessor within the last five years.
- Officer, former officer, general or limited partner of a joint venture or partnership with the company.
- Immediate family member of a current or former officer of the company or its affiliates within the last five years.
- Immediate family member of a current employee of the company or its affiliates where additional factors raise concern (which may include, but are not limited to, the following: a director related to numerous employees; the company or its affiliates employ relatives of numerous board members; or a non-Section 16 officer in a strategic role).
- Currently provides (or an immediate family member provides) professional services directly to the company, to an affiliate of the company or an individual officer of the company or one of its affiliates in excess of $10,000 per year.
- Is (or an immediate family member is) a partner in, or a controlling shareholder or an employee of, an organization which provides professional

[3] Source: ISS, 2013 U.S. Proxy Voting Manual.
[4]
[5] ISS definition of beneficial ownership: A shareholder that exercises direct voting rights and accrues economic value from holding those shares.

services to the company, to an affiliate of the company, or an individual officer of the company or one of its affiliates in excess of $10,000 per year.

- Has (or an immediate family member has) any material transactional relationship with the company or its affiliates, excluding investments in the company through a private placement.
- Is (or an immediate family member is) a partner in, or a controlling shareholder or an executive officer of, an organization which has any material transactional relationship with the company or its affiliates, excluding investments in the company through a private placement.
- Is (or an immediate family member is) a trustee, director, or employee of a charitable or non-profit organization that receives material grants or endowments from the company or its affiliates.
- Party to a voting agreement to vote in line with management on proposals being brought to shareholders.
- Has (or an immediate family member has) an interlocking relationship as defined by SEC involving members of the board of directors or it Compensation Committee.
- Founder of company but not currently an employee.
- Any material financial tie or other related party transactional relationship to the company.

<u>Independent Outside Director</u>

- No <u>material</u> connection to company other than board seat (Material is defined as a standard of relationship (financial, personal or otherwise) that a reasonable person might conclude could potentially influence one's objectivity in the boardroom in a manner that would have a meaningful impact on an individual's ability to satisfy requisite fiduciary standards on behalf of shareholders).

4. Director Competence

a. Nominee's Attendance at Meetings

➢ *LACERA votes **<u>withhold</u>** from any director nominee who attended less than 75 percent of the board and committee meetings. Acceptable reasons for director(s) absences are generally limited to the following:*

- *Medical issues/illness;*
- *Family emergencies; and*
- *If the director's total service was three meetings or fewer and the director missed only one meeting.*

b. Excessive Directorships

The number of board positions a director holds is of importance and should be taken into consideration when voting on a director nominee. While CEO's benefit from their exposure to other company boards, the time demands of their full-time jobs limit the number of outside commitments they can manage without compromising their effectiveness as CEO's and as outside directors.

- *LACERA votes **withhold** from directors who are CEO's of publicly-traded companies who serve on more than three public boards, i.e., more than two public boards other than their own board.*
- *LACERA votes **withhold** from all other directors who serve on more than six public company boards.*
    - *LACERA does not differentiate between directors who have full time jobs and those who are retired, "professional" directors.*

B. Other Board Related Provisions

1. Composition of key board committees

- *LACERA votes **for** shareholder proposals that request that the board audit, compensation and/or nominating committees include independent directors exclusively.*

2. Compensation Consultant Disclosure

- *LACERA votes **for** shareholder proposals seeking disclosure of information regarding the company, board, or compensation committee's use of compensation consultants, such as consultants name, business relationship(s) and fees paid.*

3. Establishment of Board Committees

- *LACERA votes **against** shareholder proposals to establish a new board committee, as such proposals seek a specific oversight mechanism/structure that potentially limits a company's flexibility to determine an appropriate oversight mechanism for itself. However, the following factors will be considered:*
    - *Existing oversight mechanisms (including current committee structure) regarding the issue for which board oversight is sought;*
    - *Level of disclosure regarding the issue for which board oversight is sought;*
    - *Company performance related to the issue for which board oversight is sought;*
    - *Board committee structure compared to that of other companies in its industry sector; and/or*
    - *The scope and structure of the proposal.*

4. Board Diversity

- *LACERA votes **for** requests for reports on the company's efforts to diversify the board, unless:*
    - *The gender and racial minority representation of the company's board is reasonably inclusive in relation to companies of similar size and business; and*

- *The board already reports on its nominating procedures and gender and racial minority initiatives on the board and within the company.*

➢ *LACERA reviews* ***case-by-case*** *proposals asking the company to increase the gender and racial minority representation on its board, taking into account:*
- *The degree of existing gender and racial minority diversity on the company's board and among its executive officers;*
- *The level of gender and racial minority representation that exists at the company's industry peers;*
- *The company's established process for addressing gender and racial minority board representation;*
- *Whether the proposal includes an overly prescriptive request to amend nominating committee charter language;*
- *The independence of the company's nominating committee;*
- *The company uses an outside search firm to identify potential director nominees; and*
- *Whether the company has had recent controversies, fines, or litigation regarding equal employment practices.*

5. Term of Office

A requirement limiting office terms could conceivably harm shareholder interests by forcing experienced and knowledgeable directors off the board. Shareholders should, instead, retain the ability to evaluate and cast their vote on all director nominees once a year.

➢ *LACERA votes* ***against*** *proposals to limit the tenure of outside directors.*

6. Stock Ownership Requirements;

Corporate directors should own some amount of the stock of the companies for which they serve as director. This is an effective way for director and shareholder interests to be aligned. However, many highly qualified individuals might not be able to meet this requirement--academics and members of religious orders, for example. Imposing an across-the-board minimum ownership requirement could therefore prevent these nominees from serving as directors.

➢ *LACERA votes* ***against*** *shareholder proposals requiring directors to own a minimum amount of company stock in order to qualify as a director, or to remain on the board.*

7. Age limits

➢ *LACERA votes* ***against*** *proposals to impose mandatory retirement age for outside directors.*

8. Separation of CEO and Chairman

- *LACERA generally votes **<u>for</u>** shareholder proposals that would require the position of chairman be filled by an independent director unless there are compelling reasons to recommend against the proposal, such as a counterbalancing governance structure, which may include any of the following:*

  Designated lead director, elected by and from the independent board members, with clearly delineated duties. (The role may alternatively reside with a presiding director, vice chairman or rotating lead director). At a minimum these should include:

  - Presides at all meetings of the board at which the chairman is not present, including executive sessions of the independent directors.
  - Serves as liaison between the chairman and the independent directors.
  - Approves information sent to the board.
  - Approves meeting agendas for the board.
  - Approves meetings schedules to assure that there is sufficient time for discussion of all agenda items.
  - Has the authority to call meetings of the independent directors.
  - If requested by major shareholders, ensures that he is available for consultation and direct communication.
  - 2/3 independent board.
  - All independent key committees.
  - Established governance guidelines.
  - The company should not have underperformed its peers and index on a one-year and three-year basis, unless there has been a change in the Chairman/CEO position within that time.
  - The company does not have any problematic governance issues.

9. Majority vote standard.

Under most state corporate laws, including Delaware's statutes, a plurality vote is the standard used in the election of the board of directors. Under a plurality system, a board-backed nominee in an uncontested election needs to receive only a single affirmative vote to claim his or her seat in the boardroom. Even if holders of a substantial majority of the votes cast "withhold" support, the director nominee still "wins" the seat.

Under the majority vote standard, a director nominee <u>must</u> receive support from holders of a majority of the proxy votes cast in order to be elected (or re-elected) to the board. A majority vote standard transforms the director election process from a symbolic gesture to a meaningful voice for shareholders.

- *LACERA votes **<u>for</u>** shareholder proposals requesting the Board to amend the Company's governance documents (certificate of incorporation or bylaws) to provide* *that director nominees shall be elected by the majority of proxy votes cast at the annual shareholder meeting, provided they allow for a plurality vote in the case of a contested election.*

10. Nominee qualifications.

Proposals should have reasonable criteria and analyzed to identify to what extent they may preclude dissident nominees from joining the board.

- *LACERA reviews* ***case-by-case*** *proposals that establish or amend director qualifications.*
- *LACERA reviews* ***case-by-case*** *shareholder resolutions seeking a director nominee candidate who possesses a particular subject matter expertise, considering:*
  - *The company's board committee structure, existing subject matter expertise, and board nomination provisions relative to that of its peers;*
  - *The company's existing board and management oversight mechanisms regarding the issue for which board oversight is sought;*
  - *The company disclosure and performance relating to the issue for which board oversight is sought and any significant related controversies; and*
  - *The scope and structure of the proposal.*
- *LACERA votes* ***against*** *shareholder proposals requiring more candidates than the number of open board seats.*

11. CEO Succession Planning

- *LACERA votes* ***for*** *proposals seeking disclosure on a CEO succession planning policy.*

II. Voting for Director Nominees in Contested Elections

A. Proxy Contests

Proxy contests occur when shareholders are solicited (to influence their voting,) by two separate groups at annual or special meetings of a corporation. Generally, one group represents management and the other represents a dissident or group of dissidents that own a significant equity position in the company.

In most cases, the dissident group has unsuccessfully attempted to convince management that various changes need to be made, such as corporate restructuring, raising a stock dividend or making a strategic acquisition. Frustrated by unsatisfactory total returns and management's failure to achieve other financial benchmarks, the group launches a proxy contest.

A proxy contest may involve the election of an entire slate of board members, in which case the dissidents' goal is to take control of the company by replacing all board members and ultimately ousting members of the incumbent management team. A proxy contest may also involve the election of a minority of board seats, whereby dissidents seek a strong enough position in a company to change corporate strategy without necessarily changing control.

Contested elections frequently result in new management and major shifts in corporate strategy. Consequently, proxy contests are of critical importance to a shareholder. Recent studies indicate that dissidents in proxy contests--even when failing to gain board seats--often accomplish at least some of their objectives.

- *Votes in a contested election of directors are evaluated on a **case-by-case** basis, considering the following factors:*

B. Consideration Factors

In addition to reviewing the criteria in Part I – "Voting on Director Nominees in Uncontested Elections," the following factors should be taken into consideration when voting on contested elections for director nominees:

- Overall long-term financial performance of the target company relative to its industry. Key measures include five-year annual compound growth rates for sales, operating income, net income, and total shareholder returns (share price appreciation plus dividends). Other financial indicators include margin analysis, cash flow, and debt levels.
- Management's track record. Review of strategic decision making such as acquisition record, new business development, effectiveness of marketing campaign, and strategic positioning. Look for actions that show a blatant disregard for shareholders such as a blocked takeover bid that shareholders may have been interested in accepting. Consider executive pay and spending on perks, particularly in conjunction with subpar performance and employee layoffs.

- Background to the proxy contest. Chronology of events leading up to the proxy contest. Look for evidence to indicate that the dissidents attempted to work cooperatively with management on the issues in question. Also look closely at how quickly and in what manner management responds to the dissidents' concerns.
- Qualifications of director nominees-both slates. For incumbent slate, board and key committee composition is emphasized. Includes review of knowledge and experience of incumbents. Also includes a review of the corporate governance profile looking for entrenchment devices that reduce accountability. For the dissident slate, each candidate's knowledge and experience of the target company and industry is reviewed, as well as the nominees' track record at other companies.
- Evaluation of what each side is offering shareholders as well as the likelihood that the proposed objectives and goals can be met. Look for a clear strategic operating plan from both management and the dissidents. Optimistic projections must be backed up with a realistic plan for achieving goals.
- Stock ownership positions. Substantial share ownership enhances the credibility of director nominees. In the case of dissident nominees, an outstanding tender offer also serves to enhance credibility. When there is an outstanding tender offer, the proxy contest is considered to be a tactic to enhance the offer, and the offer itself is also analyzed.

C. Reimburse Proxy Solicitation Expenses

Most of the expenses incurred by incumbents in a proxy contest are paid directly by the company. Conversely, dissidents are typically reimbursed only for proxy solicitation expenses, if they gain control of the company. Sometimes, where the board and a majority of shareholders approve, the dissidents who have only gained partial representation will also be reimbursed. In successful proxy contests, new management will often seek shareholder approval for the use of company funds to reimburse themselves for the costs of proxy solicitation.

- ➢ *Decisions to provide full reimbursement for dissidents waging a proxy contest are made **case-by-case**.*
- ➢ *In cases where LACERA supports the dissident position, we would vote **for** the reimbursement of reasonable expenses.*

III. Takeover Defenses

Takeover defenses are designed to make it more difficult to change control of a corporation's management. The management of companies that ask shareholders to approve various anti-takeover provisions usually state that these measures are intended to protect shareholders, either by deterring efforts to change control or by giving management stronger defenses if an unsolicited proxy contest or tender offer occurs. However, these proposals tend to transfer rights or powers from shareholders to management. Once shareholders transfer the right to decide who will manage a company, they are unlikely to regain these rights.

A. Proxy Contest Defenses

1. Board Structure: Staggered (classified) vs. Annual Elections

A classified board is generally divided into three separate classes, with one class of directors elected each year, thus providing for "staggered" terms. Because only a minority of the directors are elected each year, dissident shareholders are unable to win control of the board (by proxy contest) in a single election. Two years would be necessary to gain majority control and three years to gain full control.

- *LACERA votes **against** proposals to classify the board.*
- *LACERA votes **for** proposals to repeal classified boards and to elect all directors annually.*

2. Shareholder Ability to Remove Directors

Shareholder ability to remove directors, with or without cause, is either prescribed by a state's business corporation law, a company's articles of incorporation, or its bylaws. If state law does not specify removal procedures, it is left to the company to determine that process.

Removal of directors only for cause requires proof of self-dealing, fraud or misappropriation of corporate assets. By requiring that "cause" be demonstrated in the removal process, management insulates directors from removal by shareholders even if the director has demonstrated poor performance, not attended meetings, or has not acted in the best interest of the shareholders.

If a company's bylaws do not specify terms for removal, it should be assumed that directors may be removed without cause. Removal without cause allows shareholders to remove a director by a majority vote before his/her term expires.

- *LACERA votes **against** proposals that provide that directors may be removed only for cause.*
- *LACERA votes **for** proposals to restore shareholder ability to remove directors with or without cause.*

- *LACERA votes **against** proposals with provisions stating that only continuing directors may elect replacements to fill board vacancies.*
- *LACERA votes **for** proposals that permit shareholders to elect directors to fill board vacancies.*

3. Cumulative Voting

Most corporations provide that shareholders are entitled to cast one vote for each director for each share owned. Some companies allow cumulative voting for directors. This permits shareholders to distribute the total number of votes they have, in any manner they wish, when electing directors.

For example, a shareholder who owns 1,000 shares of stock in a company that is electing 10 directors will normally cast 1,000 votes for each of the 10 directors. However, with cumulative voting, the shareholder can distribute the total number of votes (10 X 1,000 =10,000) to one candidate or several candidates if they wish.

- *LACERA votes **against** proposals to eliminate cumulative voting.*
- *LACERA votes **for** proposals to permit cumulative voting in accordance with* the *California Government Code § 6900.*

§ 6900. Cumulative voting; "Governmental body"

Whenever any governmental body is a shareholder of any corporation, and a resolution is before the shareholders which will permit or authorize cumulative voting for directors, such governmental body shall vote its shares to permit or authorize cumulative voting.

As used in this section the term "governmental body" means the state, and any office, department, division, bureau, board, commission or agency thereof, and all counties, cities, districts, public authorities, public agencies and other political subdivisions or public corporations in the state.

4. Shareholder Ability to Call Special Meetings

Nearly all state corporation statutes allow shareholders to call a special meeting when they want to take action on certain matters that occur between regularly scheduled annual meetings. However, shareholders may lose this important right--the ability to remove directors or initiate a shareholder resolution without having to wait for the next scheduled meeting--if management places some form of restriction on that right.

- *LACERA votes **against** proposals to restrict or prohibit shareholder ability to call special meetings.*
- *LACERA votes **for** proposals that provide shareholders with the ability to call special meetings taking into account the following factors:*
  - *Shareholders' current right to call special meetings;*
  - *Minimum ownership threshold necessary to call special meetings (10% preferred);*

- *The inclusion of exclusionary or prohibitive language;*
- *Investor ownership structure; and*
- *Shareholder support of and management's response to previous shareholder proposals.*

5. Shareholder Ability to Act by Written Consent

Consent solicitation can be advantageous to both shareholders and management because the process does not involve the expense of holding a physical meeting. A consent solicitation is mailed to shareholders for their vote and signature (similar to proxy solicitation), and delivered to management.

Limitations on written consent are clearly contrary to shareholder interests. In terms of day-to-day governance, shareholders may lose the ability to remove directors or initiate a shareholder resolution without having to wait for the next scheduled meeting, if they are unable to act by written consent.

- ➢ *LACERA votes **against** proposals to restrict or prohibit shareholder ability to take action by written consent.*
- ➢ *LACERA votes **for** proposals to allow or make easier shareholder action by written consent, taking into account the following factors:*
  - *Shareholders' current right to act by written consent;*
  - *The consent threshold;*
  - *The inclusion of exclusionary or prohibitive language;*
  - *Investor ownership structure; and*
  - *Shareholder support of, and management's response to, previous shareholder proposals.*
- ➢ *LACERA reviews **case-by-case** shareholder proposals if, in addition to the considerations above, the company has the following governance and antitakeover provisions:*
  - ➢ *An unfettered[6] right for shareholders to call special meetings at a 10 percent threshold;*
  - ➢ *A majority vote standard in uncontested director elections;*
  - ➢ *No non-shareholder-approved pill; and*
  - ➢ *An annually elected board.*

6. Shareholder Ability to Alter the Size of the Board

Proposals that allow management to increase or decrease the size of the board at its own discretion are often used by companies as a takeover defense. Shareholders should support management proposals to fix the size of the board at a specific number of

[6] "Unfettered" means no restrictions on agenda items, no restrictions on the number of shareholders who can group together to reach the 10 percent threshold, and only reasonable limits on when a meeting can be called: no greater than 30 days after the last annual meeting and no greater than 90 prior to the next annual meeting.

directors, thereby preventing management (when facing a proxy contest) from increasing the size of the board without shareholder approval.

- *LACERA votes **for** proposals that seek to fix the size of the board.*
- *LACERA votes **against** proposals that give management the ability to alter the size of the board without shareholder approval.*

B. Tender Offer Defenses

1. Poison Pills

Poison pills have become a favorite tender offer defense of hundreds of companies in recent years. The term poison pill, also known as a shareholder rights plan, is used to describe takeover defenses that do one or more of the following. (1) Dilute the acquirer's equity holdings in the target company. (2) Dilute the acquirer's voting interests in the target company. (3) Dilute the acquirer's equity holdings in the post-merger company. Poison Pills accomplish these tasks by issuing rights or warrants to shareholders that are essentially worthless unless triggered by a hostile acquisition attempt.

The two most common poison pills are the flip-over plan and an ownership flip-in provision. The flip over plan distributes rights to share holders to purchase discounted shares of the acquirer's holdings in the post-merger company (typically at 50% of the fair market value.) The flip-in provision gives the shareholders, except the acquirer, the right to purchase discounted shares of their own company should the acquirer surpass a specified ownership threshold (typically between 20% and 50%.

Poison pills are sometimes used to bargain for a higher price when a company becomes a takeover target. However, they tend to deter offers or defeat offers rather than increase the price offered by the acquirer.

- *LACERA votes **for** shareholder proposals that ask a company to submit its poison pill for shareholder ratification.*
- *LACERA votes **for** shareholder proposals to redeem a company's poison pill.*
- *LACERA reviews **case-by-case** management proposals to ratify a poison pill.*
- *LACERA considers supporting a proposed poison pill only if the following factors are present:*
  - *A 20% or higher flip-in*
  - *Two to three year sunset provision (Permits shareholders to reaffirm or redeem a pill)*
  - *No dead-hand or no-hand features (A dead-hand provision prohibits any directors, other than continuing directors, from removing the pill)*
  - *Shareholder redemption feature 90 days after an offer is announced, if the board refuses to redeem the pill, ten percent of the shares may call a special meeting or seek a written consent to vote on rescinding the pill.*

2. Fair Price Provisions

Fair price provisions, usually found in a company's charter, require anyone wishing to purchase control of a company to pay all shareholders a defined fair price. A fair price is usually defined as the highest price that a potential acquirer pays to any shareholder during a specified period of time. Fair price requirements are intended to deter two-tiered, front-end-loaded tender offers, in which shareholders who tender (sell) their shares first receive a higher price for their shares than other shareholders.

- *LACERA votes **against** proposals to raise the shareholder vote requirements greater than a majority of disinterested shares in existing fair price provisions.*
- *LACERA reviews **case-by-case** proposals to adopt fair price provisions. In evaluating the acceptability of such provisions the following issues need to be reviewed:*
  - *Whether a supermajority vote is required to overcome a board's opposition to an acquisition.*
  - *Whether a supermajority vote is required to appeal or amend a fair pricing provision.*
  - *What is the size of the block of shares controlled by officers, directors and their affiliates?*
  - *Whether the company maintains numerous other takeover defenses such as poison pill provisions or a classified board.*
  - *Whether the company has a history of rejecting premium acquisition offers.*

3. Greenmail

Greenmail refers to corporate management's practice of repurchasing the shares of a potential acquirer at an above market price in exchange for the acquirer's agreement to refrain from attempts to acquire the company. The term derives from blackmail, with green substituted for black to emphasize the large sums of money often involved.

Greenmail has become so disreputable that few firms are willing to make outright payments of greenmail. Payment of greenmail may be disguised, however, by structuring exchanges, buybacks and spin-offs so that they bestow windfall gains on potential acquirers who agree not to acquire a company. This attempt to hide the true nature of their transaction is called "pale greenmail."

- *LACERA votes **for** proposals to adopt anti-greenmail charter or bylaw amendments or otherwise restrict a company's ability to make greenmail payments.*
- *LACERA reviews **case-by-case** anti-greenmail proposals when they are bundled with other charter or bylaw amendments.*

4. Dual Class Authorization/Unequal Voting Rights

Dual class authorization refers to the creation of a second class of common stock, also called class B common or special common stock. Class B common stock may have voting rights and dividend preferences that are different from the existing class of common stock. Generally, the new class of stock is non-transferable, which means the stock can only be sold back to the company. In addition, these shares must be converted back into shares of existing common stock before it can be sold on the market.

Many companies created dual class common stock to place voting control with a group of company insiders. As a result, in 1988, the SEC prohibited the issuance of a second class of common stock that had voting rights superior to the existing common stock. However, in 1990 a federal court reversed the ruling, stating that the SEC did not have the authority to decide this issue. After this ruling, many states adopted amendments to their corporation codes to allow boards to authorize stock with unequal voting rights.

It is extremely difficult to determine which incidents of dual class recapitalization deserve support. In order to support a dual class exchange offer, shareholders must be confident that the present value of the special dividend received in the offer equals or exceeds the short-term and long-term losses associated with holding limited voting right stock in a dual class company. Given the difficult, if not impossible, task of calculating the value of the vote at each company, each with differing specific circumstances, it is better to oppose dual class exchange offers on the grounds that they contribute to the entrenchment of management and allow for the possibility of management acquiring superior voting shares in the future.

- *LACERA votes* **against** *dual class exchange offers.*
- *LACERA votes* **against** *dual class recapitalizations.*

5. Supermajority Voting Requirements

Many state laws and most corporate charters require a majority vote of the company's shareholders to approve major actions such as mergers or amendments to a firm's charter or bylaws. In most states, this requirement can be raised to a higher level, a supermajority, if shareholder approval is obtained.

Supermajority requirements typically range from two-thirds to 80% of the outstanding shares. These requirements, often included in anti-takeover measures such as classified boards, make it extremely difficult to rescind or amend these measures after they are adopted.

- *LACERA votes* ***against*** *proposals to require a supermajority shareholder vote.*
- *LACERA votes* ***for*** *proposals to lower supermajority vote requirements. However, for companies with shareholders(s) who have significant ownership levels, LACERA reviews* ***case-by-case****, taking into account:*
  - *Ownership structure;*
  - *Quorum requirements; and*
  - *Supermajority vote requirements.*

6. White Squire Placements

A white squire placement is a takeover defense employed by placing large blocks of corporate securities or blank check preferred stock (stock without predefined voting and dividend rights) with "friendly" third parties. This stock can reside in numerous places; with a private investor, a company's ESOP, another corporation or an investment fund. These placements can dilute existing shareholders' equity and voting positions.

Shareholders can protect their voting positions, by adopting a policy to require shareholder approval before placing blank check preferred stock with any person or group, except in cases when such placement of shares is for the purpose of raising capital or making acquisitions, in the normal course of business.

- *LACERA votes **for** shareholder proposals to require approval of blank check preferred stock issues for other than general corporate purposes.*

7. Net Operating Loss (NOL) Protective Amendments

- *LACERA reviews **case-by-case** management proposals to adopt a protective amendment for the stated purpose of protecting a company's net operating losses ("NOLs"). The following factors should be considered:*
  - *The ownership threshold (NOL protective amendments generally prohibit stock ownership transfers that would result in a new 5-percent holder or increase the stock ownership percentage of an existing five-percent holder);*
  - *The value of the NOLs;*
  - *Shareholder protection mechanisms (sunset provision or commitment to cause expiration of the protective amendment upon exhaustion or expiration of the NOL);*
  - *The company's existing governance structure including: board independence, existing takeover defenses, track record of responsiveness to shareholders, and any other problematic governance concerns; and*
  - *Any other factors that may be applicable.*

IV. Miscellaneous Corporate Governance Provisions

A. Proxy Voting Mechanics (Disclosure, Confidentiality, and Tabulation)

➢

The guiding principles of the proxy voting process are: transparency, consistency, and fairness.

- *LACERA reviews **case-by-case** proposals regarding proxy voting mechanics, taking into consideration whether the implementation of the proposal is likely to enhance or protect shareholder rights.*

B. Advance Notice Requirements for Shareholder Proposals/Nominations

- *LACERA reviews **case-by-case** advance notice proposals, giving support to those proposals which allow shareholders to submit proposals/nominations as close to the meeting date as reasonably possible and within the broadest window possible, recognizing the need to allow sufficient notice for company, regulatory, and shareholder review.*

C. Bundled Proposals

A bundled proposal is any proxy proposal that includes a number of separate elements. Some bundled proposals are straightforward, involving various components that belong together both logically and functionally. When a company reorganizes, for example, shareholders may be asked to vote on several major changes, including bylaw and charter amendments, asset spin-offs, and other related items.

However, some bundled proposals combine unrelated issues that should be presented as separate voting items. Companies deliberately use this strategy to manipulate the vote in order to pass a questionable proposal by bundling it with a proposal that would usually pass on its own.

- *LACERA reviews **case-by-case** on bundled or "conditioned" proxy proposals. In the case of items that are conditioned upon each other, we examine the benefits and costs of the packaged items. In instances when the joint effect of the conditioned items is not in shareholders' best interests, LACERA votes **against** the proposals. If the combined effect is positive, LACERA supports such proposals.*

D. Director and Officer Indemnification and Liability Protection

When a corporation indemnifies its directors and officers, the corporation promises to reimburse them for certain legal expenses, damages, and judgments incurred as a result of lawsuits relating to their corporate actions. If a company lacks adequate insurance coverage for its directors, the firm's ability to indemnify directors for honest mistakes in business judgment is the only thing that shields directors from personal liability for expenses and damage awards. Many outside directors would decline to serve on the board if the company would not provide sufficient insurance or the right to be indemnified.

The most frequent justification for limiting directors' liability is to attract and retain qualified directors who might be unwilling to serve on boards of directors if they were personally liable for acts of negligence.

- *Proposals concerning director and officer indemnification and liability protection are evaluated* ***case-by-case****.*
- *LACERA votes* ***against*** *proposals to limit or entirely eliminate director and officer liability for monetary damages for violating the "duty of care".*[7]
- *LACERA votes* ***against*** *indemnification proposals that would expand coverage beyond just legal expenses to acts, such as negligence, that are more serious violations of fiduciary obligations than mere carelessness.*
- *LACERA votes* ***against*** *proposals that expand the scope of indemnification to provide for mandatory indemnification of company officials in connection with acts that previously the company was permitted to provide indemnification for, at the discretion of the company's board.*
- *LACERA votes* ***for*** *only those proposals that provide such expanded coverage in cases when a director's or officer's legal defense was unsuccessful if: (1) the director was found to have acted in good faith and in a manner that he reasonably believed was in the best interests of the company, and (2) only if the director's legal expenses would be covered.*

E. Charitable Contributions

Corporate charitable contributions can provide important benefits (direct and indirect) to long-term shareholders. Directly, shareholders benefit from the favorable tax treatment of charitable contributions. Indirectly, they benefit from the goodwill, support and name recognition that these contributions generate.

However, shareholders should not decide what are the most worthwhile charities for the corporation. Shareholders have differing and equally conscientious views regarding which charities the company should contribute to, and the amount of the contribution. As a result of these differences, management should determine which contributions are in the best interests of the company.

- *LACERA votes* ***against*** *shareholder proposals to eliminate, direct or otherwise restrict charitable contributions.*

[7] The duty of care is defined as "a reasonable director standard". In other words, shareholders expect more from a director than what is expected from a regular "reasonable man". Directors are expected to behave reasonably, according to the experience and expertise a director should have. A reasonable man is not expected to be familiar with generally accepted accounting principles or earnings per share, but this knowledge is expected of a director.

F. Establishment of Corporate Board Policy on Shareholder Engagement

- *LACERA votes* ***for*** *shareholder proposals requesting that the board establish an internal process, which may include a committee, to improve communications between directors and shareholders, unless the company has the following features:*
  - *Established a structure that goes beyond the stock exchange requirements to facilitate communication between shareholders and members of the board.*
  - *Effectively disclosed information with respect to this structure to its shareholders.*
  - *Company has not ignored majority-supported shareholder proposals or a majority withhold vote on a director nominee.*
  - *The company has an independent chairman or lead director.*

G. Proxy Access

- *LACERA reviews* ***case-by-case*** *proposals to enact proxy access, taking into account the following at a minimum:*
  - *Company-specific factors; and*
  - *Proposal-specific factors, including:*
    - *The ownership thresholds proposed in the resolution;*
    - *The maximum proportion of directors that shareholders may nominated each year; and*
    - *The method of determining which nominations should appear on the ballot if multiple shareholders submit nominations.*

V. **Capital Structure**

The management of a corporation's capital structure involves a number of key issues, including dividend policy, taxes, types of assets, opportunities for growth, ability to finance new projects internally, and the cost of obtaining additional capital. The majority of these decisions are best left to the board and senior management of the firm.

However, while a company's value depends more on its capital investment and operations than on how it is financed, many financing decisions have a significant impact on shareholders, particularly when they involve the issuance of additional common stock, preferred stock or the assumption of additional debt. Management may propose additional equity financing which may reduce an existing shareholder's ownership interest and can dilute the value of the investment. As a result, shareholders must evaluate all of management's recommended financing vehicles.

A. Common Stock Authorization

Requests to authorize the issuance of additional shares of common stock, or additional shares of preferred, must be examined carefully. If the proposals have a legitimate business purpose, increasing the allocation may benefit shareholders. Proposals to implement a stock split, to pay a stock dividend, to raise new capital, to make shares available for stock option plans or to affect a merger or acquisition, usually fall into this category.

However, a request to issue large amount of additional stock with no specific business purpose given is not in the shareholders' best interest. A large block of authorized but un-issued shares can be used in a takeover defense to dilute the interest of a potential acquirer, by implementing a poison pill takeover defense. (Most poison pills require the availability of large amounts of common or preferred stock to implement the pill).

- *LACERA votes **for** proposals to increase the number of authorized common shares where the primary purpose of the increase is to issue shares in connection with a transaction on the same ballot that warrants support.*
- *LACERA votes **against** proposals to increase the number of authorized common shares if a vote for a reverse stock split on the same ballot is warranted despite the fact that the authorized shares would not be reduced proportionally.*
- *LACERA reviews **case-by-case** all other proposals to increase the number of shares of common stock authorized for issuance. Take into account company-specific factors that include, at a minimum, the following:*
  - *Past Board Performance:*
    - *The company's use of authorized shares during the last three years*
  - *The Current Request:*
    - *Disclosure in the proxy statement of the specific purposes of the proposed increase;*
    - *Disclosure in the proxy statement of specific and severe risks to shareholders of not approving the request; and*

    - *The dilutive impact of the request.*

- *LACERA votes **against** proposed common stock authorizations that increase the existing authorization by more than 100 percent, unless the company can present a clear and legitimate need for the excess shares.*
- *LACERA votes **for** management proposals to increase common share authorization for stock splits or share dividend, provided that the split does not result in an excessive number of shares available for issuance.*
- *LACERA votes **against** proposals to create a new class of common stock with superior voting rights* (all classes of common stock should have one vote per share).
- *LACERA votes **against** proposals, at corporations with a dual class structure, to increase the number of authorized shares of the class of common stock that has superior voting rights.*
- *LACERA votes **against** proposals to increase authorized common shares in which the stated purpose is to reserve additional shares to implement a poison pill.*
- *LACERA votes **for** proposals to create a new class of nonvoting or sub-voting common stock if:*
    - *The company discloses a compelling rationale for the dual-class capital structure, such as:*
        - *The company's auditor has concluded that these is substantial doubt about the company's ability to continue as a going concern; or*
        - *The new class of shares will be transitory.*
    - *It is intended for financing purposes with minimal or no dilution to current shareholders*
    - *It is not designed to preserve the voting power of an insider or significant shareholder.*

B. Reverse Stock Splits

Regular stock splits exchange each share outstanding for multiple shares in order to lower share price to an optimal trading range. Reverse splits operate in the opposite fashion. Multiple shares are exchanged for a lesser amount to increase price.

- *LACERA votes **for** management proposals to implement a reverse stock split when the number of authorized shares will be proportionately reduced.*
- *LACERA votes **against** proposals when there is not a proportionate reduction of authorized shares, unless:*
    - *A stock exchange has provided notice to the company of a potential delisting; or*
    - *The effective increase in authorized shares is equal to or less than the allowable increase calculated in accordance with an increase in authorized common stock.*

C. Preferred Stock Authorization

1. Preferred Stock

- *LACERA votes **for** proposals to increase the number of authorized preferred shares where the primary purpose of the increase is to issue shares in connection with a transaction on the same ballot that warrants support.*
- *LACERA votes **against** proposals at companies with more than one class or series of preferred stock to increase the number of authorized shares of the class or series of preferred stock that has superior voting rights.*
- *LACERA reviews **case-by-case** all other proposals to increase the number of shares of preferred stock authorized for issuance. Take into account company-specific factors that include, at a minimum, the following:*
  - *Past Board Performance:*
    - *The company's use of authorized preferred shares during the last three years;*
  - *The Current Request:*
    - *Disclosure in the proxy statement of the specific purposes for the proposed increase;*
    - *Disclosure in the proxy statement of specific and severe risks to shareholders of not approving the request;*
    - *In cases where the company has existing authorized preferred stock, the dilutive impact of the request; and*
    - *Whether the shares requested are blank check preferred shares that can be used for antitakeover purposes.*

2. Blank Check Preferred Stock

Blank check preferred stock is a term used to describe preferred stock authorization that gives the board of directors broad discretion to establish voting, dividend, conversion or other rights for preferred stock that a company may issue. Broad discretion provides the board with the flexibility to meet changing business conditions.

However, blank check preferred stock is also perfectly suited for use as an entrenchment (anti-takeover) device. Many companies obtained shareholder approval to issue this class of stock as a result of hostile takeover activity in the mid-1980's. The ability of a board to issue a block of preferred stock with multiple voting or conversion rights to a friendly investor is a powerful takeover defense.

- *LACERA votes **for** proposals to create blank check preferred stock in cases when the company expressly states that the stock will not be used as a takeover defense or to carry superior voting rights.*
- *LACERA votes **against** proposals that would authorize the creation of new classes of preferred stock with unspecified voting, conversion, dividend distribution, and other rights.*

- *LACERA reviews **case-by-case** proposals to increase the number of authorized blank check preferred shares.*
- *LACERA votes **for** shareholder proposals to require approval of blank check preferred stock issued for other than general corporate purposes.*
- *LACERA votes **for** shareholder proposals to have blank check preferred stock placements, other than those shares issued for the purpose of raising capital or making acquisitions in the normal course of business, submitted for shareholder ratification.*

D. Adjust Par Value of Common Stock

The purpose of par value stock (a fixed per share value) is to establish the maximum responsibility of a stockholder in the event that a corporation becomes insolvent. It represents the minimum amount that a shareholder must pay the corporation if the stock is to be fully paid when issued.

Since the par value of many issues is $1 or less, proposals to reduce par value to facilitate the sale of additional stock are uncommon. However, there are still times when companies with $5 or $10 par values need to lower the par value to sell additional stock.

- *LACERA votes **for** management proposals to reduce the par value of common stock unless the action is being taken to facilitate an anti-takeover device or some other negative corporate governance action.*
- *LACERA votes **for** management proposals to eliminate par value.*

E. Preemptive Rights

Preemptive rights give existing shareholders the right to maintain their proportionate ownership interest in a company when new shares are issued. When preemptive rights are in effect, a company must offer existing shareholders the opportunity to buy new shares before additional shares are offered to the public.

- *LACERA reviews **case-by-case** proposals to create or abolish preemptive rights, evaluating the size of a company, the characteristics of its shareholder base, and the liquidity of the stock.*
  (Example: it would be difficult and costly to support a shareholder proposal that would require an S&P 500 company with over $1 billion in equity held by thousands of shareholders, with no single shareholder owning more than one percent of outstanding shares, to implement preemptive rights each time it conducted a new offering.)

F. Debt Restructuring

Although the varieties of corporate refinancing plans are endless, shareholders need to be able to recognize and evaluate the different types of debt restructuring proposed in a proxy statement. Because of ISS's specific expertise in this arena, their team of analysts assist staff with the analysis of the restructuring (i.e. reverse leveraged buyouts, prepackaged bankruptcy plans, wrap plans).

- *LACERA reviews **case-by-case** proposals to increase common and/or preferred shares and to issue shares as part of a debt restructuring plan. The following issues are considered:*
  - *Dilution to existing shareholders' positions;*
  - *Terms of the offer – discount/premium in purchase price to investor, including any fairness opinion; termination penalties; exit strategy;*
  - *Financial issues – company's financial situation; degree of need for capital; use of proceeds; effect of the financing on the company's cost of capital;*
  - *Management's efforts to pursue other alternatives;*
  - *Control issues – change in management; change in control; guaranteed board and committee seats; standstill provisions; voting agreements; veto power over certain corporate actions; and*
  - *Conflict of interest – arm's length transaction, managerial incentives.*
- *Generally, LACERA votes **for** proposals that facilitate debt restructurings unless there are clear signs of self-dealing or other abuses.*

G. Share Repurchase Programs

Stock repurchase programs serve two main purposes which benefit shareholders. First, they serve as a more efficient vehicle for distributing cash to shareholders than paying dividends. Second, announcement of stock repurchase programs tend to result in increased returns to shareholders.

- *LACERA votes **for** management proposals to institute open-market share repurchase plans in which all shareholders may participate on equal terms.*

H. Tracking Stock

Tracking stock is a separate class of common stock that tracks the performance of an individual business unit of a company. A tracked business has no separate legal identity. It remains under the control of the parent company. Tracking shares are created through a charter amendment, subject to shareholder approval, providing for different classes of common stock of the parent company. Tracking stock does not represent legal ownership of the tracking unit's assets, but rather an equity interest in the parent company. A tracked business has no separate legal identity.

- *LACERA reviews **case-by-case** the creation of tracking stock, weighting the corporation's strategic value of the transaction, against any negative factors affecting the shareholder. The following factors are reviewed:*
  - *Governance changes*
  - *Increase in authorized capital stock*
  - *Method of distribution (IPO or stock distribution)*
  - *Voting rights*
  - *Conversion terms*
  - *Stock option plan impact on existing shareholders*
  - *Available alternatives, such as spin-offs*

I. Recapitalization Plans

- ➢ *LACERA reviews **case-by-case** on recapitalizations of securities, taking into account the following:*
  - *More simplified capital structure;*
  - *Enhanced liquidity;*
  - *Fairness of conversion terms;*
  - *Impact on voting power and dividends;*
  - *Reasons for the reclassification;*
  - *Conflicts of interest; and*
  - *Other alternatives considered.*

J. Conversion of Securities

- ➢ *LACERA reviews **case-by-case** proposals regarding the conversion of securities taking into consideration the following factors:*
  - *Dilution to existing shareholders;*
  - *Conversion price relative to market value;*
  - *Financial issues;*
  - *Control issues;*
  - *Termination penalties; and*
  - *Conflicts of interest.*
- ➢ *LACERA votes **for** the conversion if it is expected that the company will be subject to onerous penalties or will be forced to file for bankruptcy if the transaction is not approved.*

VI. Executive and Director Compensation

Executive compensation plans have, or should have, two major purposes: to provide incentives for superior performance and to reward such performance when it occurs. Plans that motivate and reward executives for outstanding performance are in a shareholders best interest. Plans that provide benefits regardless of performance are unlikely to align the interests of management and shareholders.

Most key decisions regarding executive management compensation are made by a company's board of directors or a special committee of the board. They approve the salary paid to top executives, award bonuses, and establish incentive plans that may include stock option plans and long-term performance plans. In addition, the board must review and approve supplemental compensation plans for rank-and-file employees, including employee saving plans and employee stock ownership plans (ESOP).

The rules of the New York Stock Exchange require that companies obtain shareholder approval for stock option plans, and federal tax laws require shareholder approval for qualified stock option plans. Although not required, many companies submit ESOPs for shareholder approval.

Compensation of top executives has become a national issue in recent years. In October 1992, the Securities Exchange Commission adopted comprehensive new executive compensation rules, which provide for improved disclosure of all components of executive pay and an explanation of how corporate performance relates to pay. In 1994, the Internal Revenue Service (IRS) issued rules prohibiting the tax deductibility of executive compensation of more than $1 million. As a result, companies that wish to maintain deductibility for non-deferred compensation above the limit must now obtain shareholder approval for their incentive compensation plans, including cash bonus plans.

The IRS rules implemented the requirements of the Omnibus Budget and Reconciliation Act of 1993 (OBRA). The $1 million compensation limit was designed to curtail rapidly inflating executive compensation and to tie more of future compensation to corporate performance. Congress enacted the law in response to years of intense public debate over the level of compensation paid to American executives.

- *LACERA reviews **case-by-case** equity-based compensation plans. LACERA votes **against** the equity plan if any of the following factors apply:*
  - *The total cost of the company's equity plans is unreasonable;*
  - *The plan expressly permits repricing;*
  - *A pay-for-performance misalignment is found;*
  - *The company's three year burn rate exceeds the burn rate cap of its industry group;*
  - *The plan has a liberal change-of-control definition; or*
  - *The plan is a vehicle for problematic pay practices.*

- *Factors such as re-pricing underwater stock options/stock appreciation rights without shareholder approval would cause LACERA to vote **against** a plan. Additionally, in some cases we would vote against a plan deemed unnecessary.*
- *LACERA reviews management proposals seeking approval to re-price options **case-by-case**. The following data is evaluated.*
  - *Stock Price Volatility*
  - *Rationale*
  - *Value-for Value Exchange*
  - *Option Vesting*
  - *Term of the Option*
  - *Exercise Price*
  - *Participants*
  - *Intent*
  - *Timing*

1. **Holding Period Proposals**

- *LACERA reviews **case-by-case** shareholder proposals asking companies to adopt policies requiring senior executive officers to retain all or a significant portion of net shares acquired through compensation plans, taking into consideration:*
  - *The percentage/ratio of net shares required to be retained;*
  - *The time period required to retain the shares;*
  - *Whether the company has equity retention, holding period, and/or stock ownership requirements in place and the robustness of such requirements;*
  - *Whether the company has any other policies aimed at mitigating risk taking by executives;*
  - *Executives' actual stock ownership and the degree to which it meets or exceeds the proponent's suggested holding period/retention ratio or the company's existing requirements; and*
  - *Problematic pay practices, current and past, which may demonstrate a short-term versus long-term focus.*
- *LACERA reviews **case-by-case** all other shareholder proposals regarding executive and director pay, taking into account company performance, pay level versus peers, pay level versus industry, and long-term corporate outlook.*

A. Omnibus Budget Reconciliation Act of 1987(OBRA)-Related Compensation Proposals

1. Amendments that Place a Cap on Annual Grant or Amend Administrative Features

- *LACERA votes __for__ plans that simply amend shareholder-approved plans to include administrative features or place a cap on the annual grants any one participant may receive to comply with the provisions of Section 162(m) of OBRA.*

2. Amendments to Add Performance-Based Goals

- *LACERA votes __for__ amendments to add performance goals to existing compensation plans to comply with the provisions of Section 162(m) of OBRA.*

3. Amendments to Increase Shares and Retain Tax Deductions Under OBRA

- *Amendments to existing plans to increase shares reserved and to qualify the plan for favorable tax treatment under the provisions of Section 162(m) are evaluated __case-by-case__.*

4. Approval of Cash or Cash-and-Stock Bonus Plans

- *LACERA votes __for__ cash or cash-and-stock bonus plans to exempt the compensation from taxes under the provisions of Section 162(m) of OBRA.*

B. Employee Stock Purchase Plans

- *LACERA votes __for__ proposals with (1) a purchase price at least 85 percent of the fair market value, (2) an offering period of 27 months or less and (3) a dilution of voting power less than ten percent.*

C. Shareholder Proposals to Limit Executive and Director Pay

Philosophically, LACERA believes that corporate executives should be fairly compensated for their efforts. 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.

Shareholder proposals that limit executive or director pay usually focus on the absolute dollar figure of the compensation or focus on the ratio of compensation between the executives and the average worker of a specific company. For example, at a recent annual meeting, two shareholders submitted a proposal requesting that management limit executive compensation to 20 times the pay of the average worker. Proposals are also submitted requesting that annual compensation not exceed a specified dollar figure, such as $100,000.

Arbitrary limitations may actually hurt shareholders in the long run because management may not be able to attract and retain competent personnel. Firms forced to adhere to limits on executive compensation may find themselves at competitive disadvantage in the market for top-tier executives.

1. Shareholder Proposals Regarding Director Compensation

- *LACERA votes* ***for*** *all shareholder proposals that seek additional disclosure of director pay information.*
- *LACERA votes* ***against*** *shareholder proposals seeking to set absolute levels on compensation or otherwise dictate the amount or form of compensation.*
- *LACERA votes* ***against*** *shareholder proposals requiring director fees be paid in stock only.*

2. Shareholder Proposals Regarding Executive Compensation

- *LACERA votes* ***for*** *all shareholder proposals that seek additional disclosure of executive pay information.*
- *LACERA votes* ***against*** *shareholder proposals seeking to set absolute levels on compensation or otherwise dictate the amount or form of compensation.*
- *LACERA votes* ***for*** *shareholder proposals to put option repricings to a shareholder vote.*
- *LACERA votes* ***for*** *shareholder approval of stock option plans.*
- *LACERA votes* ***for*** *proposals to index performance based compensation to appropriate industry peers.*
- *LACERA reviews* ***case-by-case*** *proposals to link, or report on linking, executive compensation to environmental and social criteria. The following factors will be considered:*
  - *Whether the company has significant and persistent controversies or violations regarding social and/or environmental issues;*
  - *Whether the company has management systems and oversight mechanisms in place regarding its social and environmental performance;*
  - *The degree to which industry peers have incorporated similar non-financial performance criteria in their executive compensation practices; and*

- *The company's current level of disclosure regarding its environmental and social performance.*
- *LACERA votes **<u>for</u>** shareholder proposals seeking a policy that prohibits named executive officers from engageing in derivative or speculative transactions involving company stock, including hedging, holding stock in a margin account, or pledging stock as collateral for a loan.*

3. Additional proxy statement disclosures supported by LACERA

- *LACERA supports disclosure of the ratio of the CEO's total pay to that of an average worker in the company.*
- *LACERA supports the requirement that compensation committees must hire an independent compensation consultant and that the changing of a compensation consultant must be disclosed with the reasons for the change.*
- *LACERA supports disclosure of the names of comparable companies used by compensation consultants to compile pay data.*
- *LACERA supports disclosure of the percentile ranking of the CEO's total pay package against those of various comparable companies surveyed by the compensation consultants.*

D. Golden Parachutes

Golden parachutes is a term that describe the, often lucrative, benefits that executives receive if they are fired or quit following a change in control of their company. These benefits are frequently provided for in executives' employment contracts. They are also awarded to management by boards of directors after a company becomes the subject of takeover speculation or the actual target of a takeover attempt.

Enactment of The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 requires companies to submit golden parachute compensation packages to shareholders for approval.

- *LACERA reviews **<u>case-by-case</u>** proposals to approve the company's golden parachute compensation. Features that may lead to a vote **<u>against</u>** include:*
  - *Single- or modified-single-trigger cash severance;*
  - *Single-trigger acceleration of unvested equity awards;*
  - *Excessive cash severance (>3x base salary and bonus);*
  - *Excise tax gross-ups triggered and payable;*
  - *Excessive golden parachute payments; or*
  - *Recent amendments that incorporate any problematic features or recent actions that may make packages so attractive as to influence merger agreements that may not be in the best interests of shareholder; or*
  - *The company's assertion that a proposed transaction is conditioned on shareholder approval of the golden parachute advisory vote.*

- *LACERA votes **for** shareholder proposals to have golden parachutes submitted for shareholder ratification; unless the proposal requires approval prior to entering into an employment contract.*
- *LACERA reviews **case-by-case** all proposals to ratify or cancel golden parachutes. Acceptable parachutes should:*
  - *have a triggering mechanism beyond the control of management;*
  - *not exceed three times base amount (defined as the average annual taxable W-2 compensation during the five years prior to the year in which the change of control occurs);*
  - *Change-in-control payments should be double-triggered, i.e. (1) after a change in control has taken place, and (2) termination of the executive as a result of the change in control.*

E. Employee Stock Ownership Plans

Employee stock ownership plans (ESOPs) encourage non-management employees to acquire an ownership stake in the companies for which they work. ESOPs have been shown to promote employee loyalty and improve productivity. In addition, ESOPs offer very favorable tax treatment to corporations that adopt them, making ESOPs a very cost-effective way to fund employee retirement plans.

LACERA supports the principle of employee ownership. However, it is important to make sure that ESOPs are not being used in a way that will harm the interests of existing shareholders. The best way to ensure an ESOP is not misused by management as a takeover defense is to limit the size of the plan.

- *LACERA votes **for** proposals that request shareholder approval to implement an ESOP or to increase authorized shares for existing ESOPs, except in cases when the number of shares allocated to the ESOP is "excessive" (i.e., generally greater than five percent of outstanding shares).*

F. 401(k) Employee Benefit Plans

A 401(k) employee benefit plan is any qualified plan under Section 401 (k) of the Internal Revenue Code that contains a cash or deferred arrangement. An employee can elect to have a portion of his/her salary invested in a 401(k) plan before any income taxes are assessed (tax deferred). Because of this tax deferral, if the money is withdrawn before retirement there will be a penalty.

From a corporation's perspective, a 401(k) plan provides a highly visible benefit to employees that can be used to attract and retain quality personnel. With so many companies offering a 401(k) plan as part of a compensation/benefit package, a firm without a 401(k) plan cannot compete for quality employees in an ever-shrinking talent pool.

- *LACERA votes **for** proposals to implement a 401(k) savings plan for employees.*

G. Say-on-Pay (Advisory vote on executive compensation)

Enactment of The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 requires companies to submit an advisory vote on executive compensation to shareholders for approval.

Say-on-pay should be utilized as a communication channel with the company regarding its executive compensation practices. An annual advisory vote provides for regular evaluation and communication on the company's executive pay structure. An annual say-on-pay vote should be supported for many of the same reasons as annual director elections; it provides accountability and direct communication on the information available at the time of the shareholders' meeting. In contrast, a say-on-pay vote every two or three years could create confusion in the voting process as to which year the vote applies and potentially reduce constructive communication between the company and shareholders on executive compensation.

- *LACERA votes* ***<u>for</u>*** *annual advisory votes on compensation, which provide the most consistent and clear communication channel for shareholder concerns about companies' executive pay programs.*
- *LACERA votes* ***<u>against</u>*** *advisory votes on executive compensation if:*
  - *There is a significant misalignment between CEO pay and company performance;*
  - *The company maintains significant problematic pay practices;*
  - *The board exhibits a significant level of poor communication and responsiveness to shareholders.*

H. Golden Coffins

- *LACERA votes* ***<u>for</u>*** *shareholder proposals that recommend companies adopt a policy of obtaining shareholder approval for any future agreements and corporate policies that could oblige the company to make payments or awards following the death of a senior executive. These payments may be in the form of unearned salary or bonuses, accelerated vesting or the continuation in force of unvested equity grants, perquisites and other payments or awards made in lieu of compensation.*

I. Pay for Performance

Executive pay is often a topic of heated debate. Investors, economists, shareholders, and the media often portray executive compensation as excessive. Shareholders are especially outraged when they witness poor performance and increases in executive pay. It is the lack of correlation between CEO pay and stock performance that lead to shareholder criticism.

- *LACERA reviews* ***<u>case-by-case</u>*** *shareholder proposals that request approval of a significant amount of performance-based incentive compensation to senior executives.*
- *LACERA reviews* ***<u>case-by-case</u>*** *proposals advocating the use of performance based equity awards, such as performance contingent options or restricted stock, indexed options or premium-priced options.*

- *LACERA votes* ***against*** *an equity incentive plan proposal if excessive non-performance-based equity awards are the major contributors to a pay-for-performance misalignment.*

J. Supplemental Executive Retirement Plans (SERPs)

Supplemental Executive Retirement Plans (SERPs) are executive-only retirement plans designed as a supplement to employee-wide plans. SERPs can be either defined benefit plans or a defined contribution plan. SERPs are often viewed as discriminatory because participating executives, who are selected by the company, may receive better benefit formulas than the employee-wide plan. To ensure fairness, shareholders should be able to approve SERP plans.

- *LACERA votes* ***for*** *shareholder proposals requesting to put extraordinary benefits contained in SERP agreements to a shareholder vote unless the company's executive pension plans do not contain excessive benefits beyond what is offered under employee-wide plans.*
- *LACERA votes* ***for*** *shareholder proposals requesting to limit the executive benefits provided under the company's SERP by limiting covered compensation to a senior executive's annual salary and excluding of all incentive or bonus pay from the plan's definition of covered compensation used to establish such benefits.*

K. Pre-Arranged Trading Plans (10b5-1 Plans)

- *LACERA votes* ***for*** *shareholder proposals calling for certain principles regarding the use of prearranged trading plans (10b5-1 plans) for executives. These principles include:*
  - *Adoption, amendment, or termination of a 10b5-1 Plan must be disclosed within two business days in a Form 8-K;*
  - *Amendment or early termination of a 10b5-1 Plan is allowed only under extraordinary circumstances, as determined by the board;*
  - *Ninety days must elapse between adoption or amendment of a 10b5-1 Plan and initial trading under the plan;*
  - *Reports on Form 4 must identify transaction made pursuant to a 10b5-1 Plan;*
  - *An executive may not trade in company stock outside the 10b5-1 Plan;*
  - *Trades under a 10b5-1 Plan must be handled by a broker who does not handle other securities transaction for the executive.*

L. Recoupment of Incentive or Stock Compensation in Specified Circumstances

- *LACERA reviews* ***case-by-case*** *shareholder proposals to recoup incentive cash or stock compensation made to senior executives if it is later determined that the figures upon which incentive compensation is earned turn out to have been in error, or if the senior executive has breached company policy or has engaged in misconduct that may be significantly detrimental to the company's financial position or reputation, or if the senior executive failed to manage or monitor risks that subsequently led to significant* *financial or reputational harm to the company. In considering whether to support such proposals, LACERA will take into consideration the following factors:*

- *If the company has adopted a formal recoupment policy;*
- *The rigor of the recoupment policy focusing on how and under what circumstances the company may recoup incentive or stock compensation;*
- *Whether the company has chronic restatement history or material financial problems;*
- *Whether the company's policy substantially addresses the concerns raised by the proponent;*
- *Disclosure of recoupment of incentive or stock compensation from senior executives or lack thereof; or*
- *Any other relevant factors.*

VII. State of Incorporation

The United States Constitution provides that each state must respect the legal creations of each other state. Accordingly, a company incorporated in one state is entitled to do business, and have its governance provisions respected, throughout the country.

The ability of corporations to choose a place to incorporate and establish residence has resulted in competition among many states for incorporation licensing and legal fees. Delaware has been the most successful in attracting business, with more than 50% of S&P 500 companies incorporated in the state.

The fact that approximately 20% of Delaware's public revenue is derived from incorporation fees and business taxes indicates that states benefit from formulating laws friendly to corporate management. These laws, as expected, are favorable to management by including takeover defense provisions that protect the jobs of management.

A. Voting on State Takeover Statutes

While shareholders have minimal direct control over a state's adoption of anti-takeover legislation, they may influence whether or not a company chooses to be governed by such legislation. Most state anti-takeover provisions allow companies to "opt in" or "opt out" of coverage by stating their intentions in their charters. As a result, shareholders are sometimes requested to vote on whether a company will be governed by specific state statutes.

- *LACERA reviews **case-by-case** proposals to opt in or out of state takeover statutes.*

B. Voting on Control Share Acquisition Statutes

Control share acquisition statutes function by denying shares their voting rights when they contribute to ownership in excess of certain thresholds. Voting rights may only be restored by approval, of either a majority or supermajority, of disinterested shares.

- *LACERA votes **for** proposals to opt out of control share acquisition statutes unless doing so would enable the completion of a takeover that would be detrimental to shareholders.*
- *LACERA votes **against** proposals to amend the charter to include control share acquisition provisions.*
- *LACERA votes **for** proposals to restore voting rights to the control shares.*

C. Voting on Control Share Cash-Out Statutes

Control share cash-out statutes give dissident shareholders the right to “cash-out” of their position in a company. When an investor crosses a preset threshold level (often 20% to 25%,) remaining shareholders are given the right to sell their shares to the acquirer, who is required to buy them at the highest acquiring price.

➢ *LACERA votes **for** proposals to opt out of control share cash-out statutes.*

D. Voting on Freezeout Provisions

Freezeout provisions force an acquirer to wait a specific period of time, typically 2 to 5 years, before gaining control of a company. The acquirer must secure adequate financing before proceeding with the acquisition and is often also subject to a fair price requirement once the freezeout period has expired. This provision is typically utilized to prevent a highly leveraged take over, with a subsequent "break-up" and sell off of the acquired companies assets.

➢ *LACERA votes **for** proposals to opt out of state freeze-out provisions.*

E. Voting on Fair Price Provisions

Fair price provisions require anyone wishing to purchase control of a company to pay all shareholders a defined fair price. A fair price is usually defined as the highest price that a potential acquirer pays to any shareholder during a specified period of time. Fair price requirements are intended to deter two-tiered, front-end-loaded tender offers, in which shareholders that tender (sell) their shares first receive a higher price for their shares than other shareholders. State sponsored fair price statutes allow the requirement to be bypassed should a certain percentage of shareholders favor such a course of action. (Greater than 50% of states employing fair price provisions require a majority of disinterested shares, while approximately 40% require that a supermajority of all shares approve the acquisition.)

➢ *LACERA reviews **case-by-case** proposals to adopt fair price provisions.*

F. Voting on Disgorgement provisions

An acquirer of more than a specified percentage of a company's stock must pay back, to the company, any profits realized from the sale of that company's stock purchased 24 months before achieving control status. Disgorgement provisions prevent a hostile acquirer from profiting by purchasing a large stake in a company, announcing a battle for control of that company and then selling out at the higher market price resulting from news of the potential acquisition.

➢ *LACERA votes **for** proposals to opt out of disgorgement provisions.*

G. Voting on Reincorporation Proposals

Re-incorporation refers to changing a company's state of incorporation. A company that reincorporates must obtain shareholder approval for the move and for the new charter it adopts when it shifts to the new state. Many re-incorporations involve moves to Delaware to take advantage of Delaware's flexible corporate laws.

A re-incorporation proposal is sometimes part of a restructuring effort or merger agreement. As such, its contribution to a company's growth, financial health and competitive position can outweigh the anticipated negative consequences of incorporating in states with many anti-takeover statutes. Re-incorporations can also result in lower taxes and incorporation fees. In addition, there may be advantages to reincorporating in the state in which the company conducts the bulk of its business.

- *LACERA examines proposals to change a company's state of incorporation* **case-by-case** *giving consideration to both financial and corporate governance concerns:*
  - Reasons for re-incorporation.
  - Comparison of company's governance provisions prior to and following the transaction.
  - Comparison of corporation laws of original state and destination state.
- *LACERA votes* ***for*** *re-incorporation when the economic factors outweigh any neutral or negative governance changes.*

H. Litigation Rights (Exclusive Venue and Fee-Shifting Bylaw Provisions)

- *LACERA reviews* ***case-by-case*** *on bylaws which impact shareholders' litigation rights, taking into account factors such as:*
  - The company's stated rationale for adopting such a provision;
  - Disclosure of past harm from shareholder lawsuits in which plaintiffs were unsuccessful or shareholder lawsuits outside the jurisdiction of incorporation;
  - The breadth of application of the bylaw, including the types of lawsuits to which it would apply and the definition of key terms; and
  - Governance features such as shareholders' ability to repeal the provision at a later date and their ability to hold directors accountable through annual director elections and a majority vote standard in uncontested elections.

I. Stakeholder Provisions

- *LACERA votes* ***against*** *proposals that ask the board to consider non-shareholder constituencies or other non-financial effects when evaluating a merger or business combination.*

VIII.Mergers and Corporate Restructuring

Mergers and corporate restructuring have major financial implications for shareholders. Many of these transactions require shareholder approval. LACERA carefully examines each proposal to determine whether it is in the best financial interests of the shareholders.

The fact that a proposed transaction would provide an above market premium to shareholders is one relevant factor in making a voting decision. However, the offer of a premium does not necessarily mean the transaction is in a shareholder's best interest.

Sometimes these transactions include provisions that LACERA would oppose (anti-takeover measures, for example) if given the opportunity to vote separately on all the provisions. But when the transaction is presented as a single package, the voting decision must be made on the basis of whether the entire proposal is in LACERA's best interest. This requires an analysis of all relevant facts and circumstances.

A. Mergers and Acquisitions

When one company merges with or is acquired by another, the company's board of directors often recommends the merger or acquisition agreement and submits the proposal to shareholders for approval. If the board does not approve the merger or acquisition, but the hostile tender offer is successful, a shareholder vote on the proposal may also occur.

- *LACERA, in conjunction with ISS, evaluates mergers and acquisitions **case-by-case** taking into account the following:*
  - Valuation – Is the value to be received by the target shareholders (or paid by the acquirer) reasonable? The fairness opinion provides an initial starting point for assessing valuation reasonableness, but ISS also places emphasis on the offer premium, market reaction and strategic rationale.
  - Market reaction – How has the market responded to the proposed deal? A negative market reaction will cause ISS to scrutinize a deal more closely.
  - Strategic rationale – Does the deal make sense strategically? From where is the value derived? Cost and revenue synergies should not be overly aggressive or optimistic, but reasonably achievable. Management should also have a favorable track record of successful integration of historical acquisitions.
  - Negotiations and process – Were the terms of the transaction negotiated at arm's-length? Was the process fair and equitable? A fair process helps to ensure the best price for shareholders. Significant negotiation "wins" can also signify the deal makers' competency. How the target was shopped (e.g., full auction, partial auction, no auction) can also affect shareholder value.

- Conflicts of interest – Are insiders benefiting from the transaction disproportionately and inappropriately as compared to non-insider shareholders? As the result of potential conflicts, the directors and officers of the company may be more likely to vote to approve a merger than if they did not hold these interests.
- Governance – Will the combined company have a better or worse governance profile than the respective current governance profiles of the respective parties to the transaction? If the governance profile is to change for the worse, the burden is on the company to prove that other issues (such as valuation) outweigh any deterioration in governance.

B. Corporate Restructuring

In certain business situations, majority shareholders of a corporation desire to gain complete control of the assets and cash flow of a company. To accomplish this task called "taking a public company private", it is necessary for the majority shareholders to eliminate the minority shareholders. The two principal means for taking a public company private are through minority squeeze-outs and leveraged buyouts (LBO). However, most of the proposals presented to shareholders for approval are specifically management-sponsored LBO's.

- *Corporate restructuring proposals, including leveraged buyouts and squeeze-outs, are evaluated* ***case-by-case*** *by considering the following factors:*
  - *Offer price/premium;*
  - *Fairness opinion;*
  - *How the deal was negotiated;*
  - *Conflicts of interest;*
  - *Other alternatives/offers considered; and*
  - *Non-completion risk.*

C. Spin-offs

One of the more popular and successful corporate strategy developed in recent years is the spin-off of a segment or division of a large corporation to its shareholders as a separate corporate entity. If approved, spin-off shares are sent out to existing investors as a bonus or a dividend share. As long as there is a legitimate business purpose for the spin-off, rather than mere tax avoidance, Section 355 of the Internal Revenue Code declares that spin-offs are tax-free (as long as the stock is held).

- *Spin-offs are evaluated* ***case-by-case*** *depending on the tax and regulatory advantages, planned use of sale proceeds, managerial incentives, valuation of spinoff, fairness opinion, benefits to the parent company, conflicts of interest, corporate governance changes, and changes in the capital structure.*

D. Asset Purchases

- *LACERA reviews **case-by-case** asset purchase proposals, considering the following factors:*
  - *Purchase price;*
  - *Fairness opinion;*
  - *Financial and strategic benefits;*
  - *How the deal was negotiated;*
  - *Conflicts of interest;*
  - *Other alternatives for the business;*
  - *Non-completion risk*

E. Asset Sales

Corporations cite many reasons for divesting corporate assets, including the need to raise capital, getting rid of an unprofitable business, and repayment of debt. However, the two main reasons for the sale of a corporate asset are: 1) the asset in question is causing "diseconomies" of scale or negative synergies, i.e., the asset is not only failing to generate adequate returns, but is also harming the value of the company as a whole and, 2) the company simply thinks it can sell the asset for a large gain to a buyer who can make better use of the asset.

- *LACERA reviews **case-by-case** on asset sales after evaluating the impact on the balance sheet/working capital, value received for the asset, potential elimination of diseconomies, anticipated financial and operating benefits, anticipated use of funds, fairness opinion, how the deal was negotiated, and conflicts of interest.*

F. Liquidations

Liquidation proposals are generally bad news for long-term investors. They usually occur after a prolonged period of declines in earnings and share prices. However, liquidation may be an attractive option if the sale of the firm's assets on a piece-meal basis can be accomplished at a higher than market price.

- *LACERA reviews liquidations **case-by-case** after reviewing management's efforts to pursue other alternatives, appraised value of assets, and the compensation plan for executives managing the liquidation. It is critical to review the likelihood that the company will file for bankruptcy, if the liquidation proposal is not approved.*

G. Appraisal Rights

Rights of appraisal provide shareholders who are not satisfied with the terms of certain corporate transactions, such as a merger or corporate re-structuring, the right to demand a judicial review of the transaction to determine a fair market value for their shares.

- *LACERA votes **for** proposals to restore, or provide shareholders with, rights of appraisal.*

H. Changing Corporate Name

- *LACERA votes **for** changing a corporation's name.*

I. Amending Bylaws

- *LACERA votes **against** proposals giving the board exclusive authority to amend the bylaws.*
- *LACERA votes **for** proposals giving the board the ability to amend the bylaws subject to shareholders' approval.*

J. Plans of Reorganization (Bankruptcy)

- *LACERA reviews case-by-case proposals to common shareholders on bankruptcy plans of reorganization, considering the following factors including, but not limited to:*
  - *Estimated value and financial prospects of the reorganized company;*
  - *Percentage ownership of current shareholders in the reorganized company;*
  - *Whether shareholders are adequately represented in the reorganization process (particularly through the existence of an Official Equity Committee);*
  - *The cause(s) of the bankruptcy filing, and the extent to which the plan of reorganization addresses the cause(s);*
  - *Existence of a superior alternative to the plan of reorganization; and*
  - *Governance of the reorganized company.*

IX. Auditors

A. Ratifying Auditors

Companies are not legally required to allow shareholders to ratify the selection of auditors; therefore, sometimes shareholders are not given an opportunity to vote on ratification of an auditor. However, even if not required, many companies seek shareholder ratification of auditors.

Companies typically disclose the audit firm retained, and ask for shareholder approval. Occasionally, companies also assert in the proxy statement that if shareholders do not ratify the selection of auditors, the board will consider switching to a new auditor.

- *LACERA votes **for** proposals to ratify auditors, unless:*
    - *An auditor has a financial interest in or association with the company and is therefore not independent;*
    - *There is reason to believe that the independent auditor has rendered an opinion, which is neither accurate nor indicative of the company's financial position;*
    - *Poor accounting practices are identified that rise to a serious level of concern, such as: fraud, misapplication of GAAP; and material weaknesses identified in Section 404 disclosures; or*
    - *Fees for non-audit services are excessive.*

B. Non Audit Fees / Auditor Independence

- *LACERA votes **against** auditors and withhold votes from Audit Committee members if: Non-audit ("other") fees > audit fees + audit-related fees + permissible tax fees.*
- *LACERA reviews **case-by-case** shareholder proposals limiting or prohibiting their auditors from engaging in non-audit services, evaluating whether non-audit services are excessive and whether the company has policies in place to limit non-audit services or prevent conflicts of interest.*

C. Auditor Firm Rotation

- *LACERA votes **case-by-case** proposals to rotate audit firms, taking into account:*
    - *The tenure of the audit firm;*
    - *The length of rotation specified in the proposal;*
    - *Any significant audit-related issues at the company;*
    - *The number of audit committee meetings held each year;*
    - *The number of financial experts serving on the committee; and*
    - *Whether the company has a periodic renewal process where the auditor is evaluated for both audit quality and competitive price.*

D. Auditor Indemnification and Limitation of Liability

- *LACERA reviews **case-by-case** on the issue of auditor indemnification and limitation of liability. Factors to be considered include:*
  - *The terms of the auditor agreement-the degree to which these agreements impact shareholders' rights;*
  - *The motivation and rationale for establishing the agreements;*
  - *The quality of the company's disclosure; and*
  - *The company's historical practices in the audit area.*

E. Limiting Non-Audit Services

- *LACERA reviews **case-by-case** shareholder proposals asking companies to prohibit or limit their auditors from engaging in non-audit services.*

X. Social and Environmental Issues

A. Social and Environmental

Although social responsibility proposals are seldom approved by shareholders, they focus shareholders and management attention on public issues related to a corporation's business activities. Even though the impact of these proposals on sales, earnings and return to shareholders is insignificant, careful attention to these issues has the potential to be beneficial to corporations and their shareholders.

It is good business for corporations to be responsive to public expectations. Conversely, a corporation that ignores the social impact of its activities does so at its own risk. Therefore, it is in the corporation's best interest, and the best interests of its shareholders, to carefully consider the impact that a company's business activities have on the public.

On November 19, 2008, LACERA's Board of Investments adopted the United Nations Principles for Responsible Investment, a set of global best practices for social, environmental and governance (ESG) investing. ISS is also a signatory to the Principles. As a result, ISS incorporates the relevant aspects of the Principles into its proxy analysis process. Therefore, when considering how to vote on ESG proposals, investment staff relies on the research expertise and voting recommendations of ISS.[8]

- *LACERA, in conjunction with ISS, reviews* ***case-by-case*** *shareholder social and environmental proposals on whether implementation of the proposal is likely to enhance or protect shareholder value, and in addition the following will also be considered:*
  - *If the issues presented in the proposal are more appropriately or effectively dealt with through legislation or government regulation;*
  - *If the company has already responded in an appropriate and sufficient manner to the issue(s) raised in the proposal;*
  - *Whether the proposal's request is unduly burdensome (scope, timeframe, cost) or overly prescriptive;*
  - *The company's approach compared with any industry standard practices for addressing the issue(s) raised by the proposal;*
  - *If the proposal requests increased disclosure or greater transparency, whether or not reasonable and sufficient information is currently available to shareholders from the company or from other publicly available sources; and*
  - *If the proposal requests increased disclosure of greater transparency, whether or not implementation would reveal proprietary or confidential information that could place the company at a competitive disadvantage.*

[8] ISS has provided LACERA with global proxy advisory services since 1991. They became a signatory to the Principles in January 2008.

XI. Other Issues

A. Corporate Governance Committee

The Board of Investments has delegated certain responsibilities to the Corporate Governance Committee, as set forth in the Corporate Governance Committee Policy Statement.

1. When voting on highly publicized, controversial, time-critical proxies with a "case-by-case" voting recommendation on which LACERA's proxy voting advisors have split opinion:
   A. Either LACERA's Chief Investment Officer ("CIO") or the CGC Chair shall call a meeting of the CGC for a time at which the most CGC members can meet to determine LACERA's voting position and direct Staff to vote accordingly.
   B. If a quorum of the CGC cannot meet in time for LACERA to vote, the CGC Chair will determine LACERA's vote after consultation with LACERA's Chief Executive Officer, CIO, and Chief Legal Counsel, or their designees, and direct Staff to vote accordingly.

2. Recommending Votes Contrary to the Established Proxy Voting Guidelines
   The Corporate Governance Committee may, in appropriate cases, recommend to the Board of Investments that votes be cast on a particular issue contrary to the Board's established Proxy Voting Guidelines. Votes may not be cast contrary to the Guidelines unless duly authorized by the Board.

NON-U.S. PROXY VOTING GUIDELINES
LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION

February 11, 2015

Guidelines Are Derived in Large Part From the
Institutional Shareholder Services Inc. International Voting-Policy Manual

Introduction

The international proxy voting guidelines contained in this document are designed to provide guidance to investment staff when voting proxies on behalf of the Board of Investments and the plan participants of the Los Angeles County Employees Retirement Association (LACERA).

Institutional Shareholder Services Inc. (ISS) and Glass Lewis & Company are LACERA's proxy voting advisors. ISS, LACERA's principal proxy advisor, provides investment staff with corporate governance research and analysis, and proxy voting recommendations for annual and special meetings of publicly-held non-U.S. companies. LACERA's proxy voting guidelines are based in large part on ISS's International Voting-Policy Manual. Glass Lewis provides staff with supplemental research, analysis, and proxy voting recommendations.

The guidelines are divided into nine sections:

I. Board of Directors
II. Management Proposals
III. Miscellaneous Corporate Governance Provisions
IV Capital Structure
V. Executive and Director Compensation
VI. Mergers and Corporate Restructuring
VII. Auditors
VIII. Social and Environmental Issues
IX. Other Issues

Each section addresses the most common types of proxy voting issues in that specific category. These guidelines reflect a general overview of non-U.S. proxy voting issues and are an amalgamation of best practices. These guidelines do not reflect country specific proxy voting issues as each country has its own particular laws and regulations governing corporations and the proxy process. Staff will defer to the proxy advisors for voting recommendations on proxy voting issues that are not covered in these guidelines. LACERA's proxy voting recommendations--for, against, or case-by-case--are listed in underlined, boldface type.

In all cases, when voting LACERA proxies, staff and/or proxy advisor are obligated to evaluate the financial impact of the issues. All votes must be cast for the exclusive benefit of plan participants and beneficiaries. All votes must be made with a view to maximize the long-term value of plan holdings.

Section IX discusses the authority of the Corporate Governance Committee: 1) voting on highly publicized, controversial, time-critical proxies with a "case-by-case" voting recommendation on which LACERA's proxy voting advisors have split opinion, and 2) addresses other actions the Committee may take with respect to the voting of proxies.

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I. Board of Directors

Directors are elected by the shareowners as their representatives to drive the strategic direction and oversight of the company and its management. Therefore, the most important voting decision of shareowners is in the election of directors.

A. Director Elections

1. Voting on Director Nominees in Uncontested Elections

- *LACERA votes* ***for*** *management nominees in the election of directors, unless:*
  - Adequate disclosure has not been provided in a timely manner;
  - There are clear concerns over questionable finances or restatements;
  - There have been questionable transactions with conflicts of interest;
  - There are any records of abuses against minority shareholder interests; or
  - The board fails to meet minimum corporate governance standards.

- *LACERA votes* ***against*** *individual directors, members of a committee, or the entire board, due to:*
  - Material failures of governance, stewardship, risk oversight, or fiduciary responsibilities at the company;
  - Failure to replace management as appropriate; or
  - Egregious actions related to a director's service on other boards that raise substantial doubt about his or her ability to effectively oversee management and serve the best interests of shareholders at any company.

- *LACERA votes* ***for*** *individual nominees unless there are specific concerns about the individual, such as:*
  - Criminal wrongdoing; or
  - Breach of fiduciary responsibilities.

2. Voting on Director Nominees in Contested Elections

A contested election occurs when a dissident shareowner has been unable to effect change with a company's management or current directors and resorts to nominating its own slate of directors at the company's annual meeting. This proxy contest puts the persuasive burden on the dissident shareowner to prove that its nominees are more qualified to serve on the board relative to management's nominees. Additionally, this dissident shareowner should provide evidence that their prescriptions for change are in the best interests of the long-term shareowner.

- *LACERA votes* ***case-by-case*** *for director nominees in a contested election of directors. The following factors should be considered when evaluating nominees for director in contested elections:*
  - Company performance relative to its peers;
  - Strategy of the incumbents versus the dissidents;
  - Independence of directors/nominees;
  - Experience and skills of board candidates;
  - Governance profile of the company;
  - Evidence of management entrenchment;

- Responsiveness to shareowners;
- Whether a takeover offer has been rebuffed;
- Whether minority or majority representation is being sought.

Directors Definitions

Executive Director

- Employee or executive of the company;
- Any director who is classified as a non-executive, but receives salary, fees, bonus, and/or other benefits that are in line with the highest-paid executives of the company.

Non-Independent Non-Executive Director (NED)

- Any director who is attested by the board to be a non-independent NED;
- Any director specifically designated as a representative of a significant shareowner of the company;
- Any director who is also an employee or executive of a significant shareowner of the company;
- Beneficial owner (direct or indirect) of at least 10 percent of the company's stock, either in economic terms or in voting rights (this may be aggregated if voting power is distributed among more than one member of a defined group, e.g., members of a family that beneficially own less than 10 percent individually, but collectively own more than 10 percent), unless market best practice dictates a lower ownership and/or disclosure threshold (and in other special market-specific circumstances);
- Government representative;
- Currently provides (or a relative[1] provides) professional services[2] to the company, to an affiliate of the company, or to an individual officer of the company or of one of its affiliates in excess of $10,000 per year;
- Represents customer, supplier, creditor, banker, or other entity with which company maintains transactional/commercial relationship (unless company discloses information to apply a materiality test[3]);
- Any director who has conflicting or cross-directorships with executive directors or the chairman of the company;
- Relative of current employee of the company or its affiliates;
- Relative of former executive of the company or its affiliates;
- A new appointee elected other than by a formal process through the general meeting (such as a contractual appointment by a substantial shareowner);

[1] "Relative" follows the SEC's proposed definition of "immediate family members" which covers spouses, parents, children, step-parents, step-children, siblings, in-laws, and any person (other than a tenant or employee) sharing the household of any director, nominee for director, executive officer, or significant shareholder of the company.

[2] Professional services can be characterized as advisory in nature and generally include the following: investment banking/financial advisory services; commercial banking (beyond deposit services); investment services; insurance services; accounting/audit services; consulting services; marketing services; and legal services. The case of participation in a banking syndicate by a non-lead bank should be considered a transaction (and hence subject to the associated materiality test) rather than a professional relationship.

[3] If the company makes or receives annual payments exceeding the greater of $200,000 or 5 percent of the recipient's gross revenues. (The recipient is the party receiving the financial proceeds from the transaction.)

- Founder/co-founder/member of founding family but not currently an employee;
- Former executive (five-year cooling off period);
- Years of service will not be a determining factor unless it is recommended best practice in a market.

Independent NED

- No material[4] connection, either direct or indirect, to the company other than a board seat.

Employee Representative

- Represents employees or employee shareowners of the company (classified as "employee representative" but considered a non-independent NED).

B. Board Structure

1. Board Size - Proposals to fix board size are common, including proposals to establish a range of board size. A range of two or three open slots relative to the existing board size gives the company some flexibility to attract high quality board members during the year.

   - *LACERA votes **for** proposals to fix board size.*

2. Classified Board - All directors should stand for reelection every year and should be accountable to shareowners on an annual basis.

   - *LACERA votes **against** the introduction of classified boards.*

3. Mandatory Age of Retirement - Each director’s performance should be evaluated on the basis of his or her individual contribution and experience, not just their age.

   - *LACERA votes **against** mandatory retirement ages for directors.*

4. Altering Board Size – Proposals that allow companies to increase board size could be facilitating the addition of related or like-minded directors to the board – especially as a takeover defense. On the other hand, establishing a minimum number of directors could make it easier to remove independent directors from the board.

   - *LACERA votes **against** proposals to alter board size in the context of a fight for control of the company or board.*

5. Two-Tiered Boards - Companies may have a two-tiered board structure, comprising a supervisory board of non-executive directors and a management board with executive directors. The supervisory board oversees the actions of the management board, while the management board is responsible for the company's daily operations. At

[4] According to ISS, "material" will be defined as a standard of relationship (financial, personal, or otherwise) that a reasonable person might conclude could potentially influence one's objectivity in the boardroom in a manner that would have a meaningful impact on an individual's ability to satisfy requisite fiduciary standards on behalf of shareholders.

companies with two-tiered boards, shareowners elect members to the supervisory board only; the supervisory board appoints management board members.

- *LACERA votes **against** proposals to alter board structure in the context of a fight for control of the company or board.*

II. Management Proposals

A. Financial Results/Director and Auditor Reports

The financial statements and director and auditor reports are essential in evaluating a company's annual performance. The director report reviews the company's performance and activities during the year. The auditor report discloses any financial irregularities or issues.

- *LACERA votes **for** approval of financial statements and director and auditor reports, unless:*
  - There are concerns about the account presented or audit procedures used; or
  - The company is not responsive to shareholder questions about specific items that should be publicly disclosed.

B. Discharge of Board and Management

The discharge of board and management represents shareowner approval of decisions and business execution during the year. Discharge is an implicit vote of confidence in the company's management and policies.

- *LACERA votes **for** discharge of directors, including members of the management board and/or supervisory board, unless there is reliable information about significant and compelling controversies that the board is not fulfilling its fiduciary duties, such as the following:*
  - A lack of oversight or actions by board members which invoke shareowner distrust related to misbehavior or poor supervision, such as operating in private or company interest rather than in shareowner interest.
  - Any legal issues (e.g. civil/criminal) aiming to hold the board responsible for breach of trust in the past or related to currently alleged action yet to be confirmed, such as price fixing, insider trading, bribery, fraud, and other illegal actions.
  - Other egregious governance issues where shareowners will bring legal action against the company or its directors.

C. Allocation of Income

Many countries require shareowners to approve the allocation of income generated during the year.

- *LACERA votes **for** approval of the allocation of income. An analysis of the proposal will focus on the payout ratio with the following:*
  - The dividend payout ratio has been consistently below 30 percent without adequate explanation;
  - The payout is excessive given the company's financial position.

D. Stock (Scrip) Dividend Policy

Occasionally shareowners have the option of receiving their dividend payment in the form of common stock in lieu of cash. Although this option does not immediately add to shareowner value, it allows companies to retain cash and in turn strengthen the position and commitment of long-term shareowners.

- *LACERA votes **<u>for</u>** most stock (scrip) dividend proposals.*
- *LACERA votes **<u>against</u>** proposals that do not allow for a cash option unless management demonstrates that the cash option is harmful to shareowner value.*

E. Amendments to Articles of Association

Changes in a company's legal and regulatory environment could require a company to amend its articles of association. However, such changes could have a significant impact on the company's corporate governance.

- *LACERA votes **<u>case-by-case</u>** on amendments to the articles of association.*

F. Change in Company Fiscal Term

- *LACERA votes **<u>for</u>** resolutions to change a company's fiscal term unless a company's motivation for the change is to postpone its annual meeting.*

G. Reincorporation Proposals

Reincorporation proposals will be examined for their purpose, such as a restructuring or merger that contributes significantly to a company's growth, financial health, and competitive position. However, reincorporation often allows companies to adopt a new charter or bylaws with increased protection for management, such as increasing the company's capital stock or creating a classified board. Charter revisions that include the addition of negative corporate governance provisions will be balanced against the anticipated benefits of the reincorporation.

- *LACERA votes **<u>case-by-case</u>** on reincorporation proposals.*

H. Expansion of Business Activities

In order to expand business activities, some companies may request shareowner approval to amend the objects clause of their articles of association or memorandum of association, as may be required by law. In some countries, the objects clause is required by law to specify business purposes.

- *LACERA votes **<u>for</u>** resolutions to expand business activities unless the new business takes the company into risky areas.*

I. Related-Party Transactions

Transactions between a parent company and its subsidiary, or dealings with entities that employ the company's directors, are usually classified as related-party transactions. These transactions are subject to company law or stock exchange listing requirements that mandate shareowner approval to protect shareowners against insider trading abuses. However, the agreement should not include a request for a strategic move outside of the company's charter or unfavorable terms.

- *LACERA votes **<u>case-by-case</u>** on related-party transactions. The following factors should be considered:*

- *The parties on either side of the transaction;*
- *The nature of the asset to be transferred/service to be provided;*
- *The pricing of the transaction;*
- *The views of independent directors;*
- *The views of an independent financial adviser;*
- *Whether any entities party to the transaction is conflicted; and*
- *The stated rationale for the transaction, including discussions of timing.*

J. Compensation Plans

Plans should motivate participants to focus on long-term shareowner value and returns, encourage employee stock ownership, and more closely align employee interests with those of shareowners. There are three main types of compensation plans: stock option plans, incentive plans, and share purchase plans.

- *LACERA votes **case-by-case** on compensation plans after analyzing potential dilution of shareowners and plan features.*

K. Transact Other Business

Although this item provides an opportunity for questions and any other resolutions that may be brought up at the meeting, shareowners who vote by proxy do not know what issues will be raised. Therefore, shareowners cannot risk the negative consequences of voting in advance on an item for which information is not known at that time.

- *LACERA votes **against** other business when it appears as a voting item.*

III. Miscellaneous Corporate Governance Provisions

A. Director, Officer, and Auditor Indemnification and Liability Provisions

Officers and directors should only be eligible for indemnification and liability protection if they have acted in good faith on company business and were found innocent of any civil or criminal charges for duties performed on behalf of the company. Providing indemnification and liability protection beyond such levels would effectively absolve officers and directors of their duties to shareowners.

- *LACERA votes **case-by-case** on proposals seeking indemnification and liability protection for directors and officers.*

Payments for insurance call into question the objectivity of the auditor in carrying out the audit, as the premiums paid on its behalf could be greater than the audit fees alone. Eliminating concerns about being sued for carelessness could also lead to a decrease in the quality of the audit.

- *LACERA votes **against** proposals to indemnify auditors.*

B. Shareowner Proposals

Shareowner proposals will be reviewed to ascertain whether the proposal is beneficial or detrimental to shareowner value. Resolutions typically fall into two categories: corporate governance, social and environmental.

1. Corporate Governance Proposals - If a measure would improve disclosure of company activities in non-strategic areas and at minimal costs, or seeks to improve the company's corporate governance structure, the proposal will be supported. However, if acceptance of a proposal is likely to lead to a disruption in board or management operations and would cause the company to incur significant costs without clear benefit, the proposal will be opposed.

2. Social and Environmental Proposals - In evaluating social and environmental proposals, it will be determined whether or not the issue in question should be addressed on a company-specific basis. If a proposal would have a negative impact on the company's financial position or adversely affect important operations, the resolution will be opposed.

- *LACERA votes **case-by-case** on shareowner proposals.*
- *LACERA votes **for** proposals that would improve the company's corporate governance or business profile at a reasonable cost.*
- *LACERA votes **against** proposals that limit the company's business activities or capabilities or result in significant costs being incurred with little or no benefit.*

C. Antitakeover Mechanisms

The following antitakeover mechanisms create restrictions through limiting share ownership by foreign or unwanted minority shareowners and to preclude an unwanted takeover of the target company by any party. As owners of the company, shareowners should be given the opportunity to decide on the merits of takeover offers.

1. Golden Shares - Recently privatized companies can include in their share structure a golden share held by their respective governments. These shares can carry exceptional voting rights or veto power over specific proposals. Golden shares are most common among former state-owned companies or politically sensitive industries such as utilities, railways, and airlines.

2. Poison Pills - Companies say they seek to adopt or renew pills in order to protect shareowners against unfair, abusive, or coercive takeover strategies and to give the target company's board time to pursue alternatives to a hostile takeover bid. Theoretically, the board will refuse to redeem the pill in the face of an unfair offer in order to force a bidder to negotiate for a better offer, at which point it will redeem the pill. Some pills have operated this way and have resulted in better terms for target companies. However, pills usually deter or defeat offers.

3. Supermajority Vote Requirements - A simple majority of voting shares should be all that is required to effect change at a company, including its corporate governance provisions.

- *LACERA votes **against** all antitakeover proposals unless they are structured in such a way that they give shareowners the ultimate decision on any proposal or offer.*

D. Lower Disclosure Threshold for Stock Ownership

A level below 5% is often only a pretext for an antitakeover defense and requires a greater number of shareowners to disclose their ownership. This only results in a greater reporting and regulatory burden to shareowners and to the company.

- *LACERA votes **against** resolutions to lower the stock ownership disclosure threshold below 5 percent unless specific reasons exist to implement a lower threshold.*

E. Amend Quorum Requirements

Quorum requirements are intended to ensure that a broad range of shareowners are represented at meetings. Setting a quorum requirement that is too low, whether in absolute terms or relative to the holdings of a large shareowner, undermines this purpose.

- *LACERA votes **case-by-case** on proposals to amend quorum requirements for shareowner meetings.*

IV. Capital Structure

Companies have one of two main types of capital systems: authorized and conditional. Both systems provide companies with the means to finance business activities, but they are considerably different in structure. Which system a company uses is determined by the economic and legal structure of the market in which it operates.

1. Authorized Capital System – The authorized capital system sets a limit in a company's articles on the total number of shares that can be issued by the company's board. The system allows companies to issue shares from this pre-approved limit, although in many markets shareowner approval must be obtained prior to an issuance.

2. Conditional Capital System – Under the conditional capital system, companies seek authorizations for pools of capital with fixed periods of availability.

A. Capital Structures

A key decision for any business is determining its capital structure. Capital allocation – finding the optimal mix of equity, long-term debt, and short-term financing – is critical to driving shareowner returns. This process involves coordination of important issues, including dividend policy, tax and interest rates, types of assets, opportunities for growth, ability to finance new projects internally, and cost of obtaining additional capital.

These decisions are that of the company's board and senior management and who should be given the latitude to determine the company's capital structure. However, shareowners should be aware that financing decisions could have an adverse effect on shareowner returns.

Shareowners' voting rights should accrue in accordance with their equity capital commitment to the company. Dual-class capital structures entrench certain shareowners and management, insulating them from possible takeovers or other external interests. When companies with dual class capital structures seek shareowner approval for the creation of new shares, the creation of additional supervoting shares should be opposed because this perpetuates the dual class structure.

- *LACERA votes **for** resolutions that seek to maintain or convert to a one-share, one-vote capital structure.*
- *LACERA votes **against** requests for the creation or continuation of dual-class capital structures or the creation of new or additional supervoting shares.*

B. Share Issuance Requests

General Issuances – General issuance requests under both authorized and conditional capital systems allow companies to issue shares to raise funds for general financing purposes. Approval of such requests provides companies the ability to carry out ordinary business activities without having to incur the expense and time of calling shareowner meetings for every issuance.

Issuances can be carried out with or without preemptive rights. Preemptive rights guarantee existing shareowners the first opportunity to purchase shares, proportionately to what they already own, in any new issuances of stock.

Rights issued for general capital needs of more than 100 percent of outstanding capital warrant shareowner approval because they could lead to excessive cash calls on shareowners to maintain their ownership proportion or risk substantial dilution.

Companies may need the ability to raise funds for routine business contingencies – such as the servicing of option plans, small acquisitions, or payment for services – without the expense of carrying out a rights issue. When companies make issuance requests without preemptive rights, shareowners suffer dilution as a result of such issuances. As a result, authorizations should be limited to a fixed number of shares or a percentage of capital at the time of issuance.

- *LACERA votes **for** general issuance requests with preemptive rights to a maximum of 100 percent over currently issued capital.*
- *LACERA votes **for** general issuance requests without preemptive rights to a maximum of 20 percent of capital currently issued.*

Specific Issuances

Specific issuance requests should be analyzed on their individual factors and can only be used for the purpose defined in the resolution.

- *LACERA votes **case-by-case** on all specific issuance requests, with or without preemptive rights.*

C. Increases in Authorized Capital

Increases in authorized capital are requested both for general financing flexibility and to provide for a specific purpose. Companies need an adequate buffer of unissued capital in order to take advantage of opportunities during the year, thus they often request increases in authorized capital for no specific purpose other than to retain this flexibility.

For specific requests, increases in capital up to any size may be justified if the purpose of the new authorization is in shareowners' interests. Such increases may be needed to fund a variety of corporate activities, thus each proposal must be reviewed on its individual merits.

- *LACERA votes **for** non-specific proposals to increase authorized capital up to 100 percent over the current authorization unless the increase would leave the company with less than 30 percent of its new authorization outstanding.*
- *LACERA votes **for** specific proposals to increase authorized capital to any amount, unless:*
  - *The specific purpose of the increase (such as a share-based acquisition or merger) does not meet guidelines for the purpose being proposed; or*
  - *The increase would leave the company with less than 30 percent of its new authorization outstanding after adjusting for all proposed issuances.*
- *LACERA votes **against** proposals to adopt unlimited capital authorizations.*

D. Reduction of Capital

Proposals to reduce capital can cover a variety of corporate actions, ranging from routine accounting measures to a significant corporate restructuring in the face of bankruptcy.

- *LACERA votes* ***for*** *proposals to reduce the capital for routine accounting purposes unless the terms are unfavorable to shareowners.*
- *LACERA votes* ***case-by-case*** *on proposals to reduce capital in connection with corporate restructuring.*

E. Preferred Stock

Preferred stock is an equity security, but has some features that make it similar to debt instruments, such as fixed dividend payments, seniority of claims relative to regular common stock (including dividends), and usually no voting rights except on matters that affect the seniority of preferred stock as a class. Preferred stock can be an effective means of raising capital without increasing debt levels, especially if a company has recently concluded a series of acquisitions.

- *LACERA votes* ***for*** *the creation of a new class of preferred stock or for issuance of preferred stock up to 50 percent of issued capital unless the terms of the preferred stock would adversely affect the rights of existing shareowners.*

Voting Preferred Stock - Such preference shares may carry voting rights equal to the voting rights of the common shares or may carry multiple voting rights. If a company already has a preference share authorization with different voting rights than the common shares, shareowners should approve additional issuances of the preference shares, as long as issuances of these preferred shares are limited and do not adversely affect the rights of common shareowners.

- *LACERA votes* ***against*** *the creation of a new class of preference shares that would carry superior voting rights to the common shares.*

Convertible Preferred Stock - If the shares are convertible into common shares, shareowners should evaluate the conversion ratio and calculate the maximum number of shares that could be issued upon conversion to determine the potential amount of dilution that could result for common shareowners as a result of the proposal.

- *LACERA votes* ***for*** *the creation/issuance of convertible preferred stock as long as the maximum number of common shares that could be issued upon conversion meets guidelines on equity issuance requests.*

Blank Check Preferred Stock - Companies may also seek shareowner approval for blank check preferred stock. The directors are allowed to set the size, terms, and recipient of such shares at the time of issuance, which provides companies the flexibility to tailor their preferred stock offerings according to prevailing market conditions. Blank check preferred stock can be used for legitimate corporate purposes such as raising capital or making acquisitions. However, blank check preferred stock can also be used as an entrenchment device and a takeover defense.

- *LACERA votes* ***<u>against</u>*** *the creation of blank check preferred stock unless the board clearly state that the authorization will not be used to thwart a takeover bid.*
- *LACERA votes* ***<u>case-by-case</u>*** *on proposals to increase authorizations of blank check preferred stock.*

F. Debt Issuance Requests

Companies may issue bonds directly to shareowners to raise funds while enjoying low borrowing costs. The issuance of unsecured debt can often include warrants, which are detached at the time of bond issuance, to enhance the marketability of the accompanying fixed income security.

- *LACERA votes* ***<u>case-by-case</u>*** *on non-convertible debt issuance requests, with or without preemptive rights.*

Debt instruments are often issued with the right to convert into equity securities. Convertible bonds give holders the choice of becoming shareowners, thereby increasing the company's market capitalization and liquidity of the company's stock, or selling their newly converted shares.

- *LACERA votes* ***<u>for</u>*** *the creation/issuance of convertible debt instruments as long as the maximum number of common shares that could be issued upon conversion meets guidelines on equity issuance requests.*
- *LACERA votes* ***<u>for</u>*** *proposals to restructure existing debt arrangements unless the terms of the restructuring would adversely affect the rights of shareowners.*

G. Pledging of Assets for Debt

Occasionally, shareowner approval is required when a company needs to secure a debt issuance with its assets.

- *LACERA votes* ***<u>case-by-case</u>*** *on proposals to approve the pledging of assets for debt.*

H. Increase in Borrowing Powers

Some companies are required to seek shareowner approval for increases in their aggregate borrowing power authorities. The aggregate limit on the board's ability to borrow money is often fixed in a company's articles, and shareowner approval to change this limit is therefore legally required.

- *LACERA votes* ***<u>case-by-case</u>*** *on proposals to approve an increase in a company's borrowing powers. Analysis of the proposal should focus on the following areas:*
  - *Management's stated need for the increase;*
  - *The size of the increase; and*
  - *The company's current gearing level.*

I. Share Repurchase Plans

Share repurchase plans should include the following conditions:

- Limitations on a company's ability to use the plan to repurchase shares from third parties at a premium;

- Limitations on the exercise of the authority to thwart takeover threats; and
- A requirement that repurchases be made at arm's length through independent third parties and that selective repurchases require shareowner approval.

➢ *LACERA votes **for** share repurchase programs/market repurchase authorities, provided that the proposal meets the following parameters:*
  - *Maximum volume: 10 percent for market repurchase within any single authority and 10 percent of outstanding shares to be kept in treasury;*
  - *Duration does not exceed 5 years.*

➢ *LACERA votes **against** share repurchase programs/market repurchase authorities proposal where:*
  - *The repurchase can be used for takeover defense;*
  - *There is clear evidence of abuse;*
  - *There is not safeguard against selective buybacks;*
  - *Pricing provisions and safeguards are deemed to be unreasonable in light of market practice.*

➢ *LACERA votes **case-by-case** on share repurchase plans in excess of 10 percent volume under exceptional circumstances, such as one-off company specific events (e.g. capital restructuring), based on merits, which should be clearly disclosed in the annual report, provided that following conditions are met:*
  - *The overall balance of the proposed plan seems to be clearly in shareowners' interests;*
  - *The plan still respects the 10 percent maximum of shares to be kept in treasury;*
  - *Duration does not exceed 18 months.*

J. Reissuance of Shares Repurchased

➢ *LACERA votes **for** requests to reissue any repurchased shares unless there is clear evidence of abuse of this authority in the past.*

K. Capitalization of Reserves for Bonus Issues/Increase in Par Value

Capitalization of reserves - transferring them into the share capital account from either the share premium reserve or the retained earnings account – to carry out bonus issues of shares or increases in par value to existing shareowners, usually requires shareowner approval. These issuances essentially function as dividends.

➢ *LACERA votes **for** requests to capitalize reserves for bonus issues of shares or to increase par value.*

V. Executive and Director Compensation

A. Executive Compensation

- *LACERA votes **case-by-case** management proposals seeking ratification of a company's executive compensation-related items, taking into consideration the following items:*
    - *The company provided shareholders with clear and comprehensive compensation disclosures;*
    - *The compensation plan maintains appropriate pay-for-performance alignment with emphasis on long-term shareholder value;*
    - *The compensation plan avoids arrangements that risk "pay for failure"; and*
    - *The company maintains an independent and effective compensation committee.*

B. Non-Executive Director Compensation

LACERA generally supports resolutions regarding directors' fees unless they are excessive relative to fees paid by other companies in the same country or industry. The analysis focuses on the amount of the proposed compensation relative to market norms but also relative to the company's financial performance.

Companies in many markets provide their non-executive directors an option to receive all or a portion of their fees in the form of company shares in lieu of cash. Although some dilution will occur as a result of these payments, it is minimal. More importantly, increasing directors' share ownership will more likely align the interests of directors with those of shareowners.

Retirement benefits for non-executive directors are improper, as these benefits could impede objectivity and do not directly align their interests with that of management or shareowners.

- *LACERA votes **for** proposals to award cash fees to non-executive directors unless the amounts are excessive relative to other companies in the country or industry.*
- *LACERA votes **case-by-case** on non-executive director compensation proposals that include both cash and share-based components.*
- *LACERA votes **case-by-case** on proposals that bundle compensation for both non-executive and executive directors into a single resolution.*
- *LACERA votes **against** proposals to introduce retirement benefits for non-executive directors.*

VI. Mergers and Corporate Restructuring

A. Mergers and Acquisitions

In the analysis of a proposed acquisition, merger, or takeover offer, particular focus will be on the impact of the proposal to shareowner value, both in the short-term and long-term. The ultimate consideration is whether or not the proposal is beneficial to shareowners' existing and future earnings stream and that the impact on voting rights is not disproportionate to that benefit.

If the details of a given proposal are unclear or not available, a fairness opinion is not available, and if the company is uncooperative in providing information about the proposal, LACERA will vote against the proposal due to lack of information.

- *LACERA votes* ***case-by-case*** *on mergers and acquisitions taking into account the following:*
  - *Valuation,*
  - *Market reaction,*
  - *Strategic rationale,*
  - *Conflicts of interest, and*
  - *Governance.*
- *LACERA votes* ***against*** *if the companies that do not provide sufficient information upon request to make an informed voting decision.*

B. Mandatory Takeover Bid Waivers

Many countries impose a bid threshold, imposed either by national law, stock exchange rules, or a company's articles of association, which forces any shareowner whose stake exceeds the threshold to tender a public bid to all the other owners to purchase the remaining shares. This mandatory takeover bid rule prohibits a shareowner from owning a large stake in the company and having a dominating voice in the decision-making without being required to purchase the remainder of the shares. Otherwise, the other shareowners, although potentially holding a substantial percentage of the company's shares, would be left with relatively little say in decisions.

- *LACERA votes* ***case-by-case*** *on proposals to waive mandatory takeover bid requirements.*

C. Reorganizations/Restructurings

Corporate reorganizations or restructurings range from the routine shuffling of subsidiaries within a group to major rescue programs for ailing companies. In the case of reorganizations of assets or subsidiaries within a group, the proposed changes should preserve shareowner value. This analysis includes the effect of the reorganization on the control of group assets, the final ownership structure, the relative voting power of existing shareowners if the share capital is being adjusted, and the expected benefits arising from the changes. In the case of a distress restructuring, shareowners' often have little choice but to approve the restructuring or lose everything.

- *LACERA votes* ***case-by-case*** *on reorganizations and restructurings.*

VII. Auditors

A. Appointment of Auditors and Auditor Compensation

Most large international companies use one of the major international auditing firms to perform their audits. Generally, concerns about the quality and objectivity of the audit are unusual and the reappointment of the auditor is a routine matter. As a result, audit fees tend to be very competitive.

- *LACERA votes **for** the reelection of auditors and proposals authorizing the board to fix auditor fees, unless:*
  - *There are serious concerns about the accounts presented or the audit procedures used;*
  - *There is reason to believe that the auditor has rendered an opinion which is neither accurate nor indicative of the company's financial position;*
  - *External auditors have previously served the company in an executive capacity or can otherwise be considered affiliated with the company;*
  - *Name of the proposed auditors has not been published;*
  - *The auditors are being changed without explanation; or*
  - *Non-audit-related fees are substantial or are routinely in excess of standard annual audit-related fees.*
- *LACERA votes **against** the appointment of external auditors if they have previously served the company in an executive capacity or can otherwise be considered affiliated with the company.*

B. Appointment of Internal Statutory Auditors

The internal statutory auditing board is responsible for verifying corporate accounts, as well as supervising management and ensuring compliance with the law and articles of association. The auditors must perform a quarterly audit and present a report on the balance sheet to shareowners at the annual meeting.

- *LACERA votes **for** the appointment or reelection of statutory auditors, unless:*
  - *There are serious concerns about the statutory reports presented or the audit procedures used;*
  - *Questions exist concerning any of the statutory auditors being appointed; or*
  - *The auditors have previously served the company in an executive capacity or can otherwise be considered affiliated with the company.*

VIII. Social and Environmental Issues

- *LACERA votes* ***case-by-case*** *on social and environmental proposals taking into consideration whether implementation of the proposal is likely to enhance or protect shareholder value. In addition, the following will be considered:*
  - *If the issues presented in the proposal are more appropriately or effectively dealt with through legislation or government regulation;*
  - *If the company has already responded in an appropriate and sufficient manner to the issue(s) raised in the proposal;*
  - *Whether the proposal's request is unduly burdensome (scope, timeframe, or cost) or overly prescriptive;*
  - *The company's approach compared with industry standard practices for addressing the issue(s) raised by the proposal;*
  - *If the proposal requests increased disclosure or greater transparency, whether or not reasonable and sufficient information is currently available to shareholders from the company or from other publicly available sources; and*
  - *If the proposal requests increased disclosure or greater transparency, whether or not implementation would reveal proprietary or confidential information that could place the company at a competitive disadvantage.*

IX. Other Issues

A. Corporate Governance Committee

The Board of Investments has delegated certain responsibilities to the Corporate Governance Committee, as set forth in the Corporate Governance Committee Policy Statement.

1. When voting on highly publicized, controversial, time-critical proxies with a "case-by-case" voting recommendation on which LACERA's proxy voting advisors have split opinion:
   A. Either LACERA's Chief Investment Officer ("CIO") or the CGC Chair shall call a meeting of the CGC for a time at which the most CGC members can meet to determine LACERA's voting position and direct Staff to vote accordingly.
   B. If a quorum of the CGC cannot meet in time for LACERA to vote, the CGC Chair will determine LACERA's vote after consultation with LACERA's Chief Executive Officer, CIO, and Chief Legal Counsel, or their designees, and direct Staff to vote accordingly.

2. Recommending Votes Contrary to the Established Proxy Voting Guidelines - The Corporate Governance Committee may, in appropriate cases, recommend to the Board of Investments that votes be cast on a particular issue contrary to the Board's established Proxy Voting Guidelines. Votes may not be cast contrary to the Guidelines unless duly authorized by the Board.

SIDE-BY-SIDE COMPARISON OF POLICY LANGUAGE BY DRAFT POLICY SECTION AND TOPIC

DRAFT Consolidated Corporate Governance Principles

The table below presents a side-by-side comparison of the draft consolidated Corporate Governance Principles policy with the corresponding, relevant sections extracted from LACERA's current Corporate Governance Principles, current U.S. Proxy Voting Guidelines, and current Non-U.S. Proxy Voting Guidelines.
The left columns identify the draft consolidated policy's secton number and title and the remaining columns contain excerpts from corresponding current policies.

Draft Policy Section Number	Draft Policy Section Name	Current CORPORATE GOVERNANCE PRINCIPLES Language	Current U.S. PROXY VOTING GUIDELINES Language	Current Non-U.S. PROXY VOTING GUIDELINES Language
	Statement of Purpose	[Page 1] 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. [Page 1] LACERA's Board of Investments believes strong corporate governance practices should help maximize shareholder value. [Page 1] 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." 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. [Page 1] Transparency… All investors have a basic right to thorough disclosure of a firm's financial activities [Page 1] Corporate fiduciary duty is an obligation to act in the best interests of the company and its shareholders. …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. [Page 1] 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.	[Page 1] Introduction The U.S. proxy voting guidelines contained in this document are designed to provide guidance to investment staff when voting proxies on behalf of the Board of Investments and the plan participants of the Los Angeles County Employees Retirement Association (LACERA). Institutional Shareholder Services Inc (ISS) and Glass Lewis & Company are LACERA's proxy voting advisors. ISS, LACERA's principal proxy advisor, provides investment staff with corporate governance research and analysis, and proxy voting recommendations for annual and special meetings of publicly-held U.S. companies. LACERA's proxy voting guidelines are based in large part on ISS's Proxy Voting Guidelines. Glass Lewis provides staff with supplemental research, analysis, and proxy voting recommendations. The guidelines are divided into eleven sections: I. The Board of Directors II. Contested Elections III. Takeover Defenses IV. Miscellaneous Corporate Governance Provisions V Capital Structure VI. Executive and Director Compensation VII. State of Incorporation VIII. Mergers and Corporate Restructuring IX. Auditors X. Social and Environmental Issues XI. Other Issues [Page 1]: Guidelines Are Derived in Large Part From the Institutional Shareholder Services Inc.	[Page 2] Introduction The international proxy voting guidelines contained in this document are designed to provide guidance to investment staff when voting proxies on behalf of the Board of Investments and the plan participants of the Los Angeles County Employees Retirement Association (LACERA). Institutional Shareholder Services Inc. (ISS) and Glass Lewis & Company are LACERA's proxy voting advisors. ISS, LACERA's principal proxy advisor, provides investment staff with corporate governance research and analysis, and proxy voting recommendations for annual and special meetings of publicly-held non-U.S. companies. LACERA's proxy voting guidelines are based in large part on ISS's International Voting Policy Manual. Glass Lewis provides staff with supplemental research, analysis, and proxy voting recommendations. The guidelines are divided into nine sections: I. Board of Directors II. Management Proposals III. Miscellaneous Corporate Governance Provisions IV Capital Structure V. Executive and Director Compensation VI. Mergers and Corporate Restructuring VII. Auditors VIII. Social and Environmental Issues IX. Other Issues [Page 1]: Guidelines Are Derived in Large Part From the Institutional Shareholder Services Inc. International Voting Policy Manual
	Statement of Purpose (continued)	[Page 1] 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. [Page 1] Transparency is a basic shareholder right and critical for an institutional investor's 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.	[Page 1-2] Each section addresses the most common types of proxy voting issues in that specific category. Each section also indicates whether the voting issues discussed appear in proxy statements as management proposals, shareholder proposals, or as both. LACERA's proxy voting recommendations - for, against, or case-by-case - are listed in underlined, boldface type. In all cases, when voting LACERA proxies, staff and/or proxy advisor are obligated to evaluate the financial impact of the issues. All votes must be cast for the exclusive benefit of plan participants and beneficiaries. All votes must be made with a view to maximize the long-term value of plan holdings. [Page 33] Executive and Director Compensation: Executive compensation plans have, or should have, two major purposes: to provide incentives for superior performance and to reward such performance when it occurs. Plans that motivate and reward executives for outstanding performance are in a shareholders best interest. Plans that provide benefits regardless of performance are unlikely to align the interests of management and shareholders. [Page 51] Whether the proposal's request is unduly burdensome (scope, timeframe, cost) or overly prescriptive; [Page 48] Changing Corporate Name. LACERA votes for changing a corporation's name.	[Page 2] Each section addresses the most common types of proxy voting issues in that specific category. These guidelines reflect a general overview of non-U.S. proxy voting issues and are an amalgamation of best practices. These guidelines do not reflect country specific proxy voting issues as each country has its own particular laws and regulations governing corporations and the proxy process. Staff will defer to the proxy advisors for voting recommendations on proxy voting issues that are not covered in these guidelines. LACERA's proxy voting recommendations--for, against, or case-by-case--are listed in underlined, boldface type. In all cases, when voting LACERA proxies, staff and/or proxy advisor are obligated to evaluate the financial impact of the issues. All votes must be cast for the exclusive benefit of plan participants and beneficiaries. All votes must be made with a view to maximize the long-term value of plan holdings. [Page 22] • Whether the proposal's request is unduly burdensome (scope, timeframe, or cost) or overly prescriptive; [Page 10] H. Expansion of Business Activities In order to expand business activities, some companies may request shareowner approval to amend the objects clause of their articles of association or memorandum of association, as may be required by law. In some countries, the objects clause is required by law to specify business purposes. ⍰ LACERA votes for resolutions to expand business activities unless the new business takes the company into risky areas.

Draft Policy Section Number	Draft Policy Section Name	Current CORPORATE GOVERNANCE PRINCIPLES Language	Current U.S. PROXY VOTING GUIDELINES Language	Current Non-U.S. PROXY VOTING GUIDELINES Language
I	**Board of Directors**	[Page 1] **Accountability** is the obligation of the Board of Directors and Senio 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. [Page 2-3] 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.	[Page 6] 1. Board Accountability • Transparency into a company's governance practices, • Annual board elections, and • Providing shareholders the ability to remove problematic directors and to vote on takeover defenses or other charter/bylaw amendments. A. Voting on Director Nominees in Uncontested Elections LACERA votes for/against director nominees on a case-by-case basis. The following factors should be examined when evaluating nominees for election as director: • Board accountability; • Board responsiveness; • Director independence; and • Director competence. [Page 6] Board of Directors Although the election of directors is a customary voting item at all corporate annual meetings, electing directors is still considered to be the most important stock ownership right that institutional shareholders can exercise. Directors oversee the management of a corporation and make decisions on the most important issues including the hiring and, if necessary, firing of the CEO, restructuring, the sale of major assets, mergers, acquisitions, and, in the event of a bid, the sale of the company. Generally, the practice of electing directors rarely allows a shareholder any choice in the voting process. In most cases, the option recommended to shareholders is a blanket endorsement of a slate of management nominees. Given that most directors fulfill their fiduciary obligations exceptionally well, most of management's recommendations should be supported. However, when available information confirms a poor performance record for specific nominees, shareholders should withhold votes from those candidates.	[Page 5] Board of Directors Directors are elected by the shareowners as their representatives to drive the strategic direction and oversight of the company and its management. Therefore, the most important voting decision of shareowners is in the election of directors. [Page 7 [Page 7] All directors should stand for reelection every year and should be accountable to shareowners on an annual basis.
I.A.1(a)	Board Independence	[Page 1-2] 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. 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 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." 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. (NACD)	[Page 8-9] 3. Director Independence Independent outside directors can bring objectivity and a new perspective to the numerous issues facing a corporation. They also bring new contacts and specialized skills to a board of directors. When formulating executive compensation policies and responding to takeover offers, the inherent conflict of interest problem is much less severe for outsiders than it is for executive officers. LACERA votes for shareholder proposals requiring that the board consist of a majority or more of independent directors unless the board composition already meets the proposed threshold (by ISS's definition of independence). LACERA votes withhold from insiders and affiliated outsiders sitting on the audit, compensation, or nominating committees. LACERA votes withhold from insiders and affiliated outsiders on the board where the full board is less than majority independent. LACERA votes withhold from any director nominees if the board has failed to establish a nominating, compensation, or audit committee, solely comprised of independent directors.	[Page 6-] Directors Definitions Executive Director • Employee or executive of the company; • Any director who is classified as a non-executive, but receives salary, fees, bonus, and/or other benefits that are in line with the highest-paid executives of the company. Non-Independent Non-Executive Director (NED) • Any director who is attested by the board to be a non-independent NED; • Any director specifically designated as a representative of a significant shareowner of the company; • Any director who is also an employee or executive of a significant shareowner of the company; • Beneficial owner (direct or indirect) of at least 10 percent of the company's stock, either in economic terms or in voting rights (this may be aggregated if voting power is distributed among more than one member of a defined group, e.g., members of a family that beneficially own less than 10 percent individually, but collectively own more than 10 percent), unless market best practice dictates a lower ownership and/or disclosure threshold (and in other special market-specific circumstances); • Government representative;

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I.A.1(b)	Independence Definition		[Page 10] Independent Outside Director • No material connection to company other than board seat (Material is defined as a standard of relationship (financial, personal or otherwise) that a reasonable person might conclude could potentially influence one's objectivity in the boardroom in a manner that would have a meaningful impact on an individual's ability to satisfy requisite fiduciary standards on behalf of shareholders). [Page 9] Directors Definitions Inside Director • Employee of the company or its affiliates (subsidiary, sibling company, or parent company). • Beneficial ownership of more than 50 percent of the company's voting power (this may be aggregated if voting power is distributed among more than one member of a defined group; e.g., members of a family beneficially own less than 50 percent individually, but combined own more than 50 percent). • Director named in the Summary Compensation Table (excluding former interim officers).	Independent NED • No material connection, either direct or indirect, to the company other than a board seat. (According to ISS, "material" will be defined as a standard of relationship (financial, personal, or otherwise) that a reasonable person might conclude could potentially influence one's objectivity in the boardroom in a manner that would have a meaningful impact on an individual's ability to satisfy requisite fiduciary standards on behalf of shareholders.) [Page 6] • Currently provides (or a relative provides) professional services to the company, to an affiliate of the company, or to an individual officer of the company or of one of its affiliates in excess of $10,000 per year; ("Relative" follows the SEC's proposed definition of "immediate family members" which covers spouses, parents, children, step-parents, step-children, siblings, in-laws, and any person (other than a tenant or employee) sharing the household of any director, nominee for director, executive officer, or significant shareholder of the company.)(Professional services can be characterized as advisory in nature and generally include the following: investment banking/financial advisory services; commercial banking (beyond deposit services); investment services; insurance services; accounting/audit services; consulting services; marketing services; and legal services. The case of participation in a banking syndicate by a non-lead bank should be considered a transaction (and hence subject to the associated materiality test) rather than a professional relationship) • Represents customer, supplier, creditor, banker, or other entity with which company maintains transactional/commercial relationship (unless company discloses information to apply a materiality test); (If the company makes or receives annual payments exceeding the greater of $200,000 or 5 percent of the recipient's gross revenues. (The recipient is the party receiving the financial proceeds from the transaction.))
I.A.1(b)	Independence Definition		[Page 9] Affiliated Outside Director • Board attestation that an outside director in not independent. • Former CEO of the company or its affiliate. • Former CEO of an acquired company within the past five years. • Former interim officer if the service was longer than 18 months. If the service was between twelve and eighteen months, then an assessment of the interim officer's employment agreement will be made. • Former officer of the company, an affiliate or an acquired firm within the past five years. • Officer of a former parent or predecessor firm at the time the company was sold or split off from the parent/predecessor within the last five years. • Officer, former officer, general or limited partner of a joint venture or partnership with the company. • Immediate family member of a current or former officer of the company or its affiliates within the last five years. • Immediate family member of a current employee of the company or its affiliates where additional factors raise concern (which may include, but are not limited to, the following: a director related to numerous employees; the company or its affiliates employ relatives of numerous board members; or a non-Section 16 officer in a strategic role).	[Page 6] • Any director who has conflicting or cross-directorships with executive directors or the chairman of the company; • Relative of current employee of the company or its affiliates; • Relative of former executive of the company or its affiliates; • A new appointee elected other than by a formal process through the general meeting (such as a contractual appointment by a substantial shareowner); • Founder/co-founder/member of founding family but not currently an employee; • Former executive (five-year cooling off period); • Years of service will not be a determining factor unless it is recommended best practice in a market. Employee Representative • Represents employees or employee shareowners of the company (classified as "employee representative" but considered a non-independent NED).

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I.A.1(b)	Independence Definition		[Page 9-10] • Currently provides (or an immediate family member provides) professional services directly to the company, to an affiliate of the company or an individual officer of the company or one of its affiliates in excess of $10,000 per year. • Is (or an immediate family member is) a partner in, or a controlling shareholder or an employee of, an organization which provides professional - services to the company, to an affiliate of the company, or an individual officer of the company or one of its affiliates in excess of $10,000 per year. • Has (or an immediate family member has) any material transactional relationship with the company or its affiliates, excluding investments in the company through a private placement. • Is (or an immediate family member is) a partner in, or a controlling shareholder or an executive officer of, an organization which has any material transactional relationship with the company or its affiliates, excluding investments in the company through a private placement. • Is (or an immediate family member is) a trustee, director, or employee of a charitable or non-profit organization that receives material grants or endowments from the company or its affiliates. • Party to a voting agreement to vote in line with management on proposals being brought to shareholders. • Has (or an immediate family member has) an interlocking relationship as defined by SEC involving members of the board of directors or it Compensation Committee. • Founder of company but not currently an employee. • Any material financial tie or other related party transactional relationship to the company.	
I.A.2	Board Leadership	[Page 2] "The responsibilities of leading the board and management are distinct. The CEO is the highest ranking member of the management team," 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.	[Page 13] 8. Separation of CEO and Chairman LACERA generally votes for shareholder proposals that would require the position of chairman be filled by an independent director unless there are compelling reasons to recommend against the proposal, such as a counterbalancing governance structure, which may include any of the following: Designated lead director, elected by and from the independent board members, with clearly delineated duties. (The role may alternatively reside with a presiding director, vice chairman or rotating lead director). At a minimum these should include: • Presides at all meetings of the board at which the chairman is not present, including executive sessions of the independent directors. • Serves as liaison between the chairman and the independent directors. • Approves information sent to the board. • Approves meeting agendas for the board. • Approves meetings schedules to assure that there is sufficient time for discussion of all agenda items. • Has the authority to call meetings of the independent directors. • If requested by major shareholders, ensures that he is available for consultation and direct communication. • 2/3 independent board. • All independent key committees. • Established governance guidelines. • The company should not have underperformed its peers and index on a one-year and three-year basis, unless there has been a change in the Chairman/CEO position within that time. • The company does not have any problematic governance issues.	
I.A.3	Board Committees	[Page 2] Key Committee Structures 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.	[Page 11] 1. Composition of key board committees LACERA votes for shareholder proposals that request that the board audit, compensation and/or nominating committees include independent directors exclusively. [Page 11] LACERA votes against shareholder proposals to establish a new board committee, as such proposals seek a specific oversight mechanism/structure that potentially limits a company's flexibility to determine an appropriate oversight mechanism for itself. However, the following factors will be considered: • Existing oversight mechanisms (including current committee structure) regarding the issue for which board oversight is sought; • Level of disclosure regarding the issue for which board oversight is sought; • Company performance related to the issue for which board oversight is sought; • Board committee structure compared to that of other companies in its industry sector; and/or • The scope and structure of the proposal.	

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I.B.1	Composition		[Page 14] Proposals should have reasonable criteria and analyzed to identify to what extent they may preclude dissident nominees from joining the board. ▯ LACERA reviews case-by-case proposals that establish or amend director qualifications. ▯ LACERA reviews case-by-case shareholder resolutions seeking a director nominee candidate who possesses a particular subject matter expertise, considering: • The company's board committee structure, existing subject matter expertise, and board nomination provisions relative to that of its peers; • The company's existing board and management oversight mechanisms regarding the issue for which board oversight is sought; • The company disclosure and performance relating to the issue for which board oversight is sought and any significant related controversies; and • The scope and structure of the proposal. ▯ LACERA votes against shareholder proposals requiring more candidates than the number of open board seats.	
I.B.2	Diversity		[Page 11-12] Board Diversity: ▯ LACERA votes for requests for reports on the company's efforts to diversify the board, unless: • The gender and racial minority representation of the company's board is reasonably inclusive in relation to companies of similar size and business; and • The board already reports on its nominating procedures and gender and racial minority initiatives on the board and within the company. ▯ LACERA reviews case-by-case proposals asking the company to increase the gender and racial minority representation on its board, taking into account: • The degree of existing gender and racial minority diversity on the company's board and among its executive officers; • The level of gender and racial minority representation that exists at the company's industry peers; • The company's established process for addressing gender and racial minority board representation; • Whether the proposal includes an overly prescriptive request to amend nominating committee charter language; • The independence of the company's nominating committee; • The company uses an outside search firm to identify potential director nominees; and • Whether the company has had recent controversies, fines, or litigation regarding equal employment practices.	
I.B.3.	Board Size	[Page 3-4] Review the Boards' own size, and determine that the size is most effective toward future operations.	[Page 19-20] Shareholder Ability to Alter the Size of the Board: Proposals that allow management to increase or decrease the size of the board at its own discretion are often used by companies as a takeover defense. Shareholders should support management proposals to fix the size of the board at a specific number of directors, thereby preventing management (when facing a proxy contest) from increasing the size of the board without shareholder approval. ▯ LACERA votes for proposals that seek to fix the size of the board. ▯ LACERA votes against proposals that give management the ability to alter the size of the board without shareholder approval.	[Page 7] Board Structure 1. Board Size - Proposals to fix board size are common, including proposals to establish a range of board size. A range of two or three open slots relative to the existing board size gives the company some flexibility to attract high quality board members during the year. ▯ LACERA votes for proposals to fix board size. 4. Altering Board Size – Proposals that allow companies to increase board size could be facilitating the addition of related or like-minded directors to the board – especially as a takeover defense. On the other hand, establishing a minimum number of directors could make it easier to remove independent directors from the board. ▯ LACERA votes against proposals to alter board size in the context of a fight for control of the company or board. [Page 7-8] 5. Two-Tiered Boards - Companies may have a two-tiered board structure, comprising a supervisory board of non-executive directors and a management board with executive directors. The supervisory board oversees the actions of the management board, while the management board is responsible for the company's daily operations. At companies with two-tiered boards, shareowners elect members to the supervisory board only; the supervisory board appoints management board members. ▯ LACERA votes against proposals to alter board structure in the context of a fight for control of the company or board.

SIDE-BY-SIDE COMPARISON OF POLICY LANGUAGE BY DRAFT POLICY SECTION AND TOPIC

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I.B.4	Excessive Commitments		[Page 8] Devote sufficient time and resources to oversight of the company. [Page 10] Excessive Directorships The number of board positions a director holds is of importance and should be taken into consideration when voting on a director nominee. While CEO's benefit from their exposure to other company boards, the time demands of their full-time jobs limit the number of outside commitments they can manage without compromising their effectiveness as CEO's and as outside directors. ▯ LACERA votes withhold from directors who are CEO's of publicly-traded companies who serve on more than three public boards, i.e., more than two public boards other than their own board. ▯ LACERA votes withhold from all other directors who serve on more than six public company boards. • LACERA does not differentiate between directors who have full time jobs and those who are retired, "professional" directors.	
I.B.5.	Tenure and Age Restrictions		[Page 12] Term of Office: A requirement limiting office terms could conceivably harm shareholder interests by forcing experienced and knowledgeable directors off the board. Shareholders should, instead, retain the ability to evaluate and cast their vote on all director nominees once a year. ▯ LACERA votes against proposals to limit the tenure of outside directors. [Page 12] ▯ LACERA votes against proposals to impose mandatory retirement age for outside directors.	[Page 7] 3. Mandatory Age of Retirement - Each director's performance should be evaluated on the basis of his or her individual contribution and experience, not just their age. ▯ LACERA votes against mandatory retirement ages for directors.
I.C.1.	Annual Elections	[Page 5] · Each director should be elected annually.	[Page 17] Board Structure: Staggered (classified) vs. Annual Elections A classified board is generally divided into three separate classes, with one class of directors elected each year, thus providing for "staggered" terms. Because only a minority of the directors are elected each year, dissident shareholders are unable to win control of the board (by proxy contest) in a single election. Two years would be necessary to gain majority control and three years to gain full control. ▯ LACERA votes against proposals to classify the board. ▯ LACERA votes for proposals to repeal classified boards and to elect all directors annually.	[Page 7] 2. Classified Board - All directors should stand for reelection every year and should be accountable to shareowners on an annual basis. +E12 ▯ LACERA votes against the introduction of classified boards.
I.C.2.	Vote Standard for Director Elections	[Page 6] · Directors should be elected by a majority of votes cast in an uncontested director election.	[Page 13] Majority Vote Standard Under most state corporate laws, including Delaware's statutes, a plurality vote is the standard used in the election of the board of directors. Under a plurality system, a board-backed nominee in an uncontested election needs to receive only a single affirmative vote to claim his or her seat in the boardroom. Even if holders of a substantial majority of the votes cast "withhold" support, the director nominee still "wins" the seat. Under the majority vote standard, a director nominee must receive support from holders of a majority of the proxy votes cast in order to be elected (or re-elected) to the board. A majority vote standard transforms the director election process from a symbolic gesture to a meaningful voice for shareholders. ▯ LACERA votes for shareholder proposals requesting the Board to amend the Company's governance documents (certificate of incorporation or bylaws) to provide that director nominees shall be elected by the majority of proxy votes cast at the annual shareholder meeting, provided they allow for a plurality vote in the case of a contested election.	
I.C.3.	Universal Proxy Card	[Page 5] · In the event of a contested director election, investors should have the right to select and vote for individual director nominees on a consolidated, or "universal," proxy ballot, regardless of whether the director nominee is put forward by management or a dissident investor.		

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I.C.4.	Cumulative Voting		[Page 18] Cumulative Voting: Most corporations provide that shareholders are entitled to cast one vote for each director for each share owned. Some companies allow cumulative voting for directors. This permits shareholders to distribute the total number of votes they have, in any manner they wish, when electing directors. For example, a shareholder who owns 1,000 shares of stock in a company that is electing 10 directors will normally cast 1,000 votes for each of the 10 directors. However, with cumulative voting, the shareholder can distribute the total number of votes (10 X 1,000 =10,000) to one candidate or several candidates if they wish. LACERA votes against proposals to eliminate cumulative voting. LACERA votes for proposals to permit cumulative voting in accordance with the California Government Code § 6900. § 6900. Cumulative voting; "Governmental body" Whenever any governmental body is a shareholder of any corporation, and a resolution is before the shareholders which will permit or authorize cumulative voting for directors, such governmental body shall vote its shares to permit or authorize cumulative voting. As used in this section the term "governmental body" means the state, and any office, department, division, bureau, board, commission or agency thereof, and all counties, cities, districts, public authorities, public agencies and other political subdivisions or public corporations in the state.	
I.C.5.	Proxy Access	[Page 5] · Long-term shareholders who hold a significant number of shares should have the right to access the proxy to nominate directors.	[Page 26] Proxy Access LACERA reviews case-by-case proposals to enact proxy access, taking into account the following at a minimum: • Company-specific factors; and • Proposal-specific factors, including: o The ownership thresholds proposed in the resolution; o The maximum proportion of directors that shareholders may nominated each year; and o The method of determining which nominations should appear on the ballot if multiple shareholders submit nominations.	
I.C.6.	Ability to Remove Directors		[Page 17] Shareholder ability to remove directors, with or without cause, is either prescribed by a state's business corporation law, a company's articles of incorporation, or its bylaws. If state law does not specify removal procedures, it is left to the company to determine that process. Removal of directors only for cause requires proof of self-dealing, fraud or misappropriation of corporate assets. By requiring that "cause" be demonstrated in the removal process, management insulates directors from removal by shareholders even if the director has demonstrated poor performance, not attended meetings, or has not acted in the best interest of the shareholders. If a company's bylaws do not specify terms for removal, it should be assumed that directors may be removed without cause. Removal without cause allows shareholders to remove a director by a majority vote before his/her term expires. LACERA votes against proposals that provide that directors may be removed only for cause. LACERA votes for proposals to restore shareholder ability to remove directors with or without cause. LACERA votes against proposals with provisions stating that only continuing directors may elect replacements to fill board vacancies. LACERA votes for proposals that permit shareholders to elect directors to fill board vacancies.	
I.D.1.	Governance Guidance	[Page 2-3] 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.		
I.D.2.	Resources	[Page 3] 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 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.		

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I.D.3.	Independent Proceedings	[Page 3] Directors should work with the CEO to draft Board agendas. Independent directors should meet at least annually, without management or the other non-independent directors participating.		
I.D.4.	Board Communication and Engagement	[Page 7] Shareholder/Director Communication: "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… [cites NACD Key Agreed Principles]	[Page 26] Establishment of Corporate Board Policy on Shareholder Engagement LACERA votes for shareholder proposals requesting that the board establish an internal process, which may include a committee, to improve communications between directors and shareholders, unless the company has the following features: • Established a structure that goes beyond the stock exchange requirements to facilitate communication between shareholders and members of the board. • Effectively disclosed information with respect to this structure to its shareholders. • Company has not ignored majority-supported shareholder proposals or a majority withhold vote on a director nominee. • The company has an independent chairman or lead director.	
I.D.5.	Management Succession Planning	[Page 3] • 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.	[Page 14] CEO Succession Planning LACERA votes for proposals seeking disclosure on a CEO succession planning policy	
I.D.6.	Board Self-Evaluation and Refreshment	[Page 3-4] 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." 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: • 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.		
I.D.7.	Charitable and Political Contributions	[Page 6] 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." (Cites CII Policy)	[Page 25-26] Charitable Contributions Corporate charitable contributions can provide important benefits (direct and indirect) to long-term shareholders. Directly, shareholders benefit from the favorable tax treatment of charitable contributions. Indirectly, they benefit from the goodwill, support and name recognition that these contributions generate. However, shareholders should not decide what are the most worthwhile charities for the corporation. Shareholders have differing and equally conscientious views regarding which charities the company should contribute to, and the amount of the contribution. As a result of these differences, management should determine which contributions are in the best interests of the company. LACERA votes against shareholder proposals to eliminate, direct or otherwise restrict charitable contributions.	

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I.D.8.	Director Indemnification		[Page 24-25] When a corporation indemnifies its directors and officers, the corporation promises to reimburse them for certain legal expenses, damages, and judgments incurred as a result of lawsuits relating to their corporate actions. If a company lacks adequate insurance coverage for its directors, the firm's ability to indemnify directors for honest mistakes in business judgment is the only thing that shields directors from personal liability for expenses and damage awards. Many outside directors would decline to serve on the board if the company would not provide sufficient insurance or the right to be indemnified. The most frequent justification for limiting directors' liability is to attract and retain qualified directors who might be unwilling to serve on boards of directors if they were personally liable for acts of negligence. ? Proposals concerning director and officer indemnification and liability protection are evaluated case-by-case. ? LACERA votes against proposals to limit or entirely eliminate director and officer liability for monetary damages for violating the "duty of care". ? LACERA votes against indemnification proposals that would expand coverage beyond just legal expenses to acts, such as negligence, that are more serious violations of fiduciary obligations than mere carelessness. ? LACERA votes against proposals that expand the scope of indemnification to provide for mandatory indemnification of company officials in connection with acts that previously the company was permitted to provide indemnification for, at the discretion of the company's board. ? LACERA votes for only those proposals that provide such expanded coverage in cases when a director's or officer's legal defense was unsuccessful if: (1) the director was found to have acted in good faith and in a manner that he reasonably believed was in the best interests of the company, and (2) only if the director's legal expenses would be covered.	[Page 12] A. Director, Officer, and Auditor Indemnification and Liability Provisions - Officers and directors should only be eligible for indemnification and liability protection if they have acted in good faith on company business and were found innocent of any civil or criminal charges for duties performed on behalf of the company. Providing indemnification and liability protection beyond such levels would effectively absolve officers and directors of their duties to shareowners. ? LACERA votes case-by-case on proposals seeking indemnification and liability protection for directors and officers. [Page 9] B. Discharge of Board and Management The discharge of board and management represents shareowner approval of decisions and business execution during the year. Discharge is an implicit vote of confidence in the company's management and policies. LACERA votes for discharge of directors, including members of the management board and/or supervisory board, unless there is reliable information about significant and compelling controversies that the board is not fulfilling its fiduciary duties, such as the following: • A lack of oversight or actions by board members which invoke shareowner distrust related to misbehavior or poor supervision, such as operating in private or company interest rather than in shareowner interest. • Any legal issues (e.g. civil/criminal) aiming to hold the board responsible for breach of trust in the past or related to currently alleged action yet to be confirmed, such as price fixing, insider trading, bribery, fraud, and other illegal actions. • Other egregious governance issues where shareowners will bring legal action against the company or its directors.
I.E.1.	Performance Evaluation		[Page 6] LACERA votes for/against director nominees on a case-by-case basis. The following factors should be examined when evaluating nominees for election as director:	
I.E.1.1.	Stewardship and Risk Oversight		[Page 5-6] ? LACERA votes withhold from directors individually, on a committee, or the entire board, due to: • Material failures of governance, stewardship, or fiduciary responsibilities at the company; • Egregious actions related to the director(s)' service on other boards that raise substantial doubt about his or her ability to effectively oversee management and serve the best interests of shareholders at any company.	[Page 5] A. Director Elections 1. Voting on Director Nominees in Uncontested Elections ? LACERA votes for management nominees in the election of directors, unless: • Adequate disclosure has not been provided in a timely manner; • There are clear concerns over questionable finances or restatements; • There have been questionable transactions with conflicts of interest; • There are any records of abuses against minority shareholder interests; or • The board fails to meet minimum corporate governance standards. ? LACERA votes against individual directors, members of a committee, or the entire board, due to: • Material failures of governance, stewardship, risk oversight, or fiduciary responsibilities at the company; • Failure to replace management as appropriate; or • Egregious actions related to a director's service on other boards that raise substantial doubt about his or her ability to effectively oversee management and serve the best interests of shareholders at any company. ? LACERA votes for individual nominees unless there are specific concerns about the individual, such as: • Breach of fiduciary responsibilities.
I.E.1.2.	Effective Oversight of Management		[Page 5-6] ? LACERA votes against individual directors, members of a committee, or the entire board, due to: • Failure to replace management as appropriate; or	[Page 5] A. Director Elections 1. Voting on Director Nominees in Uncontested Elections LACERA votes against individual directors, members of a committee, or the entire board, due to: • Failure to replace management as appropriate
I.E.1.3	Attendance		[Page 10] 4. Director Competence a. Nominee's Attendance at Meetings LACERA votes withhold from any director nominee who attended less than 75 percent of the board and committee meetings. Acceptable reasons for director(s) absences are generally limited to the following: • Medical issues/illness; • Family emergencies; and • If the director's total service was three meetings or fewer and the director missed only one meeting.	

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I.E.1.4.	Board Service		[Page 6-7] LACERA votes withhold from directors individually, on a committee, or the entire board, due to: • Egregious actions related to the director(s)' service on other boards that raise substantial doubt about his or her ability to effectively oversee management and serve the best interests of shareholders at any company.	[Page 5] LACERA votes against individual directors, members of a committee, or the entire board, due to: • Egregious actions related to a director's service on other boards that raise substantial doubt about his or her ability to effectively oversee management and serve the best interests of shareholders at any company.
I.E.1.5.	Ethics		[Page 6-7] ⍰ LACERA votes against individual directors, members of a committee, or the entire board, due to: • Material failures of governance, stewardship, risk oversight, or fiduciary responsibilities at the company; • Egregious actions related to a director's service on other boards that raise substantial doubt about his or her ability to effectively oversee management and serve the best interests of shareholders at any company. ⍰ LACERA votes for individual nominees unless there are specific concerns about the individual, such as: • Criminal wrongdoing; or • Breach of fiduciary responsibilities. • There have been questionable transactions with conflicts of interest;	[Page 5] LACERA votes against individual directors, members of a committee, or the entire board, due to: • Material failures of governance, stewardship, risk oversight, or fiduciary responsibilities at the company; • Egregious actions related to a director's service on other boards that raise substantial doubt about his or her ability to effectively oversee management and serve the best interests of shareholders at any company. ⍰ LACERA votes for individual nominees unless there are specific concerns about the individual, such as: • Criminal wrongdoing; or • Breach of fiduciary responsibilities.
I.E.1.6.	Transparency in Reporting			[Page 5] ⍰ LACERA votes for management nominees in the election of directors, unless: • Adequate disclosure has not been provided in a timely manner;
I.E.1.7.	Investor Responsiveness	[Page 6] 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.	[Page 6] LACERA votes for/against director nominees on a case-by-case basis. The following factors should be examined when evaluating nominees for elction as director: Board responsiveness. [Page 6-7] LACERA votes withhold from director nominees if the board has implemented or renewed a dead-hand or modified dead-hand poison pill without shareholder approval. LACERA votes withhold from directors individually, committee members, or the entire board(except new nominees, who should be considered case-by-case) if the board amends the company's bylaws or charter without shareholder approval in a manner that materially diminishes shareholders' rights or that could adversely impact shareholders, considering the following factors: • The board's rationale for adopting the bylaw/charter amendment without shareholder ratification; • Disclosure by the company of any significant engagement with shareholders regarding the amendment; • The level of impairment of shareholders' rights caused by the board's unilateral amendment to the bylaws/charter; • The board's track record with regard to unilateral board action on bylaw/charter amendments or other entrenchment provisions; • The company's ownership structure; • The company's existing governance provisions; • The timing of the board's amendment to the bylaws/charter in connection with a significant business development; and, • Other factors, as deemed appropriate, that may be relevant to determine the impact of the amendment on shareholders.	

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I.E.1.7..	Investor Responsiveness		[Page 6-7] LACERA votes withhold from director nominees if the board has implemented or renewed a dead-hand or modified dead-hand poison pill without shareholder approval. LACERA votes withhold from directors individually, on a committee, or the entire board, due to: • Material failures of governance, stewardship, or fiduciary responsibilities at the company; • Failure to replace management as appropriate; or • Egregious actions related to the director(s)' service on other boards that raise substantial doubt about his or her ability to effectively oversee management and serve the best interests of shareholders at any company. [Page 7] • Other factors, as deemed appropriate, that may be relevant to determine the impact of the amendment on shareholders. [Page 7] LACERA votes withhold from all nominees of the board of directors (except new nominees, who should be considered on a case-by-case basis) if: • The board adopts a poison pill with a term of more than 12 months ("long-term pill"), or • Renews any existing pill, including any "short-term" pill (12 months or less), without shareholder approval. A commitment or policy that puts a newly-adopted pill to a binding shareholder vote may potentially offset an adverse vote recommendation. • The board makes a material, adverse change to an existing poison pill without shareholder approval. [Page 7] LACERA reviews case-by-case all nominees if the board adopts a poison pill with a term of 12 months or less ("short-term pill") without shareholder approval, taking into account the following factors: The date of the pill's adoption relative to the date of the next meeting of shareholders- i.e. whether the company had time to put the pill on ballot for shareholder ratification given the circumstances; The issuer's rationale; The issuer's governance structure and practices; and The issuer's track record of accountability to shareholders.	
I.E.1.7……	Board responsiveness		[Page 8] 2. Board Responsiveness • Respond to shareholder proposals that receive a majority vote, • Respond to tender offers where a majority of shares are tendered, and LACERA votes withhold from any director who has failed to act on takeover offers where the majority of the shareholders have tendered their shares. LACERA votes withhold for all director nominees that have not implemented a shareholder proposal that was approved by a majority of the votes cast after one year of Board inaction. [Page 5-6] LACERA votes for management nominees in the election of directors, unless: • Adequate disclosure has not been provided in a timely manner; • There are clear concerns over questionable finances or restatements; • There are any records of abuses against minority shareholder interests	[Pages 5-6] • Responsiveness to shareowners;
I.E.2.	Committee Performance		[Page 7] LACERA votes withhold from directors who sit on the audit committee if; • Non-audit fees paid to the auditor are excessive. • The company receives an adverse opinion on the company's financial statements from its auditor. • There is persuasive evidence that the audit committee entered into an inappropriate indemnification agreement with its auditor that limits the ability of the company, or its shareholders, to pursue legitimate legal recourse against the audit firm. [Page 8] LACERA votes withhold from the members of the Compensation Committee and potentially the full board in the absence of an Advisory Vote on Executive Compensation ballot item or in egregious situations if: • There is a significant misalignment between CEO pay and company performance; • The company maintains significant problematic pay practices; • The board exhibits a significant level of poor communication and responsiveness to shareholders; • The company fails to submit one-time transfers of stock options to a shareholder vote; or • The company fails to fulfill the terms of a burn rate commitment made to shareholders.	

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I.E.3.	Contested Director Elections		[page 15-16] Proxy Contests Proxy contests occur when shareholders are solicited (to influence their voting,) by two separate groups at annual or special meetings of a corporation. Generally, one group represents management and the other represents a dissident or group of dissidents that own a significant equity position in the company. In most cases, the dissident group has unsuccessfully attempted to convince management that various changes need to be made, such as corporate restructuring, raising a stock dividend or making a strategic acquisition. Frustrated by unsatisfactory total returns and management's failure to achieve other financial benchmarks, the group launches a proxy contest. A proxy contest may involve the election of an entire slate of board members, in which case the dissidents' goal is to take control of the company by replacing all board members and ultimately ousting members of the incumbent management team. A proxy contest may also involve the election of a minority of board seats, whereby dissidents seek a strong enough position in a company to change corporate strategy without necessarily changing control. Contested elections frequently result in new management and major shifts in corporate strategy. Consequently, proxy contests are of critical importance to a shareholder. Recent studies indicate that dissidents in proxy contests--even when failing to gain board seats--often accomplish at least some of their objectives.	[Page 5-6] Voting on Director Nominees in Contested Elections A contested election occurs when a dissident shareowner has been unable to effect change with a company's management or current directors and resorts to nominating its own slate of directors at the company's annual meeting. This proxy contest puts the persuasive burden on the dissident shareowner to prove that its nominees are more qualified to serve on the board relative to management's nominees. Additionally, this dissident shareowner should provide evidence that their prescriptions for change are in the best interests of the long-term shareowner. LACERA votes case-by-case for director nominees in a contested election of directors. The following factors should be considered when evaluating nominees for director in contested elections: • Company performance relative to its peers; • Strategy of the incumbents versus the dissidents; • Independence of directors/nominees; • Experience and skills of board candidates; • Governance profile of the company; • Evidence of management entrenchment; • Whether a takeover offer has been rebuffed; • Whether minority or majority representation is being sought.
I.E.3.(b)			Votes in a contested election of directors are evaluated on a **<u>case-by-case</u>** basis, considering the following factors: In addition to reviewing the criteria in Part I – "Voting on Director Nominees in Uncontested Elections," the following factors should be taken into consideration when voting on contested elections for director nominees: • Overall long-term financial performance of the target company relative to its industry. Key measures include five-year annual compound growth rates for sales, operating income, net income, and total shareholder returns (share price appreciation plus dividends). Other financial indicators include margin analysis, cash flow, and debt levels. • Management's track record. Review of strategic decision making such as acquisition record, new business development, effectiveness of marketing campaign, and strategic positioning. Look for actions that show a blatant disregard for shareholders such as a blocked takeover bid that shareholders may have been interested in accepting. Consider executive pay and spending on perks, particularly in conjunction with subpar performance and employee layoffs.	
I.E.3.(c)			Background to the proxy contest. Chronology of events leading up to the proxy contest. Look for evidence to indicate that the dissidents attempted to work cooperatively with management on the issues in question. Also look closely at how quickly and in what manner management responds to the dissidents' concerns.	
I.E.3.(d)			Qualifications of director nominees-both slates. For incumbent slate, board and key committee composition is emphasized. Includes review of knowledge and experience of incumbents. Also includes a review of the corporate governance profile looking for entrenchment devices that reduce accountability. For the dissident slate, each candidate's knowledge and experience of the target company and industry is reviewed, as well as the nominees' track record at other companies. • Evaluation of what each side is offering shareholders as well as the likelihood that the proposed objectives and goals can be met. Look for a clear strategic operating plan from both management and the dissidents. Optimistic projections must be backed up with a realistic plan for achieving goals. Stock ownership positions. Substantial share ownership enhances the credibility of director nominees. In the case of dissident nominees, an outstanding tender offer also serves to enhance credibility. When there is an outstanding tender offer, the proxy contest is considered to be a tactic to enhance the offer, and the offer itself is also analyzed.	
I.E.3.(e)			[Page 16] Most of the expenses incurred by incumbents in a proxy contest are paid directly by the company. Conversely, dissidents are typically reimbursed only for proxy solicitation expenses, if they gain control of the company. Sometimes, where the board and a majority of shareholders approve, the dissidents who have only gained partial representation will also be reimbursed. In successful proxy contests, new management will often seek shareholder approval for the use of company funds to reimburse themselves for the costs of proxy solicitation. Decisions to provide full reimbursement for dissidents waging a proxy contest are made case-by-case. In cases where LACERA supports the dissident position, we would vote for the reimbursement of reasonable expenses.	

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II	**Investor Rights**	[p1] 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.	[p27] However, while a company's value depends more on its capital investment and operations than on how it is financed, many financing decisions have a significant impact on shareholders, particularly when they involve the issuance of additional common stock, preferred stock or the assumption of additional debt. Management may propose additional equity financing which may reduce an existing shareholder's ownership interest and can dilute the value of the investment. As a result, shareholders must evaluate all of management's recommended financing vehicles. [Page 48] Amending Bylaws ▯ LACERA votes against proposals giving the board exclusive authority to amend the bylaws.▯ LACERA votes for proposals giving the board the ability to amend the bylaws subject to shareholders' approval. [p27] Capital Structure The management of a corporation's capital structure involves a number of key issues, including dividend policy, taxes, types of assets, opportunities for growth, ability to finance new projects internally, and the cost of obtaining additional capital. The majority of these decisions are best left to the board and senior management of the firm.However, while a company's value depends more on its capital investment and operations than on how it is financed, many financing decisions have a significant impact on shareholders, particularly when they involve the issuance of additional common stock, preferred stock or the assumption of additional debt. Management may propose additional equity financing which may reduce an existing shareholder's ownership interest and can dilute the value of the investment. As a result, shareholders must evaluate all of management's recommended financing vehicles.	[Page 10] E. Amendments to Articles of Association Changes in a company's legal and regulatory environment could require a company to amend its articles of association. However, such changes could have a significant impact on the company's corporate governance. ▯ LACERA votes case-by-case on amendments to the articles of association.
II.A.1.	Rights Proportionate to Economic Interest	[p5] • Each share of common stock, regardless of class, should have one vote. Corporations should not have classes of common stock with disparate voting rights. Authorized unissued common shares that have voting rights to be set by the Board should not be issued without shareholder approval.	[pp22-23] Dual Class Authorization/Unequal Voting Rights Dual class authorization refers to the creation of a second class of common stock, also called class B common or special common stock. Class B common stock may have voting rights and dividend preferences that are different from the existing class of common stock. Generally, the new class of stock is non-transferable, which means the stock can only be sold back to the company. In addition, these shares must be converted back into shares of existing common stock before it can be sold on the market. Many companies created dual class common stock to place voting control with a group of company insiders. As a result, in 1988, the SEC prohibited the issuance of a second class of common stock that had voting rights superior to the existing common stock. However, in 1990 a federal court reversed the ruling, stating that the SEC did not have the authority to decide this issue. After this ruling, many states adopted amendments to their corporation codes to allow boards to authorize stock with unequal voting rights. It is extremely difficult to determine which incidents of dual class recapitalization deserve support. In order to support a dual class exchange offer, shareholders must be confident that the present value of the special dividend received in the offer equals or exceeds the short-term and long-term losses associated with holding limited voting right stock in a dual class company. Given the difficult, if not impossible, task of calculating the value of the vote at each company, each with differing specific circumstances, it is better to oppose dual class exchange offers on the grounds that they contribute to the entrenchment of management and allow for the possibility of management acquiring superior voting shares in the future. ▯ LACERA votes against dual class exchange offers. ▯ LACERA votes against dual class recapitalizations.	[p14] Shareowners' voting rights should accrue in accordance with their equity capital commitment to the company. Dual-class capital structures entrench certain shareowners and management, insulating them from possible takeovers or other external interests. When companies with dual class capital structures seek shareowner approval for the creation of new shares, the creation of additional supervoting shares should be opposed because this perpetuates the dual class structure. ▯ LACERA votes for resolutions that seek to maintain or convert to a one-share, one-vote capital structure. ▯ LACERA votes against requests for the creation or continuation of dual-class capital structures or the creation of new or additional supervoting shares.
II.A.2.	Voting Requirements and Procedures		[p22] Many state laws and most corporate charters require a majority vote of the company's shareholders to approve major actions such as mergers or amendments to a firm's charter or bylaws. [p48] Amending Bylaws ▯ LACERA votes against proposals giving the board exclusive authority to amend the bylaws. ▯ LACERA votes for proposals giving the board the ability to amend the bylaws subject to shareholders' approval. [p45] Mergers and corporate restructuring have major financial implications for shareholders. Many of these transactions require shareholder approval.	[Page 12] As owners of the company, shareowners should be given the opportunity to decide on the merits of takeover offers. [Page 13] 3. Supermajority Vote Requirements - A simple majority of voting shares should be all that is required to effect change at a company, including its corporate governance provisions.

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II.A.2.1.	Simple Majority Voting		[Page 22] Supermajority Voting Requirements Many state laws and most corporate charters require a majority vote of the company's shareholders to approve major actions such as mergers or amendments to a firm's charter or bylaws. In most states, this requirement can be raised to a higher level, a supermajority, if shareholder approval is obtained. Supermajority requirements typically range from two-thirds to 80% of the outstanding shares. These requirements, often included in anti-takeover measures such as classified boards, make it extremely difficult to rescind or amend these measures after they are adopted. ▯ LACERA votes against proposals to require a supermajority shareholder vote. ▯ LACERA votes for proposals to lower supermajority vote requirements. However, for companies with shareholders(s) who have significant ownership levels, LACERA reviews case-by-case, taking into account: • Ownership structure; • Quorum requirements; and • Supermajority vote requirements.	[Page 13] 3. Supermajority Vote Requirements - A simple majority of voting shares should be all that is required to effect change at a company, including its corporate governance provisions.
II.A.2.2.	Voting Procedures	[Page 5] · Proxy votes should be kept confidential.	[Page 24] Proxy Voting Mechanics (Disclosure, Confidentiality, and Tabulation) The guiding principles of the proxy voting process are: transparency, consistency, and fairness. ▯ LACERA reviews case-by-case proposals regarding proxy voting mechanics, taking into consideration whether the implementation of the proposal is likely to enhance or protect shareholder rights.	
II.A.2.3.	Bundled Voting		[Page 24] Bundled Proposals A bundled proposal is any proxy proposal that includes a number of separate elements. Some bundled proposals are straightforward, involving various components that belong together both logically and functionally. When a company reorganizes, for example, shareholders may be asked to vote on several major changes, including bylaw and charter amendments, asset spin-offs, and other related items. However, some bundled proposals combine unrelated issues that should be presented as separate voting items. Companies deliberately use this strategy to manipulate the vote in order to pass a questionable proposal by bundling it with a proposal that would usually pass on its own. ▯ LACERA reviews case-by-case on bundled or "conditioned" proxy proposals. In the case of items that are conditioned upon each other, we examine the benefits and costs of the packaged items. In instances when the joint effect of the conditioned items is not in shareholders' best interests, LACERA votes against the proposals. If the combined effect is positive, LACERA supports such proposals.	
II.A.2.4.	Broker Non-Votes	[Page 5] · Broker votes should be counted for quorum purposes only.		
II.A.3.1.	Quorum Requirements			[Page 13] Amend Quorum Requirements Quorum requirements are intended to ensure that a broad range of shareowners are represented at meetings. Setting a quorum requirement that is too low, whether in absolute terms or relative to the holdings of a large shareowner, undermines this purpose. ▯ LACERA votes case-by-case on proposals to amend quorum requirements for shareowner meetings.
II.A.3.2.	Technology	[Page 6] · Investors should have the right to attend an annual meeting of a company in-person. Any use of technology, such as audiocasts or webcasts, should expand and enhance, and not restrict or otherwise impede, investors' ability to participate in an annual meeting, and should afford opportunities for meeting participation equal to those afforded investors attending the meeting in person.		
II.A.3.3.	Resolutions	[Page 6] Investors with a reasonable ownership stake in a company should have the right to put forward a resolution for investors' consideration and vote at the company's annual meeting.		
II.A.3.4.	Advance Notice Requirements		[Page 24] Advance Notice Requirements: ▯ LACERA reviews case-by-case advance notice proposals, giving support to those proposals which allow shareholders to submit proposals/nominations as close to the meeting date as reasonably possible and within the broadest window possible, recognizing the need to allow sufficient notice for company, regulatory, and shareholder review.	

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II.A.3.5.	Transaction of Other Business			[Page 10] K. Transact Other Business Although this item provides an opportunity for questions and any other resolutions that may be brought up at the meeting, shareowners who vote by proxy do not know what issues will be raised. Therefore, shareowners cannot risk the negative consequences of voting in advance on an item for which information is not known at that time. LACERA votes against other business when it appears as a voting item.
II.A.4.	Special Meetings		[Page 18] Nearly all state corporation statutes allow shareholders to call a special meeting when they want to take action on certain matters that occur between regularly scheduled annual meetings. However, shareholders may lose this important right--the ability to remove directors or initiate a shareholder resolution without having to wait for the next scheduled meeting--if management places some form of restriction on that right. LACERA votes against proposals to restrict or prohibit shareholder ability to call special meetings. LACERA votes for proposals that provide shareholders with the ability to call special meetings taking into account the following factors: • Shareholders’ current right to call special meetings; • Minimum ownership threshold necessary to call special meetings (10% preferred); • The inclusion of exclusionary or prohibitive language; • Investor ownership structure; and • Shareholder support of and management’s response to previous shareholder proposals.	
II.A.5.	Action by Written Consent		[Page 19] Consent solicitation can be advantageous to both shareholders and management because the process does not involve the expense of holding a physical meeting. A consent solicitation is mailed to shareholders for their vote and signature (similar to proxy solicitation), and delivered to management. Limitations on written consent are clearly contrary to shareholder interests. In terms of day-to-day governance, shareholders may lose the ability to remove directors or initiate a shareholder resolution without having to wait for the next scheduled meeting, if they are unable to act by written consent. LACERA votes against proposals to restrict or prohibit shareholder ability to take action by written consent. LACERA votes for proposals to allow or make easier shareholder action by written consent, taking into account the following factors: • Shareholders' current right to act by written consent; • The consent threshold; • The inclusion of exclusionary or prohibitive language; • Investor ownership structure; and • Shareholder support of, and management's response to, previous shareholder proposals. LACERA reviews case-by-case shareholder proposals if, in addition to the considerations above, the company has the following governance and antitakeover provisions: An unfettered right for shareholders to call special meetings at a 10 percent threshold; A majority vote standard in uncontested director elections; No non-shareholder-approved pill; and An annually elected board.	
II.A.6.	Access to Research	[Page 6] Investors should have access to competitive, timely, and independent market, investment, and proxy research services of their choosing. Market regulation should support and not impede a competitive market of service providers.		
II.A.7.	Ownership Disclosure			[Page 13] Lower Disclosure Threshold for Stock Ownership A level below 5% is often only a pretext for an antitakeover defense and requires a greater number of shareowners to disclose their ownership. This only results in a greater reporting and regulatory burden to shareowners and to the company. LACERA votes against resolutions to lower the stock ownership disclosure threshold below 5 percent unless specific reasons exist to implement a lower threshold.

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II.A.8.	Incorporation		[Page 42] State of Incorporation - The United States Constitution provides that each state must respect the legal creations of each other state. Accordingly, a company incorporated in one state is entitled to do business, and have its governance provisions respected, throughout the country. The ability of corporations to choose a place to incorporate and establish residence has resulted in competition among many states for incorporation licensing and legal fees. Delaware has been the most successful in attracting business, with more than 50% of S&P 500 companies incorporated in the state. The fact that approximately 20% of Delaware's public revenue is derived from incorporation fees and business taxes indicates that states benefit from formulating laws friendly to corporate management. These laws, as expected, are favorable to management by including takeover defense provisions that protect the jobs of management. Voting on Reincorporation Proposals: Re-incorporation refers to changing a company's state of incorporation. A company that reincorporates must obtain shareholder approval for the move and for the new charter it adopts when it shifts to the new state. Many re-incorporations involve moves to Delaware to take advantage of Delaware's flexible corporate laws. A re-incorporation proposal is sometimes part of a restructuring effort or merger agreement. As such, its contribution to a company's growth, financial health and competitive position can outweigh the anticipated negative consequences of incorporating in states with many anti-takeover statutes. Re-incorporations can also result in lower taxes and incorporation fees. In addition, there may be advantages to reincorporating in the state in which the company conducts the bulk of its business. LACERA examines proposals to change a company's state of incorporation case-by-case giving consideration to both financial and corporate governance concerns: • Reasons for re-incorporation. • Comparison of company's governance provisions prior to and following the transaction. • Comparison of corporation laws of original state and destination state. LACERA votes for re-incorporation when the economic factors outweigh any neutral or negative governance changes.	[Page 10] G. Reincorporation Proposals Reincorporation proposals will be examined for their purpose, such as a restructuring or merger that contributes significantly to a company's growth, financial health, and competitive position. However, reincorporation often allows companies to adopt a new charter or bylaws with increased protection for management, such as increasing the company's capital stock or creating a classified board. Charter revisions that include the addition of negative corporate governance provisions will be balanced against the anticipated benefits of the reincorporation. LACERA votes case-by-case on reincorporation proposals.
II.A.9.	Litigation Rights		[Page 44] H. Litigation Rights (Exclusive Venue and Fee-Shifting Bylaw Provisions) LACERA reviews case-by-case on bylaws which impact shareholders' litigation rights, taking into account factors such as: • The company's stated rationale for adopting such a provision; • Disclosure of past harm from shareholder lawsuits in which plaintiffs were unsuccessful or shareholder lawsuits outside the jurisdiction of incorporation; • The breadth of application of the bylaw, including the types of lawsuits to which it would apply and the definition of key terms; and • Governance features such as shareholders' ability to repeal the provision at a later date and their ability to hold directors accountable through annual director elections and a majority vote standard in uncontested elections.	
II.B.	Capital Structure			[Page 14] Capital Structure Capital Structures A key decision for any business is determining its capital structure. Capital allocation – finding the optimal mix of equity, long-term debt, and short-term financing – is critical to driving shareowner returns. This process involves coordination of important issues, including dividend policy, tax and interest rates, types of assets, opportunities for growth, ability to finance new projects internally, and cost of obtaining additional capital. These decisions are that of the company's board and senior management and who should be given the latitude to determine the company's capital structure. However, shareowners should be aware that financing decisions could have an adverse effect on shareowner returns. Companies have one of two main types of capital systems: authorized and conditional. Both systems provide companies with the means to finance business activities, but they are considerably different in structure. Which system a company uses is determined by the economic and legal structure of the market in which it operates. 1. Authorized Capital System – The authorized capital system sets a limit in a company's articles on the total number of shares that can be issued by the company's board. The system allows companies to issue shares from this pre-approved limit, although in many markets shareowner approval must be obtained prior to an issuance. 2. Conditional Capital System – Under the conditional capital system, companies seek authorizations for pools of capital with fixed periods of availability.

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II.B.1.1.	Authorization of Common Shares Issuance		[page 27] Requests to authorize the issuance of additional shares of common stock, or additional shares of preferred, must be examined carefully. If the proposals have a legitimate business purpose, increasing the allocation may benefit shareholders. Proposals to implement a stock split, to pay a stock dividend, to raise new capital, to make shares available for stock option plans or to affect a merger or acquisition, usually fall into this category. However, a request to issue large amount of additional stock with no specific business purpose given is not in the shareholders' best interest. A large block of authorized but un-issued shares can be used in a takeover defense to dilute the interest of a potential acquirer, by implementing a poison pill takeover defense. (Most poison pills require the availability of large amounts of common or preferred stock to implement the pill). ⍰ LACERA votes for proposals to increase the number of authorized common shares where the primary purpose of the increase is to issue shares in connection with a transaction on the same ballot that warrants support. ⍰ LACERA votes against proposals to increase the number of authorized common shares if a vote for a reverse stock split on the same ballot is warranted despite the fact that the authorized shares would not be reduced proportionally. ⍰ LACERA reviews case-by-case all other proposals to increase the number of shares of common stock authorized for issuance. Take into account company-specific factors that include, at a minimum, the following: • Past Board Performance: o The company's use of authorized shares during the last three years • The Current Request: o Disclosure in the proxy statement of the specific purposes of the proposed increase; o Disclosure in the proxy statement of specific and severe risks to shareholders of not approving the request; and	[Page 14-15] Share Issuance Requests General Issuances – General issuance requests under both authorized and conditional capital systems allow companies to issue shares to raise funds for general financing purposes. Approval of such requests provides companies the ability to carry out ordinary business activities without having to incur the expense and time of calling shareowner meetings for every issuance. Issuances can be carried out with or without preemptive rights. Preemptive rights guarantee existing shareowners the first opportunity to purchase shares, proportionately to what they already own, in any new issuances of stock. Rights issued for general capital needs of more than 100 percent of outstanding capital warrant shareowner approval because they could lead to excessive cash calls on shareowners to maintain their ownership proportion or risk substantial dilution.
II.B.1.1..			o The dilutive impact of the request. ⍰ LACERA votes against proposed common stock authorizations that increase the existing authorization by more than 100 percent, unless the company can present a clear and legitimate need for the excess shares. ⍰ LACERA votes for management proposals to increase common share authorization for stock splits or share dividend, provided that the split does not result in an excessive number of shares available for issuance. ⍰ LACERA votes against proposals to create a new class of common stock with superior voting rights (all classes of common stock should have one vote per share). ⍰ LACERA votes against proposals, at corporations with a dual class structure, to increase the number of authorized shares of the class of common stock that has superior voting rights. ⍰ LACERA votes against proposals to increase authorized common shares in which the stated purpose is to reserve additional shares to implement a poison pill. ⍰ LACERA votes for proposals to create a new class of nonvoting or sub-voting common stock if: • The company discloses a compelling rationale for the dual-class capital structure, such as: o The company's auditor has concluded that these is substantial doubt about the company's ability to continue as a going concern; or o The new class of shares will be transitory. • It is intended for financing purposes with minimal or no dilution to current shareholders • It is not designed to preserve the voting power of an insider or significant shareholder. [Page 31] Tracking Stock Tracking stock is a separate class of common stock that tracks the performance of an individual business unit of a company. A tracked business has no separate legal identity. It remains under the control of the parent company. Tracking shares are created through a charter amendment, subject to shareholder approval, providing for different classes of common stock of the parent company. Tracking stock does not represent legal ownership of the tracking unit's assets, but rather an equity interest in the parent company. A tracked business has no separate legal identity. LACERA reviews case-by-case the creation of tracking stock, weighting the corporation's strategic value of the transaction, against any negative factors affecting the shareholder. The following factors are reviewed: • Governance changes • Increase in authorized capital stock • Method of distribution (IPO or stock distribution) • Voting rights • Conversion terms • Stock option plan impact on existing shareholders • Available alternatives, such as spin-offs	Companies may need the ability to raise funds for routine business contingencies – such as the servicing of option plans, small acquisitions, or payment for services – without the expense of carrying out a rights issue. When companies make issuance requests without preemptive rights, shareowners suffer dilution as a result of such issuances. As a result, authorizations should be limited to a fixed number of shares or a percentage of capital at the time of issuance. Specific Issuances Specific issuance requests should be analyzed on their individual factors and can only be used for the purpose defined in the resolution. ⍰ LACERA votes case-by-case on all specific issuance requests, with or without preemptive rights. ⍰ LACERA votes for general issuance requests with preemptive rights to a maximum of 100 percent over currently issued capital. ⍰ LACERA votes for general issuance requests without preemptive rights to a maximum of 20 percent of capital currently issued.

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II.B.1.1....			[Page 30] Adjust Par Value of Common Stock The purpose of par value stock (a fixed per share value) is to establish the maximum responsibility of a stockholder in the event that a corporation becomes insolvent. It represents the minimum amount that a shareholder must pay the corporation if the stock is to be fully paid when issued. Since the par value of many issues is $1 or less, proposals to reduce par value to facilitate the sale of additional stock are uncommon. However, there are still times when companies with $5 or $10 par values need to lower the par value to sell additional stock. LACERA votes for management proposals to reduce the par value of common stock unless the action is being taken to facilitate an anti-takeover device or some other negative corporate governance action. LACERA votes for management proposals to eliminate par value.	[Page 15] Increases in Authorized Capital Increases in authorized capital are requested both for general financing flexibility and to provide for a specific purpose. Companies need an adequate buffer of unissued capital in order to take advantage of opportunities during the year, thus they often request increases in authorized capital for no specific purpose other than to retain this flexibility. For specific requests, increases in capital up to any size may be justified if the purpose of the new authorization is in shareowners' interests. Such increases may be needed to fund a variety of corporate activities, thus each proposal must be reviewed on its individual merits. LACERA votes for non-specific proposals to increase authorized capital up to 100 percent over the current authorization unless the increase would leave the company with less than 30 percent of its new authorization outstanding. LACERA votes for specific proposals to increase authorized capital to any amount, unless: • The specific purpose of the increase (such as a share-based acquisition or merger) does not meet guidelines for the purpose being proposed; or • The increase would leave the company with less than 30 percent of its new authorization outstanding after adjusting for all proposed issuances. LACERA votes against proposals to adopt unlimited capital authorizations.
II.B.1.1.....				[Page 16] D. Reduction of Capital Proposals to reduce capital can cover a variety of corporate actions, ranging from routine accounting measures to a significant corporate restructuring in the face of bankruptcy. LACERA votes for proposals to reduce the capital for routine accounting purposes unless the terms are unfavorable to shareowners. LACERA votes case-by-case on proposals to reduce capital in connection with corporate restructuring. [Page 18] K. Capitalization of Reserves for Bonus Issues/Increase in Par Value Capitalization of reserves - transferring them into the share capital account from either the share premium reserve or the retained earnings account – to carry out bonus issues of shares or increases in par value to existing shareowners, usually requires shareowner approval. These issuances essentially function as dividends. LACERA votes for requests to capitalize reserves for bonus issues of shares or to increase par value.
II.B.1.2.	Preemptive Rights		[Page 30] Preemptive Rights Preemptive rights give existing shareholders the right to maintain their proportionate ownership interest in a company when new shares are issued. When preemptive rights are in effect, a company must offer existing shareholders the opportunity to buy new shares before additional shares are offered to the public. LACERA reviews case-by-case proposals to create or abolish preemptive rights, evaluating the size of a company, the characteristics of its shareholder base, and the liquidity of the stock. (Example: it would be difficult and costly to support a shareholder proposal that would require an S&P 500 company with over $1 billion in equity held by thousands of shareholders, with no single shareholder owning more than one percent of outstanding shares, to implement preemptive rights each time it conducted a new offering.)	

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II.B.1.3.	Preferred Shares Authorization		[Page 29] Preferred Stock Authorization - Preferred Stock LACERA votes for proposals to increase the number of authorized preferred shares where the primary purpose of the increase is to issue shares in connection with a transaction on the same ballot that warrants support. LACERA votes against proposals at companies with more than one class or series of preferred stock to increase the number of authorized shares of the class or series of preferred stock that has superior voting rights. LACERA reviews case-by-case all other proposals to increase the number of shares of preferred stock authorized for issuance. Take into account company-specific factors that include, at a minimum, the following: • Past Board Performance: o The company's use of authorized preferred shares during the last three years; • The Current Request: o Disclosure in the proxy statement of the specific purposes for the proposed increase; o Disclosure in the proxy statement of specific and severe risks to shareholders of not approving the request; o In cases where the company has existing authorized preferred stock, the dilutive impact of the request; and o Whether the shares requested are blank check preferred shares that can be used for antitakeover purposes.	[Page 16] E. Preferred Stock Preferred stock is an equity security, but has some features that make it similar to debt instruments, such as fixed dividend payments, seniority of claims relative to regular common stock (including dividends), and usually no voting rights except on matters that affect the seniority of preferred stock as a class. Preferred stock can be an effective means of raising capital without increasing debt levels, especially if a company has recently concluded a series of acquisitions. LACERA votes for the creation of a new class of preferred stock or for issuance of preferred stock up to 50 percent of issued capital unless the terms of the preferred stock would adversely affect the rights of existing shareowners. Voting Preferred Stock - Such preference shares may carry voting rights equal to the voting rights of the common shares or may carry multiple voting rights. If a company already has a preference share authorization with different voting rights than the common shares, shareowners should approve additional issuances of the preference shares, as long as issuances of these preferred shares are limited and do not adversely affect the rights of common shareowners. LACERA votes against the creation of a new class of preference shares that would carry superior voting rights to the common shares.
II.B.1.3..				[Page 16] Convertible Preferred Stock - If the shares are convertible into common shares, shareowners should evaluate the conversion ratio and calculate the maximum number of shares that could be issued upon conversion to determine the potential amount of dilution that could result for common shareowners as a result of the proposal. LACERA votes for the creation/issuance of convertible preferred stock as long as the maximum number of common shares that could be issued upon conversion meets guidelines on equity issuance requests.
II.B.1.4.	Blank Check Preferred Shares		[page 29-30] Blank Check Preferred Stock Blank check preferred stock is a term used to describe preferred stock authorization that gives the board of directors broad discretion to establish voting, dividend, conversion or other rights for preferred stock that a company may issue. Broad discretion provides the board with the flexibility to meet changing business conditions. However, blank check preferred stock is also perfectly suited for use as an entrenchment (anti-takeover) device. Many companies obtained shareholder approval to issue this class of stock as a result of hostile takeover activity in the mid-1980's. The ability of a board to issue a block of preferred stock with multiple voting or conversion rights to a friendly investor is a powerful takeover defense. LACERA votes for proposals to create blank check preferred stock in cases when the company expressly states that the stock will not be used as a takeover defense or to carry superior voting rights. LACERA votes against proposals that would authorize the creation of new classes of preferred stock with unspecified voting, conversion, dividend distribution, and other rights. LACERA reviews case-by-case proposals to increase the number of authorized blank check preferred shares. LACERA votes for shareholder proposals to require approval of blank check preferred stock issued for other than general corporate purposes. LACERA votes for shareholder proposals to have blank check preferred stock placements, other than those shares issued for the purpose of raising capital or making acquisitions in the normal course of business, submitted for shareholder ratification.	[Page 16] Blank Check Preferred Stock - Companies may also seek shareowner approval for blank check preferred stock. The directors are allowed to set the size, terms, and recipient of such shares at the time of issuance, which provides companies the flexibility to tailor their preferred stock offerings according to prevailing market conditions. Blank check preferred stock can be used for legitimate corporate purposes such as raising capital or making acquisitions. However, blank check preferred stock can also be used as an entrenchment device and a takeover defense. LACERA votes against the creation of blank check preferred stock unless the board clearly state that the authorization will not be used to thwart a takeover bid. LACERA votes case-by-case on proposals to increase authorizations of blank check preferred stock.

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II.B.1.5.	Blank Check Preferred Share Placement		[Page 23] White Squire Placements: A white squire placement is a takeover defense employed by placing large blocks of corporate securities or blank check preferred stock (stock without predefined voting and dividend rights) with “friendly” third parties. This stock can reside in numerous places; with a private investor, a company’s ESOP, another corporation or an investment fund. These placements can dilute existing shareholders’ equity and voting positions. Shareholders can protect their voting positions, by adopting a policy to require shareholder approval before placing blank check preferred stock with any person or group, except in cases when such placement of shares is for the purpose of raising capital or making acquisitions, in the normal course of business. LACERA votes for shareholder proposals to require approval of blank check preferred stock issues for other than general corporate purposes.	
II.B.1.6.	Reverse Stock Split		[Page 28-29] Reverse Sctock Split Regular stock splits exchange each share outstanding for multiple shares in order to lower share price to an optimal trading range. Reverse splits operate in the opposite fashion. Multiple shares are exchanged for a lesser amount to increase price. LACERA votes for management proposals to implement a reverse stock split when the number of authorized shares will be proportionately reduced. LACERA votes against proposals when there is not a proportionate reduction of authorized shares, unless: • A stock exchange has provided notice to the company of a potential delisting; or • The effective increase in authorized shares is equal to or less than the allowable increase calculated in accordance with an increase in authorized common stock.	
II.B.2.	Debt Issuance and Borrowing Powers		[Page 30] Debt Restructuring Although the varieties of corporate refinancing plans are endless, shareholders need to be able to recognize and evaluate the different types of debt restructuring proposed in a proxy statement. Because of ISS's specific expertise in this arena, their team of analysts assist staff with the analysis of the restructuring (i.e. reverse leveraged buyouts, prepackaged bankruptcy plans, wrap plans). LACERA reviews case-by-case proposals to increase common and/or preferred shares and to issue shares as part of a debt restructuring plan. The following issues are considered: • Dilution to existing shareholders’ positions; • Terms of the offer – discount/premium in purchase price to investor, including any fairness opinion; termination penalties; exit strategy; • Financial issues – company’s financial situation; degree of need for capital; use of proceeds; effect of the financing on the company’s cost of capital; • Management’s efforts to pursue other alternatives; • Control issues – change in management; change in control; guaranteed board and committee seats; standstill provisions; voting agreements; veto power over certain corporate actions; and • Conflict of interest – arm’s length transaction, managerial incentives. Generally, LACERA votes for proposals that facilitate debt restructurings unless there are clear signs of self-dealing or other abuses.	[Page 17] F. Debt Issuance Requests: Companies may issue bonds directly to shareowners to raise funds while enjoying low borrowing costs. The issuance of unsecured debt can often include warrants, which are detached at the time of bond issuance, to enhance the marketability of the accompanying fixed income security. LACERA votes case-by-case on non-convertible debt issuance requests, with or without preemptive rights. Debt instruments are often issued with the right to convert into equity securities. Convertible bonds give holders the choice of becoming shareowners, thereby increasing the company’s market capitalization and liquidity of the company's stock, or selling their newly converted shares. LACERA votes for the creation/issuance of convertible debt instruments as long as the maximum number of common shares that could be issued upon conversion meets guidelines on equity issuance requests. LACERA votes for proposals to restructure existing debt arrangements unless the terms of the restructuring would adversely affect the rights of shareowners. [Page 17] G. Pledging of Assets for Debt: Occasionally, shareowner approval is required when a company needs to secure a debt issuance with its assets. LACERA votes case-by-case on proposals to approve the pledging of assets for debt. [Page 17] H. Increase in Borrowing Powers: Some companies are required to seek shareowner approval for increases in their aggregate borrowing power authorities. The aggregate limit on the board's ability to borrow money is often fixed in a company's articles, and shareowner approval to change this limit is therefore legally required. LACERA votes case-by-case on proposals to approve an increase in a company’s borrowing powers. Analysis of the proposal should focus on the following areas: Management's stated need for the increase; The size of the increase; and • The company's current gearing level.
II.B.3.1.	Allocation of Income			[Page 9] C. Allocation of Income Many countries require shareowners to approve the allocation of income generated during the year. LACERA votes for approval of the allocation of income. An analysis of the proposal will focus on the payout ratio with the following: • The dividend payout ratio has been consistently below 30 percent without adequate explanation; • The payout is excessive given the company’s financial position.

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II.B.3.2.	Stock (Scrip) Dividend Policy			[Page 9-10] D. Stock (Scrip) Dividend Policy Occasionally shareowners have the option of receiving their dividend payment in the form of common stock in lieu of cash. Although this option does not immediately add to shareowner value, it allows companies to retain cash and in turn strengthen the position and commitment of long-term shareowners. ▯ LACERA votes for most stock (scrip) dividend proposals. ▯ LACERA votes against proposals that do not allow for a cash option unless management demonstrates that the cash option is harmful to shareowner value.
II.B.3.3.	Share Repurchase Programs		[Page 31] Stock repurchase programs serve two main purposes which benefit shareholders. First, they serve as a more efficient vehicle for distributing cash to shareholders than paying dividends. Second, announcement of stock repurchase programs tend to result in increased returns to shareholders. ▯ LACERA votes for management proposals to institute open-market share repurchase plans in which all shareholders may participate on equal terms.	[Page 17-18] I. Share Repurchase Plans Share repurchase plans should include the following conditions: • Limitations on a company's ability to use the plan to repurchase shares from third parties at a premium; • Limitations on the exercise of the authority to thwart takeover threats; and • A requirement that repurchases be made at arm's length through independent third parties and that selective repurchases require shareowner approval. ▯ LACERA votes for share repurchase programs/market repurchase authorities, provided that the proposal meets the following parameters: • Maximum volume: 10 percent for market repurchase within any single authority and 10 percent of outstanding shares to be kept in treasury; • Duration does not exceed 5 years. ▯ LACERA votes against share repurchase programs/market repurchase authorities proposal where: • The repurchase can be used for takeover defense; • There is clear evidence of abuse; • There is not safeguard against selective buybacks; • Pricing provisions and safeguards are deemed to be unreasonable in light of market practice. ▯ LACERA votes case-by-case on share repurchase plans in excess of 10 percent volume under exceptional circumstances, such as one-off company specific events (e.g. capital restructuring), based on merits, which should be clearly disclosed in the annual report, provided that following conditions are met: • The overall balance of the proposed plan seems to be clearly in shareowners' interests; • The plan still respects the 10 percent maximum of shares to be kept in treasury; • Duration does not exceed 18 months.
II.B.3.3..				[Page18] J. Reissuance of Shares Repurchased ▯ LACERA votes for requests to reissue any repurchased shares unless there is clear evidence of abuse of this authority in the past.
II.B.4	Mergers, Acquisitions, and Other Corporate Restructuring		[Page 45] Mergers and Corporate Restructuring Mergers and corporate restructuring have major financial implications for shareholders. Many of these transactions require shareholder approval. LACERA carefully examines each proposal to determine whether it is in the best financial interests of the shareholders. The fact that a proposed transaction would provide an above market premium to shareholders is one relevant factor in making a voting decision. However, the offer of a premium does not necessarily mean the transaction is in a shareholder's best interest. Sometimes these transactions include provisions that LACERA would oppose (anti-takeover measures, for example) if given the opportunity to vote separately on all the provisions. But when the transaction is presented as a single package, the voting decision must be made on the basis of whether the entire proposal is in LACERA's best interest. This requires an analysis of all relevant facts and circumstances. A. Mergers and Acquisitions When one company merges with or is acquired by another, the company's board of directors often recommends the merger or acquisition agreement and submits the proposal to shareholders for approval. If the board does not approve the merger or acquisition, but the hostile tender offer is successful, a shareholder vote on the proposal may also occur.	

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II.B.4.1.	Evaluation		LACERA, in conjunction with ISS, evaluates mergers and acquisitions case-by-case taking into account the following: • Valuation – Is the value to be received by the target shareholders (or paid by the acquirer) reasonable? The fairness opinion provides an initial starting point for assessing valuation reasonableness, but ISS also places emphasis on the offer premium, market reaction and strategic rationale. • Market reaction – How has the market responded to the proposed deal? A negative market reaction will cause ISS to scrutinize a deal more closely. • Strategic rationale – Does the deal make sense strategically? From where is the value derived? Cost and revenue synergies should not be overly aggressive or optimistic, but reasonably achievable. Management should also have a favorable track record of successful integration of historical acquisitions. • Negotiations and process – Were the terms of the transaction negotiated at arm's-length? Was the process fair and equitable? A fair process helps to ensure the best price for shareholders. Significant negotiation "wins" can also signify the deal makers' competency. How the target was shopped (e.g., full auction, partial auction, no auction) can also affect shareholder value. Conflicts of interest – Are insiders benefiting from the transaction disproportionately and inappropriately as compared to non-insider shareholders? As the result of potential conflicts, the directors and officers of the company may be more likely to vote to approve a merger than if they did not hold these interests. • Governance – Will the combined company have a better or worse governance profile than the respective current governance profiles of the respective parties to the transaction? If the governance profile is to change for the worse, the burden is on the company to prove that other issues (such as valuation) outweigh any deterioration in governance.	[Page 20] A. Mergers and Acquisitions In the analysis of a proposed acquisition, merger, or takeover offer, particular focus will be on the impact of the proposal to shareowner value, both in the short-term and long-term. The ultimate consideration is whether or not the proposal is beneficial to shareowners' existing and future earnings stream and that the impact on voting rights is not disproportionate to that benefit. If the details of a given proposal are unclear or not available, a fairness opinion is not available, and if the company is uncooperative in providing information about the proposal, LACERA will vote against the proposal due to lack of information. LACERA votes case-by-case on mergers and acquisitions taking into account the following: • Valuation, • Market reaction, • Strategic rationale, • Conflicts of interest, and • Governance. LACERA votes against if the companies that do not provide sufficient information upon request to make an informed voting decision.
II.B.4.1...	Mergers, Acquisitions, and Other Corporate Restructuring		[Page 32] Recapitalization Plans LACERA reviews case-by-case on recapitalizations of securities, taking into account the following: • More simplified capital structure; • Enhanced liquidity; • Fairness of conversion terms; • Impact on voting power and dividends; • Reasons for the reclassification; • Conflicts of interest; and • Other alternatives considered. [Page 32] Conversion of Securities LACERA reviews case-by-case proposals regarding the conversion of securities taking into consideration the following factors: • Dilution to existing shareholders; • Conversion price relative to market value; • Financial issues; • Control issues; • Termination penalties; and • Conflicts of interest. LACERA votes for the conversion if it is expected that the company will be subject to onerous penalties or will be forced to file for bankruptcy if the transaction is not approved.	
II.B.4.1...	Mergers, Acquisitions, and Other Corporate Restructuring			[Page 20] B. Mandatory Takeover Bid Waivers Many countries impose a bid threshold, imposed either by national law, stock exchange rules, or a company's articles of association, which forces any shareowner whose stake exceeds the threshold to tender a public bid to all the other owners to purchase the remaining shares. This mandatory takeover bid rule prohibits a shareowner from owning a large stake in the company and having a dominating voice in the decision-making without being required to purchase the remainder of the shares. Otherwise, the other shareowners, although potentially holding a substantial percentage of the company's shares, would be left with relatively little say in decisions. LACERA votes case-by-case on proposals to waive mandatory takeover bid requirements.

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II.B.4.1….	Mergers, Acquisitions, and Other Corporate Restructuring		[Page 46] Corporate Restructuring In certain business situations, majority shareholders of a corporation desire to gain complete control of the assets and cash flow of a company. To accomplish this task called "taking a public company private", it is necessary for the majority shareholders to eliminate the minority shareholders. The two principal means for taking a public company private are through minority squeeze-outs and leveraged buyouts (LBO). However, most of the proposals presented to shareholders for approval are specifically management-sponsored LBO's. � Corporate restructuring proposals, including leveraged buyouts and squeeze-outs, are evaluated case-by-case by considering the following factors: � Offer price/premium; � Fairness opinion; � How the deal was negotiated; � Conflicts of interest; � Other alternatives/offers considered; and � Non-completion risk.	[Page 20] C. Reorganizations/Restructurings Corporate reorganizations or restructurings range from the routine shuffling of subsidiaries within a group to major rescue programs for ailing companies. In the case of reorganizations of assets or subsidiaries within a group, the proposed changes should preserve shareowner value. This analysis includes the effect of the reorganization on the control of group assets, the final ownership structure, the relative voting power of existing shareowners if the share capital is being adjusted, and the expected benefits arising from the changes. In the case of a distress restructuring, shareowners' often have little choice but to approve the restructuring or lose everything. � LACERA votes case-by-case on reorganizations and restructurings.
II.B.4.1…..	Mergers, Acquisitions, and Other Corporate Restructuring		[Page 46] Spin-offs One of the more popular and successful corporate strategy developed in recent years is the spin-off of a segment or division of a large corporation to its shareholders as a separate corporate entity. If approved, spin-off shares are sent out to existing investors as a bonus or a dividend share. As long as there is a legitimate business purpose for the spin-off, rather than mere tax avoidance, Section 355 of the Internal Revenue Code declares that spin-offs are tax-free (as long as the stock is held). � Spin-offs are evaluated case-by-case depending on the tax and regulatory advantages, planned use of sale proceeds, managerial incentives, valuation of spinoff, fairness opinion, benefits to the parent company, conflicts of interest, corporate governance changes, and changes in the capital structure.	
II.B.4.1…..	Mergers, Acquisitions, and Other Corporate Restructuring		[Page 47] D. Asset Purchases � LACERA reviews case-by-case asset purchase proposals, considering the following factors: • Purchase price; • Fairness opinion; • Financial and strategic benefits; • How the deal was negotiated; • Conflicts of interest; • Other alternatives for the business; • Non-completion risk	
II.B.4.1……	Mergers, Acquisitions, and Other Corporate Restructuring		[Page 47] Asset Sales Corporations cite many reasons for divesting corporate assets, including the need to raise capital, getting rid of an unprofitable business, and repayment of debt. However, the two main reasons for the sale of a corporate asset are: 1) the asset in question is causing "diseconomies" of scale or negative synergies, i.e., the asset is not only failing to generate adequate returns, but is also harming the value of the company as a whole and, 2) the company simply thinks it can sell the asset for a large gain to a buyer who can make better use of the asset. � LACERA reviews case-by-case on asset sales after evaluating the impact on the balance sheet/working capital, value received for the asset, potential elimination of diseconomies, anticipated financial and operating benefits, anticipated use of funds, fairness opinion, how the deal was negotiated, and conflicts of interest.	
II.B.4.1…….	Mergers, Acquisitions, and Other Corporate Restructuring		[Page 48] Liquidations Liquidation proposals are generally bad news for long-term investors. They usually occur after a prolonged period of declines in earnings and share prices. However, liquidation may be an attractive option if the sale of the firm's assets on a piece-meal basis can be accomplished at a higher than market price. � LACERA reviews liquidations case-by-case after reviewing management's efforts to pursue other alternatives, appraised value of assets, and the compensation plan for executives managing the liquidation. It is critical to review the likelihood that the company will file for bankruptcy, if the liquidation proposal is not approved.	

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II.B.4.1…….	Mergers, Acquisitions, and Other Corporate Restructuring		[Page 48] J. Plans of Reorganization (Bankruptcy) LACERA reviews case-by-case proposals to common shareholders on bankruptcy plans of reorganization, considering the following factors including, but not limited to: • Estimated value and financial prospects of the reorganized company; • Percentage ownership of current shareholders in the reorganized company; • Whether shareholders are adequately represented in the reorganization process (particularly through the existence of an Official Equity Committee); • The cause(s) of the bankruptcy filing, and the extent to which the plan of reorganization addresses the cause(s); • Existence of a superior alternative to the plan of reorganization; and • Governance of the reorganized company.	
II.B.4.2.	Appraisal Rights		[Page 47] Appraisal Rights Rights of appraisal provide shareholders who are not satisfied with the terms of certain corporate transactions, such as a merger or corporate re-structuring, the right to demand a judicial review of the transaction to determine a fair market value for their shares. LACERA votes for proposals to restore, or provide shareholders with, rights of appraisal.	
II.B.5..	Anti-Takeover Measures		[Page 17] Takeover Defenses: Takeover defenses are designed to make it more difficult to change control of a corporation's management. The management of companies that ask shareholders to approve various anti-takeover provisions usually state that these measures are intended to protect shareholders, either by deterring efforts to change control or by giving management stronger defenses if an unsolicited proxy contest or tender offer occurs. However, these proposals tend to transfer rights or powers from shareholders to management. Once shareholders transfer the right to decide who will manage a company, they are unlikely to regain these rights.	[Page 13] LACERA votes against all antitakeover proposals unless they are structured in such a way that they give shareowners the ultimate decision on any proposal or offer.
II.B.5.1.	Poison Pills	[Page 6] · The Board should not enact or amend a poison pill without shareholder approval.	[Page 20-21] Poison Pills (Tender Offer Defenses) Poison pills have become a favorite tender offer defense of hundreds of companies in recent years. The term poison pill, also known as a shareholder rights plan, is used to describe takeover defenses that do one or more of the following. (1) Dilute the acquirer's equity holdings in the target company. (2) Dilute the acquirer's voting interests in the target company. (3) Dilute the acquirer's equity holdings in the post-merger company. Poison Pills accomplish these tasks by issuing rights or warrants to shareholders that are essentially worthless unless triggered by a hostile acquisition attempt. The two most common poison pills are the flip-over plan and an ownership flip-in provision. The flip over plan distributes rights to share holders to purchase discounted shares of the acquirer's holdings in the post-merger company (typically at 50% of the fair market value.) The flip-in provision gives the shareholders, except the acquirer, the right to purchase discounted shares of their own company should the acquirer surpass a specified ownership threshold (typically between 20% and 50%. Poison pills are sometimes used to bargain for a higher price when a company becomes a takeover target. However, they tend to deter offers or defeat offers rather than increase the price offered by the acquirer. LACERA votes for shareholder proposals that ask a company to submit its poison pill for shareholder ratification. LACERA votes for shareholder proposals to redeem a company's poison pill. LACERA reviews case-by-case management proposals to ratify a poison pill. LACERA considers supporting a proposed poison pill only if the following factors are present: • A 20% or higher flip-in • Two to three year sunset provision (Permits shareholders to reaffirm or redeem a pill) • No dead-hand or no-hand features (A dead-hand provision prohibits any directors, other than continuing directors, from removing the pill) • Shareholder redemption feature 90 days after an offer is announced, if the board refuses to	[Page 12-13] C. Antitakeover Mechanisms The following antitakeover mechanisms create restrictions through limiting share ownership by foreign or unwanted minority shareowners and to preclude an unwanted takeover of the target company by any party. As owners of the company, shareowners should be given the opportunity to decide on the merits of takeover offers. 2. Poison Pills - Companies say they seek to adopt or renew pills in order to protect shareowners against unfair, abusive, or coercive takeover strategies and to give the target company's board time to pursue alternatives to a hostile takeover bid. Theoretically, the board will refuse to redeem the pill in the face of an unfair offer in order to force a bidder to negotiate for a better offer, at which point it will redeem the pill. Some pills have operated this way and have resulted in better terms for target companies. However, pills usually deter or defeat offers. LACERA votes against all antitakeover proposals unless they are structured in such a way that they give shareowners the ultimate decision on any proposal or offer.
II.B.5.2.	Net Operating Loss (NOL) Protective Amendments		[Page 23] Net Operating Loss (NOL) Protective Amendments LACERA reviews case-by-case management proposals to adopt a protective amendment for the stated purpose of protecting a company's net operating losses ("NOLs"). The following factors should be considered: • The ownership threshold (NOL protective amendments generally prohibit stock ownership transfers that would result in a new 5-percent holder or increase the stock ownership percentage of an existing five-percent holder); • The value of the NOLs; • Shareholder protection mechanisms (sunset provision or commitment to cause expiration of the protective amendment upon exhaustion or expiration of the NOL); • The company's existing governance structure including: board independence, existing takeover defenses, track record of responsiveness to shareholders, and any other problematic governance concerns; and • Any other factors that may be applicable.	

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II.B.5.3.	Greenmail	·[Page 5] Every company should prohibit greenmail.	[Page 21] Greenmail refers to corporate management's practice of repurchasing the shares of a potential acquirer at an above market price in exchange for the acquirer's agreement to refrain from attempts to acquire the company. The term derives from blackmail, with green substituted for black to emphasize the large sums of money often involved. Greenmail has become so disreputable that few firms are willing to make outright payments of greenmail. Payment of greenmail may be disguised, however, by structuring exchanges, buybacks and spin-offs so that they bestow windfall gains on potential acquirers who agree not to acquire a company. This attempt to hide the true nature of their transaction is called "pale greenmail." LACERA votes for proposals to adopt anti-greenmail charter or bylaw amendments or otherwise restrict a company's ability to make greenmail payments. LACERA reviews case-by-case anti-greenmail proposals when they are bundled with other charter or bylaw amendments.	
II.B.5.4.a.	Other Anti-Takeover Measures		[Page 42] Voting on State Takeover Statutes While shareholders have minimal direct control over a state's adoption of anti-takeover legislation, they may influence whether or not a company chooses to be governed by such legislation. Most state anti-takeover provisions allow companies to "opt in" or "opt out" of coverage by stating their intentions in their charters. As a result, shareholders are sometimes requested to vote on whether a company will be governed by specific state statutes. LACERA reviews case-by-case proposals to opt in or out of state takeover statutes. [Page 42] B. Voting on Control Share Acquisition Statutes Control share acquisition statutes function by denying shares their voting rights when they contribute to ownership in excess of certain thresholds. Voting rights may only be restored by approval, of either a majority or supermajority, of disinterested shares. LACERA votes for proposals to opt out of control share acquisition statutes unless doing so would enable the completion of a takeover that would be detrimental to shareholders. LACERA votes against proposals to amend the charter to include control share acquisition provisions. LACERA votes for proposals to restore voting rights to the control shares. [Page 42-43] C. Voting on Control Share Cash-Out Statutes Control share cash-out statutes give dissident shareholders the right to "cash-out" of their position in a company. When an investor crosses a preset threshold level (often 20% to 25%,) remaining shareholders are given the right to sell their shares to the acquirer, who is required to buy them at the highest acquiring price. LACERA votes for proposals to opt out of control share cash-out statutes.	[Page 12-13] C. Antitakeover Mechanisms The following antitakeover mechanisms create restrictions through limiting share ownership by foreign or unwanted minority shareowners and to preclude an unwanted takeover of the target company by any party. As owners of the company, shareowners should be given the opportunity to decide on the merits of takeover offers. 1. Golden Shares - Recently privatized companies can include in their share structure a golden share held by their respective governments. These shares can carry exceptional voting rights or veto power over specific proposals. Golden shares are most common among former state-owned companies or politically sensitive industries such as utilities, railways, and airlines. LACERA votes against all antitakeover proposals unless they are structured in such a way that they give shareowners the ultimate decision on any proposal or offer.
II.B.5.4.b.			[Page 43] D. Voting on Freezeout Provisions Freezeout provisions force an acquirer to wait a specific period of time, typically 2 to 5 years, before gaining control of a company. The acquirer must secure adequate financing before proceeding with the acquisition and is often also subject to a fair price requirement once the freezeout period has expired. This provision is typically utilized to prevent a highly leveraged take over, with a subsequent "break-up" and sell off of the acquired companies assets. LACERA votes for proposals to opt out of state freeze-out provisions. [Page 43] E. Voting on Fair Price Provisions Fair price provisions require anyone wishing to purchase control of a company to pay all shareholders a defined fair price. A fair price is usually defined as the highest price that a potential acquirer pays to any shareholder during a specified period of time. Fair price requirements are intended to deter two-tiered, front-end-loaded tender offers, in which shareholders that tender (sell) their shares first receive a higher price for their shares than other shareholders. State sponsored fair price statutes allow the requirement to be bypassed should a certain percentage of shareholders favor such a course of action. (Greater than 50% of states employing fair price provisions require a majority of disinterested shares, while approximately 40% require that a supermajority of all shares approve the acquisition.) LACERA reviews case-by-case proposals to adopt fair price provisions. [Page 44] I. Stakeholder Provisions LACERA votes against proposals that ask the board to consider non-shareholder constituencies or other non-financial effects when evaluating a merger or business combination.	

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II.B.5.4.c.			[Page 21] Fair price provisions, usually found in a company's charter, require anyone wishing to purchase control of a company to pay all shareholders a defined fair price. A fair price is usually defined as the highest price that a potential acquirer pays to any shareholder during a specified period of time. Fair price requirements are intended to deter two-tiered, front-end-loaded tender offers, in which shareholders who tender (sell) their shares first receive a higher price for their shares than other shareholders. LACERA votes against proposals to raise the shareholder vote requirements greater than a majority of disinterested shares in existing fair price provisions. LACERA reviews case-by-case proposals to adopt fair price provisions. In evaluating the acceptability of such provisions the following issues need to be reviewed: • Whether a supermajority vote is required to overcome a board's opposition to an acquisition. • Whether a supermajority vote is required to appeal or amend a fair pricing provision. • What is the size of the block of shares controlled by officers, directors and their affiliates? • Whether the company maintains numerous other takeover defenses such as poison pill provisions or a classified board. • Whether the company has a history of rejecting premium acquisition offers. [Page 43] F. Voting on Disgorgement provisions An acquirer of more than a specified percentage of a company's stock must pay back, to the company, any profits realized from the sale of that company's stock purchased 24 months before achieving control status. Disgorgement provisions prevent a hostile acquirer from profiting by purchasing a large stake in a company, announcing a battle for control of that company and then selling out at the higher market price resulting from news of the potential acquisition. LACERA votes for proposals to opt out of disgorgement provisions.	
II.B.6.	Related-Party Transactions			[Page 10] I. Related-Party Transactions Transactions between a parent company and its subsidiary, or dealings with entities that employ the company's directors, are usually classified as related-party transactions. These transactions are subject to company law or stock exchange listing requirements that mandate shareowner approval to protect shareowners against insider trading abuses. However, the agreement should not include a request for a strategic move outside of the company's charter or unfavorable terms. LACERA votes case-by-case on related-party transactions. The following factors should be considered: • The parties on either side of the transaction; • The nature of the asset to be transferred/service to be provided; • The pricing of the transaction; • The views of independent directors; • The views of an independent financial adviser; • Whether any entities party to the transaction is conflicted; and • The stated rationale for the transaction, including discussions of timing.

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III	**Compensation**	[Page 4] 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. [Page 4] Promoting transparency is critical when establishing compensation packages for executives. • 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.	[Page 8] LACERA votes withhold from the members of the Compensation Committee and potentially the full board in the absence of an Advisory Vote on Executive Compensation ballot item or in egregious situations if: • There is a significant misalignment between CEO pay and company performance; [Page 12] Corporate directors should own some amount of the stock of the companies for which they serve as director. This is an effective way for director and shareholder interests to be aligned. [Page 33] Executive and Director Compensation Executive compensation plans have, or should have, two major purposes: to provide incentives for superior performance and to reward such performance when it occurs. Plans that motivate and reward executives for outstanding performance are in a shareholders best interest. Plans that provide benefits regardless of performance are unlikely to align the interests of management and shareholders. Most key decisions regarding executive management compensation are made by a company's board of directors or a special committee of the board. They approve the salary paid to top executives, award bonuses, and establish incentive plans that may include stock option plans and long-term performance plans. In addition, the board must review and approve supplemental compensation plans for rank-and-file employees, including employee saving plans and employee stock ownership plans (ESOP). The rules of the New York Stock Exchange require that companies obtain shareholder approval for stock option plans, and federal tax laws require shareholder approval for qualified stock option plans. Although not required, many companies submit ESOPs for shareholder approval. [Page 36] LACERA votes for all shareholder proposals that seek additional disclosure of executive pay information. LACERA votes for all shareholder proposals that seek additional disclosure of director pay information. [Page 33] Compensation of top executives has become a national issue in recent years. In October 1992, the Securities Exchange Commission adopted comprehensive new executive compensation rules, which provide for improved disclosure of all components of executive pay and an explanation of how corporate performance relates to pay. In 1994, the Internal Revenue Service (IRS) issued rules prohibiting the tax deductibility of executive compensation of more than $1 million. As a	
III.A.	Advisory Votes on Executive Compensation: All companies should provide investors on an annual basis with the opportunity to cast an advisory vote on executive compensation design and practices.	[Page 4] • All companies should provide annual advisory votes on executive compensation.	[Page 39] G. Say-on-Pay (Advisory vote on executive compensation) Enactment of The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 requires companies to submit an advisory vote on executive compensation to shareholders for approval. Say-on-pay should be utilized as a communication channel with the company regarding its executive compensation practices. An annual advisory vote provides for regular evaluation and communication on the company's executive pay structure. An annual say-on-pay vote should be supported for many of the same reasons as annual director elections; it provides accountability and direct communication on the information available at the time of the shareholders' meeting. In contrast, a say-on-pay vote every two or three years could create confusion in the voting process as to which year the vote applies and potentially reduce constructive communication between the company and shareholders on executive compensation. LACERA votes for annual advisory votes on compensation, which provide the most consistent and clear communication channel for shareholder concerns about companies' executive pay programs. LACERA votes against advisory votes on executive compensation if: • There is a significant misalignment between CEO pay and company performance; • The company maintains significant problematic pay practices; • The board exhibits a significant level of poor communication and responsiveness to shareholders.	[Page 19] A. Executive Compensation LACERA votes case-by-case management proposals seeking ratification of a company's executive compensation-related items, taking into consideration the following items: • The company provided shareholders with clear and comprehensive compensation disclosures; • The compensation plan maintains appropriate pay-for-performance alignment with emphasis on long-term shareholder value; • The compensation plan avoids arrangements that risk "pay for failure"; and • The company maintains an independent and effective compensation committee.
III.B.	Compensation Plan Design		[Page 36] LACERA votes for proposals to index performance based compensation to appropriate industry peers.	

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III.B.1.	Performance Criteria		[Page 36] LACERA votes for proposals to index performance based compensation to appropriate industry peers. [Page 39] I. Pay for Performance Executive pay is often a topic of heated debate. Investors, economists, shareholders, and the media often portray executive compensation as excessive. Shareholders are especially outraged when they witness poor performance and increases in executive pay. It is the lack of correlation between CEO pay and stock performance that lead to shareholder criticism. LACERA reviews case-by-case shareholder proposals that request approval of a significant amount of performance-based incentive compensation to senior executives. LACERA reviews case-by-case proposals advocating the use of performance based equity awards, such as performance contingent options or restricted stock, indexed options or premium-priced options. [Page 36] Shareholder Proposals Regarding Executive Compensation LACERA reviews case-by-case proposals to link, or report on linking, executive compensation to environmental and social criteria. The following factors will be considered: • Whether the company has significant and persistent controversies or violations regarding social and/or environmental issues; • Whether the company has management systems and oversight mechanisms in place regarding its social and environmental performance; • The degree to which industry peers have incorporated similar non-financial performance criteria in their executive compensation practices; and • The company's current level of disclosure regarding its environmental and social performance.	
III.B.2.	Peer Benchmarking	[Page 5] 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.	[Page37] LACERA supports disclosure of the names of comparable companies used by compensation consultants to compile pay data. LACERA supports disclosure of the percentile ranking of the CEO's total pay package against those of various comparable companies surveyed by the compensation consultants.	
III.B.3.	Compensation Consultants	[Page 5] · Compensation consultants retained for assisting directors work exclusively for the compensation committee. Ideally, the consultant should not have other relationships with the firm. [page 4] 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.	[Page 37] LACERA supports the requirement that compensation committees must hire an independent compensation consultant and that the changing of a compensation consultant must be disclosed with the reasons for the change. LACERA supports disclosure of the D69names of comparable companies used by compensation consultants to compile pay data. LACERA supports disclosure of the percentile ranking of the CEO's total pay package against those of various comparable companies surveyed by the compensation consultants. [Page 11] Compensatoin Consultabnt Disclosure LACERA votes for shareholder proposals seeking disclosure of information regarding the company, board, or compensation committee's use of compensation consultants, such as consultants name, business relationship(s) and fees paid.	
III.B.4.	Equity Ownership, Retention, and Holding Requirements		[Page 34] Holding Period Proposals LACERA reviews case-by-case shareholder proposals asking companies to adopt policies requiring senior executive officers to retain all or a significant portion of net shares acquired through compensation plans, taking into consideration: • The percentage/ratio of net shares required to be retained; • The time period required to retain the shares; • Whether the company has equity retention, holding period, and/or stock ownership requirements in place and the robustness of such requirements; • Whether the company has any other policies aimed at mitigating risk taking by executives; • Executives' actual stock ownership and the degree to which it meets or exceeds the proponent's suggested holding period/retention ratio or the company's existing requirements; and • Problematic pay practices, current and past, which may demonstrate a short-term versus long-term focus. LACERA reviews case-by-case all other shareholder proposals regarding executive and director pay, taking into account company performance, pay level versus peers, pay level versus industry, and long-term corporate outlook.	

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III.B.5.	Pre-Arranged Trading Plans		[Page 40] K. Pre-Arranged Trading Plans (10b5-1 Plans) ▯ LACERA votes for shareholder proposals calling for certain principles regarding the use of prearranged trading plans (10b5-1 plans) for executives. These principles include: • Adoption, amendment, or termination of a 10b5-1 Plan must be disclosed within two business days in a Form 8-K; • Amendment or early termination of a 10b5-1 Plan is allowed only under extraordinary circumstances, as determined by the board; • Ninety days must elapse between adoption or amendment of a 10b5-1 Plan and initial trading under the plan; • Reports on Form 4 must identify transaction made pursuant to a 10b5-1 Plan; • An executive may not trade in company stock outside the 10b5-1 Plan; • Trades under a 10b5-1 Plan must be handled by a broker who does not handle other securities transaction for the executive.	
III.B.6.	Hedging and Speculative Transactions		[Page 37] • LACERA votes for shareholder proposals seeking a policy that prohibits named executive officers from engageing in derivative or speculative transactions involving company stock, including hedging, holding stock in a margin account, or pledging stock as collateral for a loan.	
III.B.7.	Internal Pay Disparity	[Page 4] 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.	[Page 35, 37] 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. ▯ LACERA supports disclosure of the ratio of the CEO's total pay to that of an average worker in the company.	
III.B.8.	Restrictions		[Page 35-36] ▯ LACERA votes against shareholder proposals seeking to set absolute levels on compensation or otherwise dictate the amount or form of compensation. Shareholder Proposals to Limit Executive and Director Pay Philosophically, LACERA believes that corporate executives should be fairly compensated for their efforts. 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. Shareholder proposals that limit executive or director pay usually focus on the absolute dollar figure of the compensation or focus on the ratio of compensation between the executives and the average worker of a specific company. For example, at a recent annual meeting, two shareholders submitted a proposal requesting that management limit executive compensation to 20 times the pay of the average worker. Proposals are also submitted requesting that annual compensation not exceed a specified dollar figure, such as $100,000. Arbitrary limitations may actually hurt shareholders in the long run because management may not be able to attract and retain competent personnel. Firms forced to adhere to limits on executive compensation may find themselves at competitive disadvantage in the market for top-tier executives.	
III.B.9.	Recoupment Policies		[Page 40] Recoupment of Incentive or Stock Compensation in Specified Circumstances ▯ LACERA reviews case-by-case shareholder proposals to recoup incentive cash or stock compensation made to senior executives if it is later determined that the figures upon which incentive compensation is earned turn out to have been in error, or if the senior executive has breached company policy or has engaged in misconduct that may be significantly detrimental to the company's financial position or reputation, or if the senior executive failed to manage or monitor risks that subsequently led to significant financial or reputational harm to the company. In considering whether to support such proposals, LACERA will take into consideration the following factors: • If the company has adopted a formal recoupment policy; • The rigor of the recoupment policy focusing on how and under what circumstances the company may recoup incentive or stock compensation; • Whether the company has chronic restatement history or material financial problems; • Whether the company's policy substantially addresses the concerns raised by the proponent; • Disclosure of recoupment of incentive or stock compensation from senior executives or lack thereof; or • Any other relevant factors.	

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III.C.	Equity Plans	[Page 6] All stock option plans should be approved by shareholders.	[Page 33-34, 36, 40] LACERA votes for shareholder approval of stock option plans LACERA reviews case-by-case equity-based compensation plans. LACERA votes against the equity plan if any of the following factors apply: The total cost of the company's equity plans is unreasonable; The plan expressly permits repricing; A pay-for-performance misalignment is found; The company's three year burn rate exceeds the burn rate cap of its industry group; The plan has a liberal change-of-control definition; or The plan is a vehicle for problematic pay practices. Factors such as re-pricing underwater stock options/stock appreciation rights without shareholder approval would cause LACERA to vote against a plan. Additionally, in some cases we would vote against a plan deemed unnecessary. LACERA reviews management proposals seeking approval to re-price options case-by-case. The following data is evaluated. • Stock Price Volatility • Rationale • Value-for Value Exchange • Option Vesting • Term of the Option • Exercise Price • Participants • Intent • Timing LACERA votes against an equity incentive plan proposal if excessive non-performance-based equity awards are the major contributors to a pay-for-performance misalignment.	[Page 11] J. Compensation Plans Plans should motivate participants to focus on long-term shareowner value and returns, encourage employee stock ownership, and more closely align employee interests with those of shareowners. There are three main types of compensation plans: stock option plans, incentive plans, and share purchase plans. LACERA votes case-by-case on compensation plans after analyzing potential dilution of shareowners and plan features.
III.C.1.	Performance-Based		[Page 35] A. Omnibus Budget Reconciliation Act of 1987(OBRA)-Related Compensation Proposals 1. Amendments that Place a Cap on Annual Grant or Amend Administrative Features LACERA votes for plans that simply amend shareholder-approved plans to include administrative features or place a cap on the annual grants any one participant may receive to comply with the provisions of Section 162(m) of OBRA. 2. Amendments to Add Performance-Based Goals LACERA votes for amendments to add performance goals to existing compensation plans to comply with the provisions of Section 162(m) of OBRA. 3. Amendments to Increase Shares and Retain Tax Deductions Under OBRA Amendments to existing plans to increase shares reserved and to qualify the plan for favorable tax treatment under the provisions of Section 162(m) are evaluated case-by-case. 4. Approval of Cash or Cash-and-Stock Bonus Plans LACERA votes for cash or cash-and-stock bonus plans to exempt the compensation from taxes under the provisions of Section 162(m) of OBRA.	
III.C.2.	Track Record		[Page 33-34, 36, 40] LACERA votes for shareholder approval of stock option plans LACERA reviews case-by-case equity-based compensation plans. LACERA votes against the equity plan if any of the following factors apply: The total cost of the company's equity plans is unreasonable; The plan expressly permits repricing; A pay-for-performance misalignment is found; The company's three year burn rate exceeds the burn rate cap of its industry group; The plan has a liberal change-of-control definition; or The plan is a vehicle for problematic pay practices. Factors such as re-pricing underwater stock options/stock appreciation rights without shareholder approval would cause LACERA to vote against a plan. Additionally, in some cases we would vote against a plan deemed unnecessary. LACERA votes against an equity incentive plan proposal if excessive non-performance-based equity awards are the major contributors to a pay-for-performance misalignment.	

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III.C.3.	Impact		[Page 33-34, 36, 40] ▯ LACERA votes for shareholder approval of stock option plans ▯ LACERA reviews case-by-case equity-based compensation plans. LACERA votes against the equity plan if any of the following factors apply: ▯ The total cost of the company's equity plans is unreasonable; ▯ The plan expressly permits repricing; ▯ A pay-for-performance misalignment is found; ▯ The company's three year burn rate exceeds the burn rate cap of its industry group; ▯ The plan has a liberal change-of-control definition; or ▯ The plan is a vehicle for problematic pay practices. ▯ Factors such as re-pricing underwater stock options/stock appreciation rights without shareholder approval would cause LACERA to vote against a plan. Additionally, in some cases we would vote against a plan deemed unnecessary. ▯ LACERA votes against an equity incentive plan proposal if excessive non-performance-based equity awards are the major contributors to a pay-for-performance misalignment.	
III.C.4.	Re-Pricing	[Page 6] · Options should not be re-priced without shareholder approval.	[Page 36] ▯ LACERA votes for shareholder proposals to put option repricings to a shareholder vote. Factors such as re-pricing underwater stock options/stock appreciation rights without shareholder approval would cause LACERA to vote against a plan. Additionally, in some cases we would vote against a plan deemed unnecessary. ▯ LACERA reviews management proposals seeking approval to re-price options case-by-case. The following data is evaluated. • Stock Price Volatility • Rationale • Value-for Value Exchange • Option Vesting • Term of the Option • Exercise Price • Participants • Intent • Timing	
III.D.3.	Employee Stock Purchase Plans		[Page 35] Employee Stock Purchase Plans ▯ LACERA votes for proposals with (1) a purchase price at least 85 percent of the fair market value, (2) an offering period of 27 months or less and (3) a dilution of voting power less than ten percent.	
III.D.4.	Employee Stock Ownership Plans (ESOPs)		[Page 38] Employee Stock Ownership Plans Employee stock ownership plans (ESOPs) encourage non-management employees to acquire an ownership stake in the companies for which they work. ESOPs have been shown to promote employee loyalty and improve productivity. In addition, ESOPs offer very favorable tax treatment to corporations that adopt them, making ESOPs a very cost-effective way to fund employee retirement plans. LACERA supports the principle of employee ownership. However, it is important to make sure that ESOPs are not being used in a way that will harm the interests of existing shareholders. The best way to ensure an ESOP is not misused by management as a takeover defense is to limit the size of the plan. ▯ LACERA votes for proposals that request shareholder approval to implement an ESOP or to increase authorized shares for existing ESOPs, except in cases when the number of shares allocated to the ESOP is "excessive" (i.e., generally greater than five percent of outstanding shares).	

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III.E.1.	Severance and "Golden Parachutes":	[Page 5] 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.	[Page 37] Golden Parachutes Golden parachutes is a term that describe the, often lucrative, benefits that executives receive if they are fired or quit following a change in control of their company. These benefits are frequently provided for in executives' employment contracts. They are also awarded to management by boards of directors after a company becomes the subject of takeover speculation or the actual target of a takeover attempt. Enactment of The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 requires companies to submit golden parachute compensation packages to shareholders for approval. LACERA reviews case-by-case proposals to approve the company's golden parachute compensation. Features that may lead to a vote against include: • Single- or modified-single-trigger cash severance; • Single-trigger acceleration of unvested equity awards; • Excessive cash severance (>3x base salary and bonus); • Excise tax gross-ups triggered and payable; • Excessive golden parachute payments; or • Recent amendments that incorporate any problematic features or recent actions that may make packages so attractive as to influence merger agreements that may not be in the best interests of shareholder; or • The company's assertion that a proposed transaction is conditioned on shareholder approval of the golden parachute advisory vote. LACERA votes for shareholder proposals to have golden parachutes submitted for shareholder ratification; unless the proposal requires approval prior to entering into an employment contract. LACERA reviews case-by-case all proposals to ratify or cancel golden parachutes. Acceptable parachutes should: • have a triggering mechanism beyond the control of management; • not exceed three times base amount (defined as the average annual taxable W-2 compensation during the five years prior to the year in which the change of control occurs); • Change-in-control payments should be double-triggered, i.e. (1) after a change in control has taken place, and (2) termination of the executive as a result of the change in control.	
III.E.2.	Supplemental Executive Retirement Plans (SERPs)		[Page 40] J. Supplemental Executive Retirement Plans (SERPs) Supplemental Executive Retirement Plans (SERPs) are executive-only retirement plans designed as a supplement to employee-wide plans. SERPs can be either defined benefit plans or a defined contribution plan. SERPs are often viewed as discriminatory because participating executives, who are selected by the company, may receive better benefit formulas than the employee-wide plan. To ensure fairness, shareholders should be able to approve SERP plans. LACERA votes for shareholder proposals requesting to put extraordinary benefits contained in SERP agreements to a shareholder vote unless the company's executive pension plans do not contain excessive benefits beyond what is offered under employee-wide plans. LACERA votes for shareholder proposals requesting to limit the executive benefits provided under the company's SERP by limiting covered compensation to a senior executive's annual salary and excluding of all incentive or bonus pay from the plan's definition of covered compensation used to establish such benefits.	
III.E.3.	Golden Coffins		[Page 39] H. Golden Coffins LACERA votes for shareholder proposals that recommend companies adopt a policy of obtaining shareholder approval for any future agreements and corporate policies that could oblige the company to make payments or awards following the death of a senior executive. These payments may be in the form of unearned salary or bonuses, accelerated vesting or the continuation in force of unvested equity grants, perquisites and other payments or awards made in lieu of compensation.	

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III.F.	Director Compensation	[Page 2] Director Compensation 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." [NACD The Report of the NACD Blue Ribbon Commission on Director Compensation, page 5.	[Page 12] Stock Ownership Requirements: Corporate directors should own some amount of the stock of the companies for which they serve as director. This is an effective way for director and shareholder interests to be aligned. However, many highly qualified individuals might not be able to meet this requirement--academics and members of religious orders, for example. Imposing an across-the-board minimum ownership requirement could therefore prevent these nominees from serving as directors. ▯ LACERA votes against shareholder proposals requiring directors to own a minimum amount of company stock in order to qualify as a director, or to remain on the board. [Page 36] ▯ LACERA votes for all shareholder proposals that seek additional disclosure of director pay information. ▯ LACERA votes against shareholder proposals seeking to set absolute levels on compensation or otherwise dictate the amount or form of compensation. ▯ LACERA votes against shareholder proposals requiring director fees be paid in stock only.	[Page 19] B. Non-Executive Director Compensation LACERA generally supports resolutions regarding directors' fees unless they are excessive relative to fees paid by other companies in the same country or industry. The analysis focuses on the amount of the proposed compensation relative to market norms but also relative to the company's financial performance. Companies in many markets provide their non-executive directors an option to receive all or a portion of their fees in the form of company shares in lieu of cash. Although some dilution will occur as a result of these payments, it is minimal. More importantly, increasing directors' share ownership will more likely align the interests of directors with those of shareowners. Retirement benefits for non-executive directors are improper, as these benefits could impede objectivity and do not directly align their interests with that of management or shareowners. ▯ LACERA votes for proposals to award cash fees to non-executive directors unless the amounts are excessive relative to other companies in the country or industry. ▯ LACERA votes case-by-case on non-executive director compensation proposals that include both cash and share-based components. ▯ LACERA votes case-by-case on proposals that bundle compensation for both non-executive and executive directors into a single resolution. ▯ LACERA votes against proposals to introduce retirement benefits for non-executive directors.
IV.	**Performance Reporting**	[Page 1] **Transparency** is a basic shareholder right and critical for an institutional investor's understanding of an organization's financial and business activities. [Page 4] 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. [Page 1] 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.		
IV.A.	Financial Reports			[Page 9] A. Financial Results/Director and Auditor Reports The financial statements and director and auditor reports are essential in evaluating a company's annual performance. The director report reviews the company's performance and activities during the year. The auditor report discloses any financial irregularities or issues. ▯ LACERA votes for approval of financial statements and director and auditor reports, unless: • There are concerns about the account presented or audit procedures used; or • The company is not responsive to shareholder questions about specific items that should be publicly disclosed.
IV.B.	Fiscal Term			[Page 10] F. Change in Company Fiscal Term ▯ LACERA votes for resolutions to change a company's fiscal term unless a company's motivation for the change is to postpone its annual meeting.

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IV.C.1.	Ratification		[Page 49] A. Ratifying Auditors Companies are not legally required to allow shareholders to ratify the selection of auditors; therefore, sometimes shareholders are not given an opportunity to vote on ratification of an auditor. However, even if not required, many companies seek shareholder ratification of auditors. Companies typically disclose the audit firm retained, and ask for shareholder approval. Occasionally, companies also assert in the proxy statement that if shareholders do not ratify the selection of auditors, the board will consider switching to a new auditor. LACERA votes for proposals to ratify auditors, unless: • An auditor has a financial interest in or association with the company and is therefore not independent; • There is reason to believe that the independent auditor has rendered an opinion, which is neither accurate nor indicative of the company's financial position; • Poor accounting practices are identified that rise to a serious level of concern, such as: fraud, misapplication of GAAP; and material weaknesses identified in Section 404 disclosures; or • Fees for non-audit services are excessive.	A. Appointment of Auditors and Auditor Compensation Most large international companies use one of the major international auditing firms to perform their audits. Generally, concerns about the quality and objectivity of the audit are unusual and the reappointment of the auditor is a routine matter. As a result, audit fees tend to be very competitive. LACERA votes for the reelection of auditors and proposals authorizing the board to fix auditor fees, unless: • There are serious concerns about the accounts presented or the audit procedures used; • There is reason to believe that the auditor has rendered an opinion which is neither accurate nor indicative of the company's financial position; • External auditors have previously served the company in an executive capacity or can otherwise be considered affiliated with the company; • Name of the proposed auditors has not been published; • The auditors are being changed without explanation; or • Non-audit-related fees are substantial or are routinely in excess of standard annual audit-related fees. LACERA votes against the appointment of external auditors if they have previously served the company in an executive capacity or can otherwise be considered affiliated with the company.
IV.C.1.1.	Auditor Independence		[Page 49, 50] B. Non Audit Fees / Auditor Independence LACERA votes against auditors and withhold votes from Audit Committee members if: Non-audit ("other") fees > audit fees + audit-related fees + permissible tax fees. LACERA reviews case-by-case shareholder proposals limiting or prohibiting their auditors from engaging in non-audit services, evaluating whether non-audit services are excessive and whether the company has policies in place to limit non-audit services or prevent conflicts of interest. E. Limiting Non-Audit Services LACERA reviews case-by-case shareholder proposals asking companies to prohibit or limit their auditors from engaging in non-audit services.	
IV.C.1.2.	Audit Quality		[Page 49] A. Ratifying Auditors Companies are not legally required to allow shareholders to ratify the selection of auditors; therefore, sometimes shareholders are not given an opportunity to vote on ratification of an auditor. However, even if not required, many companies seek shareholder ratification of auditors. Companies typically disclose the audit firm retained, and ask for shareholder approval. Occasionally, companies also assert in the proxy statement that if shareholders do not ratify the selection of auditors, the board will consider switching to a new auditor. LACERA votes for proposals to ratify auditors, unless: • An auditor has a financial interest in or association with the company and is therefore not independent; • There is reason to believe that the independent auditor has rendered an opinion, which is neither accurate nor indicative of the company's financial position; • Poor accounting practices are identified that rise to a serious level of concern, such as: fraud, misapplication of GAAP; and material weaknesses identified in Section 404 disclosures; or • Fees for non-audit services are excessive.	[Page 21] B. Appointment of Internal Statutory Auditors The internal statutory auditing board is responsible for verifying corporate accounts, as well as supervising management and ensuring compliance with the law and articles of association. The auditors must perform a quarterly audit and present a report on the balance sheet to shareowners at the annual meeting. LACERA votes for the appointment or reelection of statutory auditors, unless: • There are serious concerns about the statutory reports presented or the audit procedures used; • Questions exist concerning any of the statutory auditors being appointed; or • The auditors have previously served the company in an executive capacity or can otherwise be considered affiliated with the company.
IV.C.2.	Auditor Rotation		[Page 49] C. Auditor Firm Rotation LACERA votes case-by-case proposals to rotate audit firms, taking into account: • The tenure of the audit firm; • The length of rotation specified in the proposal; • Any significant audit-related issues at the company; • The number of audit committee meetings held each year; • The number of financial experts serving on the committee; and • Whether the company has a periodic renewal process where the auditor is evaluated for both audit quality and competitive price.	

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IV.C.3.	Auditor Indemnification		[Page 50] D. Auditor Indemnification and Limitation of Liability LACERA reviews case-by-case on the issue of auditor indemnification and limitation of liability. Factors to be considered include: • The terms of the auditor agreement-the degree to which these agreements impact shareholders' rights; • The motivation and rationale for establishing the agreements; • The quality of the company's disclosure; and • The company's historical practices in the audit area.	[Page 12] A. Director, Officer, and Auditor Indemnification and Liability Provisions Payments for insurance call into question the objectivity of the auditor in carrying out the audit, as the premiums paid on its behalf could be greater than the audit fees alone. Eliminating concerns about being sued for carelessness could also lead to a decrease in the quality of the audit. LACERA votes against proposals to indemnify auditors.
V.	**Environmental and Social Factors**	[Page 6] 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. [Page 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." CII	[Page 51] A. Social and Environmental Although social responsibility proposals are seldom approved by shareholders, they focus shareholders and management attention on public issues related to a corporation's business activities. Even though the impact of these proposals on sales, earnings and return to shareholders is insignificant, careful attention to these issues has the potential to be beneficial to corporations and their shareholders. [Page 51] It is good business for corporations to be responsive to public expectations. Conversely, a corporation that ignores the social impact of its activities does so at its own risk. Therefore, it is in the corporation's best interest, and the best interests of its shareholders, to carefully consider the impact that a company's business activities have on the public. [Page 38-39] 401(k) Employee Benefit Plans A 401(k) employee benefit plan is any qualified plan under Section 401 (k) of the Internal Revenue Code that contains a cash or deferred arrangement. An employee can elect to have a portion of his/her salary invested in a 401(k) plan before any income taxes are assessed (tax deferred). Because of this tax deferral, if the money is withdrawn before retirement there will be a penalty. From a corporation's perspective, a 401(k) plan provides a highly visible benefit to employees that can be used to attract and retain quality personnel. With so many companies offering a 401(k) plan as part of a compensation/benefit package, a firm without a 401(k) plan cannot compete for quality employees in an ever-shrinking talent pool. LACERA votes for proposals to implement a 401(k) savings plan for employees.	[Page 12] Shareowner proposals will be reviewed to ascertain whether the proposal is beneficial or detrimental to shareowner value. Resolutions typically fall into two categories: corporate governance, social and environmental. 1. Corporate Governance Proposals - If a measure would improve disclosure of company activities in non-strategic areas and at minimal costs, or seeks to improve the company's corporate governance structure, the proposal will be supported. However, if acceptance of a proposal is likely to lead to a disruption in board or management operations and would cause the company to incur significant costs without clear benefit, the proposal will be opposed. 2. Social and Environmental Proposals - In evaluating social and environmental proposals, it will be determined whether or not the issue in question should be addressed on a company-specific basis. If a proposal would have a negative impact on the company's financial position or adversely affect important operations, the resolution will be opposed. LACERA votes case-by-case on shareowner proposals. LACERA votes for proposals that would improve the company's corporate governance or business profile at a reasonable cost. LACERA votes against proposals that limit the company's business activities or capabilities or result in significant costs being incurred with little or no benefit.
V..			[Page 51] On November 19, 2008, LACERA's Board of Investments adopted the United Nations Principles for Responsible Investment, a set of global best practices for social, environmental and governance (ESG) investing. ISS is also a signatory to the Principles. As a result, ISS incorporates the relevant aspects of the Principles into its proxy analysis process. Therefore, when considering how to vote on ESG proposals, investment staff relies on the research expertise and voting recommendations of ISS. LACERA, in conjunction with ISS, reviews case-by-case shareholder social and environmental proposals on whether implementation of the proposal is likely to enhance or protect shareholder value, and in addition the following will also be considered: If the issues presented in the proposal are more appropriately or effectively dealt with through legislation or government regulation; If the company has already responded in an appropriate and sufficient manner to the issue(s) raised in the proposal; Whether the proposal's request is unduly burdensome (scope, timeframe, cost) or overly prescriptive; The company's approach compared with any industry standard practices for addressing the issue(s) raised by the proposal; If the proposal requests increased disclosure or greater transparency, whether or not reasonable and sufficient information is currently available to shareholders from the company or from other publicly available sources; and If the proposal requests increased disclosure of greater transparency, whether or not implementation would reveal proprietary or confidential information that could place the company at a competitive disadvantage.	[Page 22] Social and Environmental Issues LACERA votes case-by-case on social and environmental proposals taking into consideration whether implementation of the proposal is likely to enhance or protect shareholder value. In addition, the following will be considered: • If the issues presented in the proposal are more appropriately or effectively dealt with through legislation or government regulation; • If the company has already responded in an appropriate and sufficient manner to the issue(s) raised in the proposal; • Whether the proposal's request is unduly burdensome (scope, timeframe, or cost) or overly prescriptive; • The company's approach compared with industry standard practices for addressing the issue(s) raised by the proposal; • If the proposal requests increased disclosure or greater transparency, whether or not reasonable and sufficient information is currently available to shareholders from the company or from other publicly available sources; and • If the proposal requests increased disclosure or greater transparency, whether or not implementation would reveal proprietary or confidential information that could place the company at a competitive disadvantage.

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VI	**PROCEDURES FOR VOTING PROXIES ADDRESSED IN LACERA *CORPORATE GOVERNANCE POLICY* (REVISED AND ADOPTED AUGUST 2017)**		[Page 2] On August 27, 2007, the Board of Investments created a new Corporate Governance Committee (CGC) comprised of four Board members. This committee replaces the original management-based CGC established in March 2003. Section XI discusses the authority of the Corporate Governance Committee: 1) to instruct the investment staff to cast votes on certain shareholder proposals, and 2) addresses other actions the Committee may take with respect to the voting of proxies. [Page 52] A. Corporate Governance Committee The Board of Investments has delegated certain responsibilities to the Corporate Governance Committee, as set forth in the Corporate Governance Committee Policy Statement. 1. When voting on highly publicized, controversial, time-critical proxies with a "case-by-case" voting recommendation on which LACERA's proxy voting advisors have split opinion: A. Either LACERA's Chief Investment Officer ("CIO") or the CGC Chair shall call a meeting of the CGC for a time at which the most CGC members can meet to determine LACERA's voting position and direct Staff to vote accordingly. B. If a quorum of the CGC cannot meet in time for LACERA to vote, the CGC Chair will determine LACERA's vote after consultation with LACERA's Chief Executive Officer, CIO, and Chief Legal Counsel, or their designees, and direct Staff to vote accordingly. 2. Recommending Votes Contrary to the Established Proxy Voting Guidelines The Corporate Governance Committee may, in appropriate cases, recommend to the Board of Investments that votes be cast on a particular issue contrary to the Board's established Proxy Voting Guidelines. Votes may not be cast contrary to the Guidelines unless duly authorized by the Board.	[Page 2] Section IX discusses the authority of the Corporate Governance Committee: 1) voting on highly publicized, controversial, time-critical proxies with a "case-by-case" voting recommendation on which LACERA's proxy voting advisors have split opinion, and 2) addresses other actions the Committee may take with respect to the voting of proxies. [Page 23] Corporate Governance Committee The Board of Investments has delegated certain responsibilities to the Corporate Governance Committee, as set forth in the Corporate Governance Committee Policy Statement. 1. When voting on highly publicized, controversial, time-critical proxies with a "case-by-case" voting recommendation on which LACERA's proxy voting advisors have split opinion: A. Either LACERA's Chief Investment Officer ("CIO") or the CGC Chair shall call a meeting of the CGC for a time at which the most CGC members can meet to determine LACERA's voting position and direct Staff to vote accordingly. B. If a quorum of the CGC cannot meet in time for LACERA to vote, the CGC Chair will determine LACERA's vote after consultation with LACERA's Chief Executive Officer, CIO, and Chief Legal Counsel, or their designees, and direct Staff to vote accordingly. 2. Recommending Votes Contrary to the Established Proxy Voting Guidelines - The Corporate Governance Committee may, in appropriate cases, recommend to the Board of Investments that votes be cast on a particular issue contrary to the Board's established Proxy Voting Guidelines. Votes may not be cast contrary to the Guidelines unless duly authorized by the Board.

PROXY VOTING ANNUAL REVIEW—FISCAL YEAR 2016/2017

The following report provides a summary of how LACERA voted on items appearing on corporate ballots of public equity portfolio holdings where LACERA retains proxy voting authority. The report includes a general description of overall proxy voting volume, as well as a breakdown of LACERA's votes and support levels by subject.

Proxy Voting Activity

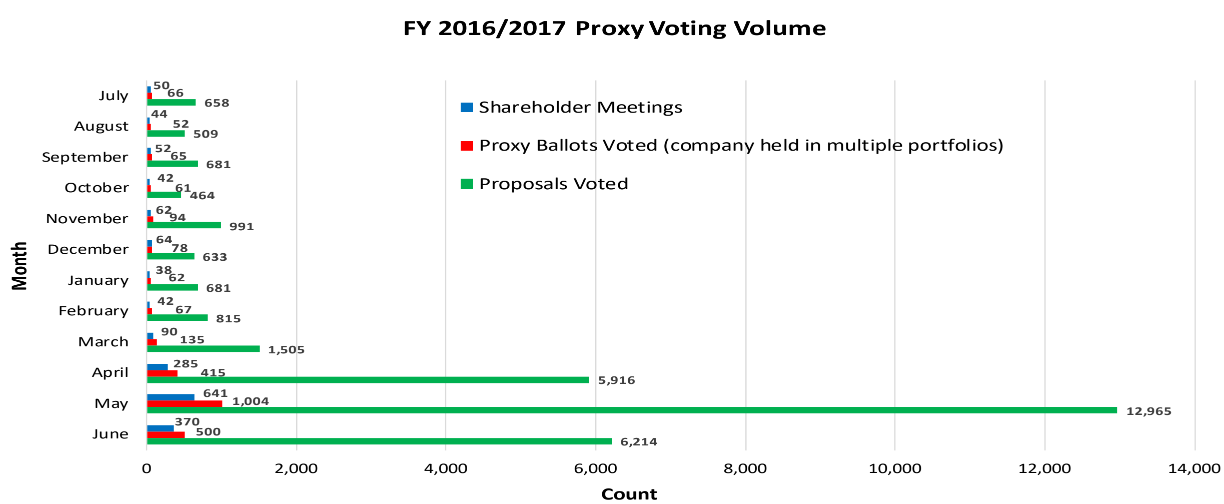
During Fiscal Year 2016/2017, LACERA voted proxy ballots for 1,780 corporate annual and special meetings, of which 994 were U.S. holdings and the remaining 786 were non-U.S. holdings. When multiple investment strategies hold shares in the same corporation, LACERA votes separate ballots for each holding. Accordingly, the total number of proxy ballots voted (2,599) was substantially higher than the number of companies (approximately 1,700) held in LACERA's public equity separate accounts.

For the fiscal year ended June 30, 2017, LACERA voted a total of 32,032 individual agenda items, an increase from the previous fiscal year. Approximately 95% of the proposals voted were management proposals that were placed on a proxy by the corporation's Board and/or management for a shareholder vote. The remaining five percent of proposals were shareholder resolutions which were placed on the corporation's proxy by shareholders.

Proxy Voting Volume

CHART 1 illustrates the volume of proxies voted by LACERA each month. The months of April, May, and June ("proxy season") are typically the busiest times of the year, with the majority of U.S. corporations holding annual shareholder meetings during this period. In fact, 72% of all proxies voted by LACERA were processed during the proxy season.

CHART 1



Proxy Voting Report Retention

Staff retains records of all proxies voted during the period, including a 31-page summary with the company name, company security identifier, shareholder meeting and record dates, and number of shares voted.

Proxy Voting Items

Management Proposals

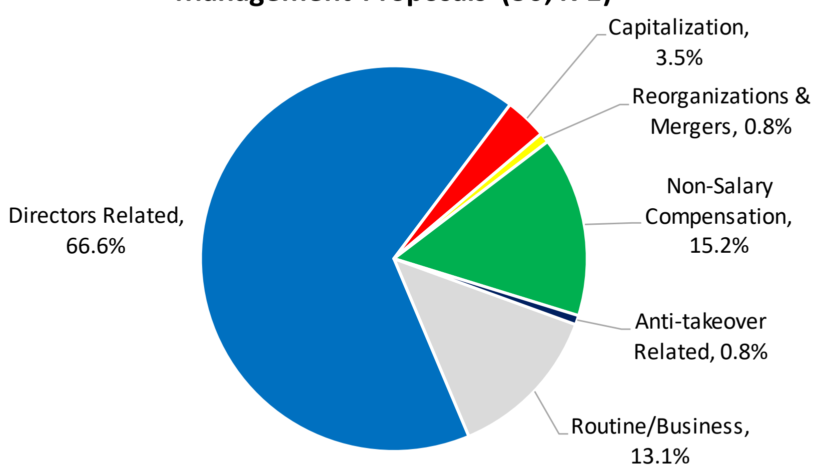
As shown in **CHART 2**, during fiscal year 2016/17 the vast majority of management proposals were comprised of director elections (Directors Related), executive compensation (Non-Salary Compensation), and auditor ratification (Routine/Business).

LACERA voted against 642 (5.5%) of the 11,568 directors up for election during the fiscal year. Reasons for votes against directors include: non-responsiveness to majority-supported shareholder proposals, poor board meeting attendance, and sitting on too many boards.

This was the seventh year that investors had an advisory vote on executive compensation (say-on-pay), permitting shareowners to cast a non-binding vote on whether they approve the executive compensation pay program and practices at the company. Of the 1,239 companies with a say-on-pay advisory vote on their ballot, LACERA voted against or abstained on 196 (15.8%) of the proposals, a slight increase in opposition relative to last year (12.6%). The primary reason for opposing companies' say-on-pay resolutions was a failure to adequately link executive pay to the firm's performance, which may occur when companies lack sufficiently robust performance metrics and incentives, award "one-off" discretionary bonuses or "retention" awards that are unrelated to firm performance, or benchmark their target pay levels with firms of inordinately larger size than the firm. For reference, these proposals are included in the "Non-Salary Compensation" category in **CHART 2**.

CHART 2

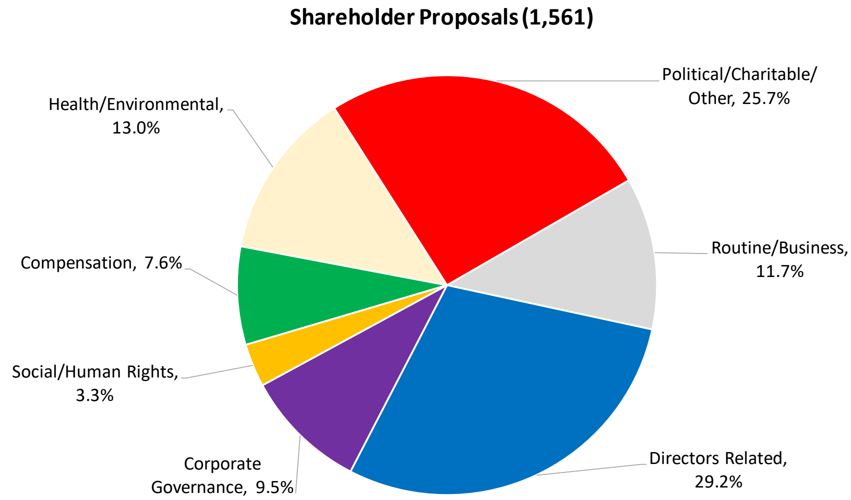
Management Proposals (30,471)



Shareholder Proposals

CHART 3 displays the range of shareholder proposals voted for LACERA's separate account holdings.

CHART 3



The following table presents the most common shareholder resolution topics in fiscal year 2016/17 and LACERA's average support level for each.

TABLE A: Most Common Shareholder Resolutions and LACERA Support Levels

Shareholder Proposal Topics	Number of Proposals Voted	Percentage of Votes "FOR"
Requests to report lobbying/political contributions	67	79%
Adopt proxy access right	28	100%
Require independent board chairman	38	66%
Provide the right to act by written consent	13	100%
Limit/prohibit accelerated vesting of awards	8	100%
Requests to report on climate change and sustainability	21	71%
Ability to call special meetings	23	100%

Board Responsiveness to Majority-Supported Proposals

In accordance with LACERA's proxy voting policy, LACERA opposes (or withholds votes from) all directors at companies that fail to adequately implement shareholder proposals approved by a majority of shareholders the previous year. While many boards seek to be responsive to investor concern and proposals that receive substantial support, some companies choose not to implement non-binding resolutions approved by investors. In the reporting period, LACERA withheld votes from board nominees at three companies, a marginal increase from FY2015/2016 when LACERA opposed directors at two companies for failing to take action on shareholder resolutions approved by investors.

TABLE B: Companies Failing to Implement Majority-Supported Resolutions

Name of Company	Shareholder Proposal Not Implemented After 1 Year	Annual Meeting Date
CBRE Group, Inc.	Call Special Meetings	May 19, 2017
Celgene Corporation	Adopt Proxy Access	June 14, 2017
Celgene Corporation	Call Special Meetings	June 14, 2017
Netflix, Inc.	Adopt Proxy Access	June 6, 2017
Netflix, Inc.	Majority Vote Standard	June 6, 2017
Netflix, Inc.	Eliminate Supermajority Vote	June 6, 2017
Netflix, Inc.	Declassify Board	June 6, 2017

The list above presents the three companies where LACERA opposed director nominees in FY2016/2017 for lack of responsiveness to majority-supported shareholder resolutions.

Investment Recommendation Memorandum

To: Each Member of the Board of Investments

For: February 14, 2018 Board of Investments Meeting

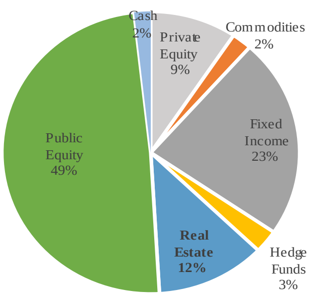
From: Trina Sanders - Investment Officer and Amit Aggarwal - Investment Officer

Portfolio as of 09/30/17

Total Fund: LACERA Pension

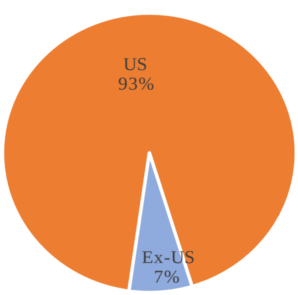
- **Asset Category: Real Estate**
- **Portfolio: International Real Estate**

Current Total Fund: $54b

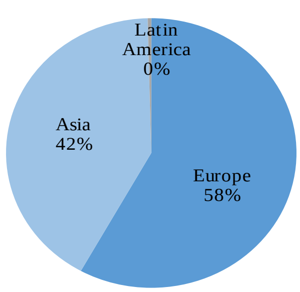


Actual plus committed RE

by Region: $6.4b



Proposed International RE



* $496m in international RE with Heitman Asia-Pacific

Recommendation

Approve an investment of $50 million to Heitman Asia-Pacific Property Investors, L.P. ("The Fund")

Overview

- Heitman manages $33.8 billion in direct real estate and real estate assets located in Asia, Europe and North America
- Heitman is seeking investors to commit $250M to Heitman Asia-Pacific Property Investors, L.P. ("The Fund")
- The Fund will make value-added real estate investments in the Asia-Pacific region
- The Fund is a continuation of the successful investment strategies used from the firm's 30-year experience in value-add investing on behalf of separate account clients and commingled funds
- **Main objective of the Fund will be to:**
  - a Target **net returns of 11-13%**
  - b Invest in developed and liquid Asian markets: Sydney, Melbourne, Brisbane, Tokyo, Osaka, Hong Kong, Seoul, and Singpore
  - c Invest in properties and convert them to stabilized core assets with strong income
  - d Diversify amongst multiple geographies and property types
  - e Invest up to 50% of the fund in "specialty category" which includes: self-storage, student accomodation and medical office

Strategic and Portfolio Fit

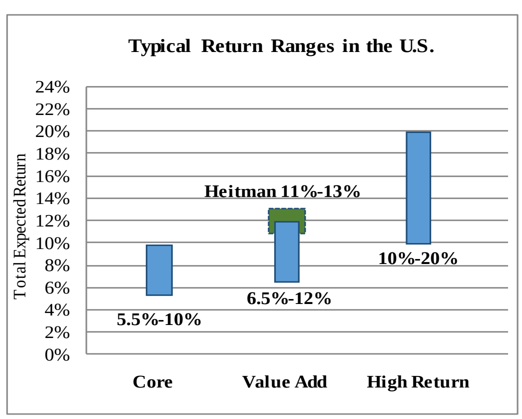
- This would be LACERA's second pan-Asia real estate fund since the adoption of the Real Estate International Implentation Plan in October 2016
- The Fund would increase real estate's international portfolio from 6.9% to 7.6%
- The Fund will help achieve the goal of committing $600M internationally over the next 3 years
- LACERA's target real estate allocation is **11%** of the total fund
  - a Real estate is currently over allocated at 11.9% of the total fund but still within range of 8-16%^ (Domestic sales are underway in order to bring the asset class closer to the target)
  - b Proposed commitment of $50M will be deployed over an 18 month period
  - c $446M is currently invested internationally, with $156M of that in Asia
  - d **<u>$50M allocation will increase international investment exposure to $496M *</u>**

^based on actual plus committed capital

*based on actual invested and committed capital

Fund's Target IRR Returns Compared to Typical Return Rates

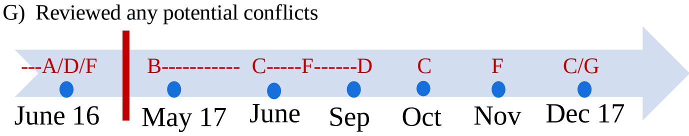
- Heitman Asia-Pacific Property Investors, L.P. is targeting a net IRR of 11-13%, which exceeds the top of the typical value-added returns in the U.S.



Heitman Asia-Pacific Property Investors, L.P. - Investment Recommendation Memorandum - continued

Due Diligence Process

A) Determined that Asia presented compelling opportunity
B) Surveyed the landscape of funds that meet LACERA's value-add criteria
C) Consulted with the Townsend Group on potential investment
D) Identified six funds in Asia, including Heitman
E) Conducted independent due diligence of Heitman over an 36 month period
F) Site inspections of Heitman properties in Hong Kong, Singapore, and Seoul
G) Reviewed any potential conflicts



Terms and Other Considerations

- Annual management fee of 0.88% of invested capital and thereafter, on invested capital
- Distributions will be made 1st to LP's until a return of all capital, plus a 10% cumulative preferred rate. Subsequent distributions will be shared 85% to LP's and 15% to GP until the LP's receive a 13% return; and thereafter the distributions will be 80% to LP's and 20% to GP
- Investment period is eighteen months following the final closing date
- Six-year term from expiration of the investment period, with up to two additional years with approval of limited partners
- General partner will invest at least 1% of the Fund's aggregate commitments

Strengths and Merits

- LACERA will receive a favorable fee
- Heitman has a well-established a strong research team
- Heitman will only invest in the developed and leading cities in transparent and liquid markets. They will not invest in China
- Heitman sources all of its Asia-Pacific platform transactions off-market
- Heitman will use modest leverage of 55% accros the Fund
- LACERA has had a mandate with Heitman since 2011

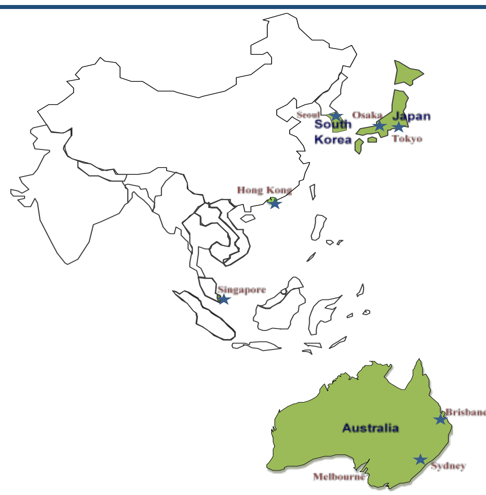
Concerns and Mitigating Factors

- This will be Heitman's first pan Asian fun in the region
- ✓ Has acquired, developed and redeveloped 1,500 value-add properties
- Heitman does many joint venture deals and uses operating partners
- ✓ Heitman has identified strong local and regional partners
- Will invest in South Korea which is considered less transparent
- ✓ Heitman has the execution experience, network, and on-the ground presence

Performance Track Record (as of June 30, 2017)

Vehicle name	Investment style	Year of final close	Geo-graphic focus	Sector focus	Equity raised or invested	Number of investments to date	Target net IRR	Target net multiple	Current net IRR* since inception	Current gross multiple	Current net multiple	Fore-casted gross IRR	Fore-casted net IRR	LTV %	% realised
1. Office JV	Value Add	2011	Australia	Office	$84	5	11-13%	1.60x	18.3%	1.92x	1.87x	18-20%	17-19%	51%	66.10%
2. Self-Storage JV	Value Add	2011	Australia	Self-Storage	$119	26	13-15%	1.73x	14.1%	1.82x	1.78x	N/A	N/A	N/A	100%
3. Industrial JV	Core Plus	2012	Australia	Industrial	$195	20	9-11%	2.35x	12.3%	1.57x	1.53x	12-13%	11-12%	55%	N/A
4. Retail Club	Core	2013	Malaysia	Retail	$250	1	10-12%	1.89x	9.1%	1.35x	1.33x	9-10%	8-9%	11%	N/A
5. Tokyo Office 1	Core Plus	2013	Japan	Office	$9	1	9-11%	1.51x	33.5%	2.25x	2.19x	N/A	N/A	N/A	100%
6. Tokyo Office 2	Core Plus	2014	Japan	Office	$14	1	10-12%	1.59x	11.5%	1.38x	1.33x	N/A	N/A	N/A	100%
7. Tokyo Retail	Core	2015	Japan	Retail	$81	1	7-8%	1.87x	24.1%	1.60x	1.57x	11-12%	10-11%	59%	N/A
8. Self-storage 2	Value Add	2016	Singapore	Self-storage	$60	4	16-18%	2.00x	N/A	N/A	N/A	18-20%	16-18%	52%	N/A

Target Markets



Noted and Reviewed:

Jonathan Grabel

Jonathan Grabel, Chief Investment Officer

L//.CERA

January 26, 2018

TO: Each Member
Board of Investments

FROM: Trina Sanders
Investment Officer – Real Estate

Amit Aggarwal
Investment Officer – Real Estate

FOR: February 14, 2018 Board of Investments Meeting

SUBJECT: **INTERNATIONAL REAL ESTATE COMMINGLED FUND**
Heitman Asia-Pacific Property Investors, L.P.

RECOMMENDATION

Approve a commitment of up to $50 million to Heitman Asia-Pacific Property Investors, L.P.

EXECUTIVE SUMMARY

Heitman International HK Limited ("Heitman") is seeking investors to commit $250 million (with a cap of $350 million) to Heitman Asia-Pacific Property Investors ("HAPI" or "The Fund"). Heitman will focus on making value-add real estate investments in the Asia-Pacific region.

HAPI will seek diversified investments in select traditional property types, such as office, retail, logistic/warehouse and residential. HAPI will also pursue a category that they call specialty which includes self-storage, student housing, and medical office. The Fund will invest up to 50% of the Fund in this specialty category. The Fund will focus on the following developed and relatively liquid Asian markets: Sydney, Melbourne, Brisbane, Tokyo, Osaka, Hong Kong, Seoul and Singapore. The Fund will not invest in China. Heitman has an established track record pursuing this strategy with its team members investing in Asia since 2011.

Heitman will target investments providing stable income balanced with the prospect of value enhancement. HAPI's value-added returns will be delivered via a blend of investment strategies from core-plus, repositioning/value-add and up to 25% development. The strategies also allow for portfolio aggregation to help create multiple exit options. The Fund will pursue direct and/ or joint ventures with operating partners. The joint venture will be structured to ensure that all parties' interests are aligned.

Staff believes Heitman Asia-Pacific Property Investors, L.P. is a good fit for LACERA's real estate portfolio. The proposed commitment is consistent with LACERA's Real Estate International Implementation Plan which calls for up to 15% of LACERA's real estate allocation to be invested/committed internationally, over the three-year period of 2017-2019. The Fund is targeting net returns of 11%-13%, which exceed typical value-add returns from real estate located in the United States by 200+ basis points. This performance, if realized, should help improve LACERA's value-add sector returns, which have historically significantly underperformed the benchmark. The Fund strategy should also improve LACERA's geographical diversification while staying within key primary and secondary cities within the target countries. These cities represent the more stable and relatively transparent cities and countries of Asia, thus better mitigating risk.[1] Risk should be further constrained by partnering with a strong, disciplined partner that has a good track record executing the same strategy. An investment of $50 million will ensure LACERA a seat on HAPI's Advisory Board.

Staff notes that although the real estate current allocation of 11.2% is slightly in excess of the 11% target, restrained new investment pace and planned dispositions within the United States are expected to reduce the real estate allocation to the target or below. A commitment to the Fund would be expected to be deployed over an approximate eighteen (18) month period, thus it should not exacerbate LACERA's over-allocation to real estate.

An affiliate of Heitman's, Heitman Capital Management, LLC, was retained by LACERA as a separate account manager in 2011. Heitman remains in good standing and they have out-performed the benchmark since-inception. The firm currently manages $295 million of equity real estate assets for LACERA. This investment would represent LACERA's first Asia-Pacific commingled fund with Heitman. This opportunity was sourced directly by LACERA; no placement agent was utilized.

LACERA's consultant, the Townsend Group ("Townsend") conducted an independent review of the opportunity and concurs with staff's assessment. Townsend's investment memorandum is attached (**ATTACHMENT 1**).

The remainder of this memorandum discusses: (i) Process; (ii) Background; (iii) Investment Evaluation; (iv) Fund Terms; (v) The Asian Region and (vi) Observations.

PROCESS

The Board approved the Real Estate International Implementation Plan ("the Plan") in October 2016, which outlined Asia, Europe and Latin America as regions that merited further consideration. Since the Plan was approved, staff has continued to monitor and evaluate core and non-core fund opportunities in those regions. Staff's Fund review process for Heitman Asia-Pacific Property Investors, L.P. is outlined below:

[1] "Transparency" within real estate investment refers to the availability and accuracy of information relating to transaction processes, regulatory and legal frameworks, corporate governance, performance measurement and data availability. Higher real estate transparency is associated with stronger investor and corporate activity. Source: JLL Global Real Estate Transparency Index 2016.

- Surveyed the landscape of funds that meet LACERA's value-add criteria, including:
  - Pan-Asia;
  - Multiple property types;
  - A net return greater than returns for US value-add of similar risk levels.
- Identified six value-add funds in Asia, including HAPI and AEW which was approved by the Board in December 2017. The other four funds are not being pursued at this time.
- Consulted with the Townsend Group to seek input on available funds as well as risk profile recommendations.
- Conducted an independent due diligence on Heitman and HAPI over the last 36 months, including a review of:
  - Organizational structure and key professional profiles
  - Research group and capabilities
  - Track record and underwriting assumptions
  - Investment strategy and structure of the investments
  - Portfolio Management, operations and process
  - Risk Management processes
  - Potential conflicts
  - References
  - Annual and quarterly reporting and budgets
  - Litigation and regulatory issues
  - Site inspections of asset investments in Hong Kong, Singapore, and Seoul.

Completion of this process has culminated in this recommendation.

BACKGROUND

As of December 31, 2017, Real Estate represented 11.2% of the total LACERA portfolio, slightly exceeding its target of 11%; however, within the approved range of 8% to 16%. The BOI-approved 2017 Real Estate Investment Plan called for selected dispositions and limited new investments resulting in a net decrease in holdings, bringing the asset class closer to its target. The sales activity is primarily occurring in U.S. domiciled assets. Another goal stated in the Investment Plan was to increase exposure to international real estate.

Asia and Europe each contain a large investable universe for real estate. Each nearly equals the size of the investable universe for real estate within the U.S. at $8.8 trillion. Most economies of Asia are expected to experience a higher pace of economic growth than the U.S. This growth combined with continued expansion of the middle class and urbanization in many countries create a ripe environment for real estate investment.

International activity is expected to diversify commitments across multiple vintage years, risk categories and general partners. LACERA remains minimally exposed to international real estate: 6.9% of investments are ex-U.S. relative to a policy limit of 20%. While no "target" has been established for international real estate, core is considered when returns are comparable to the U.S. and non-core is considered when it is expected to deliver a return premium to similar U.S.-based investments. The proposed commitment to HAPI would increase the international exposure modestly to 7.6% over an estimated three-year investment period.[2]

Staff continues to evaluate additional opportunities in Asia, Europe and Latin America in an effort to increase the international exposure to as high as 15%. Additional European-domiciled funds are also being underwritten and may be presented for Board consideration in 2017-2018.

INVESTMENT EVALUATION

Staff evaluated HAPI in three broad categories: 1) Organization and Investment Team, 2) Investment Strategy and 3) Performance Track Record.

1. Organization and Investment Team

Heitman LLC was founded in 1966. Heitman, a global real estate investment management firm, has a 50-year history of developing and executing real estate investment strategies for institutional and individual investors. Heitman is 100% owned by its employees. Through its wholly owned subsidiaries, Heitman actively manages portfolios in both the public and private property markets and across the risk-return spectrum in North America, Europe and Asia-Pacific. Heitman's headquarters is in Chicago, with offices in Frankfurt, Hong Kong, London, Los Angeles, Luxembourg, Melbourne, Munich, Seoul, Tokyo and Warsaw.

Heitman has been developing and executing strategies for private equity real estate investments for decades. Heitman has invested approximately $24 billion globally in value-add strategies for many of their clients throughout the years. The investment strategy for HAPI is borne from the firm's 30-plus years of experience in value-add investing on behalf of their separate account clients and commingled funds. As of December 31, 2017 Heitman has $38.8 billion of assets across three complementary business lines that include:

- $33.1 billion in direct investment in real estate and real estate assets located in Asia, Europe and North America.
- $4.6 billion in publically traded REIT's, Real Estate Operating Company ("REOC") and other real estate companies in Asia, Europe and North America.
- $1.1 billion in origination and servicing of debt secured by real estate in North America.

Heitman strives to diversify its employee pool and encourages the promotion of women within Heitman. Heitman has 26 women in leadership roles (Senior Vice President level and above). Yet out of 40 equity owners, only five are women.

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[2] The International Investment Plan contemplates making two to three $50 million investments in Asia-Pacific funds per year.

In 2016, Heitman launched the firm's first global employee resource group, Investing in Leadership Empowerment and Development (iLEAD). iLEAD is designed to support the women of Heitman by providing opportunities for networking, professional development, and community involvement.

HAPI is being sponsored by Heitman International HK Limited, an investment advisor registered with the U.S. Securities Exchange Commissions ('SEC"). In addition, Heitman is licensed and regulated by the Securities and Futures Commission in Hong Kong.
HAPI's Investment Committee provides oversight to the Fund by approving all acquisitions and disposition, monitoring performance and approving any changes to the Fund's investment policies and guidelines. The investment committee is comprised of four senior members of the firm: Maury Tognarelli, CEO of Heitman, Jerry Claeys, Non-Executive Chairman, Mary Ludgin, Investment Research and Skip Schwartz, Private Equity Asia-Pacific. A quorum is required to hold an investment committee and majority approval is required for every fund transaction.

- Mr. Maury Tognarelli is the Chief Executive Officer of Heitman and an equity owner of the firm. He is a member of the firm's Executive Committee, Board of Managers, Management Committee and also chairs the Private Equity and Debt Investment Committees. He is responsible for the day-to-day management of the firm's operations and its investment activity.
- Mr. Jerry Claeys is the Non-Executive Chairman of Heitman and an equity owner of the firm. He is a member of the firm's Board of Managers, Management Committee and Private Equity and Debt Investment Committees. Mr. Claeys was named co-head of acquisitions for JMB Realty in 1978. In 1990 Mr. Claeys became the Chairman of JMB Institutional. JMB merged with Heitman in 1994 in which Mr. Claeys became Head of the Advisory Business of the newly formed investment advisory entity. In 1999, Mr. Claeys was named Chairman and CEO of Heitman.
- Dr. Mary Ludgin is Managing Director, Head of Global Research and an equity owner of the firm. She is a member of the firm's Board of Managers, Management Committee, North American Private Equity Valuation Committee and Private Equity and Debt Investment Committees. Dr. Ludgin has been with Heitman for 27 years. She is the author of numerous articles and research studies relating to real estate markets, portfolio management and strategy.
- Mr. Skip Schwartz is Managing Director of Heitman's Asia-Pacific Private Real Estate Equity group. Mr. Schwartz is the Portfolio Manager for HAPI. Mr. Schwartz based in Hong Kong is a member of Heitman's Asia-Pacific Private Equity Investment Committee, and an equity owner of the firm. He is responsible for creating the firm's investment platform in the Asia-Pacific region and manages the regional team as it sources new real estate investments and joint venture partnerships across Asia-Pacific. Mr. Schwartz is also responsible for overseeing the acquisition and asset management process for a large private equity global separate account. Mr. Schwartz has been in the Asian region since 2008 and has grown the assets under management in the region to over a billion dollars. Prior to 2008, Mr. Schwartz was in Heitman's London and Frankfurt offices for seven years and was involved in numerous investment, joint

venture, and development transactions across Central Europe and Germany. Mr. Schwartz has been with Heitman for 22 years and was with the firm's Tokyo office prior to moving to Hong Kong.

2. Investment Strategy

The Fund will seek to invest in underpriced assets identified through fundamental macro, sub-market, and property-level analysis. Assets may be mispriced due to market conditions, sector immaturity or factors unique to the particular building, where there are opportunities to create or enhance value through asset repositioning, expansion or redevelopment. The Fund will focus on under-managed assets, where current ownership lacks the capital or expertise to optimize the building. The Fund will invest in office, retail and warehouse/logistics and up to 50% of the Fund in specialty sectors which include self-storage, student accommodations and medical offices. The Fund will acquire and invest in properties with value-added opportunities which may consist of core-plus, repositioning/value-add and up to 25% development that will be converted to stabilized core assets with strong income, which in turn, would be sold. The Fund is targeting a 11% to 13% net IRR.

The HAPI Fund will:

- Select investments that meet the Fund's top-down, bottom-up selection criteria and are generally valued between US$30M and US$120M.[3]
- Provide a diversified portfolio of real estate assets in the dominant urban economies of Asia-Pacific's deepest and most transparent markets.
- Focus on sub-strategies that Heitman believes most effectively leverage domestic demand growth and medium-term demographic shifts.
- Execute strategies that permit the Fund to generate net operating income growth in excess of national averages with a distinct emphasis on the specialty sector (student-housing, f-storage and medical office).

The Fund will attempt to source opportunities off-market or in limited or reduced competitive sale processes. The strategy will typically require a three- to five-year holding period. The Fund's investment strategy is designed to mitigate market risk and enhance liquidity. While creating the investment portfolio, Heitman expects to build up the portfolio with:

- Multi-tenant, high quality assets;
- Major market locations;
- Property type diversification;
- International geographic diversification; and

[3] Top-down means taking a macro view of the market and drilling down from global/national data to state and metro data to reach a conclusion about an investment. Bottom-up means starting at the property or company level and doing analysis at a more micro level to come to a conclusion. When using both, it helps to analyze whether an investment looks right from both perspectives and whether or not the two views agree with each other.

- Suitable exit strategies.

The Fund may use up to 55% leverage at the Fund level and up to 60% of the gross asset value at the property level. The Fund will be U.S. dollar-denominated and Heitman may hedge the currency in those markets where it is economical, such as Japan and Australia.

3. Performance Track Record

A summary of Heitman's Asia-Pacific real estate performance is included in the appendix as **ATTACHMENT 2.**

Heitman's Asia-Pacific portfolio as of December 31, 2017 consists of nearly $800 million with vintage years ranging from 2011 to 2015 for eight separate account investors. This will be Heitman's first fund in Asia that will consist of multiple investors. Their prior track record consists of separate account investments and funds-of-one that were structured as closed-end commingled funds.

Heitman has a proven track record of investing in Asia. The firm has invested in 59 investments in Asia since 2011 with forecasted returns ranging from a net 8-19% IRR. Out of the 59 investments they have realized on 31 investments which have yielded a net returns in the range of 11.5%-18.3%. Some of the forecasted yields are lower than the target net return of 11%-13% for the HAPI Fund as they were investments made for Heitman's core mandate. Members of the team have been investing in Asia since 2002, and have a long history of developing and executing real estate investment strategies on behalf of institutional investors.

FUND TERMS

The proposed terms of Heitman Asia-Pacific Property Investors, L.P. are favorable as compared to other current Pan-Asian funds. At a commitment level of $50 million, the annual management fee is 0.88% of invested capital. Distributions will be made first to investors until a return of 100% of the investor capital is returned plus a 10% cumulative preferred rate. Subsequent distributions will be shared 85% to the investors and 15% to the General Partner until the investors have received a 13% return. Any additional distributions will be shared 80% to the investors and 20% to the General Partner.[4]

The investment period is eighteen months following the final closing date estimated as July 2018, and the Fund has a six-year term from the expiration of the Investment period, with two, one-year extensions, the first at the discretion of the General Partner and the second with consent of the Advisory Committee. The first close occurred in July 2017 for an equity commitment of $182 million from six investors, all of which were Townsend clients.

HAPI is projected to have a 3.0% fee leakage from 15.0% gross to 12.0% net (with total leakage comprised of Fund expenses of approximately 30 basis points, asset management fee of 80 basis points, tax of 150 basis points, and a carried interest of 40 basis points), assuming minimum base case returns are achieved.

Heitman, together with members of the team, will commit 1% of the Fund's aggregate

[4] The waterfall for the Fund is a European waterfall and fully back-ended.

commitments.

The principal investment terms of the Fund are summarized in the appendix as **ATTACHMENT 3.**

OBSERVATIONS

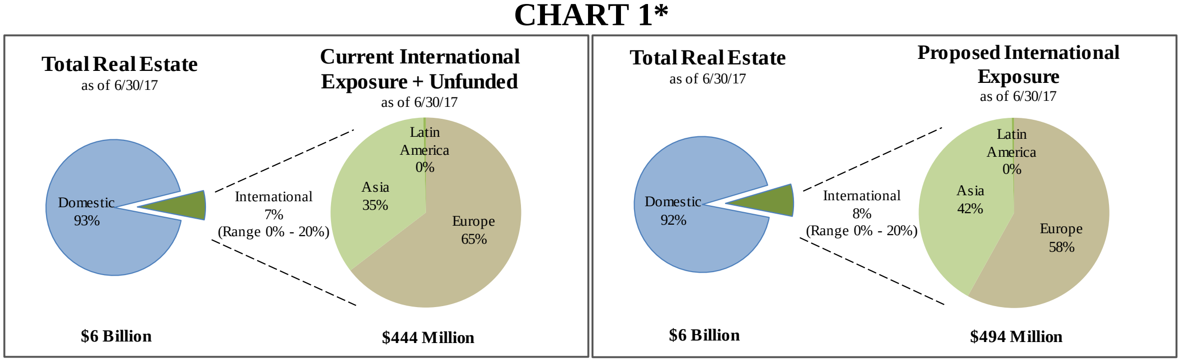
Staff's independent due diligence process revealed the following noteworthy merits and concerns.

Investment Merits:

- Heitman Asia-Pacific Property Investors, L.P. provides LACERA:
  - An investment that will help further diversify the real estate portfolio by risk category; LACERA currently has two commitments to Asia: a core fund investment (Invesco Asia fund) and a value-added fund (AEW Value Investors Asia III).[5]
  - The ability to achieve higher returns in the value-add sector for comparable funds in the U.S.
  - The ability to invest up to 50% of the Fund in a specialty category which includes student accommodations, self-storage and medical office. This is a distinguishing aspect for HAPI and provides further diversification for the LACERA's Real Estate portfolio.

An investment in HAPI will increase LACERA's exposure to real estate located in Asia by $50 million, which will result in Asia representing 42% of the international real estate exposure. **CHART 1** shows the real estate exposure by geography prior to and after a commitment to HAPI.

CHART 1*



*Exposure includes actual invested and committed capital.

- ***LACERA will receive a favorable fee***

HAPI currently has six investors in the Fund, all of which are Townsend clients, therefore Townsend has successfully negotiated favorable fees for their clients as they were able to aggregate client commitments over $75 million. Therefore, LACERA will only pay

[5] The Board Approved a $50 commitment to AEW in December 2017.

asset management fees of 88 basis points on invested capital which is a 12 basis points discount. In addition, this will lower the J-curve effect due to only paying fees on invested capital. This fee compared to comparable funds is favorable. Other fund fees range from 125 basis points or greater on committed and invested capital.

- ***Heitman has a strong research team***
  Heitman has a unique research team that gets involved in the acquisition and operation of assets. The research professionals are key members of the investment decision making process. A representative of the research team is required to view each property prior to acquisition. Additionally, the global head of the research group is a voting member of the investment committee.

- ***Heitman has a well-established and thorough investment process.***

  Staff is impressed with Heitman's thorough due-diligence process that contains many checks and balances at every step. Heitman's investment process has been refined over the firm's 50 years of real estate investment management. In addition, Heitman has been a separate account relationship with LACERA since 2011 and staff is familiar with their process and procedures.

- ***Heitman will only invest in the developed and leading cities in transparent and liquid markets.***

  Using the outputs of Heitman's relative value analysis and estimates of investable stock, HAPI will target the region's developed markets, as Heitman believes investments in these markets will produce attractive returns for investors. **TABLE I** below illustrates HAPI's targeted allocation guidelines; Heitman believes this combination provides for exposure to a diversified range of underlying economic drivers, while avoiding unnecessary risk at the macro or micro level. Given current and projected economic conditions, Heitman does not believe Asia's developing markets present an attractive enough risk premium for their strategy.

TABLE I

Target Markets	Transparency	Liquidity	Market Size[1]
Sydney, Melbourne, & Brisbane	High	Deep	Medium
Tokyo/Osaka	Medium	Deep	Large
Singapore	Medium	Deep	Medium
Hong Kong	Medium	Deep	Medium
Seoul	Medium	Deep	Medium

1. As measured by Investable Stock.

Source: EIU; Bloomberg; IPD; Heitman Research

Heitman has successfully executed multiple investments in Australia, Japan, Singapore and Malaysia. Heitman is active with teams on the ground in the Hong Kong, Seoul and Tokyo markets and believes the combination of its presence and track-record will help ensure successful capital deployment.

- ***Heitman has been able to source all of its Asia-Pacific platform's transactions off-market.***

Heitman has been able to source 100% of its Asia-Pacific platform's transactions off-market which provides them with a competitive advantage.

All investment sourcing at Heitman is done in house. The acquisition team includes seasoned, multi-lingual professionals focused on sourcing investments based on the specific investment objectives and an understanding of market opportunities as discussed in regular investment strategy sessions led by the research team. Sourcing is accomplished through long-standing relationships, cold calling of owners, operators and developers and conference networking, as well as relationships with brokers regionally providing visibility for off- and on-market opportunities.

- ***Seed Investments***

Heitman has closed on one self-storage portfolio in Japan which is expected to yield a net return of approximately 12.3% and has one student housing investment which is expected to yield a net return of 13.1%. The student housing investment has been approved by the Investment Committee and is under final due diligence. Assuming that the deal that has been approved by Heitman's Investment Committee closes, the Fund will be 30% committed based on the $182 million equity commitments to the Fund from the limited partners as of January 31, 2018. Based on a capital raise of $250 million the Fund would be 22% committed. The two deals that they have sourced for the Fund are also off-market transactions.

Concerns:

- ***This will be Heitman's first pan Asian fund***

  Since 1992, Heitman has acquired, developed and redeveloped 1,500 value-add properties at approximately $20 billion across North America, Europe and Asia-Pacific. It should be noted that Heitman has multiple discretionary commingled funds throughout North America and Europe. LACERA was invested in three of Heitman's commingled fund (Heitman fund II, IV, and JMB/Heitman Group Trust V in North America) from 1985 to 2010.

  Furthermore, since 2008, Heitman has developed solid relationships with joint-venture partners, real estate operators, lenders and service providers to support Heitman's Asia-Pacific team. Emphasized by their first Asia-Pacific investment in 2011, Heitman has been patient and dedicated in developing the track record, network and on-the-ground presence to successfully source, execute, and manage investment strategies for clients and Heitman's first regional commingled fund.

  Heitman has positioned the Fund to allow investors to benefit from the investment team's depth of experience in Asia-Pacific. The Fund will include investments that Heitman will source from existing relationships as well as from firms that will be drawn to Heitman because of its reputation. The Fund's investors will also benefit from Heitman's asset management and the buy/hold discipline that the firm applies to each portfolio investment.

- ***Heitman does many joint venture deals and uses operating partners***

  Investing via joint venture and operating partners usually creates a double layer of fees. The partner earns fees and Heitman also earns fees.

  When the Fund pursues joint ventures with operating partners that are specialists in specific property types, Heitman does so in the belief that such aligned partnership increases the probability of a successful outcome. Heitman's expertise across North America, Europe, and Asia-Pacific in joint ventures includes identifying strong local and regional partners and structuring transactions to moderate downside risk and motivate favorable performance. Heitman believes joint ventures in targeted strategies provide a number of key benefits to that specific strategy including:

- Enhanced Sourcing: When focusing on aggregation as part of the value creation, the partner will often complement Heitman's ability to source attractive investment opportunities that are not available on a direct basis.
- Best Execution: Working with operating partners with specialized management and leasing expertise, thereby mitigating execution risk.
- Alignment of Interests: Direct capital investment by operating partners, as well as incentive-based structures, aligns the operating partner's interests with those of the Fund.

CONCLUSION

The Fund is a commingled fund that will pursue value-add real estate opportunities in the Pan-Asian–Pacific region, and will seek to provide attractive risk-adjusted returns through thoughtfully selecting and managing investments. The General Partner has demonstrated a proven history of sourcing, managing and realizing income and gains in a disciplined and timely manner in order to maximize investor returns.

Heitman's prior performance in the Pan-Asian-Pacific region is impressive both in terms of the absolute returns and its consistency. The Heitman team appears to be well positioned to continue delivering strong performance.

LACERA is actively looking for opportunities to increase its real estate exposure in Asia due to the relatively high economic growth in the region as well as the attractive returns that appear to be available. Up to 15% of the real estate portfolio is expected to be deployed internationally over the next three-years.

Following completion of its independent due diligence process, staff concludes that a commitment of $50 million would be an appropriate continuation to LACERA's International Investment Plan. LACERA's real estate consultant, The Townsend Group, concurs with staff's conclusion. Therefore, staff recommends an investment of $50 million in Heitman Asia-Pacific Property Investors, L.P.

Attachments

Noted and Reviewed:

Jonathan Grabel
Chief Investment Officer

TOWNSEND GROUP

ATTACHMENT 1

MEMORANDUM

TO:	**LACERA Board of Investments**
DATE:	February 14, 2018
SUBJECT:	$50 Million Commitment to Heitman Asia-Pacific Property Fund
FROM:	**The Townsend Group** Jennifer G. Stevens

Overview

The Townsend Group has completed investment review of Heitman Asia-Pacific Property Fund ("HAPI") on behalf of Los Angeles County Employees Retirement Association ("LACERA"), which is included as **Attachment C**. After conducting full Due Diligence on the offering, Townsend recommends that LACERA proceed with a $50 million investment in HAPI.

The investment aligns with LACERA's International Real Estate Implementation Plan. This Plan was adopted in October 2016 and provided for up to $240 million in annual commitments to ex-US markets. Though LACERA has capital available to deploy internationally, LACERA has demonstrated patience and selectivity when considering international investments. The first two approved investments under this Plan are CapMan Nordics Fund II and AEW Value Investors Asia Fund III. Additional international investments in the European region are under consideration for 2018.

HAPI will provide LACERA with additional diversification in the Asian region. The investment is consistent with the $115 million in annual commitments dedicated to the Asia Region, and the estimated $50 million commitment size is consistent with the capital outlined in the approved Plan. An investment in HAPI also provides exposure to both income and value creation opportunities across a spectrum of risk profiles, property types and Asian markets.

The macro view across the Asian property markets can be broadly characterized by sustained but slowing growth, increasing consumption caused by a growing middle class and significant infrastructure investment. The Townsend Group's View of the World favors Asian investment strategies that (i) emphasize property enhancements in order to generate higher net operating income and (ii) markets with balanced supply fundamentals. Increased opportunities for investment in institutional quality real estate, coupled with the USD trading at historic highs compared to many Asian market currencies, provides an advantageous entry point into the region.

Heitman Asia-Pacific Property Fund is a closed-ended, diversified real estate investment vehicle targeting a leveraged gross IRR of 14-16% (11-13% net). HAPI seeks to acquire and reposition mispriced assets through fundamental macro, submarket, and property-level analysis. Income returns will target 5-6% annually, utilizing leverage below 55% at the portfolio level (60% at an individual asset level). HAPI is targeting a $250 million raise and will emphasize specialty sector property types (self-storage, student housing and medical office) that offer attractive risk-adjusted returns due to a combination of higher yields and net income growth. HAPI will complement investments in these specialty sectors with select shorter-term tactical opportunities, largely focused in the office sector. HAPI will focus on core and developed markets in Asia-Pacific including Australia, Japan, Hong Kong and Singapore. See the section entitled **Heitman Asia-Pacific Property Fund – Executive Summary** for more information.

Client Profile

All information is as of June 30, 2017:

1. *LACERA Portfolio Structure & Funding Status.* The LACERA Target Real Estate exposure is 11.0% of Total Plan Assets, which equates to a $5.8 billion Target Real Estate allocation on $52.5 billion of Total Plan Assets. As of June 30, 2017, LACERA's Real Estate market value totaled $6.2 billion in Real Estate which is above target.

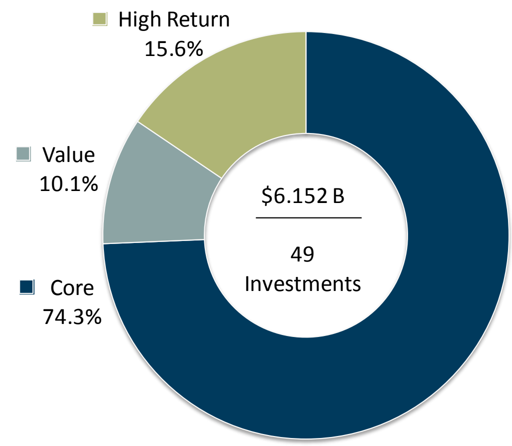
   Real Estate is categorized into three 'buckets,' each with their own set of investment parameters: Core Real Estate, Non-Core Real Estate and Public Real Estate Securities. A snapshot of the LACERA Real Estate Portfolio is shown as Figure 1 on the next page (see also LACERA Compliance Matrix, **Attachment A**).

   a. *LACERA Core Portfolio*. LACERA has a strategic limitation of ≥60.0% to Core Real Estate. Including unfunded commitments, the market value of LACERA's Core Portfolio was 73.8% (as of 6/30/17). Although Townsend does not provide Capital Projections for LACERA, we anticipate that the Core Portfolio will trend down to 72.2% as a result of several recent investments into value-add closed-end funds, including $50 million commitment to CapMan Nordic Fund II, $50 million to Heitman Asia-Pacific Property Fund and $50 million to AEW Value Investors Asia Fund III. However, LACERA is expected to remain well above its permissible range for Core Real Estate without any new commitments.

      LACERA continues to investigate further options to reduce total Real Estate exposure and to rebalance the Core Portfolio closer to the lower end of the strategic range. The LACERA Custom Core Benchmark is a blend of NPI-50 bps (since inception through 2Q-2013) and the Net ODCE (from 3Q-2013 onward). As of 2Q-2017, the LACERA Core Portfolio underperformed its benchmark on a 1, 3, 5, and 10-year basis.

Figure 1 – LACERA Real Estate Strategic Limits and Current Status

Portfolio Composition	Strategic Limit	Current Status
Core:	≥ 60%	74.3%
Non-Core:	≤ 40%	25.7%
Value:	≤ 40%	10.1%
High Return:	≤ 20%	15.6%
Public REITs:	≤ 15%	N/A
Total Portfolio:	N/A	N/A



Source: 2Q-2017 LACERA Portfolio Management Report.

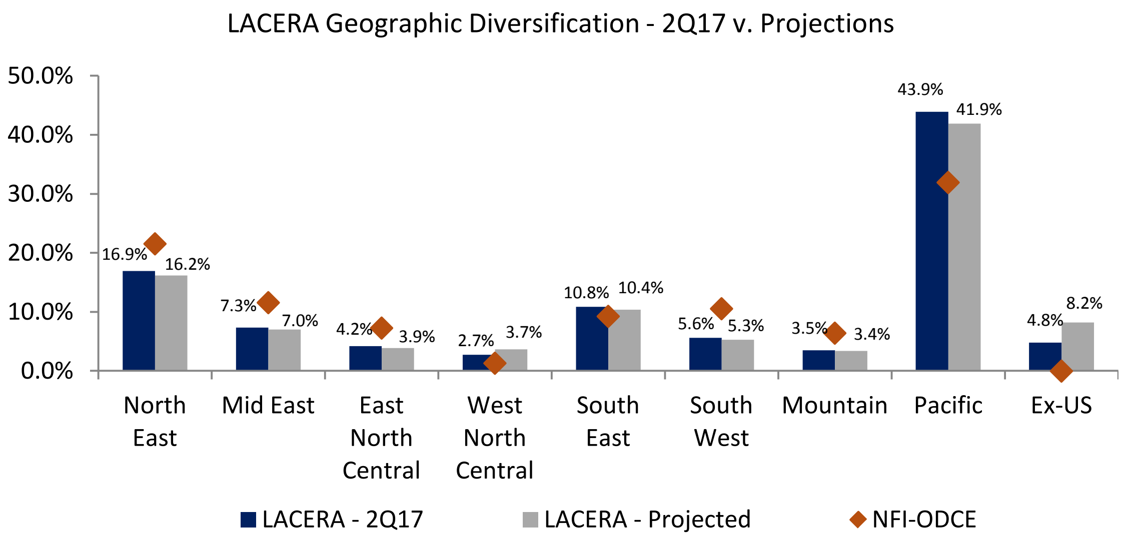
b. *LACERA Non-Core Real Estate Portfolio*. Non-Core Real Estate includes Value Added and High Return (Opportunistic) investments. This bucket has a strategic limitation of ≤40%. The Non-Core Portfolio was below its established upper limitation, representing 26.2% on a market value plus unfunded basis (as of 6/30/17).

Benchmarking is categorized according to strategy: Value Added and High Return. The LACERA Custom Value Added Benchmark is a blend of NPI+25 bps (since inception through 2Q-2013) and the Net ODCE+100 bps (from 3Q-2013 onward). The LACERA Custom High Return Benchmark is a blend of NPI+225 bps (since inception through 2Q-2013) and the Net ODCE+300 bps (from 3Q-2013 onward). LACERA's Value Added and High Return Portfolios have consistently underperformed each respective benchmark over the short and long term, with the exception of the High Return one and three year periods whereby actual performance was ≥ 100 bps over the High Return Custom Benchmark. See **Attachment B**, Portfolio Measurement Flash Report.

The individual $50 million commitment to HAPI is projected to increase LACERA's Non-Core Real Estate Portfolio to 27.8% on a market value plus unfunded basis. This is well within the permissible limit of ≤40.0%.

2. *Diversification by Geography.* The LACERA real estate portfolio is diversified across geographies. However, notable positions that differ from the ODCE benchmark by ±4.0% include the North East (underweight 4.7%), Mid East (underweight 4.3%), South West (underweight 5.0%), Pacific (overweight 11.9%) and Ex-US (overweight 4.8%). A commitment of $50 million to HAPI is projected to increase LACERA's Ex-US exposure from 4.8% to 8.2%. See **Figure 2** below.

Figure 2 – LACERA Real Estate Geographic Diversification Status



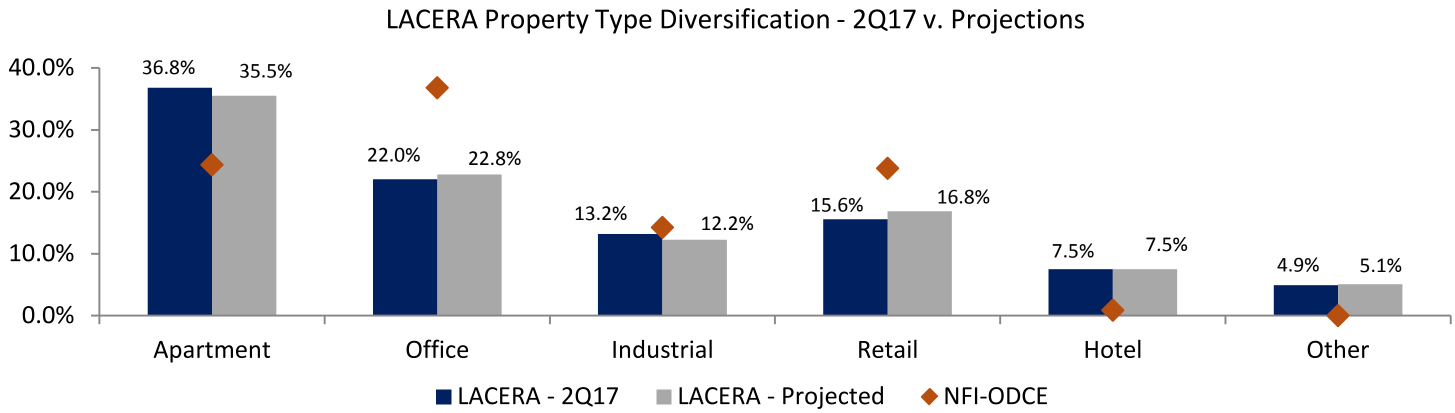
International Exposure

Ex-US	4.82%
Australia	0.85%
Japan	0.73%
United Kingdom	0.68%
France	0.65%
Netherlands	0.55%
Germany	0.51%
Spain	0.15%
England	0.13%
Czech Republic	0.11%
South Korea	0.11%
Italy	0.10%
Other	0.24%

Source: 2Q-2017 LACERA Portfolio Measurement Report

3. *Diversification by Property Type.* The LACERA real estate portfolio is diversified across property types. However, notable positions that differ from the ODCE benchmark by ±4.0% include Apartment (overweight 12.4%), Office (underweight 14.8%), Retail (underweight 8.2%), Hotel (overweight 6.6.%) and Other (overweight 4.9%). The anticipated commitment to HAPI is not projected to have a material impact on LACERA's property type diversification, as the strategy is expected to be diversified across property types.

Figure 3 – LACERA Real Estate Property Type Diversification Status



Source: 2Q-2017 LACERA Portfolio Measurement Report

Heitman Asia-Pacific Property Fund – Executive Summary

Background

HAPI is sponsored by Heitman, a global real estate investment manager with 50-year history of developing and executing real estate investment strategies. Heitman is headquartered in Chicago and has 11 regional offices in the US, Europe, and Asia-Pacific. The Asia-Pacific platform of Heitman ("Heitman Asia") is headquartered in Hong Kong with regional offices in Seoul and Tokyo. Since establishing its first Asian office in Tokyo in 2005 and executing its first Asian investment in 2011, Heitman has committed/invested over $780 million of equity on behalf of eight separately managed accounts across more than 50 assets in the region covering Australia, Japan, Malaysia and Singapore.

The objective of HAPI is to deliver a minimum target gross IRR of 14% (net 11%), with income return of approximately 5-6% annually, utilizing leverage below 55%. HAPI aims to identify value in mispriced assets through fundamental macro, sub-market, and property-level analysis. The target size for HAPI is $250 million (hard cap of $350 million) and a first close of $180 million has already been completed.

HAPI plans to overweight the property types that Heitman believes can most effectively leverage domestic demand growth and medium-term demographic shifts. Successful execution of these strategies should permit HAPI to generate attractive net operating income growth. HAPI will target investments providing stable income balanced with the prospect of value enhancement. Heitman's approach to delivering value in Asia-Pacific is three-fold, including (i) determining relative value at a country, sector, and strategy level through the research and acquisition teams' collaborative analysis, (ii) creating value through physical enhancement at the asset level, capitalizing on Heitman's management capabilities and, where accretive, joint ventures with operating partners, and (iii) protecting value via structuring certain investments through

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preferred equity/mezzanine lending to ensure base level returns are achieved even in an economic environment weaker than HAPI's base case expectations.

Please see **Attachment C** for more information on Heitman Asia-Pacific Property Fund.

Rationale for LACERA to invest in HAPI

1. *Commitment is Consistent with LACERA's Approved International Real Estate Implementation Plan.* The International Real Estate Implementation Plan adopted in Fall 2016 seeks to increase LACERA's allocation to Ex-US real estate to 15% over the next 3 to 5 years. The key objectives are to diversify away from the US, to provide exposure to growth and to diversify by vintage year. A $50 million commitment to HAPI would be consistent with LACERA's international real estate investment goals.

2. *Return Profile Accretive to LACERA's Value Added Return Objectives.* LACERA's custom Value Added Benchmark is a blend between NPI + 25bps and ODCE (Net) + 100 bps. The benchmark was 8.0% over the one-year period, 7.1% over the ten-year period and 8.3% Since Inception. HAPI is targeting net returns of 11-13%, which would be in excess of the LACERA benchmark.

3. *Diversification across Strategy, Property Types, and Vintage Year.* An investment in HAPI would provide complimentary exposure to LACERA's current value-added portfolio which is heavily invested via domestic separate accounts, and which has several liquidated or liquidating positions. HAPI Real Estate would be an existing manager for LACERA, and would provide exposure to specialty property types in new markets (Ex-US) across the Asia-Pacific region. LACERA's most recent value-added commitment was €50 million to CapMan Nordic Fund II in 3Q2016. This would also represent the first non-core commitment to the Asia-Pacific region since 2007.

4. *Existing Manager.* LACERA enjoys an existing relationship with Heitman with a $280 million Core separate account and a $13 million Value-Added separate account. The relationship has returned $21.1 million and has generated Since Inception Net Returns of 10.1% to-date.

Issues for LACERA to Consider regarding HAPI

1. *Off Benchmark / Currency Risk.* HAPI is a USD denominated fund that is exposed to a variety of currencies, including AUD/SGD/JPY and USD. Based on the HAPI's focused investments in Australia, Japan, Singapore and Hong Kong, Heitman has conducted an analysis on how the change in exchange rates will impact the Fund's return. According to the LACERA International Real Estate Implementation Plan, currency hedging may be considered for non-core strategies if feasible and cost-effective. LACERA should consider the cost-benefit implications of hedging.

2. *Experience and Track Record in Secondary Markets.* The investment strategy of the HAPI is to implement a value-added strategy on real estate assets in primary markets including Australia, Japan, Singapore, and secondary markets in Hong Kong and South Korea. While Heitman has a track record

of executing value-added deals in the primary markets, the firm has no track record of investing into value-added transactions in Hong Kong and South Korea.

3. *Joint Ventures with Operating Partners.* Heitman expects joint ventures with operating partners to represent a majority of the HAPI's investments. The investment performance of the HAPI will be greatly impacted by (i) whether the operating partners can successfully implement the strategies, (ii) effective alignment of interests between the partners and HAPI, and (iii) the HAPI's level of control in the joint ventures.

Asia Alternatives Considered

Townsend has reviewed and provided all best-idea fund recommendations to LACERA Staff. Additionally, the global underwriting pipeline is distributed to LACERA Staff on a monthly basis which outlines all client-specific approvals for full disclosure practices. LaSalle Asia Opportunity V and Blackstone Real Estate Partners Asia II were also considered as closed-end investment options. However, these vehicles targeted an opportunistic risk profile, including exposure to higher-risk development exposure.

Conclusion/Recommendation

Townsend recommends that LACERA Board of Investment approve a $50 million commitment to Heitman Asia-Pacific Property Fund. The investment is a non-core offering that fits with Townsend's View of the World and will offer LACERA unique and defensive characteristics in the Asia-Pacific region, as described in the full due diligence report.

Attachments

A.) LACERA Compliance Matrix, as of June 30, 2017,
B.) LACERA Flash Report, for the period ending June 30, 2017,
C.) Heitman Asia-Pacific Property Fund Due Diligence Memo,

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ATTACHMENT A. LACERA Compliance Matrix as of June 30, 2017

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ATTACHMENT B. LACERA 2nd Quarter 2017 Portfolio Measurement Flash Report

ATTACHMENT C. Due Diligence Memorandum – Heitman Asia-Pacific Property Fund

LACERA Compliance Matrix

Allocation	Strategic Constraint / Guideline	As of June 30, 2017
Core Real Estate	≥60% Strategic Range	In Compliance (74.3%)
Non-Core Real Estate	≤40% Strategic Range	In Compliance (25.7%)
Return Targets	**Strategic Constraint / Guideline**	
LACERA Custom Core Benchmark	- NPI -50 bps: inception through 2Q 2013, - ODCE (Net): from 3Q 2013 thereafter.	In Compliance (5.1% net Actual vs. 6.2% Custom Benchmark over 10 years)
LACERA Custom Value Added Benchmark	- NPI +25 bps: inception through 2Q 2013, - ODCE (Net) +100 bps: from 3Q 2013 thereafter.	Out of Compliance (-3.0% net Actual vs. 7.1% Custom Benchmark over 10 years)
LACERA Custom High Return Benchmark	- NPI +225 bps: inception through 2Q 2013, - ODCE (Net) +300 bps: from 3Q 2013 thereafter.	Out of Compliance (-5.8% net Actual vs. 9.2% Custom Benchmark over 10 years)
Core Investment Vehicle Targets		
Commingled Funds vs. Separate Accounts	N/A	N/A
Private Portfolio Risk Policies		
Property Location Diversification	1. No more than 20% of the total real estate allocation may be invested in any Metropolitan Statistical Area ("MSA"); 2. No more than 40% of the total real estate allocation may be invested in any one of the four NCREIF regions; 3. No more than 20% of the total real estate portfolio will be invested in international real estate.	**Overweight Pacific Region** Pacific (47.4% vs 38.4% ODCE)
Property Type Diversification	No single property type (apartments, hotels, industrial, office, and retail) will exceed 40% without Board approval.	**In Compliance**
Leverage	- 50% LTV ratio maximum for any single Core Investment, - 65% LTV ratio maximum for any single Value Added Investment, - 80% LTV ratio maximum for any single High Return Investment.	**In Compliance** Core: 37% Value Added: 20% High Return: 35%

Los Angeles County Employees Retirement Association

Second Quarter 2017

Portfolio Composition ($)								
Total Plan Assets	Allocation		Market Value		Unfunded Commitments		Remaining Allocation	
52,534,405,381	5,778,784,592	11.0%	6,152,490,121	11.7%	607,656,125	1.2%	-981,361,654	-1.9%

Performance Summary	Quarter (%)		1 Year (%)		5 Year (%)		10 Year (%)	
	TGRS	TNET	TGRS	TNET	TGRS	TNET	TGRS	TNET
LACERA	2.1	1.9	7.4	6.6	10.3	9.3	3.5	2.8
NFI-ODCE + 40 BPS	1.8	1.6	8.3	7.3	12.2	11.2	5.7	4.7

Funding Status ($)	Investment Vintage Year	Commitment Amount	Funded Amount	Unfunded Commitments	Capital Returned	Market Value	Market Value (%)	Market Value + Unfunded Commitments
Core Portfolio								
Barings Core I.M.A.	2007	125,939,771	164,022,744	1,301,858	141,339,296	30,359	0.0	0.0
Barings Debt I.M.A	2011	500,000,000	920,420,642	137,360,992	652,925,483	370,857,081	6.0	7.5
Capri Capital Core I.M.A.	2011	0	313,416,112	1,137,013	68,995,163	384,819,914	6.3	5.7
Cityview Core I.M.A.	2014	0	134,616,856	0	11,400,000	141,996,314	2.3	2.1
Clarion Core I.M.A.	2014	0	200,165,600	0	40,824,096	206,325,918	3.4	3.1
Gateway I.M.A. (Avison Young)	2016	123,610,590	97,192,866	0	6,812,121	107,834,329	1.8	1.6
Heitman Core I.M.A.	2014	254,519,736	258,253,632	686,168	18,643,300	279,990,524	4.6	4.2
Invesco Core I.M.A.	1994	0	1,491,609,115	0	1,774,802,744	615,507,813	10.0	9.1
Invesco Real Estate Asia Fund	2014	100,000,000	114,661,444	0	15,343,564	125,780,088	2.0	1.9
Prologis Targeted Europe Logistics Fund	2014	136,724,091	123,839,367	0	18,071,151	132,373,037	2.2	2.0
Quadrant I.M.A	2011	300,000,000	56,654,134	273,750,000	39,813,339	26,390,463	0.4	4.4
RREEF Core I.M.A.*	1991	0	1,723,042,999	0	2,697,626,578	867,789,676	14.1	12.8
RREEF Core Plus Industrial Fund L.P.	2017	125,000,000	125,000,000	0	0	124,717,793	2.0	1.8
Stockbridge Core I.M.A.	2013	314,261,814	530,721,398	0	246,611,935	357,979,521	5.8	5.3
TA Associates Core I.M.A.*	1992	84,945,000	1,683,879,236	0	2,171,700,881	831,453,202	13.5	12.3
Core Portfolio	**1985**	**2,065,001,002**	**7,937,496,143**	**414,236,031**	**7,904,909,651**	**4,573,846,032**	**74.3**	**73.8**
Total Core Separate Accounts	**1990**	**1,703,276,911**	**7,573,995,332**	**414,236,031**	**7,871,494,936**	**4,190,975,114**	**68.1**	**68.1**
Value Added								
Barings Value I.M.A. Vintage 2003	2003	122,966,904	517,270,477	0	417,469,580	207,149,533	3.4	3.1
CBRE Asia Value Fund L.P.	2011	50,000,000	42,740,803	7,259,197	52,842,322	1,433,504	0.0	0.1
CBRE Strategic Partners European Fund III	2007	21,488,047	21,523,777	246,801	5,588,574	415,435	0.0	0.0
CBRE Strategic Partners UK Fund III	2007	29,058,504	17,169,081	0	2,552,776	148,848	0.0	0.0
Cornerstone Hotel Income Equity Fund II	2008	150,000,000	140,830,910	13,852,166	192,351,262	1,046,874	0.0	0.2
Heitman Value I.M.A. Vintage 2013	2013	10,710,529	11,396,716	0	2,431,800	12,828,584	0.2	0.2
Hunt UK Realty Partners LP	2007	29,833,366	30,266,701	9,295	1,226,453	1,871,052	0.0	0.0
Invesco Value I.M.A. Vintage 2010	2010	0	285,133,696	0	259,661,139	68,032,159	1.1	1.0
Invesco Value I.M.A. Vintage 2012	2012	0	94,707,105	0	2,350,980	131,673,076	2.1	1.9
LaSalle Medical Office Fund II	2007	25,000,000	21,759,751	41,252	27,982,958	164	0.0	0.0
RREEF Value I.M.A. Vintage 2009	2009	0	35,799,469	0	51,626,055	127	0.0	0.0
Stockbridge Value I.M.A. Vintage 2014	2014	35,672,630	56,568,949	0	28,640,323	36,025,894	0.6	0.5
Vanbarton Value I.M.A. Vintage 2003	2003	0	59,914,350	0	73,200,000	-16,162	0.0	0.0
Vanbarton Value I.M.A. Vintage 2006	2006	275,440,160	390,206,100	0	208,280,087	160,921,483	2.6	2.4
Value Added	**1986**	**750,170,140**	**1,725,287,884**	**21,408,711**	**1,326,204,308**	**621,530,571**	**10.1**	**9.5**
Value Added Portfolio (w/o Sarofim I & Sarofim II)	**1994**	**750,170,140**	**1,725,287,884**	**21,408,711**	**1,326,204,308**	**621,530,571**	**10.1**	**9.5**
Total Value Separate Accounts	**1994**	**444,790,223**	**1,450,996,861**	**0**	**1,043,659,963**	**616,614,694**	**10.0**	**9.1**

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Los Angeles County Employees Retirement Association

Second Quarter 2017

Portfolio Composition ($)								
Total Plan Assets	Allocation		Market Value		Unfunded Commitments		Remaining Allocation	
52,534,405,381	5,778,784,592	11.0%	6,152,490,121	11.7%	607,656,125	1.2%	-981,361,654	-1.9%

Performance Summary	Quarter (%)		1 Year (%)		5 Year (%)		10 Year (%)	
	TGRS	TNET	TGRS	TNET	TGRS	TNET	TGRS	TNET
LACERA	2.1	1.9	7.4	6.6	10.3	9.3	3.5	2.8
NFI-ODCE + 40 BPS	1.8	1.6	8.3	7.3	12.2	11.2	5.7	4.7

Funding Status ($)	Investment Vintage Year	Commitment Amount	Funded Amount	Unfunded Commitments	Capital Returned	Market Value	Market Value (%)	Market Value + Unfunded Commitments
High Return								
Barings High I.M.A. Vintage 2007	2007	31,230,000	51,888,815	0	59,596,304	10,286	0.0	0.0
Capri Capital High I.M.A. Vintage 2006	2006	0	200,238,577	0	196,505,714	55,320,490	0.9	0.8
Capri Urban Investors	2008	150,000,000	149,951,767	0	66,767,024	47,222,156	0.8	0.7
Carlyle Europe Real Estate Partners III	2007	24,951,333	26,468,430	700,234	18,644,175	3,836,239	0.1	0.1
CityView Bay Area Fund II	2012	100,000,000	132,197,522	1,902,478	0	178,500,967	2.9	2.7
CityView LA Urban Fund I	2007	50,000,000	122,510,512	4,581,019	142,289,578	4,776,353	0.1	0.1
CityView Southern California Fund II	2013	100,000,000	84,947,167	15,052,833	0	106,054,198	1.7	1.8
CityView Western Fund I, L.P.	2016	150,000,000	22,593,668	127,406,332	0	20,034,906	0.3	2.2
Clarion High I.M.A.	2015	0	146,709,774	0	0	224,333,989	3.6	3.3
Europa Fund III	2009	23,128,342	21,792,777	1,157,148	22,672,909	4,972,766	0.1	0.1
Europa Fund IV	2014	64,292,144	52,355,844	13,368,363	16,108,880	41,773,863	0.7	0.8
Genesis Workforce Housing Fund II	2007	30,000,000	29,998,975	0	43,381,754	210,375	0.0	0.0
INVESCO Asian Real Estate Partners II (USD Vehicle)	2007	25,000,000	11,251,165	1,961,316	13,391,050	1,577,549	0.0	0.1
Invesco High I.M.A. Vintage 2012	2012	0	106,112,904	0	83,146,849	77,681,547	1.3	1.1
Invesco High I.M.A. Vintage 2016	2016	0	32,865,341	0	0	31,737,335	0.5	0.5
RREEF High Return I.M.A. III	2015	0	147,948,913	0	80,208,055	76,728,459	1.2	1.1
Starwood Brandco	2011	2,000,000	1,253,399	1,246,661	2,024,259	2,372,604	0.0	0.1
Starwood Capital Hospitality Fund II	2010	100,000,000	96,340,000	3,660,000	99,210,677	47,137,276	0.8	0.8
Stockbridge High I.M.A. Vintage 2014	2014	34,253,613	49,000,094	0	18,680,831	32,743,183	0.5	0.5
TriPacific (LERI/LERP) *	1995	250,000,000	2,612,077,514	975,000	2,440,120,122	88,977	0.0	0.0
High Return	**1995**	**1,134,855,432**	**4,098,503,159**	**172,011,384**	**3,302,748,179**	**957,113,519**	**15.6**	**16.7**
Total High Separate Accounts	**2001**	**65,483,613**	**734,764,418**	**0**	**438,137,752**	**498,555,289**	**8.1**	**7.4**
Total Non-Core Portfolio	**1986**	**1,885,025,572**	**5,823,791,043**	**193,420,094**	**4,628,952,488**	**1,578,644,089**	**25.7**	**26.2**
High Return excluding TriPacific (LERI/LERP)	**2001**	**884,855,432**	**1,486,425,645**	**171,036,384**	**862,628,057**	**957,024,542**	**15.6**	**16.7**
Total Current Portfolio								
Los Angeles County Employees Retirement Association	**1985**	**3,950,026,574**	**13,761,287,186**	**607,656,125**	**12,533,862,138**	**6,152,490,121**	**100.0**	**100.0**

* Hardcoded Data

**Funded amount may be greater than the Commitment Amount due to recallable capital. Some distributions made during the Investment Period may be reinvested by the manager, which increases the Funded Amount to a sum greater than Commited Capital.

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Los Angeles County Employees Retirement Association

Second Quarter 2017

Returns (%)	Market Value ($)	Quarter				1 Year				3 Year				5 Year				7 Year				10 Year				Inception		TWR Calculation	Net IRR	Equity Multiple
		INC	APP	TGRS	TNET	INC	APP	TGRS	TNET	INC	APP	TGRS	TNET	INC	APP	TGRS	TNET	INC	APP	TGRS	TNET	INC	APP	TGRS	TNET	TGRS	TNET			
Core Portfolio																														
Barings Core I.M.A. (9)	30,359																											4Q07	-2.9	0.9
Barings Debt I.M.A	370,857,081	2.4	-0.1	2.3	2.0	9.9	-0.6	9.3	8.1	9.3	0.2	9.4	8.3	9.3	-0.3	8.9	7.8									9.8	8.7	4Q11	8.5	1.1
Capri Capital Core I.M.A.	384,819,914	0.9	2.2	3.0	2.9	3.7	0.3	4.1	3.5	3.9	6.6	10.6	10.0	3.6	6.4	10.2	9.3									13.0	12.1	2Q11	9.4	1.4
Cityview Core I.M.A.	141,996,314	0.9	-12.1	-11.3	-11.4	3.3	-7.4	-4.2	-4.7	3.1	1.9	5.0	4.5													5.0	4.5	3Q14	4.7	1.1
Clarion Core I.M.A.	206,325,918	0.9	0.4	1.3	1.2	4.0	0.2	4.2	3.7	4.3	4.6	9.0	8.5													8.7	8.2	2Q14	8.4	1.2
Gateway I.M.A. (Avison Young)	107,834,329	1.7	-1.2	0.5	0.4	6.9	-1.2	5.6	5.4																	14.4	14.3	2Q16	14.6	1.2
Heitman Core I.M.A.	279,990,524	1.2	-0.2	0.9	0.8	5.3	6.3	11.8	11.2	4.2	4.1	8.5	7.8													8.5	7.8	3Q14	8.0	1.2
Invesco Core I.M.A.	615,507,813	1.2	0.4	1.6	1.5	4.5	1.3	5.9	5.4	4.4	5.6	10.2	9.7	4.4	4.5	9.1	8.7	5.1	4.7	10.0	9.5	5.5	0.2	5.7	5.5	9.0	8.5	4Q94	8.7	1.6
Invesco Real Estate Asia Fund	125,780,088	1.1	0.8	2.0	1.8	5.1	-1.2	3.9	3.1	5.7	2.0	7.8	7.0													7.5	6.7	2Q14	8.1	1.2
Prologis Targeted Europe Logistics Fund	132,373,037	0.9	8.2	9.1	8.9	5.5	5.7	11.5	10.5	5.3	3.5	9.1	6.3													9.2	6.5	2Q14	7.8	1.2
Quadrant I.M.A	26,390,463	2.0	0.0	2.0	1.8	7.8	0.1	7.9	7.4	7.6	-0.9	6.6	6.1	7.6	0.2	7.8	7.3									7.9	7.4	4Q11	7.4	1.2
RREEF Core I.M.A.*	867,789,676	1.3	1.2	2.5	2.4	5.6	1.4	7.0	6.6	6.0	5.3	11.6	11.0	6.2	5.7	12.2	11.6	6.3	4.9	11.4	10.8	6.3	0.4	6.7	6.5	11.3	10.3	1Q91	10.6	2.1
RREEF Core Plus Industrial Fund L.P.	124,717,793																									n/a	n/a	3Q17	-3.5	1.0
Stockbridge Core I.M.A.	357,979,521	1.6	0.3	1.9	1.8	6.6	1.0	7.6	7.0	6.6	5.5	12.4	11.7													11.5	10.8	1Q14	10.2	1.1
TA Associates Core I.M.A.*	831,453,202	1.8	1.4	3.2	3.1	7.1	0.8	7.9	7.3	6.9	1.1	8.0	7.5	7.0	1.1	8.1	7.5	6.9	1.9	8.9	8.4	6.7	-1.9	4.7	4.5	9.7	8.8	3Q92	8.8	1.8
Core Portfolio	**4,573,846,032**	**1.4**	**0.6**	**2.0**	**1.8**	**5.8**	**0.8**	**6.7**	**6.1**	**5.8**	**3.9**	**9.8**	**9.1**	**5.9**	**3.7**	**9.8**	**9.2**	**6.1**	**3.7**	**10.0**	**9.4**	**6.2**	**-0.7**	**5.4**	**5.1**	**8.4**	**7.7**	**3Q85**	**8.2**	**1.5**
Core Custom Benchmark					*1.5*				*6.9*				*10.3*				*10.6*				*11.5*				*6.2*		*7.5*	*3Q85*		
NFI-ODCE Value Weight				*1.7*	*1.5*			*7.9*	*6.9*			*11.3*	*10.3*			*11.8*	*10.8*			*13.1*	*12.0*			*5.3*	*4.3*	*7.3*	*6.3*	*3Q85*		
Value Added																														
Barings Value I.M.A. Vintage 2003	207,149,533	1.8	0.0	1.8	1.7	7.0	1.5	8.6	8.2	9.8	5.2	15.5	15.0	7.7	3.8	11.7	11.1	5.0	3.3	8.5	7.9	1.7	-6.7	-5.4	-5.9	1.0	0.4	1Q04	5.4	1.2
CBRE Asia Value Fund L.P. (3)	1,433,504	-0.4	0.0	-0.4	-0.4	11.4	0.0	11.4	11.4	2.6	3.0	5.9	5.4	2.0	6.3	8.5	7.8									8.6	7.8	3Q11	9.0	1.3
CBRE Strategic Partners European Fund III (9)	415,435																											2Q08	-17.4	0.3
CBRE Strategic Partners UK Fund III (9)	148,848																											2Q08	-24.8	0.2
Cornerstone Hotel Income Equity Fund II (4) (9)	1,046,874																											4Q08	9.2	1.4
Heitman Value I.M.A. Vintage 2013	12,828,584	-0.2	-1.7	-1.8	-1.6	4.7	0.9	5.7	5.6	7.3	4.4	11.9	10.5													13.3	11.8	1Q14	9.7	1.3
Hunt UK Realty Partners LP	1,871,052	-0.7	4.0	3.3	3.3	-1.8	-3.5	-5.3	-5.3	-2.4	3.7	1.2	0.0	0.5	-8.3	-6.9	-11.0	-20.3	-3.5	-13.4	-17.4					-23.4	-26.6	1Q08	-24.8	0.1
Invesco Value I.M.A. Vintage 2010	68,032,159	2.4	-6.7	-4.2	-4.5	12.4	-7.3	4.5	3.6	12.0	-3.5	8.2	7.3	10.9	-0.6	10.2	9.3									7.1	5.7	4Q10	7.2	1.1
Invesco Value I.M.A. Vintage 2012	131,673,076	0.2	-23.1	-22.9	-23.1	1.1	-21.7	-20.8	-21.4	1.2	2.6	3.7	3.1													9.5	8.7	1Q13	8.2	1.4
LaSalle Medical Office Fund II (9)	164																											3Q07	5.8	1.3
RREEF Value I.M.A. Vintage 2009 (9)	127																											1Q09	40.1	1.4
Stockbridge Value I.M.A. Vintage 2014	36,025,894	1.4	-1.9	-0.5	-0.6	6.6	0.1	6.8	6.2	3.7	3.5	7.2	6.6													6.7	6.1	2Q14	7.5	1.1
Vanbarton Value I.M.A. Vintage 2003 (9)	-16,162																											3Q03	12.9	1.2
Vanbarton Value I.M.A. Vintage 2006	160,921,483	1.2	-0.9	0.3	0.1	5.4	-1.4	3.9	3.2	3.8	2.1	6.1	5.3	6.4	1.1	7.6	6.8	8.8	0.1	8.9	8.0	10.0	-10.3	-1.0	-2.0	-0.2	-1.2	2Q06	-0.9	0.9
Value Added	**621,530,571**	**1.2**	**-7.0**	**-5.7**	**-5.9**	**5.5**	**-6.5**	**-1.3**	**-1.9**	**5.6**	**1.7**	**7.4**	**6.7**	**6.2**	**1.8**	**8.0**	**7.3**	**6.0**	**2.2**	**8.2**	**7.3**	**5.1**	**-6.7**	**-1.9**	**-3.0**	**1.7**	**-6.0**	**4Q86**	**5.8**	**1.1**
Value Custom Benchmark					*1.7*				*8.0*				*11.4*				*11.6*				*12.5*				*7.1*		*8.3*	*4Q86*		
NFI-ODCE Value Weight +100 BPS				*1.9*	*1.7*			*8.9*	*8.0*			*12.4*	*11.4*			*12.9*	*11.8*			*14.2*	*13.1*			*6.3*	*5.3*	*8.4*	*7.3*	*4Q86*		

Returns (%)	Market Value ($)	Quarter				1 Year				3 Year				5 Year				7 Year				10 Year				Inception		TWR	Net	Equity
		INC	APP	TGRS	TNET	INC	APP	TGRS	TNET	INC	APP	TGRS	TNET	INC	APP	TGRS	TNET	INC	APP	TGRS	TNET	INC	APP	TGRS	TNET	TGRS	TNET	Calculation	IRR	Multiple
High Return																														
Barings High I.M.A. Vintage 2007 (7)(9)	10,286																											4Q07	4.7	1.1
Capri Capital High I.M.A. Vintage 2006	55,320,490	-3.2	62.5	59.3	58.9	-3.2	62.5	59.3	56.6	-1.8	18.9	17.3	15.8	-1.8	25.5	23.6	20.5	-1.2	17.0	15.9	13.8	-2.8	12.9	9.4	8.0	9.8	8.6	2Q06	9.6	1.3
Capri Urban Investors	47,222,156	0.4	-22.7	-22.3	-22.9	1.9	-29.4	-27.9	-29.5	3.6	-5.2	-1.8	-3.7	3.8	-1.2	2.5	0.5	3.0	-2.7	0.2	-2.1					-10.9	-14.0	3Q08	-4.2	0.8
Carlyle Europe Real Estate Partners III (3)	3,836,239	-0.1	13.5	13.4	13.0	-0.5	36.8	36.2	34.3	1.1	10.1	11.5	10.1	0.9	3.6	4.5	3.1	0.4	8.5	8.9	7.2					-1.1	-4.2	2Q08	-3.5	0.8
CityView Bay Area Fund II (4)	178,500,967	0.2	-7.1	-6.9	-7.3	1.4	7.3	8.8	7.2	0.3	14.4	14.8	12.7													n/a	n/a	1Q13	13.7	1.4
CityView LA Urban Fund I	4,776,353	-1.2	3.3	2.1	1.5	1.6	1.8	3.5	1.3	14.2	4.5	20.6	18.6	21.2	5.3	27.5	25.4	14.7	3.7	18.9	16.5					7.5	-14.5	4Q07	11.9	1.2
CityView Southern California Fund II (4)	106,054,198	-0.2	12.3	12.1	11.7	-2.5	57.8	54.6	51.4	-29.0	52.8	28.5	34.2													n/a	n/a	1Q14	17.5	1.2
CityView Western Fund I, L.P. (12)	20,034,906	-3.6	0.0	-3.6	-20.5																					n/a	n/a	1Q17	-83.8	0.9
Clarion High I.M.A.	224,333,989	0.2	31.9	32.1	31.9	0.1	55.5	55.5	54.5																	34.2	33.3	1Q16	35.4	1.5
Europa Fund III (3)	4,972,766	-0.1	4.5	4.4	5.6	-0.4	6.8	6.4	-13.1	9.8	0.5	13.8	5.9	8.2	4.1	14.8	9.9	4.1	4.5	10.3	6.8					9.5	7.4	4Q09	8.1	1.3
Europa Fund IV (3)	41,773,863	-0.2	6.6	6.4	8.0	-1.6	9.7	7.9	7.2																	12.4	17.4	4Q14	7.4	1.1
Genesis Workforce Housing Fund II (4)(9)	210,375																											2Q07	8.6	1.5
INVESCO Asian Real Estate Partners II (USD Vehicle) (9)	1,577,549																											1Q08	7.4	1.3
Invesco High I.M.A. Vintage 2012	77,681,547	0.5	1.0	1.5	1.7	0.2	6.9	7.2	6.4	0.0	24.4	24.3	21.5													15.3	12.6	1Q13	19.1	1.5
Invesco High I.M.A. Vintage 2016	31,737,335	0.0	0.0	0.0	-0.6	0.0	0.0	0.0	-3.1																	0.0	-3.3	2Q16	-4.3	1.0
RREEF High Return I.M.A. III (11)	76,728,459	0.0	8.6	8.6	8.3	0.0	8.6	8.6	7.1																	4.2	3.4	3Q15	7.8	1.1
Starwood Brandco	2,372,604	3.8	-0.2	3.7	2.3	14.9	11.7	28.3	14.7	14.1	17.3	33.7	16.8	5.9	22.4	29.7	22.0									33.8	26.5	2Q11	27.1	3.5
Starwood Capital Hospitality Fund II	47,137,276	1.7	3.0	4.7	3.0	29.5	-24.0	1.4	5.0	18.8	-11.4	6.9	6.7	12.6	-0.3	13.2	10.2	7.5	5.1	14.1	11.0					14.1	11.0	3Q10	10.0	1.5
Stockbridge High I.M.A. Vintage 2014	32,743,183	-1.6	0.0	-1.6	-2.3	-5.7	-0.1	-5.8	-8.1	-0.6	7.4	6.7	5.0													6.4	4.7	2Q14	8.3	1.0
TriPacific (LERI/LERP) (4)(6)(9)	88,977																											4Q95	0.0	0.9
High Return	**957,113,519**	**0.0**	**8.4**	**8.4**	**7.9**	**2.4**	**15.2**	**17.9**	**16.0**	**3.8**	**13.1**	**17.4**	**15.0**	**5.1**	**7.7**	**13.1**	**9.3**	**4.2**	**1.1**	**5.3**	**1.1**	**3.0**	**-15.9**	**-13.4**	**-17.5**	**6.3**	**-1.3**	**4Q95**	**1.6**	**1.0**
High Return excluding TriPacific (LERI/LERP)	**957,024,542**	**0.0**	**8.4**	**8.4**	**7.9**	**2.4**	**14.9**	**17.6**	**15.8**	**3.9**	**12.0**	**16.4**	**14.2**	**5.0**	**10.6**	**16.1**	**13.1**	**3.8**	**8.0**	**12.1**	**9.3**	**2.1**	**-4.7**	**-2.8**	**-5.8**	**0.5**	**-1.6**	**1Q01**	**5.1**	**1.1**
High Return Custom Benchmark					*2.2*				*10.1*				*13.6*				*13.8*				*14.7*				*9.2*		*12.3*	*4Q95*		
NFI-ODCE Value Weight + 300 BPS				*2.4*	*2.2*			*11.1*	*10.1*			*14.6*	*13.6*			*15.1*	*14.0*			*16.4*	*15.3*			*8.4*	*7.4*	*12.5*	*11.5*	*4Q95*		
Total Non-Core Portfolio	**1,578,644,089**	**0.5**	**1.8**	**2.4**	**2.0**	**3.7**	**5.6**	**9.5**	**8.2**	**4.7**	**7.9**	**12.8**	**11.3**	**5.8**	**5.5**	**11.5**	**9.6**	**5.5**	**3.8**	**9.5**	**7.6**	**4.6**	**-8.1**	**-3.9**	**-5.9**	**2.0**	**-6.6**	**4Q86**	**4.0**	**1.1**
Total Portfolio																														
LACERA	**6,152,490,121**	**1.2**	**0.9**	**2.1**	**1.9**	**5.3**	**2.0**	**7.4**	**6.6**	**5.5**	**4.8**	**10.5**	**9.6**	**5.9**	**4.3**	**10.3**	**9.3**	**5.9**	**3.9**	**10.0**	**9.1**	**5.8**	**-2.2**	**3.5**	**2.8**	**7.9**	**6.8**	**3Q85**	**7.7**	**1.3**
LACERA Portfolio without LERI & TriPacific	**6,152,401,144**	**1.2**	**0.9**	**2.1**	**1.9**	**5.3**	**2.0**	**7.3**	**6.6**	**5.5**	**4.7**	**10.4**	**9.5**	**5.8**	**4.4**	**10.4**	**9.5**	**5.9**	**4.2**	**10.2**	**9.4**	**5.7**	**-1.4**	**4.3**	**3.6**	**8.0**	**7.1**	**3Q85**	**7.9**	**1.4**
Indices																														
Total Custom Benchmark					*1.6*				*7.3*				*10.8*				*11.0*				*11.9*				*6.5*		*7.8*	*3Q85*		
ODCE + 40 BPS				*1.8*	*1.6*			*8.3*	*7.3*			*11.8*	*10.8*			*12.2*	*11.2*			*13.5*	*12.5*			*5.7*	*4.7*	*7.8*	*6.7*	*3Q85*		

* Hardcoded Data

TOWNSENDGROUP

Los Angeles County Employees Retirement Association

Second Quarter 2017

Returns (%)	Market Value ($)	Quarter				1 Year				3 Year				5 Year				7 Year				10 Year				Inception		TWR Calculation Inception	Net IRR	Equity Multiple
		INC	APP	TGRS	TNET	INC	APP	TGRS	TNET	INC	APP	TGRS	TNET	INC	APP	TGRS	TNET	INC	APP	TGRS	TNET	INC	APP	TGRS	TNET	TGRS	TNET			
Commingled Fund Portfolio																														
Capri Urban Investors	47,222,156	0.4	-22.7	-22.3	-22.9	1.9	-29.4	-27.9	-29.5	3.6	-5.2	-1.8	-3.7	3.8	-1.2	2.5	0.5	3.0	-2.7	0.2	-2.1					-10.9	-14.0	3Q08	-4.2	0.8
Carlyle Europe Real Estate Partners III (3)	3,836,239	-0.1	13.5	13.4	13.0	-0.5	36.8	36.2	34.3	1.1	10.1	11.5	10.1	0.9	3.6	4.5	3.1	0.4	8.5	8.9	7.2					-1.1	-4.2	2Q08	-3.5	0.8
CBRE Asia Value Fund L.P. (3)	1,433,504	-0.4	0.0	-0.4	-0.4	11.4	0.0	11.4	11.4	2.6	3.0	5.9	5.4	2.0	6.3	8.5	7.8									8.6	7.8	3Q11	9.0	1.3
CBRE Strategic Partners European Fund III (9)	415,435																											2Q08	-17.4	0.3
CBRE Strategic Partners UK Fund III (9)	148,848																											2Q08	-24.8	0.2
CityView Bay Area Fund II (4)	178,500,967	0.2	-7.1	-6.9	-7.3	1.4	7.3	8.8	7.2	0.3	14.4	14.8	12.7													n/a	n/a	1Q13	13.7	1.4
CityView LA Urban Fund I	4,776,353	-1.2	3.3	2.1	1.5	1.6	1.8	3.5	1.3	14.2	4.5	20.6	18.6	21.2	5.3	27.5	25.4	14.7	3.7	18.9	16.5					7.5	-14.5	4Q07	11.9	1.2
CityView Southern California Residential Fund II (4)	106,054,198	-0.2	12.3	12.1	11.7	-2.5	57.8	54.6	51.4	-29.0	52.8	28.5	34.2													n/a	n/a	1Q14	17.5	1.2
CityView Western Fund I, L.P.	20,034,906	-3.6	0.0	-3.6	-20.5																					n/a	n/a	1Q17	-83.8	0.9
Cornerstone Hotel Income Equity Fund II (4) (9)	1,046,874																											4Q08	9.2	1.4
Europa Fund III (3)	4,972,766	-0.1	4.5	4.4	5.6	-0.4	6.8	6.4	-13.1	9.8	0.5	13.8	5.9	8.2	4.1	14.8	9.9	4.1	4.5	10.3	6.8					9.5	7.4	4Q09	8.1	1.3
Europa Fund IV (3)	41,773,863	-0.2	6.6	6.4	8.0	-1.6	9.7	7.9	7.2																	12.4	17.4	4Q14	7.4	1.1
Genesis Workforce Housing Fund II (4)(9)	210,375																											2Q07	8.6	1.5
Hunt UK Realty Partners LP	1,871,052	-0.7	4.0	3.3	3.3	-1.8	-3.5	-5.3	-5.3	-2.4	3.7	1.2	0.0	0.5	-8.3	-6.9	-11.0	-20.3	-3.5	-13.4	-17.4					-23.4	-26.6	1Q08	-24.8	0.1
INVESCO Asian Real Estate Partners II (USD Vehicle) (9)	1,577,549																											1Q08	7.4	1.3
Invesco Real Estate Asia Fund	125,780,088	1.1	0.8	2.0	1.8	5.1	-1.2	3.9	3.1	5.7	2.0	7.8	7.0													7.5	6.7	2Q14	8.1	1.2
LaSalle Medical Office Fund II (9)	164																											3Q07	5.8	1.3
Prologis Targeted Europe Logistics Fund	132,373,037	0.9	8.2	9.1	8.9	5.5	5.7	11.5	10.5	5.3	3.5	9.1	6.3													9.2	6.5	2Q14	7.8	1.2
RREEF Core Plus Industrial Fund L.P.	124,717,793																											3Q17	-3.5	1.0
Starwood Brandco	2,372,604	3.8	-0.2	3.7	2.3	14.9	11.7	28.3	14.7	14.1	17.3	33.7	16.8	5.9	22.4	29.7	22.0									33.8	26.5	2Q11	27.1	3.5
Starwood Capital Hospitality Fund II	47,137,276	1.7	3.0	4.7	3.0	29.5	-24.0	1.4	5.0	18.8	-11.4	6.9	6.7	12.6	-0.3	13.2	10.2	7.5	5.1	14.1	11.0					14.1	11.0	3Q10	10.0	1.5
Total Commingled Fund Portfolio	**846,256,047**	**0.5**	**-0.2**	**0.3**	**-0.1**	**5.0**	**1.6**	**6.6**	**5.2**	**5.9**	**3.7**	**9.9**	**8.1**	**6.8**	**4.6**	**11.7**	**9.4**	**5.1**	**4.2**	**9.5**	**7.1**	**2.7**	**-6.4**	**-3.9**	**-7.9**	**1.4**	**-2.8**	**1Q02**	**3.2**	**1.1**
Total Separate Account Portfolio																														
Barings Debt I.M.A	370,857,081	2.4	-0.1	2.3	2.0	9.9	-0.6	9.3	8.1	9.3	0.2	9.4	8.3	9.3	-0.3	8.9	7.8									9.8	8.7	4Q11	8.5	1.1
Barings I.M.A.	207,190,178	1.8	0.0	1.8	1.7	6.9	1.4	8.4	8.0	7.1	6.1	13.5	13.0	5.9	4.7	10.7	10.1	4.4	4.3	8.9	8.2	2.5	-5.3	-3.0	-3.6	2.9	2.2	1Q04	3.2	1.1
Capri Capital I.M.A.	440,140,404	0.5	7.4	7.9	7.4	3.1	5.7	8.9	7.9	3.3	7.6	11.1	10.3	3.0	8.1	11.3	10.1	3.4	12.3	16.0	14.7	2.7	2.9	5.6	4.2	8.0	6.5	1Q03	7.5	1.3
Cityview Core I.M.A.	141,996,314	0.9	-12.1	-11.3	-11.4	3.3	-7.4	-4.2	-4.7	3.1	1.9	5.0	4.5													5.0	4.5	3Q14	4.7	1.1
Clarion I.M.A.	430,659,907	0.6	14.7	15.2	15.1	2.3	22.8	25.6	24.9	3.4	11.5	15.3	14.6													14.4	13.8	2Q14	15.4	1.4
Gateway I.M.A.	107,834,329	1.7	-1.2	0.5	0.4	6.9	-1.2	5.6	5.4	7.3	5.4	13.1	13.0	7.6	3.9	11.7	11.7	8.3	-2.7	5.5	5.4	7.6	-8.2	-1.1	-1.1	6.2	6.1	3Q90	6.3	1.6
Heitman I.M.A.	292,832,097	1.1	-0.3	0.8	0.7	5.3	6.0	11.5	10.9	4.6	4.5	9.3	8.6													10.9	10.1	1Q14	8.2	1.2
Invesco I.M.A.	924,631,929	1.0	-4.3	-3.2	-3.4	4.0	-3.0	0.9	0.3	3.9	6.3	10.4	9.6	4.1	5.5	9.8	9.1	4.8	5.1	10.1	9.5	5.3	-0.2	5.1	4.7	8.7	8.2	4Q94	8.5	1.5
Quadrant I.M.A	26,390,463	2.0	0.0	2.0	1.8	7.8	0.1	7.9	7.4	7.6	-0.9	6.6	6.1	7.6	0.2	7.8	7.3									7.9	7.4	4Q11	7.4	1.2
RREEF I.M.A.	944,518,262	1.2	1.9	3.1	3.0	5.1	2.1	7.3	6.8	5.8	5.6	11.6	11.0	6.1	5.8	12.1	11.6	6.2	5.1	11.5	11.0	6.2	0.1	6.3	6.0	11.0	10.1	1Q91	10.2	1.8
Stockbridge I.M.A.	426,748,598	1.4	0.1	1.5	1.3	6.1	0.9	7.1	6.3	6.0	5.6	11.9	11.1													11.0	10.2	1Q14	9.8	1.1
TA Associates I.M.A.	831,453,202	1.8	1.4	3.2	3.1	7.1	0.8	7.9	7.3	6.9	1.1	8.0	7.5	6.9	0.6	7.5	6.9	6.8	1.4	8.2	7.7	6.6	-2.2	4.3	4.0	9.4	8.5	3Q92	8.5	1.6
TriPacific (LERI/LERP) (4,6,9)	88,977																											4Q95	0.0	0.9
Vanbarton I.M.A.	160,905,322	1.2	-0.9	0.3	0.1	5.4	-1.4	3.9	3.2	3.8	2.1	6.1	5.3	6.4	1.1	7.6	6.8	8.8	0.1	8.9	8.0	10.0	-10.3	-1.0	-2.0	1.6	0.7	3Q03	-0.3	1.0
Total Separate Accounts	**5,306,234,074**	**1.3**	**1.0**	**2.3**	**2.1**	**5.3**	**2.1**	**7.5**	**6.8**	**5.4**	**5.0**	**10.6**	**9.9**	**5.7**	**4.0**	**10.0**	**9.2**	**6.0**	**3.7**	**9.9**	**9.2**	**5.9**	**-2.3**	**3.6**	**3.0**	**8.4**	**7.5**	**3Q90**	**8.3**	**1.3**
Total Portfolio																														
LACERA	**6,152,490,121**	**1.2**	**0.9**	**2.1**	**1.9**	**5.3**	**2.0**	**7.4**	**6.6**	**5.5**	**4.8**	**10.5**	**9.6**	**5.9**	**4.3**	**10.3**	**9.3**	**5.9**	**3.9**	**10.0**	**9.1**	**5.8**	**-2.2**	**3.5**	**2.8**	**7.9**	**6.8**	**3Q85**	**7.7**	**1.3**
LACERA Portfolio without LERI & TriPacific	**6,152,401,144**	**1.2**	**0.9**	**2.1**	**1.9**	**5.3**	**2.0**	**7.3**	**6.6**	**5.5**	**4.7**	**10.4**	**9.5**	**5.8**	**4.4**	**10.4**	**9.5**	**5.9**	**4.2**	**10.2**	**9.4**	**5.7**	**-1.4**	**4.3**	**3.6**	**8.0**	**7.1**	**3Q85**	**7.9**	**1.4**
Indices																														
Total Custom Benchmark					*1.6*				*7.3*				*10.8*				*11.0*				*11.9*				*6.5*		*7.8*	*3Q85*		
ODCE + 40 BPS				*1.8*	*1.6*			*8.3*	*7.3*			*11.8*	*10.8*			*12.2*	*11.2*			*13.5*	*12.5*			*5.7*	*4.7*	*7.8*	*6.7*	*3Q85*		

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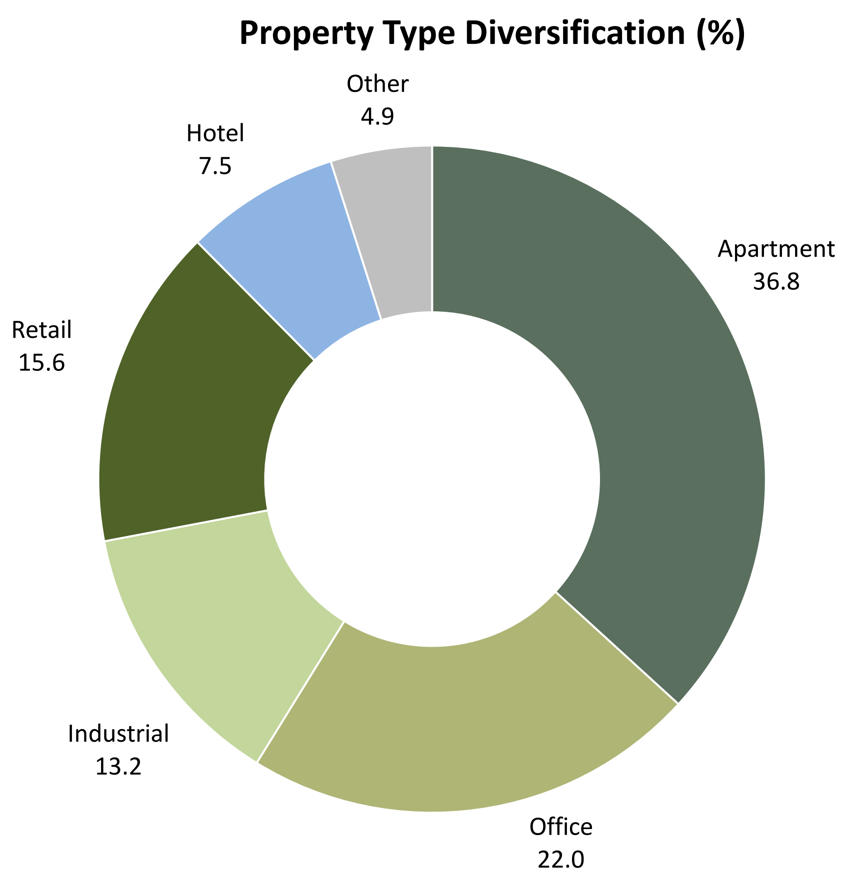
Los Angeles County Employees Retirement Association

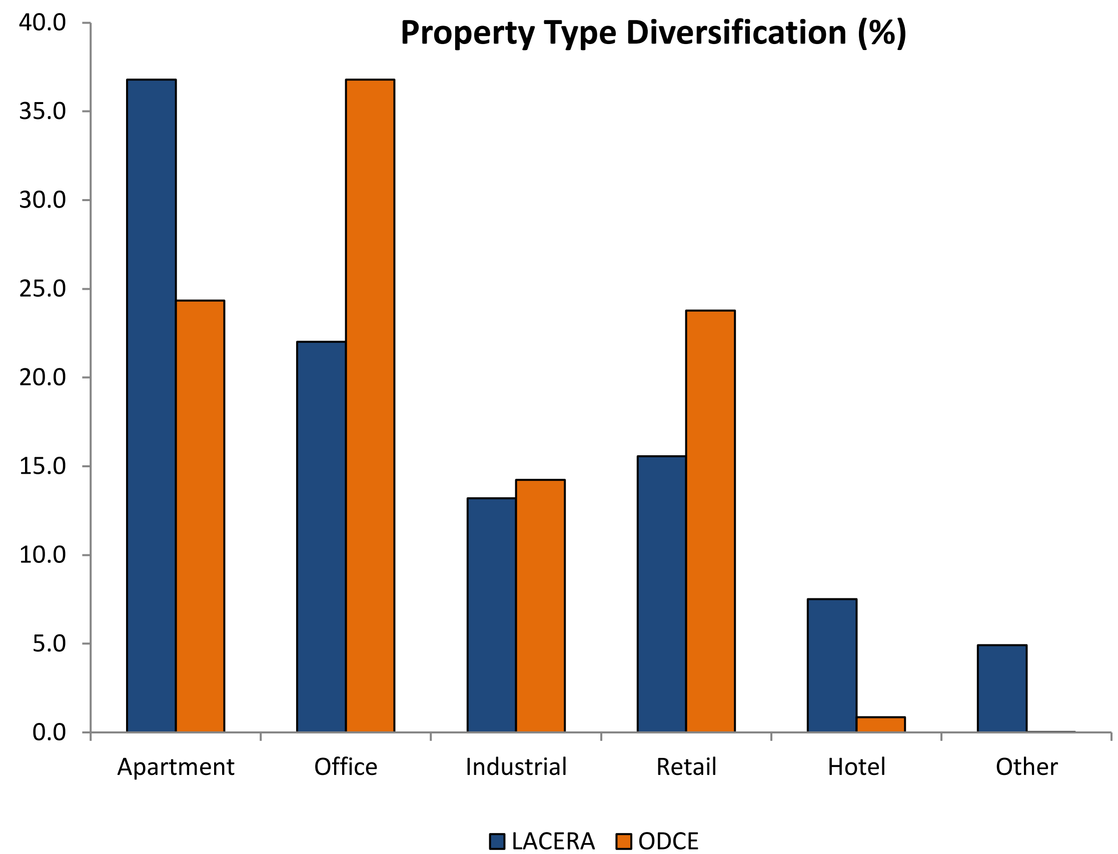
Second Quarter 2017

Property Type Diversification (%)	Apartment	Office	Industrial	Retail	Hotel	Other
Core Portfolio						
Barings Core I.M.A.	-	-	-	-	-	-
Barings Debt I.M.A	-	41.7	-	-	58.3	-
Capri Capital Core I.M.A.	100.0	-	-	-	-	-
Cityview Core I.M.A.	100.0	-	-	-	-	-
Clarion Core I.M.A.	71.7	13.3	-	-	-	15.0
Gateway I.M.A. (Avison Young)	-	100.0	-	-	-	-
Heitman Core I.M.A.	60.6	-	-	21.1	-	18.3
Invesco Core I.M.A.	61.0	12.1	8.2	18.6	-	-
Invesco Real Estate Asia Fund	-	81.8	5.8	12.4	-	-
Prologis Targeted Europe Logistics Fund	-	-	100.0	-	-	-
Quadrant I.M.A	100.0	-	-	-	-	-
RREEF Core I.M.A.	19.2	38.6	10.2	20.9	-	11.2
RREEF Core Plus Industrial Fund L.P.	-	-	100.0	-	-	-
Stockbridge Core I.M.A.	18.5	29.1	28.6	23.8	-	-
TA Associates Core I.M.A.	24.5	44.3	-	22.4	-	8.8
Core Portfolio	**36.5**	**27.6**	**11.6**	**14.0**	**4.7**	**5.5**
Total Core Separate Accounts	**39.9**	**28.2**	**5.8**	**15.0**	**5.1**	**6.0**
Value Added						
Barings Value I.M.A. Vintage 2003	-	-	-	-	100.0	-
CBRE Asia Value Fund L.P.	-	-	-	-	-	-
CBRE Strategic Partners European Fund III	-	-	-	-	-	-
CBRE Strategic Partners UK Fund III	-	-	-	-	-	-
Cornerstone Hotel Income Equity Fund II	-	-	-	-	-	-
Heitman Value I.M.A. Vintage 2013	-	-	-	-	-	100.0
Hunt UK Realty Partners LP	-	-	-	100.0	-	-
Invesco Value I.M.A. Vintage 2010	-	100.0	-	-	-	-
Invesco Value I.M.A. Vintage 2012	-	-	-	100.0	-	-
LaSalle Medical Office Fund II	-	-	-	-	-	-
RREEF Value I.M.A. Vintage 2009	-	-	-	-	-	-
Stockbridge Value I.M.A. Vintage 2014	-	-	-	100.0	-	-
Vanbarton Value I.M.A. Vintage 2003	-	-	-	-	-	-
Vanbarton Value I.M.A. Vintage 2006	-	-	-	100.0	-	-
Value Added	**-**	**11.8**	**-**	**49.4**	**36.2**	**2.6**
Value Added Portfolio (w/o Sarofim I & Sarofim II)	**-**	**11.8**	**-**	**49.4**	**36.2**	**2.6**
Total Value Separate Accounts	**-**	**11.9**	**-**	**49.3**	**36.2**	**2.6**

Property Type Diversification (%)	Apartment	Office	Industrial	Retail	Hotel	Other
High Return						
Barings High I.M.A. Vintage 2007	-	-	-	-	-	-
Capri Capital High I.M.A. Vintage 2006	100.0	-	-	-	-	-
Capri Urban Investors	13.2	4.9	-	76.8	-	5.1
Carlyle Europe Real Estate Partners III	56.8	-	42.3	0.9	-	-
CityView Bay Area Fund II	100.0	-	-	-	-	-
CityView LA Urban Fund I	100.0	-	-	-	-	-
CityView Southern California Fund II	100.0	-	-	-	-	-
CityView Western Fund I, L.P.	100.0	-	-	-	-	-
Clarion High I.M.A.	-	-	100.0	-	-	-
Europa Fund III	37.9	48.3	-	13.9	-	0.0
Europa Fund IV	18.5	21.4	0.7	35.0	1.7	22.7
Genesis Workforce Housing Fund II	-	-	-	-	-	-
INVESCO Asian Real Estate Partners II (USD Vehicle)	-	97.5	-	-	-	2.5
Invesco High I.M.A. Vintage 2012	100.0	-	-	-	-	-
Invesco High I.M.A. Vintage 2016	-	-	100.0	-	-	-
RREEF High Return I.M.A. III	100.0	-	-	-	-	-
Starwood Brandco	-	-	-	-	100.0	-
Starwood Capital Hospitality Fund II	-	-	-	-	100.0	-
Stockbridge High I.M.A. Vintage 2014	-	33.7	-	-	-	66.3
TriPacific (LERI/LERP)	-	-	-	-	-	-
High Return	**57.4**	**2.6**	**27.2**	**4.6**	**4.8**	**3.4**
Total High Separate Accounts	**43.7**	**2.2**	**49.9**	**-**	**-**	**4.3**
Total Non-Core Portfolio	**37.5**	**5.8**	**17.8**	**20.1**	**15.7**	**3.1**
High Return excluding TriPacific (LERI/LERP)	**57.4**	**2.6**	**27.2**	**4.6**	**4.8**	**3.4**

Property Type Diversification (%)	Apartment	Office	Industrial	Retail	Hotel	Other
Total Portfolio						
LACERA	**36.8**	**22.0**	**13.2**	**15.6**	**7.5**	**4.9**
Benchmark						
ODCE	**24.3**	**36.8**	**14.2**	**23.8**	**0.9**	**0.0**





Geographic Diversification (%)	North East	Mid East	East North Central	West North Central	South East	South West	Mountain	Pacific	Various-US	Ex-US
Core Portfolio										
Barings Core I.M.A.	-	-	-	-	-	-	-	-	-	-
Barings Debt I.M.A	-	-	4.2	-	-	-	-	95.8	-	-
Capri Capital Core I.M.A.	-	-	-	-	-	27.6	-	72.4	-	-
Cityview Core I.M.A.	-	-	-	-	-	-	-	100.0	-	-
Clarion Core I.M.A.	-	-	-	-	-	13.3	-	86.7	-	-
Gateway I.M.A. (Avison Young)	-	-	-	-	-	-	-	100.0	-	-
Heitman Core I.M.A.	-	17.1	-	21.1	30.6	12.9	-	18.3	-	-
Invesco Core I.M.A.	60.3	12.1	-	-	8.3	-	11.1	8.2	-	-
Invesco Real Estate Asia Fund	-	-	-	-	-	-	-	-	-	100.0
Prologis Targeted Europe Logistics Fund	-	-	-	-	-	-	-	-	-	100.0
Quadrant I.M.A	-	100.0	-	-	-	-	-	-	-	-
RREEF Core I.M.A.	19.2	6.9	18.9	-	-	-	7.3	47.7	-	-
RREEF Core Plus Industrial Fund L.P.	1.6	-	38.4	-	-	-	-	60.0	-	-
Stockbridge Core I.M.A.	-	8.8	-	-	14.6	12.9	22.0	41.7	-	-
TA Associates Core I.M.A.	41.4	12.8	1.7	2.3	36.3	2.2	-	3.3		-
Core Portfolio	**19.4**	**7.6**	**5.6**	**1.7**	**10.6**	**5.0**	**4.6**	**40.3**	**-**	**5.2**
Total Core Separate Accounts	**21.1**	**8.3**	**4.7**	**1.8**	**11.6**	**5.5**	**5.0**	**41.9**	**-**	**-**
Value Added										
Barings Value I.M.A. Vintage 2003	-	-	-	-	-	-	-	100.0	-	-
CBRE Asia Value Fund L.P.	-	-	-	-	-	-	-	-	-	-
CBRE Strategic Partners European Fund III	-	-	-	-	-	-	-	-	-	-
CBRE Strategic Partners UK Fund III	-	-	-	-	-	-	-	-	-	-
Cornerstone Hotel Income Equity Fund II	-	-	-	-	-	-	-	-	-	-
Heitman Value I.M.A. Vintage 2013	-	-	-	-	100.0	-	-	-	-	-
Hunt UK Realty Partners LP	-	-	-	-	-	-	-	-	-	100.0
Invesco Value I.M.A. Vintage 2010	-	-	-	-	-	100.0	-	-	-	-
Invesco Value I.M.A. Vintage 2012	100.0	-	-	-	-	-	-	-	-	-
LaSalle Medical Office Fund II	-	-	-	-	-	-	-	-	-	-
RREEF Value I.M.A. Vintage 2009	-	-	-	-	-	-	-	-	-	-
Stockbridge Value I.M.A. Vintage 2014	-	-	-	-	100.0	-	-	-	-	-
Vanbarton Value I.M.A. Vintage 2003	-	-	-	-	-	-	-	-	-	-
Vanbarton Value I.M.A. Vintage 2006	1.4	-	-	94.9	3.7	-	-	-	-	-
Value Added	**25.8**	**-**	**-**	**16.2**	**9.8**	**11.8**	**-**	**36.2**	**-**	**0.2**
Value Added Portfolio (w/o Sarofim I & Sarofim II)	**25.8**	**-**	**-**	**16.2**	**9.8**	**11.8**	**-**	**36.2**	**-**	**0.2**
Total Value Separate Accounts	**25.8**	**-**	**-**	**16.3**	**9.8**	**11.9**	**-**	**36.2**	**-**	**-**

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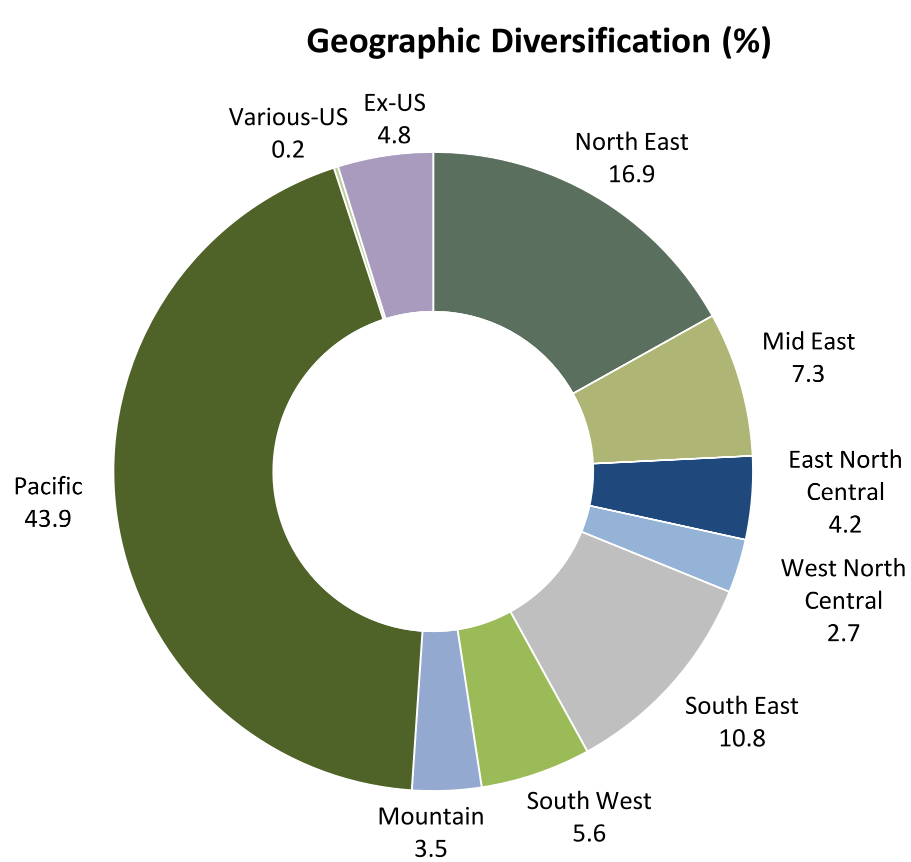
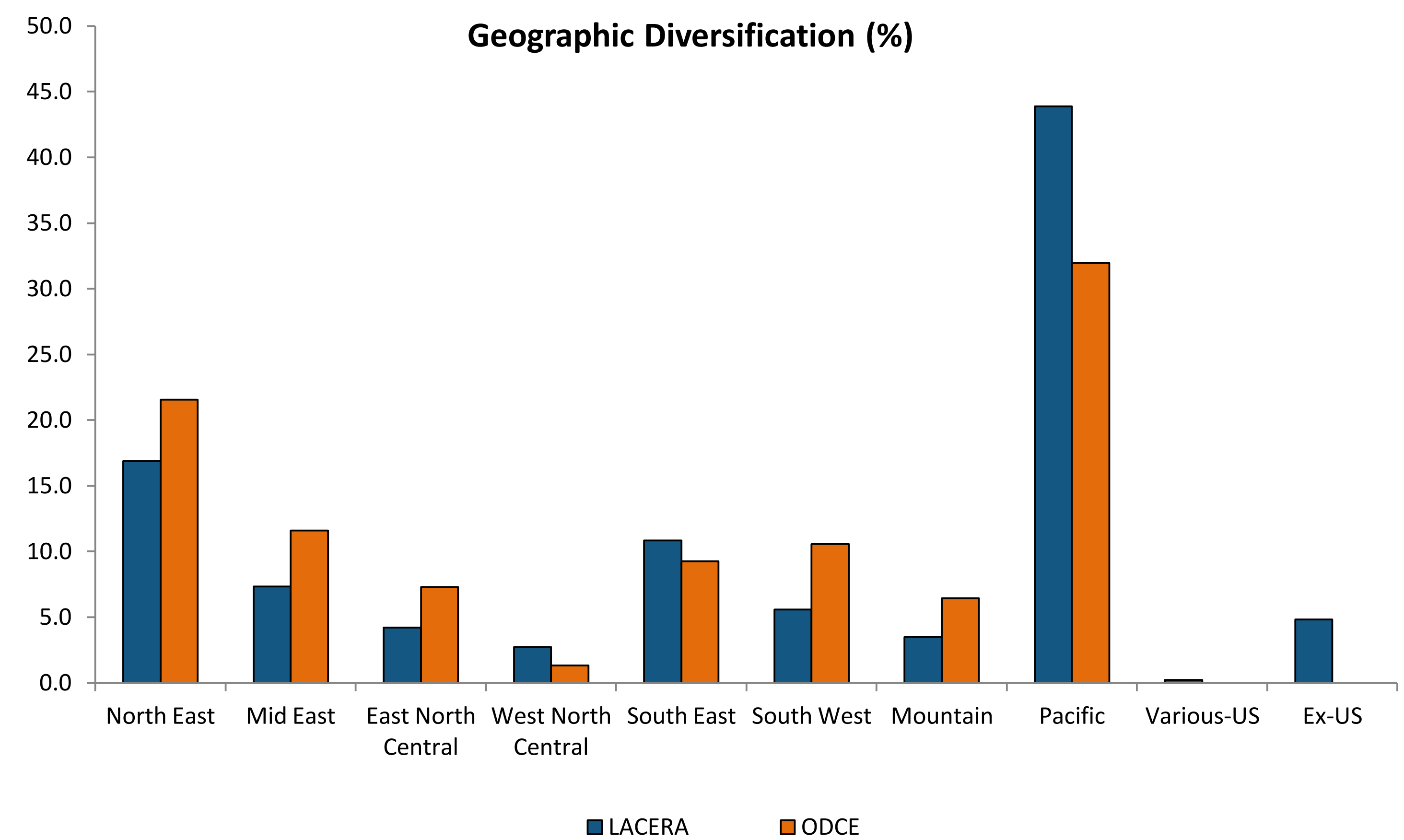
Los Angeles County Employees Retirement Association

First Quarter 2017

Geographic Diversification (%)	North East	Mid East	East North Central	West North Central	South East	South West	Mountain	Pacific	Various-US	Ex-US
High Return										
Barings High I.M.A. Vintage 2007	-	-	-	-	-	-	-	-	-	-
Capri Capital High I.M.A. Vintage 2006	-	-	-	-	-	-	-	100.0	-	-
Capri Urban Investors	-	45.4	9.9	-	-	-	-	44.6	-	-
Carlyle Europe Real Estate Partners III	-	-	-	-	-	-	-	-	-	100.0
CityView Bay Area Fund II	-	-	-	-	-	-	-	100.0	-	-
CityView LA Urban Fund I	-	-	-	-	-	-	-	100.0	-	-
CityView Southern California Fund II	-	-	-	-	-	-	-	100.0	-	-
CityView Western Fund I, L.P.	-	-	-	-	-	-	-	100.0	-	-
Clarion High I.M.A.	-	-	-	-	-	-	-	100.0	-	-
Europa Fund III	-	-	-	-	-	-	-	-	-	100.0
Europa Fund IV	-	-	-	-	-	-	-	-	-	100.0
Genesis Workforce Housing Fund II	-	-	-	-	-	-	-	-	-	-
INVESCO Asian Real Estate Partners II (USD Vehicle)	-	-	-	-	-	-	-	-	-	100.0
Invesco High I.M.A. Vintage 2012	-	-	-	-	100.0	-	-	-	-	-
Invesco High I.M.A. Vintage 2016	-	-	-	-	-	100.0	-	-	-	-
RREEF High Return I.M.A. III	-	100.0	-	-	-	-	-	-	-	-
Starwood Brandco	79.4	3.8	-	-	5.9	2.9	-	8.1	-	-
Starwood Capital Hospitality Fund II	13.0	-	-	4.2	29.0	-	8.0	-	29.2	16.6
Stockbridge High I.M.A. Vintage 2014	-	-	-	-	66.3	-	-	33.7	-	-
TriPacific (LERI/LERP)	-	-	-	-	-	-	-	-	-	-
High Return	**0.8**	**10.1**	**0.4**	**0.2**	**12.5**	**4.7**	**0.4**	**64.1**	**1.3**	**5.6**
Total High Separate Accounts	**-**	**15.2**	**-**	**-**	**20.5**	**8.6**	**-**	**55.7**	**-**	**-**
Total Non-Core Portfolio	**9.4**	**6.6**	**0.3**	**5.8**	**11.6**	**7.1**	**0.2**	**54.4**	**0.9**	**3.7**
High Return excluding TriPacific (LERI/LERP)	**0.8**	**10.1**	**0.4**	**0.2**	**12.5**	**4.7**	**0.4**	**64.1**	**1.3**	**5.6**

Geographic Diversification (%)	North East	Mid East	East North Central	West North Central	South East	South West	Mountain	Pacific	Various-US	Ex-US
Total Portfolio										
LACERA	**16.9**	**7.3**	**4.2**	**2.7**	**10.8**	**5.6**	**3.5**	**43.9**	**0.2**	**4.8**
Benchmark										
ODCE	**21.6**	**11.6**	**7.3**	**1.3**	**9.3**	**10.6**	**6.4**	**32.0**	**-**	**-**





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Advisory Disclosures and Definitions

Disclosures:
Trade Secret and Confidential.

Past performance is not indicative of future results.

Investing involves risk, including the possible loss of principal.

Returns are presented on a time weighted basis and shown both gross and net of underlying third party fees and expenses and may include income, appreciation and/or other earnings. In addition, investment level Net IRR's and equity multiples are reported.

The Townsend Group, on behalf of its client base, collects quarterly limited partner/client level performance data based upon inputs from the underlying investment managers. Data collection is for purposes of calculating investment level performance as well as aggregating and reporting client level total portfolio performance. Quarterly limited partner/client level performance data is collected directly[1] from the investment managers via a secure data collection site.

[1]In select instances where underlying investment managers have ceased reporting limited partner/client level performance data directly to The Townsend Group via a secure data collection site, The Townsend Group may choose to input performance data on behalf of its client based upon the investment managers quarterly capital account statements which are supplied to The Townsend Group and the client alike.

Benchmarks
The potential universe of available real asset benchmarks are infinite. Any one benchmark, or combination thereof, may be utilized on a gross or net of fees basis with or without basis point premiums attached. These benchmarks may also utilize a blended composition with varying weighting methodologies, including market weighted and static weighted approaches.

Footnotes

* Funded amount + unfunded commitments may not aggregate to commitment amount due to, but not limited to, one or more of the following reasons: (1) The reinvestment of distributions/withdrawals, (2) a redistribution of interest made between limited partners after the funds initial closing.

** The Internal Rate of Return (IRR) is the annualized implied discount rate (effective compounded rate) that equates the present value of all the appropriate cash inflows (Paid-in Capital, such as drawdowns for net investments) associated with an investment with the sum of the present value of all the appropriate cash outflows (such as Distributions) accruing from it and the present value of the unrealized residual fund (unliquidated holdings). For an interim cumulative return measurement, any IRR depends on the valuation of the residual assets. The IRR is affected by both the timing and amount of cash flows. The Xirr funcion in excel is used for calculation and liquidation of the whole portfolio is assumed at the end of the quarter.

*** Capital Returned is a sum of distributions and withdrawals. Distributions are further defined as any income or appreciation that is a return on capital. Withdrawals are return of capital.

1,2) The gross to net spread on a since inception basis is due to the statistical impact of two fully liquidated investments (Sarofim I and II, formerly TCEP). Without the inclusion of these funds, since inception returns for the Value Added portfolio are equal to 7.8% gross and 6.4% net, and for the Non-Core portfolio 7.6% gross and 4.8% net.

3) These funds were converted from their currency to USD by Townsend.

4) 'Broken' TWR – In a series of quarterly returns for an investment line item, a single quarter of significant volatility and/or temporary negative market value will 'break' the time weighted calculation and period returns (including since inception) may not accurately reflect performance of the investment line item. Line item data continues to be reflected in the sub-portfolio and portfolio totals, however for the individual line item, the internal rate of return ("IRR") becomes a more appropriate data point for evaluation.

5) Aggregate level returns are distorted by the previous negative market values of specific investments (TriPacific (LERI/LERP)).

6) In 3Q2013, the method to calculate TriPacific (LERI/LERP)'s Market Value was adjusted to reflect the full recourse debt amount.

7) Cornerstone High IMA is a fully liquidated fund. Cash and the transfer of a single property from the Cornerstone Value IMA (Alric) is what makes up the Fund's residual market value.

8) Non Core separate account I.M.A.s are presented by vintage year to mirror closed end commingled funds. The following I.M.As are included in their respective style and total real estate composites, but are not shown separately as they have fully liquidated: Capri Capital Value I.M.A. Vintage 2003; Invesco Value I.M.A. Vintage 1998 & 2004; Invesco Development I.M.A. 2001; LaSalle Value I.M.A. Vintage 2003; Lend Lease Value I.M.A. Vintage 1998; Lowe Value I.M.A. Vintage 1998; RREEF Value I.M.A. Vintage 2001, 2003 & 2005; TA Associates Value I.M.A. 2005; Invesco High I.M.A. Vintage 2008; and RREEF High I.M.A. Vintage 2000 & 2004.

9) Fully liquidated funds/separate accounts left with limited cash positions. Short term time-weighted returns are no longer displayed because they are not meaningful.

10) Partial periods are excluded from since inception return calculations at the investment level, but are included in the calculations of composites and the total portfolio level.

11) This separate account currently only has one asset, which is a new development project. Returns are not displayed as they are not yet meaningful.

12) New Funds early in their investment period may only call capital for management fees, creating negative returns. Short term time-weighted returns are not longer displayed because they are not meaningful.

ATTACHMENT C. Due Diligence Memorandum – Heitman Asia-Pacific Property Fund

TOWNSEND
GROUP

Heitman Asia-Pacific Property Fund

Pan Asia-Pacific Value Add Private Real Estate Fund

Date: Dec 2016

1660 west second street, suite 450
cleveland, ohio 44113

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EXECUTIVE SUMMARY

OVERVIEW

Heitman Group ("Heitman") is establishing the Heitman Asia-Pacific Property Fund ("HAPI" or the "Fund"), a closed-end, value-added investment partnership focusing on traditional and specialty assets primarily in Australia, Japan, Hong Kong and Singapore. The Fund targets a leveraged gross IRR/EM of 14-16%/1.7x, with income return of circa 5-6% annually, utilizing leverage below 55%. The investment period and term of the Fund is 18 months from final close and six years from end of investment period, respectively. The Fund is targeting USD250 million of total commitments with up to USD25 million of co-investment from Heitman.

The investment strategy of HAPI follows that of the separate accounts managed by Heitman in Asia since 2011, which focused on developing and executing value-added investment opportunities in Asia-Pacific. The Fund aims to identify value in mis-priced assets through fundamental macro, sub-market, and property-level analysis. Assets may be mispriced due to market conditions, sector immaturity or factors unique to the particular building, such as opportunities to create or enhance value through asset repositioning/change of use, expansion or redevelopment.

The Fund will focus on core and developed markets in Asia-Pacific including Australia, Japan, Hong Kong and Singapore. The Fund plans to overweight the property types that Heitman believes can most effectively leverage domestic demand growth and medium-term demographic shifts. Successful execution of these strategies should permit the Fund to generate attractive net operating income growth. Consistent with this thesis and Heitman's global experience is a distinct emphasis on specialty sectors. Heitman believes these sectors offer attractive risk-adjusted returns due to a combination of higher yields and net income growth. They also add diversification to the portfolio and are expected to undergo structural growth as they mature. Although these sectors are benefiting from structural growth factors, they remain characterized by very low saturation rates compared to Europe and North America. The Fund seeks to complement investments in specialty sectors with select shorter-term tactical opportunities, largely focused in the office sector.

Heitman has identified a pipeline of seven transactions which requires circa USD190 million of equity. Within the pipeline, Heitman closed a Singapore self storage joint venture in Oct 2015 with Mandarin Self Storage being the operating partner and the Townsend Group being the co-investor. Upon first close the Fund plans to invest USD20 million into the joint venture.

The Fund is sponsored by Heitman, a global real estate investment manager with 50-year history of developing and executing real estate investment strategies. Heitman is 50% owned and controlled by 36 Senior Officers of Heitman and 50% by Old Mutual Asset Management plc, a New York Stock Exchange listed company. Heitman is headquartered in Chicago and has 11 regional offices in the US, Europe, and Asia-Pacific. Heitman is solely focused on real estate and manages over USD35 billion (as of Dec 2015) in assets across private real estate equity, public real estate securities and real estate debt. The Asia-Pacific platform of Heitman ("Heitman Asia") is led by Skip Swartz who has 19 years of relevant experience and employment history with Heitman. Since creating Heitman Asia in 2008 and making the first Asian investment in 2011, Heitman Asia has amassed over USD1 billion in assets across over 50 assets in the region.

Heitman's track record in Asia includes over USD780 million of equity invested on behalf of eight separately managed accounts across more than 50 assets covering Australia, Japan, Malaysia and Singapore. The operations of Heitman in the Asia Pacific region have mainly focused on value-added and core plus real estate. The track record of Heitman in Asia-Pacific is solid. Within the Asian portfolio of Heitman, the realized/projected returns of value-added investments outperform their own initial targets, and are competitive with the market in general.

1. **Healthy fundamentals of Asia-Pacific real estate**

   The Asia-Pacific real estate will continue to become an increasingly important strategic complement and diversifier within global real estate portfolios. The current and forecasted economic conditions indicate that investments in Asia-Pacific are primed to deliver attractive returns to a real estate portfolio. The region currently is able to offer a balanced combination of relatively high and sustainable yields, accretive debt, and the potential of strong earnings growth. Additionally, Asia-Pacific is forecasted to deliver strong economic growth over the next five years when compared with both North America and Europe. This growth is largely due to structural change (both past and anticipated in the future) driven by demographic shifts and policy rebalancing, moving away from export-led growth models and shifting towards domestic demand. Given the favorable conditions, a portfolio of assets in Asia-Pacific, diversified across both geography and property type, is a strong addition to an investor's portfolio.

2. **Unique and defensive investment strategies of the Fund**

   Heitman has a capable and experienced research team. Given the current and projected economic and capital market conditions in Asia-Pacific, and based on the work of its research team, Heitman believes that value-added strategies offer attractive risk-adjusted returns, avoiding the more expensive and competitive core space, while limiting higher-risk development exposure.

   In executing the value-added strategy, the Fund will focus on property types that effectively leverage domestic demand growth and medium-term demographic shifts. Consistent with this thesis and Heitman's global experience is a combination of both traditional asset classes and specialty sectors. Heitman's research team believes that specialty sectors offer attractive risk-adjusted returns due to a combination of higher yields and NOI growth. Heitman has been at the forefront of identifying attractive opportunities in specialty sectors and pursuing those strategies successfully.

   The specialty sectors also add diversification to the portfolio and could undergo structural growth as they mature. Although these sectors are benefitting from structural growth factors, they remain characterized by very low saturation rates compared to Europe and North America. Therefore, through properly implementing the value-added investment strategy, with a focus on specialty sectors, Heitman believes the Fund will generate favorable returns in both higher and lower growth economic environments. If Asia-Pacific's economies outperform, the Fund's assets would be positioned to capture NOI growth. However, Heitman believes demographic shifts are more predictable than economic output and the Fund's focus on demographic trends is somewhat decoupled from economic cycles, thus providing more resolute cashflow. Heitman believes this investment style would be more defensive if adverse capital market conditions are experienced.

3. **Strong sponsor with proven track record in executing value-added investment strategy**

   Heitman is an experienced private equity real estate investment manager. The firm has over 30 years of history in executing value-added investment strategies. Heitman has invested over USD19 billion globally in over 100 joint-venture value-added transactions involving 1,300 assets. In term of value added space with specific focus in specialty and office assets that the Fund focuses, Heitman has been a market leader with circa USD9.3 billion of assets under management.

   Heitman's presence in Asia-Pacific has developed since first exploring private equity investment opportunities in the region in 2008. Heitman's current portfolio in Asia-Pacific consists of over USD1 billion in real estate assets under management, which includes joint ventures with some of the largest and most experienced operators in the region. The value-added portfolio of Heitman in Asia-Pacific includes an Australian office joint venture, an Australian self storage joint venture, two Tokyo office joint ventures and a Singapore self storage value-added program. The realized/projected performances of these value-added investments outperform against their own initial targets, and in general are competitive within the market.

4. Strong alignment of interest

The structure and investment format of the Fund provide strong alignment of interest between the Fund's investors, Heitman and its operating partners in the following ways:

- Co-investment by Heitman and its employees – Heitman (and certain employees) will co-invest 1% of total commitments alongside the Fund's investors, with members of the Asia-Pacific Private Equity Investment Committee making significant personal investments. The Heitman co-investment is high when compared with other pan Asian value-added funds in the market which co-invest mostly in the range of 1-4%. In addition, part of the compensation for key team members in Heitman Asia will be directly tied to the performance of the Fund.
- Operating partner capital contribution – In each investment in which the Fund partners with an operating partner, the operating partner will make a capital investment (ranging generally from 5%-50%). This ensures that the operating partner has real capital at risk alongside the Fund's investors and creates an additional incentive for business plan execution.
- Employee ownership – a group of 34 Heitman professionals, averaging 28 years of industry experience, own 100% of the firm. This equity ownership creates a valuable alignment of interest between the firm and its clients.

5. Investor friendly fee structure

The fee structure of the Fund is investor friendly. The management fee of 0.88%%-1.25% on invested equity is more competitive when compared with other pan Asian value-added funds in the market which charge in the range of 1.25%-1.75%. Moreover, the Fund's management fee on equity invested rather than on committed help ensures that Heitman is paid only on invested and allocated equity (which also reduces leakage). In addition, distribution to Heitman pursuant to the distribution waterfall are based on achievement of a portfolio-level hurdle, with no catch-up provision.

6. The Fund is a strategic priority for Heitman in Asia-Pacific

The Fund is a strategic priority for Heitman. Currently Heitman has no active separate account clients or any other funds in Asia. The Fund is therefore the sole focus of Heitman in Asia and the primary beneficiary of all investments that fit its investment guidelines.

POTENTIAL ISSUES AND CONCERNS

1. Heitman's experience and track record in South Korea and Hong Kong

The investment strategy of the Fund is to implement a value-added strategy on real estate assets in primary markets including Australia, Japan, Singapore, and secondary markets in Hong Kong and South Korea. While Heitman has track record of executing value-added deals in Australia, Japan and Singapore, the firm has no track record of investing into value-added transactions in Hong Kong and South Korea.

Discussion:

Heitman's investment rationales of the Fund's target markets in Hong Kong and South Korea:

Hong Kong - For the last three years, the Heitman team in Hong Kong has been underwriting numerous traditional and specialty asset class investments. Over the last year, Heitman has been actively working with a reputable local operating partner to underwrite two off-market opportunities with the non-discretionary retail conversion strategy that they are focused on. However, due to the Fund's delayed timing the two opportunities were not pursued. Despite passing on the opportunities, Heitman states that, through sourcing, analyzing and underwriting the Hong Kong deals in the last few years, the team has proved itself a prudent and competent real estate underwriter in the Hong Kong market. While Heitman continues to see and analyze attractive value-added opportunities in Hong Kong, they believe this market would be an important strategic area for the Fund's investment strategy.

Seoul - Seoul demonstrates the same strong demographic trends that Heitman sees driving opportunity in Australia, Hong Kong, Tokyo and Singapore. Heitman has a Seoul office with a Korean team, comprised of individuals who have years of experience working in the market (including NPS and Koramco). As a result, Heitman is comfortable that this local presence, critical to any execution in the country, will support Heitman to continue evaluating investment opportunities.

2. Joint ventures with operating partners represent a majority of the Fund's investments

Heitman expects joint ventures with operating partners to represent a majority of the Fund's investments. The investment performance of the Fund will be greatly impacted by i) whether the operating partners can successfully implement the strategies, ii) effective alignment of interest between the partners and the Fund, and iii) the Fund's level of control in the joint ventures.

Discussion:

Heitman states that joint ventures are always structured with operating partners that are leaders in their sectors and under partnership structures that offer appropriate management controls, alignment of interest and exit mechanisms. Key decisions (e.g., acquisitions, dispositions, financings, business plans) require Heitman's explicit approval. Heitman also negotiates for key person and cross-default provisions, lock-out periods and limitations of transfer, to name a few other control elements. In addition, a joint venture partner will make a meaningful capital investment. Equity investments by Heitman's partners generally range from 5% to 50% of the total equity, which helps ensure that the partners have real capital at risk alongside the Fund's investors and creates additional incentive for business plan execution. Wherever possible, Heitman structures agreements to offer a preferred return to its investors to minimize downside risk. They also set up incentive structures to ensure their partners are incentivized to exceed performance expectations.

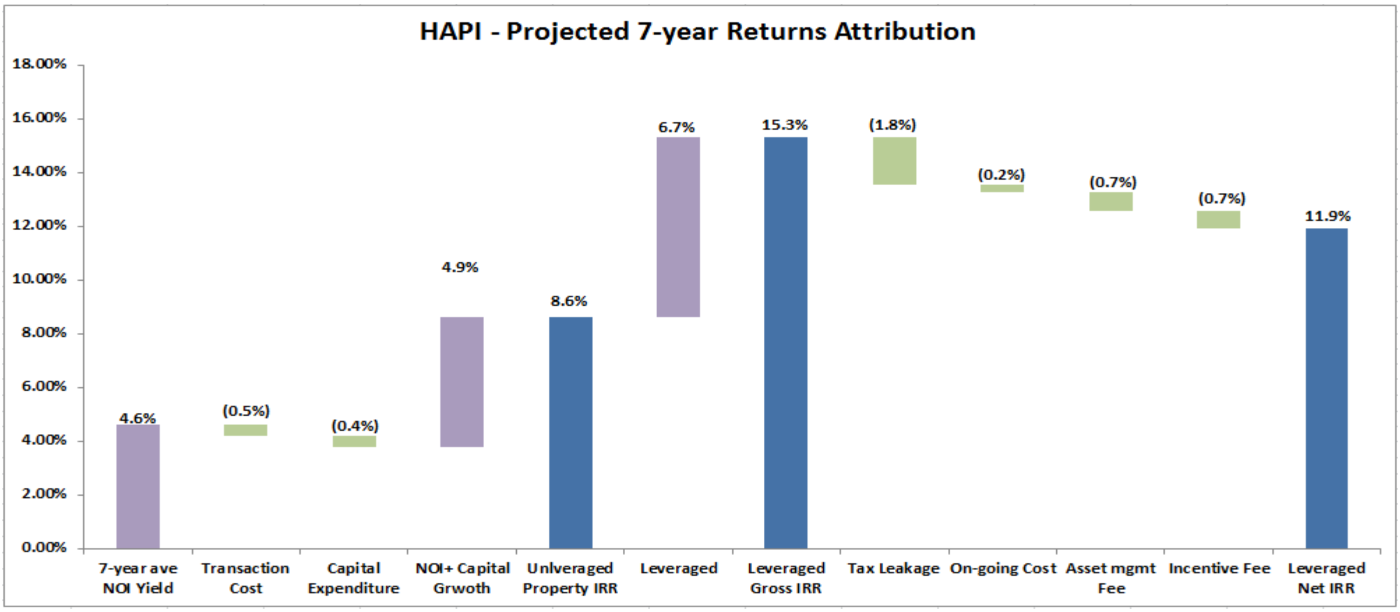
Selecting the right partner is critical to the success of any joint venture and a primary focus is the people within the organization. Heitman undertakes stringent due diligence on the senior management team looking at the depth of experience, employment background and financial history to establish the integrity of the key individuals. Once the credentials of the management team have been established, the focus turns to a number of other important factors which are analyzed as part of their due diligence process, these include business focus, geographic focus, existing portfolio, sector expertise, capital needs, strengths & weaknesses, etc.

Heitman highlights that even though operating partners are chosen for their market knowledge and expertise, Heitman investment professionals still perform their standard rigorous due-diligence on every market and asset that the partner would like to add to the joint venture, and maintain day-to-day oversight of the partner's activities relative to the execution of the approved project business plan.

STRATEGY

SUMMARY

The Heitman Asia Pacific Property Fund, sponsored by Heitman and managed by the Asia-Pacific team of Heitman ("Heitman Asia" or the "Fund Manager"), is a closed-ended private equity real estate fund with a value add risk profile. The Fund targets to deliver a leveraged gross IRR/EM of 14-16%/1.7x with an income return projected to be circa 5-6% annually. The following chart illustrates the expected return drivers of a model portfolio. Refer to **Exhibit A** for the structure of the Fund and **Exhibit C** for major assumptions used in the model portfolio.



The Fund's investment strategy is to identify underpriced assets through fundamental macro, sub-market, and property-level analysis. Assets may be mispriced due to market conditions, sector immaturity or factors unique to the particular building, such as opportunities to create or enhance value through asset repositioning, expansion or redevelopment. In particular, the Fund will focus on mismanaged assets, where current ownership lacks the capital or expertise to optimize the building. The specific themes of the Fund portfolio are as follows:

<u>Investing in developed and liquid markets</u> – The Fund focuses on asset selection in key locations within the region's developed and liquid markets, prioritizing in-place income with sustainable and cautious growth expectations. The Fund will seek to construct a geographically diversified portfolio in core/developed countries including Australia, Japan, Singapore, Hong Kong and Seoul.

Target Market	Allocation Range	Transparency	Market Size
Sydney/Melbourne/Brisbane	20-40%	High	Medium
Tokyo/Osaka	20-40%	Medium	Large
Singapore	10-30%	High	Medium
Hong Kong	0-20%	High	Medium
South Korea	0-15%	Medium	Medium

<u>Focus on demographically linked trends, investing in select traditional and specialty property types</u> – The Fund's sector focus will be on strategies that are linked to Heitman's medium-term expectation of how economic and demographic trends will impact Asia-Pacific's real estate investment markets. While the Fund is expected to be diversified across sectors, Heitman has established thematic weightings and targeted sub-strategies for the Fund as shown below (and will be ultimately driven by market conditions and opportunities):

Sector	Type	Sydney/ Melbourne/ Brisbane	Tokyo/ Osaka	Singapore	HK	Seoul	% Allocation
Offices	Traditional	●	●			o	Up to 40%
Logistics	Traditional	●	o	o	o	o	Up to 40%
Retail	Traditional	●		●	o	o	Up to 40%
Residential	Traditional	o	o				Up to 20%
Debt	Debt	●	o	o	o	o	Up to 40%
Self Storage	Specialty	●	o	●	●		Up to 50%
Student Housing	Specialty	●	o				
Medical Office	Specialty	o					

• Primary focus o Secondary focus

(Note: Equity committing more than 30% in the Secondary focus requires consent from the Fund's Advisory Committee)

The Fund's strategic call is in overweighting specialty sectors. The Fund will actively pursue repositioning, redevelopment and, in limited cases particularly related to the "creation" of specialty assets, development strategies through strategic joint ventures in the region's emerging specialty sectors such as senior housing, student housing, and self-storage. These property types have demand drivers that are not directly dependent on the cyclical recovery in the way that office and retail are, and, therefore, offer diversification benefits. Moreover, there is potential for intrinsic growth as these specialty sectors mature. In Asia-Pacific, they are characterized by an absolute lack of stock, as indicated in international comparisons of per capita saturation levels.

<u>Focus on value and investments that offer a balanced risk and return</u> – The Fund will target investments providing stable income balanced with the prospect of value enhancement. Heitman's approach to delivering value in Asia-Pacific is three-fold, including i) determining relative value at a country, sector, and strategy level through the research and acquisition teams' collaborative analysis, ii) creating value through physical enhancement at the asset level, capitalizing on Heitman's management capabilities and, where accretive, joint ventures with operating partners, and iii) protecting value via structuring certain investments through preferred equity/mezzanine lending to ensure base level returns are achieved even in an economic environment weaker than the Fund's base case expectations.

A more detailed rationale for some of the Fund's initial focused strategies is outlined in **Exhibit D.**

The Fund's current pipeline includes seven projects located in Australia, Tokyo, Singapore and Hong Kong. The pipeline requires total equity of over USD190 million. The Fund's existing pipeline is consistent with its investment strategy. Details of the pipeline deals are provided in **Exhibit B**

Within the pipeline, Heitman executed and closed the Singapore self storage deal in Oct 2015, through forming a joint venture with Mandarin Self Storage, a newly formed self storage operator based in Singapore, whose President and CEO - Angus Miller - has almost 20 years of experience in acquiring, developing/redeveloping, operating, and managing institutional quality self storage properties in Singapore, Hong Kong, and Australia. The venture's business plan is to aggregate a portfolio of four to eight self storage properties through both acquisition and/or redevelopment in Singapore and potentially other select Southeast Asian urban markets. The plan is to capitalize on the current undersupply of self storage in Singapore, which has a dense and growing population, by acquiring and repositioning under-utilized industrial assets in key submarkets across the city-state. This repositioning and lease-up strategy was previously successfully undertaken by the key personnel of Mandarin in Singapore and, upon completion in 3-5 years, should allow the venture to be one of the dominant and best-managed owners of the asset class. The venture is expected to invest a total of USD60 million from Heitman-advised clients with 10% additional equity, up to USD5.5 million, from Mandarin. During the closing in Oct, 2015, Townsend Group (on behalf of two of its discretionary clients) and Mandarin committed an initial USD40 million and USD4 million, respectively into the joint venture. Upon the Fund's first closing, the Fund is expected to invest USD20 million into the venture.

LEVERAGE

- Fund level: maximum permissible LTV of 55%
- Individual investment level: maximum permissible LTV of 60%

HEDGING

- The Fund is denominated in USD. In connection with the financing of certain investments, the Fund may employ hedging techniques designed to protect the Fund against adverse movements in currency rates. Given the Fund's diversified investments across multiple countries, hedging strategies will be pursued on a deal-by-deal basis with the individual investments. To partially reduce currency risk, all investments will be financed with debt denominated in the investment currency.

- Heitman's philosophy globally for investments not made in local currency has been to evaluate various hedging options on a case-by-case basis. Such evaluation is done in dialogue with third-party currency experts, such as Chatham Financial, and Heitman's Capital Markets team. The team has reviewed the cost-benefit of hedging the investment's equity (partial and full), cash flow and a combination of both over various periods of time in line with the investments anticipated tenor. Consequently, along with using local currency debt, when Heitman has deemed it accretive, they have hedged the equity portion of their investment at certain points in the investment cycle utilizing such instruments as participating forwards, vanilla forwards and option contracts for multiple different time frames, anywhere from two weeks to 18 months. These instruments have utilized both deferred and upfront premium payments, which have been based on the counterparty and underlying collateral.

- Based on the Fund's focused investments in Australia, Japan, Singapore and Hong Kong, Heitman has conducted an analysis on how the change in exchange rate between AUD/SGD/JPY and USD (between the timing when capital is invested and when capital is projected to be repatriated) will impact the Fund's return. Based on the assumption that local currency debts are used and 50% of the equity is hedged, the following table provides details of the analysis.

	Down 20%	Down 15%	Down 10%	Down 5%	No Change	Up 5%	Up 10%	Up 15%	Up 20%
Gross IRR	13.0%	13.6%	14.2%	14.7%	15.3%	15.9%	16.4%	17.0%	17.5%

INVESTMENT GUIDELINES

- Max 40% of total commitments invested into a single property type (Max 50% in specialty sector)
- Max 40% of total commitments invested into a single country
- Max 25% of total commitments invested into one asset
- Max 25% of total commitments invested into development
- Equity invested in speculative development in the traditional asset classes requires consent from the Fund's Advisory Committee

The Fund current pipeline includes seven projects located in Australia, Tokyo, Singapore and Hong Kong. The pipeline requires total equity of over USD190 million. The Fund's existing pipeline is consistent with its investment strategy. Details of the pipeline deals are provided in **Exhibit B.**

SPONSOR

BACKGROUND

The Fund is sponsored by Heitman – a global real estate investment management firm founded in 1966 with a nearly 50-year history of developing and executing real estate investment strategies on behalf of institutional and individual investors. Heitman is a limited liability company, 50% owned and controlled by 36 Senior Officers of Heitman and 50% by Old Mutual Asset Management plc, a New York Stock Exchange listed company. Heitman is solely focused on real estate. The firm manages portfolios in both the public and the private property markets and across the risk/return spectrum in Asia Pacific, North America and Europe. Headquartered in Chicago, with 11 offices in HK, Tokyo, Seoul, Melbourne, LA, London, Luxembourg, Warsaw, Dusseldorf, Frankfurt and Munich, Heitman has over 320 employees involved in executing its various real estate investment strategies.

As of Dec 2015, Heitman managed over USD35 billion in assets across three business lines that include:
- Private Real Estate Equity - direct investments in real estate and real estate assets located in Asia Pacific, North America and Europe (USD31.4 billion)
- Public Real Estate Securities - investments in publicly traded REITs, REOCs and other real estate companies in Asia Pacific, North America and Europe (USD3.4 billion)
- Real Estate Debt - origination and servicing of debt secured by real estate in North America (USD0.4 billion)

In the Asia Pacific region Heitman has focused on expanding its private equity platform since entering the region in 2005 by opening its Tokyo office to provide investment management services to its Asian investors. From its first investment in 2011 which is an office joint venture in Australia, Heitman has amassed over USD1 billion in assets under management across more than 50 assets in the region covering Australia, Japan, Malaysia and Singapore. The operation of Heitman in the Asia Pacific region has mainly been focused on separately managed account capital and joint ventures with operating partners in deal executions, with investments mainly focused on value-added and core plus real estate.

ORGANIZATION

The Asia Pacific platform of Heitman ("Heitman Asia") is headquartered in Hong Kong with regional offices in Seoul and Tokyo. Heitman Asia is led by Skip Schwartz, who is the Managing Director and has 19 years of experience including acquisitions, disposition, and asset management. Schwartz is responsible for creating the firm's investment platform in the Asia Pacific region and manages the regional team as it sources new real estate investments and joint venture partnerships across Asia-Pacific. Since arriving in the region in 2008, Schwartz has grown the regional assets under management to over USD1 billion. He moved to the Hong Kong office in 2013, after spending five years in Tokyo. Prior to relocating to Tokyo, Schwartz was in Heitman's London and Frankfurt offices for a total of seven years and was involved in numerous investment, joint venture, and development transactions across Central Europe and Germany.

Heitman Asia's Acquisition Team is focused on sourcing, underwriting and acquiring direct real estate assets on behalf of its clients. The Team is part of Heitman's Global Acquisition Team, which has 25 members. The Asia Acquisition Team consists of four members, Skip Schwartz, Ihao Tei, Dan Dooley and Mandy Siu, who average eight years of experience. The Team's responsibilities include, but are not limited to, investment sourcing, allocation process and initial investment underwriting which involves bottom-up analysis of the proposed transaction, top down analysis and synthesizing the analysis into a written investment summary for presentation to Heitman's Asia-Pacific Private Investment Committee.

Heitman Asia's Portfolio and Asset Management Team is led by Skip Schwartz and supported by three seasoned investment professionals, Yun Choi, Scott Chung and Yuki Ychida, who are responsible for overseeing the management of over USD1 billion in direct real estate assets. The Team is part of Heitman's Global Portfolio and Asset Management team, which has 51 members. Heitman Asia's Portfolio and Asset Management Team has an average of 11 years of real estate experience and has been directly involved in the growth of the Asia-Pacific platform. Their backgrounds include property management and operations, finance, acquisitions, dispositions, and accounting. The Team's responsibilities include, but are not limited to, working alongside the Acquisition team as assets are acquired for the portfolio, performing due diligence and assisting in the establishment of the business plan for the investment, developing annual business plans and creating operating strategies, reviewing and recommending approval of all major investment decisions including significant capital improvement and leasing decisions, managing joint venture programs/relationships, and preparing regular hold/sell analysis.

Executive	Firm Title	Years Real Estate Experience	Years at Heitman
Maury Tognarelli	CEO and IC member	32	32
Jerry Claeys	Non-Executive Chairman and IC member	47	38
Mary Ludgin	MD, Head of Global Research and IC member	31	26
Skip Schwartz	MD, Head of Heitman Asia and IC member	19	19
Yun Choi	Senior VP, Portfolio and Asset Management	15	2
Scott Chung	Senior VP, Portfolio and Asset Management	14	3
Yuki Uchida	AVP, Portfolio and Asset Management	8	2
Leslie Chua	Senior VP, Head of Asia-Pacific Investment Research	16	1
Dan Dooley	VP, Acquisition	8	6
Ihao Tei	VP, Acquisition	8	7
Piotr Andrzejewki	VP, European Team Leader, Investor Accounting	12	12
Jeff Schroeder	VP, Senior Finance Manager, Investor Accounting	12	11

Group organization chart is provided in **Exhibit E.** Biographies of key professionals are provided in **Exhibit F**.

TURNOVER, COMPENSATION AND RETENTION

The turnover at Heitman Asia over the last five years is not significant. In line with the expansion plan of the platform including establishing the Fund, Heitman Asia has added eight new professionals over the last five years including Yunjung Choi, Yuki Uchida and Scott Chung who are responsible for the portfolio and asset management of the Fund, and Leslie Chua who is the Head of Research for Heitman Asia. Out of the eight hires, two professionals including Timothy Jowett (Research) and Marcus Tang (Portfolio and Asset Management) departed in 2015 and 2016 respectively to pursue other opportunities.

Given that the two departures were not key man departures and were replaced afterward, Townsend is of the opinion that the departures have no impact on Heitman Asia nor the Fund.

The compensation and retention program of Heitman is as follow:

- For senior employees who hold an equity interest in the business, the equity ownership helps ensure retention of key personnel and creates alignment of interest between Heitman's equity owners and the firm's clients. The total compensation of the firm's equity owners is tied directly to the performance of the investments under their collective management and the degree to which clients objectives have been met
- For professionals who are not in the equity ownership pool, compensation comes in form of:
  - Base salary: reviewed annually and adjusted to reward for increased contributions and sustained performance over time;
  - Incentive compensation: i) discretionary bonus based on the achievement of enterprise, business unit and individual performance goals, ii) promote interest in funds or performance-oriented incentive fees, iii) opportunity to invest in Heitman capital position for many of the firm's investment vehicle

Townsend is of the opinion that the remuneration structure of Heitman is in line with market practice.

ALIGNMENT

Heitman co-invests 1% of total commitments into the Fund. The co-investment of Heitman is high on a relative basis when compared with other pan Asian funds that pursue value add/opportunistic investment strategies.

OPERATING PARTNERS

A key element of the Fund's investment strategy will be the establishment of property-level joint ventures with public and private real estate operators. Along with the Fund's investments in specialty sector assets, the expectation is that development projects entered into by the Fund will be undertaken in partnership with local operators.

Joint ventures are structured with operating partners that are leaders in their sectors and under partnership structures that offer appropriate management controls, alignment of interest and exit mechanisms. Key decisions (acquisitions, dispositions, financing, business plans) require Heitman's explicit approval. Heitman also negotiates for key person and cross-default provisions, lock-out periods and limitations of transfer, to name a few other control elements. In addition, a joint venture partner will make a significant capital investment. Equity investments by Heitman's partners generally range from 5% to 50% of the total equity, which helps ensure that the partners have real capital at risk alongside the Fund's investors and creates additional incentive for business plan execution. Wherever possible, Heitman structures agreements to offer a preferred return to its investors to minimize downside risk. Heitman also sets up incentive structures to ensure its partners are incentivized to exceed performance expectations.

INVESTMENT PROCESS

INVESTMENT COMMITTEE

Heitman's Asia-Pacific Private Equity Investment Committee provides oversight to the Fund by approving all acquisitions and dispositions, monitoring performance and approving any changes to the Fund's investment policies and guidelines. Members of the Asia-Pacific Private Equity Investment Committee have a long history with the firm and are a team of experienced real estate professionals in real estate investment, management, development, corporate finance, capital markets transactions and research. The four members of the Investment Committee are all senior executives of the firm and are listed below. Biographies of the IC members are provided in **Exhibit F**.

Member	Role	Years in Real Estate	Years with Heitman
Maury Tognarelli	CEO	32	32
Jerry Claeys	Non-executive Chairman	47	38
Mary Ludgin	Head of Global Research	31	26
Skip Schwartz	Head of Heitman Asia	19	19

Investment Committee decisions are made by majority vote. All items for Investment Committee consideration are presented by the relevant investment team. Each investment team consists of the Portfolio Manager plus individuals from such departments as acquisitions, asset management, capital markets, and research that are involved in the recommendation and execution of the investment under consideration.

ASSET MANAGEMENT

Asset management is a collaborative endeavor at Heitman. A typical asset management team consists of a portfolio manager, asset managers and members of the financial reporting team. These professionals are all involved in the ongoing asset management function, which includes coordinating the disciplines to manage the individual assets within the client's portfolio such as property manager and leasing specialists, auditors, researchers, acquisitions professionals, joint venture partners, legal and due diligence specialists.

The asset management team responsibilities include:
- review and approval of annual operating and capital budgets;
- development of annual business plans;
- property valuations;
- hold/sell analysis;
- supervision of third-party property management and joint venture strategy; and
- compliance.

Multiple members of the Heitman team, including asset managers, portfolio managers, research, and members of the Investment Committee, make periodic visits to each property and meet with external managers and joint venture partners, at least on an annual basis, and often quarterly. Heitman's policies and procedures require a periodic evaluation of property managers and leasing agents. The portfolio manager will perform this function on an on-going basis, focusing on such factors as performance of the property compared to expectations, compliance with provisions of the property management agreement, physical condition and maintenance of the property, and responsiveness and knowledge of the property manager.

INVESTOR ADVISORY COMMITTEE

The Fund will establish an Investor Advisory Committee ("IAC"). Investors who commit equal to or in excess of USD50 million to the Fund will be offered an IAC board seat. The IAC will meet at least annually for the purpose of providing advice to general matters, and approval on matters including but not limited to:

- Amendment to the investment strategy
- Amendment to, or waiver in respect of, the investment guidelines
- Amendment to, or waiver in respect of, the leverage guideline
- Conflict of interest between the Fund and Heitman or its affiliates

Any action by the IAC requires the affirmative vote of a majority of its members

EXCLUSIVITY & ALLOCATION POLICY

The Fund is currently the exclusive vehicle for Heitman value-added investments in Asia Pacific. Heitman states that there are no plans for a successor fund at this stage as the Fund is the flagship value-added strategy for Heitman Asia. Currently, there is no competing strategy (i.e. funds or separate accounts) with capital available to invest.

VALUATIONS

Formal valuations of each asset in the Fund will be prepared by independent, third party appraisers at least once a year. As part of the portfolio management process, each property is reviewed internally on a quarterly basis for significant events affecting value. Valuation methodologies include any/all of the following: discounted cash flow analysis, capitalized income approach, analysis of comparable sales, and the valuation of debt. In Heitman Asia, appointments of appraiser are limited to a three-year period.

PERFORMANCE

OVERVIEW

Since establishing its first Asian office in Tokyo in 2005 and executing its first Asian investment in 2011, Heitman has committed/invested over USD780 million of equity on behalf of eight separately managed accounts across more than 50 assets in the region covering Australia, Japan, Malaysia and Singapore. The operation of Heitman in the Asia-Pacific region has mainly focused on value-added and core plus real estate. The following table provides details of Heitman's track record in Asia-Pacific. Within the entire portfolio, the value-added investments are projected to outperform their initial targets. Refer to **Exhibit G** for details of Heitman Asia's value-added investment track record.

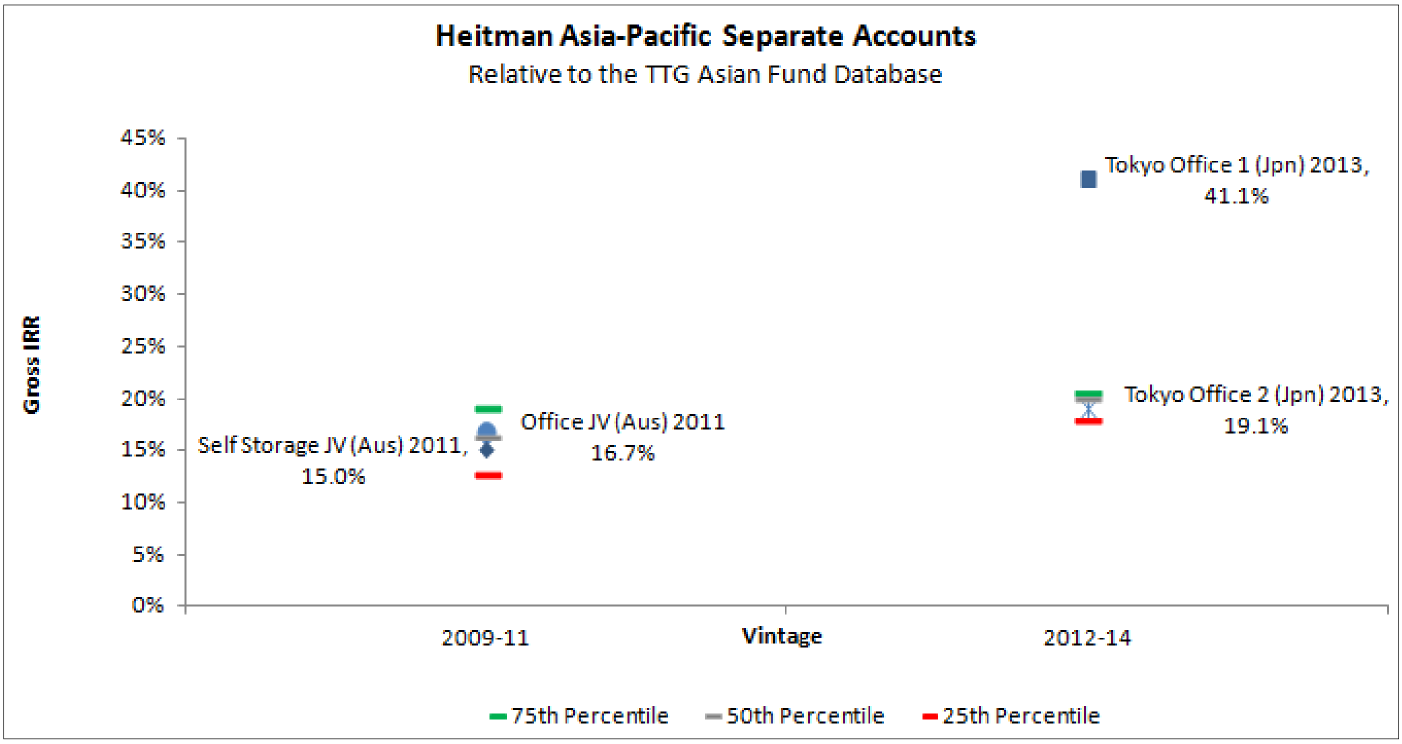
Vehicle	Country	Vintage	Style	No of assets	Invested equity (USD million)	Target Gross IRR	Projected Gross IRR	MTM IRR
Office JV[1]	Australia	2011	Value-added	5	84	11.5%	16.7%	16.1%
Self Storage JV[2]	Australia	2011	Value-added	26	115	14.1%	15.0%	15.0%
Industrial JV	Australia	2012	Core plus	20	195	12.6%	12.7%	11.0%
Retail Club	Malaysia	2013	Core	1	250	11.1%	9.7%	12.2%
Tokyo Office 1[3]	Japan	2013	Value-Added	1	8	11.5%	41.1%	41.1%
Tokyo Office 2[3]	Japan	2013	Value-Added	1	11	12.9%	19.1%	19.1%
Tokyo Retail	Japan	2014	Core	1	81	8.8%	8.7%	7.5%
Self Storage	Singapore	2015	Value-added	1	44	16.5%	16.5%	N/A

1. 2 (of 5) assets were realized for gross IRR of 20.9%
2. In confidential disposition discussions with projected return based on the proposed selling price
3. In disposition process with projected return based on the initial offers
4. MTM as of Q1 2016

PEER COMPARISON

Townsend has compared the return profile of Heitman's Office JV and Self Storage JV in Australia with the pan Asian value-added/opportunistic funds of 2009-2011 vintage, and the return profile of Tokyo Office 1 and 2 with the Japan focused value-added/opportunistic funds of 2012-2014 vintage. The comparison is summarized in the following table and chart. The realized/projected returns of the four value-added vehicles executed by Heitman in general are competitive within the market.

Vehicle	Country	Vintage	Style	Realized/ Projected Gross IRR	Quartiles
Office JV	Australia	2011	Value-added	16.7%	Third Quartile (50-75%)
Self Storage JV	Australia	2011	Value-added	15.0%	Second Quartile (25-50%)
Tokyo Office 1	Japan	2013	Value-Added	41.1%	Top Quartile (75-100%)
Tokyo Office 2	Japan	2013	Value-Added	19.1%	Second Quartile (25-50%)



Heitman Asia-Pacific Separate Accounts
Relative to the TTG Asian Fund Database
Gross IRR
45%
40%
35%
30%
25%
20%
15%
10%
5%
0%
Tokyo Office 1 (Jpn) 2013, 41.1%
Tokyo Office 2 (Jpn) 2013, 19.1%
Office JV (Aus) 2011 16.7%
Self Storage JV (Aus) 2011, 15.0%
2009-11
Vintage
2012-14
75th Percentile
50th Percentile
25th Percentile

FUND STRUCTURE

KEY TERMS

Currency	USD
Fund Structure	Cayman Islands exempted limited partnership
Fund Size	USD250 million
GP co-investment	1% of the Fund's aggregate commitment
Target Return	Gross : 14-16% (approx 5-6% p.a. from income distributions) Net : 11-13% (after all taxes and fees)
Investment Period	18 months from final closing
Fund Term	6 years from end of Investment Period (2 consecutive one-year extension with the 1st extension at the discretion of the GP and the 2nd extension subject to consent from the Advisory Committee)
Leverage	Max 55%
Key Executive Event	Any time during the Investment Period either of Maury Tognarelli and Skip Schwartz (i) cease to be employed by the GP, (ii) suffer a disability for a duration of at least 90 days, (iii) sell or transfer all or substantially all of his direct or indirect interests in the GP, or (iv) cease to participate in the management of the Fund
GP Removal	▪ Majority of LP's interest in the Fund for removal with cause ▪ At least two-third of LP's interest in the Fund for removal without cause

FEES AND DISTRIBUTIONS

<table>
<tr><td>Management Fee</td><td>
<table>
<tr><th>Commitment (USD million)</th><th>Management Fee</th><th>Management Fee (First close investors entitling additional 10% discount)</th></tr>
<tr><td>Less than 50</td><td>1.25%</td><td>1.13%</td></tr>
<tr><td>50 to less than 75</td><td>1.00%</td><td>0.90%</td></tr>
<tr><td>75 or above</td><td>0.88%</td><td>0.79%</td></tr>
</table>
Townsend has negotiated with Heitman on the following:
- First close discount increases from 10% to 15%
- Equities committed by Townsend's clients are aggregated to determine the total commitment and the tier of management fee
</td></tr>
<tr><td>Performance Fee</td><td>▪ Preferred return of 9%
▪ Performance fee of 20% with no catch-up

Townsend has negotiated with Heitman on the following:
- Preferred return increases from 9% to 10%
- Performance fee of 15% for net IRR of 10% or above to below 13%, and performance fee of 20% for net IRR of 13% or above
</td></tr>
<tr><td>Other Fees</td><td>Nil</td></tr>
</table>

FEE ANALYSIS

Townsend has compared the fee structure of the Fund with five other pan Asian value-added funds either in fund raising or closed recently. The management fee structure of the Fund is more investor friendly relative to the other five funds due to a lower asset management which is charged on only invested capital. The performance fee structure of the Fund with a preferred return of 9% and no catch-up is also more investor friendly when compared with the other five funds.

		Heitman	Fund 1	Fund 2	Fund 3	Fund 4	Fund 5
Mgt Fee	On Committed Equity	-	1.50	1.25	0.25	1.50	1.40
	On Invested Equity	0.88-1.25%	1.25	1.25	1.50	1.50	1.75
Performance Fee	Preferred Return	9%	8%	10%/12%	9%	7%	10%
	Performance Fee	20%	20%	20%/30%	20%	20%	20%
	Catch-up	-	50%	-	50%	50%	-
Other Fee		-	-	-	0.5% on acquisition price	-	-

EXHIBIT A: FUND STRUCTURE

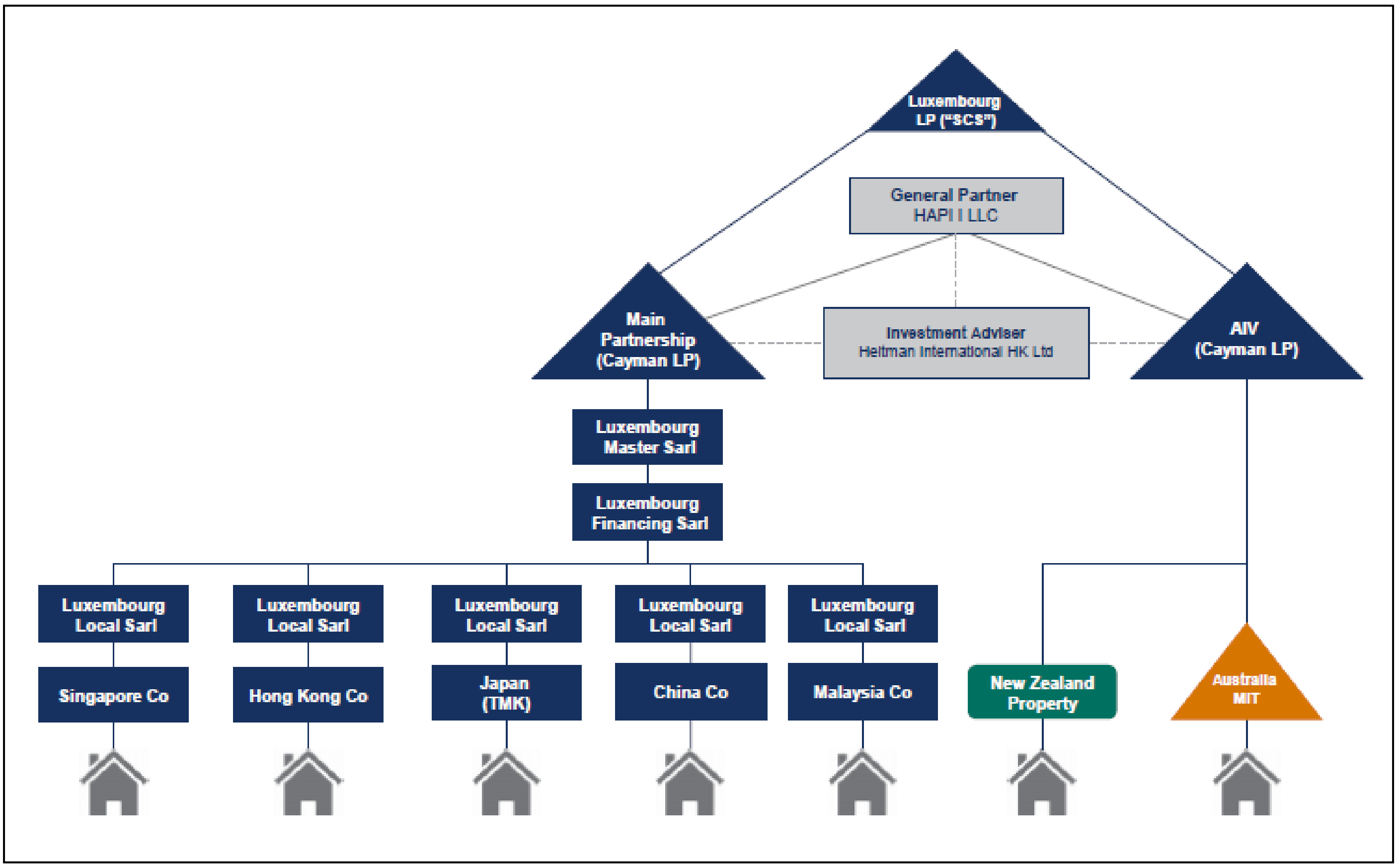


EXHIBIT B: INDICATIVE PIPELINE

Location	Property Type	Estimated Gross Investment (USD million)	Estimated Fund Investment (USD million)	Projected Gross IRR	Investment Highlights	Investment Rationale	Partner/structure/Portfolio Description
Singapore	Self Storage	130	20	18%	- Aggregation of a self-storage portfolio through acquisition and conversion of under-utilized industrial buildings; JV with a Singapore-based operator and global investor	- Singapore's self-storage market is severely undersupplied, and this fundamental imbalance is projected to be in place for decades to come. This investment will capitalize on Heitman's self-storage venture experience and the Operator's expertise of creating institutional quality self-storage in Singapore.	- A 90/10 joint venture with Mandarin Self Storage ("MSS") to capitalize on the opportunity to invest in the self-storage sector in Singapore. The strategy is to assemble (through a change of use strategy) and stabilize a portfolio of self-storage properties in a partnership with a Singapore based regionally experienced operator, as well to exploit the fundamental supply/demand imbalance in the Singapore self-storage market. - MSS is led by Angus Miller, who before forming MSS, was the CEO of Big Orange Self Storage ("BOSS"), which created a portfolio of five self-storage assets; two in Hong Kong and three in Singapore. The Singapore assets were sold to CapitaLand and are now part of StorHub, CapitaLand's self-storage brand. Prior to BOSS, Mr. Miller was the CEO of Millers Self Storage, founded by Angus' father. Their portfolio was eventually sold to Kennard's Self Storage (one of Australia's largest self-storage operators). - The venture will create a portfolio of 5-8 assets through a change of use strategy. The venture will acquire obsolete flatted factories

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cleveland, ohio 44113

							(warehouses) and convert them to the higher and better use of self-storage. In many cases, the self-storage space will be created in phases to allow units to be brought to the market in a controlled and calculated way. The venture ultimately assumes it will fill the facilities to an occupancy rate of 90%, which is in line with what other institutional facilities are currently achieving in the Singapore market. This strategy will produce a healthy spread to stabilized yields, therefore providing development-like returns to the venture without taking ground-up development risk. - The venture has purchased one asset, 91 Defu Lane, with three assets in various stages of due diligence and seller negotiation; it is expected the full capital will be allocated by the end of the 18-month commitment period. - The venture projects property-level leveraged returns (utilizing 60% LTC debt) of 17-18% which will net to a 14-15% to the Investor
Australia	Office	107	40	12%	- Acquire either a single asset or small portfolio of a value-added office in east-coast Australian MSAs with an existing partner; focusing on repositioning and releasing	- In the wake of capital value appreciation, end-user demand is now starting to strengthen in key Australian submarkets. This venture will focus on assets where this end-user demand is in the process of tightening and, therefore, offering attractive risk adjusted returns. Value will be created by enhancing the property(s) either through physical	- A joint venture with Abacus Property Group (25% owner) to identify and execute value-added office opportunities in the main Australian markets. This venture would be a follow-on to the existing relationship with Abacus. - The venture is structured pro-rata with a modest performance fee earned by Abacus for out-performance - Abacus, founded in 1996 and listed as an A-REIT in 2002 (ASX:ABP), is an owner, developer, operator and asset manager of real estate across Australia and focused on executing value-enhancement strategies in its entire portfolio

						works or re-leasing.	including office, retail, logistics, self storage and residential development. Heitman has invested with Abacus since 2011 and the joint venture executed the value-added strategies with 5 successful investments. - The venture is expected to acquire 1 or 2 asset(s) likely in either Sydney, Melbourne, and Brisbane - The investment may have variety of business plans, such as capitalizing on below-market rents, near-term lease expiries, deferred capex and/or improving overall operations - Heitman has already evaluated a handful of recent Abacus transactions that the firm was not able to transact on because the Fund's capital was not yet available
Australia	Retail/ Mixed Use	111	40	13%	- Redevelopment and repositioning of well-located, underperforming retail assets in major Australian cities with a local partner experienced in such strategies	- Non-discretionary retail in Australia offers a stable return profile and the local councils very much protect the markets from over-supply by limiting development of new centers. Thus, this venture will identify assets that are well-located but have not been kept up or expanded to meet the demand of their strengthening sub/micro markets.	- A joint venture with Newmark Capital Limited (10% owner) to identify and execute value-added non-discretionary retail or mixed-use opportunities which are well-located and supported by strong demographics. - Newmark was formed in 2011 when the two principals decided to take their combined 50-years of combined Australian real estate experience at firms including Lend Lease and Mirvac and invest in value-add real estate on their own. Since then, they have acquired 5 properties with a value of circa AUD750 million and expanded to a team of more than 15. - Heitman has underwritten the last 3 assets Newmark has acquired and the two groups have a strong desire to work together once the Fund is ready for deployment. For Newmark, a partnership offers diversification in their funding sources (which to-date has been from high net

							worth individuals), and for Heitman, this partnership gives access to one of the most respected and capable value-creators in Australia. - The assumed structure will include pro-rata return of and on capital to a low double digit return, and then a modest promoted interest to Newmark for performance. Newmark will likely bear certain risks, such as cost overruns.
Australia	Self Storage	100	30	15%	- Acquisition and redevelopment in major, under-supplied markets across Australia	- This venture will focus on purchasing existing assets that will benefit from an institutional quality operator and/or existing assets with expansion potential. Returns for these assets which the Venture considers "low hanging fruit" are not much lower than those achieved from green-field development, and thus the venture will exploit this attractive risk adjusted return with an existing and dominant Australian self-storage operator.	- A joint venture with National Storage Operation (“NSO”) (25% owner), one of the Heitman's existing partners, to capitalize on the opportunity to invest in the maturing self-storage sector in Australia. The strategy is to assemble and stabilize a portfolio of self storage properties in the prime eastern seaboard markets. The assets will likely have a component of physical expansion or redevelopment. - NSO is one of Australia's leading self-storage operators and is the only listed self-storage REIT - While still in negotiation, the venture will likely be structured with a total return preference to the Fund, and NSO is likely to have interim fees at risk if interim performance metrics are not met. - NSO, founded in 2000 and listed on the Australian Stock Exchange in 2013 (ASX:NSR), is one of the largest storage operators in Australia and has over 20 years’ experience as an owner, developer, acquirer and operator of professionally-managed self-storage properties across Australia and New Zealand. - The venture would be a follow-on joint venture after Heitman’s initial existing relationship and

							would expect to aggregate 4-5 self-storage facilities. - The business plan of the venture is to increase value in the portfolio through increased revenue via gains in occupancy and rental rates (along with continuing an aggregation program), benefitting from NSO's operational expertise, infrastructure, unique national call center, brand identity and marketing. - The venture will target AUD100 million of gross capitalization with the use of 50% third-party financing.
Japan	Self Storage	50	24	15%	- Forming a JV with a Japanese warehouse company to acquire buildings to convert into self-storage facilities in Greater Tokyo	- The investment will capitalize on Heitman's expertise in JV investment especially in the self-storage sector, and also leverage the operating partner's existing self-storage management platform to capture the growing demands in the sector driven by limited space, increasing population density, and improvement of product recognitions.	- The potential joint venture partner, Kase Group, is a diversified, private real estate company headquartered in Yokohama. Kase is also one of the largest self-storage operators in Japan and is currently operating over 40,000 units of self-storage facilities with a primary focus in the Greater Tokyo Area. - This investment presents a limited off-market opportunity to partner with an experienced local operator, co-investing in self-storage assets within Greater Tokyo through conversion of under-managed office buildings into better use self-storage facilities. The joint venture will acquire about 8 to 12 assets and aggregate into a portfolio targeting a gross investment of around AUD50 million. - While the investment structure is not finalized yet and is still in discussion, Heitman expects that 95% of the total required equity will be invested by the Fund, and the remaining 5% will be funded by Kase. It's under consideration that the venture could be structured with a preferred total return of 9% to 11% leveraged

							IRR to the Fund, with debt financing of around 50-60% LTV.
Hong Kong	Retail	66	30	15%	- Joint venture with experienced local operator to execute value creation mostly by conversion or redevelopment of retail in in-fill locations	- Non-discretionary retail has continued to produce resilient returns in the wake of Hong Kong luxury retail struggling as of late. This sector is more stable because it provides the domestic population with everyday needs, and in a market with the sheer density of Hong Kong, there are opportunities to redevelop existing assets to better serve the surrounding demographic. The venture will focus on finding one to two of these assets in select Hong Kong neighborhoods via a partnership with an experienced partner.	- A joint venture with District-15 (5-10% owner) to identify and execute value-added non-discretionary retail or mixed-use opportunities which are well-located and supported by strong demographics in Hong Kong. - D-15 has been developing and repositioning assets in Hong Kong since 2008. Their experience has been in hospitality, residential, and retail. They focus on finding assets that are underutilized in their current form that can be revitalized and repositioned through the infusion of capital expenditures. Their experience has spanned both Kowloon and the Hong Kong Island. - Heitman evaluated an opportunity in HK Island but the Fund was not able to capitalize. The partner invested in that with another capital source. - The assumed structure will likely include pro-rata return of and on capital to a low-to-mid teen return, and then a modest promoted interest to D-15 for performance.
Tokyo	Student Housing	100	40	18%	- An opportunity to form a joint venture with a globally experienced student housing operator to aggregate a portfolio of student housing facilities through	- The venture will capitalize on Heitman's global experience and experience in investing in the student housing sector. The venture will leverage the operating partner's established management platform in the region to capture inherent growth in the maturing sector due to	- An off-market opportunity to form a joint venture with GSA, a leading global student housing operator, to develop student housings in main university markets in Japan. There are currently very limited number of institutional student housing assets in Japan, and GSA, given it's global experience, has identified the market growth due to the influx of foreign students and the overall supply-constraint of housing for domestic students. - GSA was originally founded in 1991 in UK, and

					developments in Japan.	the current imbalance between supply and demand.	over the last 25 years it has grown and expanded its business in many major university cities in the globe. GSA entered Tokyo in 2014 and has offices in Hong Kong, Beijing, and Sydney in Asia-Pacific region. - GSA has recently secured a site for its first student housing development in Tokyo. The site is located in Tokyo's Bunkyu-Ward, which is home to many universities with a catchment area containing close to 100,000 students. - While the investment structure is not finalized yet and is still in discussion, Heitman expects to contribute 75-85% of the total required capital and GSA will contribute the remaining. It's also under consideration that the joint venture will be structured with some level of preferred total return to the Fund, with a modest promoted interest to GSA. The venture would utilize debt financing of around 50-60% LTV. The venture will develop and stabilize 1-3 assets targeting a gross investment of up to around AUD100 million.
Auckland	Self Storage	60	25	15%	- Form a joint venture with an experienced New Zealand self-storage operator to develop assets in in-fill locations. Operator will seed the portfolio with existing, stabilized assets.	- New Zealand offers a slightly different profile compared to its Australian neighbor where storage is not dominated by large players. This opportunity is compelling to participate in market maturation.	- A joint venture with an Auckland-based self-storage operator (25-50% owner). The operator is known for their high quality assets in strong Auckland locations. - Heitman is now in discussions to fund the required capital for 3 additional assets. These sites are currently owned by the operator. To provide a more secure and balanced return, the operator will infuse 2 of their existing, stabilized assets. - This investment provides the opportunity to partner with one of the strongest New Zealand self-storage operators and to gain exposure to

							both high-quality existing product and the development of new assets. - Compared to Heitman's experience in Australia, New Zealand is likely to offer similar or slightly higher returns. Heitman believes investment in high-quality product will be defensive as the large Australian self-storage operators have not yet been able to mass large New Zealand portfolios, and they continue to be hungry for high-quality product. Either the operating partner or one of the large Australian operators is the likely next buyer. - It is assumed the structure will include pro-rata return of and on capital to a mid-teen return (depending on break-down between development and stabilized exposure), and then a modest promoted interest to the operator for performance. The operator will take on components of development risk such as cost overruns and any entitlement risk that remains.
Melbourne	Retirement Village	100	25	17%	- Form a joint venture with an experienced Melbourne retirement village developer and operator. Operator will bear pre-development risk to, along with Heitman, development 2-3 new retirement villages.	- An extreme undersupply of senior housing accommodation is a demographic fact in Australia. Driven by the aging population, retirement village are likely to maintain strong and resilient performance over the coming decades.	- A joint venture with a regional Melbourne, mid-sized retirement village developer and operator (25-50% owner). This group currently holds a substantial existing portfolio of retirement village units and has a pipeline for several hundred more units. - Heitman has been studying and observing the Australian senior housing market for more than 12 months, and believes the best risk adjusted return is gained via the development of new retirement villages. Given the schedule of building and capital deployment (spread over a period of time), a reasonably small amount of capital is needed to create a retirement village. - The demographics trend and aging Australian

			population combine to create supply/demand fundaments that support a great deal of development over the next decade. Given that it will be near impossible to satisfy the demand, retirement village performance is expected to be resilient over the same time period. In reality, it is not easy to develop retirement villages, which means that finding a capable partner with a proven track-record is paramount. - The operator has identified several new sites and is in need of a capital partner to develop them. They have more than 20 years of experience building and operating these facilities and will bear all entitlement and cost overrun risk
Total	**824**	**274**	

EXHIBIT C: MAJOR ASSUMPTION FOR THE FUND'S MODEL PORTFOLIO

- NOI growth – As inflation remains benign, Heitman has adopted conservative rental growth rates across the Fund's target markets. NOI growth rate also reflects result of value-add strategies that will enhance revenue and reduce expenses
- Residual cap rate – Given the extended and soft interest rate environment, there is still room for yield compression
- Debt financing – The lending rate environment has been selective and assets with strong covenants are still able to receive favorable credit terms
- Interest rate – Given the slower global and regional growth, interest rates are more likely to remain at current levels

Fund level assumption

	Seed asset of the Fund (Singapore Self Storage)	Australia Value Add with stable CF	Australia Value Add with limited CF	Australia Development	Japan Core Plus	Japan Value Add with stable CF	Japan Value Add with limited CF	Singapore Value Add with limited CF	Hong Kong Value Add with limited CF
Hold period	5 years	4 years	4 years	3 years	5 years	4 years	3 years	5 years	3 years
Annual average NOI growth	4.70%	3.00%	3.50%	3.50%	2.50%	2.75%	3.00%	5.00%	3.00%
Residual cap rate	7.50%	6.75%	6.75%	6.50%	4.25%	4.50%	4.75%	7.50%	4.00%
Debt financing LTC	60.0%	55.0%	50.0%	50.0%	65.0%	65.0%	65.0%	45.0%	40.0%
Interest rate	5.25%	4.50%	5.00%	5.25%	1.00%	1.00%	1.25%	4.10%	4.75%

EXHIBIT D: FOCUSED STRATEGIES OF THE FUND

Asia Economic Overview & Outlook

Since the end of the Global Financial Crisis (GFC), the global economy has continued to strengthen, led by the United States. Whilst Asia's economies have benefited from this broader recovery, the transition of the Chinese economy and efforts to re-boot the Japanese economies have resulted in more bumps than a smooth trajectory in growth for the region. In addition, the fall in commodity pricing including oil has had a greater impact than originally envisioned resulting in some disruption to growth.

Regional aggregates, however, mask some significant divergences in national economic performance, fiscal and monetary policy. Across the major economies Heitman monitors, there has been some deceleration. Notwithstanding the slowdown, China is still expected to grow at 6.5%, Japan at 1% and 2.5% in Australia in 2016. This is commendable given the slowdown in the US and Europe. Asia-Pacific continues to exhibit the strongest medium-term growth profile of the world's major three regions. Heitman's current base-case regional forecast assumes 4.7% annual average GDP growth 2015-2020 (5.7% Asia ex Japan, 2.8% Australia, and 1.5% Japan). This level of annual economic growth outperforms North America by 200 bps, Europe by 280 bps, and the global composite by 140 bps. Regional inflation expectations are currently moderate at an annual average of 3.25% pa between 2015 and 2020.

The impact of the GFC has made the embedded risks of export-led growth models very clear to Asia's policy makers. This has provided impetus for structural reform across many of Asia's economies. Investor patience is required to see the fruit of this series of structural reform measures enacted in the region. Some economies still require stimulus. Risks remain for the global economy, though it is geopolitical factors, rather than in the fabric of the global financial system, that have come to the fore over the course of 2015 and 2016 so far.

The impact will vary country-by-country, but aggregate bond yields in Asia-Pacific's have not moved upward and/or currencies depreciate against the US dollar as much. Since the GFC, regional leverage levels have generally risen in contrast with North America and Europe. Higher Fed rates are likely to impact countries with higher exposure to carry trades and risky lending.

Given the significant interlinkages in global capital markets and the ability to trade rapidly, investment flows into and out of Asia-Pacific may be volatile in a more unstable macro environment. Countries with significant currency reserves and proven ability to manage liquidity will be able to ride through this volatility.

Asia-Pacific's demographics will remain a key fundamental driver of this medium-term growth, with the escalating spending power of a rapidly expanding middle class transforming the profile of regional growth. This will be augmented by the agglomeration and productivity effects of urbanization and associated infrastructure investments. This combination will make Asia's major economies, on a long-term basis, more domestically driven. Even now, intra-regional trade continues to grow at the expense of trade to other regions.

Over the longer term, Heitman expects to see further reform-led structural change within Asia's largest economies as policy makers redirect focus away from investment and manufacturing to higher value-add services and domestic consumption. These structural reforms are critical in improving regional productivity as the labor market benefits of Asia's demographic dividend ease, in an environment of likely rising real rates.

Heitman continues to focus its investing activity on Asia's mature and developed economies. Heitman believes not only do these economies offer the best balance of risk-adjusted returns and attractive income producing real estate opportunities but also the largest, most liquid and transparent in the real estate markets region. However, Heitman expects certain Asia-Pacific countries, currently classified as "developing economies", to continue to experience evolution in their economic models. Malaysia and China are the most notable examples of economies Heitman expects to make tangible gains and achieve more sustainable and better quality growth over the course of the next decade; consequently, Heitman has expectations for carefully targeted investments in these markets, although Heitman is currently not focused on these markets for initial capital deployment.

Asia-Pacific Occupier/Capital Markets

Asia-Pacific's Occupier Markets have generally exhibited stability through much of 2015 and in the first half of 2016 year-to-date in spite of the slowdown in some of the key economies. Tenant demand and rents have held up in Hong Kong, Sydney and Tokyo. In spite of the correction in office rents in Singapore – the market produced three very significant office sales transactions that have helped renew confidence in the market. Investors have largely brushed aside any concerns of a slowdown and have used this opportunity to re-negotiate deals. As bond yields continue to fall, investor interest towards real estate continues to rise as spreads continue to widen making the investment in this asset class very compelling

Focused Strategy of the Fund

The strategies summarized below are based on Heitman Research and the transaction team's view of current, viable market opportunities. The deployment of capital in these strategies is subject to identifying the best risk-adjusted investments. Furthermore, Heitman will continue to monitor all the main markets in the Fund's remit and constantly evaluate the targeted strategies and, subsequently, modify asset selection as necessary.

1. Office

- Mispriced office assets in Sydney, Melbourne & Tokyo
- Recovery in the Brisbane & Singapore markets
- Demand/Supply imbalance in Hong Kong

Where tenants have been active, they tend to be driven by efficiency concerns and downsizing total space requirements even if business activities are expanding. In line with trends observed across the world, financial services firms have generally been cautious with new space requirements and remained focused on extracting maximum efficiency from corporate real estate presence. This has meant consolidation of space and relocations of back office space to more peripheral locations. Technology firms have become an increasingly important segment of net new demand.

Tokyo remained the regional office market leader with the strongest fundamental momentum. This is largely due to the wider spreads between cap rate and treasury (now in excess of 200 bps), improvement in business confidence (brought about by the delay in the sales tax hike) combined with low vacancy is supporting office rental growth. A series of major infrastructure works, linked to the 2020 Olympics, is also helping improve sentiment and that is likely to extend these dynamics over the next three years despite the fluctuation in the local currency. Office vacancy in the five central wards has stayed below the 5% frictional rate for the past six months as new space has been largely absorbed. Heitman expects vacancies to continue to tighten through the course of 2016/17. The Grade-A market is dominated by pre-leasing activity while the Grade-B market is more diverse and representative of broader SME business sentiment. Over the past six months, the Grade-B market is starting to respond and reap the benefits from the tightening prime sector.

Despite the slowdown in the Singapore office market and correction in rents, the re-pricing in the market has opened up a series of key transactions including the acquisition by Capita Commercial Trust of Capital Green it did not already own for SGD393 million; the sale of Asia Square for SGD3.4 billion to QIA (touted as the largest in Asia in at least five years) and the purchase of Straits Trading Building for SGD540 million by an Indonesia investor - all in the span of six weeks spread between May and June 2016. Investors in the Singapore office market remain positive on the ability of the government in steering the economy through the slowdown.

The Australian office markets have also witnessed a strong turnaround especially in Sydney and Melbourne and fundamentals appear to suggest that the worst may be over for Brisbane. Sydney has the best fundamental outlook, while occupier demand in Perth is affected by weakness in the commodity markets. However, the concentration of capital, particularly international, focused on investment opportunities in Sydney is pushing pricing levels upward and impacting potential returns. The strong competition to secure office investment assets and subsequent significant re-pricing in the Sydney and Melbourne markets have started to push investors to seek opportunities in alternative locations. For some, this has meant turning attention to Brisbane. Weak fundamentals mean that the market is not without its challenges, but it is these challenges that afford the potential for counter-cyclical investment.

2. Retail

- Suburban retail in Hong Kong & Singapore
- Mispriced prime retail in Tokyo
- Sub-regional/neighborhood centres in Sydney & Melbourne

Retailer demand has held up especially for middle market fast fashion as well as food and beverage retailers as demographic change and an improvement in lifestyles. Luxury retailer interests remain in consolidation after several years of rapid expansion especially in Hong Kong and Singapore.

While consumer confidence has been affected of late by the gyrations in equity markets, this easing in regional consumption growth has resulted in regional retailer demand has been more cautious, though, outside of the luxury sector, retailers still broadly remain acquisitive of space, especially food and beverage and fast fashion. The Fund's focus remains squarely on non-discretionary retail with a high food and beverage component, which Heitman believes providing less volatile income streams. This retail is more likely to be in select growth neighborhoods with infrastructure upgrades and/or above urban area average population growth. New supply in Australia remains limited and there may be upside risk for rent levels if consumer confidence levels continue to stay positive.

Hong Kong and Singapore, markets most dependent on Chinese consumers, have been more heavily impacted by declining Chinese luxury spend. In Hong Kong, month-on-month retail sales have fallen now for nearly 15 months. This is a partly a result of political factors in Hong Kong, with some domestic pressure to restrict visitors from the mainland. In Singapore, an appreciating currency, combined with very tight labor markets (especially for lower-skilled workers) has driven costs up substantially.

3. Industrial

- Melbourne & Sydney retail distribution centres
- Logistics space in Hong Kong & Singapore
- Infill distributions centres in Osaka & Tokyo

Demand from e-commerce linked logistics companies continues to support leasing levels for good quality warehouse space across the region, which is underpinning rental growth in key gateway cities of Tokyo, Singapore, Sydney and Melbourne.

The level of GDP growth Heitman's regional base-case forecast assumes should continue to support real estate NOI growth, though excess development in some markets will weigh on NOI growth potential. This is most likely to negatively impact certain regional office markets, typically in the less-developed economies. New demand is still dominated by retailers, particularly those with a large online platform, and associated third-party logistics / distribution operators.

Australia has continued to see somewhat of a disparity between occupier fundamentals and capital market dynamics in the industrial sector. Improved demand is yet to make a significant impact on rental levels. This is, in part, a result of new supply; the pipeline in aggregate remains large, particularly in Melbourne.

Whilst Hong Kong's external trading sector appears to have stabilized, occupier demand has been patchy due to a lack of quality stock. Vacancy remains very low with most prime warehouses 100% occupied; limited levels of new supply for the next two years, continues to underpin record high rental levels, though occupier ability to absorb further increases is limited. The investment market continues to be dominated by strata rather than en bloc sales with double stamp duty continuing to dampen investor activity. Industrial revitalization projects, such as conversions to office and hotel use, dominate the limited number of en bloc transactions, further limiting stock levels.

In China, the region's strongest logistics story for the last three years, leasing demand has softened in the past year in line with economic conditions. New supply continues to rise although still below projected long-term demand for institutional-quality and well-located product.

Demand for prime distributions centers in Tokyo is solid and marginal rental increases are visible but the new supply pipeline is increasing rapidly. This is likely to weigh on medium-term rental prospects.

Logistics cap-rates continue to tighten across the region. The Australian national weighted average yield has moved in significantly over the past six months to 7%. In Sydney, yields are clearly beneath 6.5%. Price rises have been driven by the weight of capital seeking limited good quality assets. As cap-rates tighten it will become more likely that owners will look more favorably at selective disposition opportunities, either in selling our non-strategic/under-performing assets, or realizing gains made from post-GFC investments. Investor demand continues to concentrate on long WALE assets or on assets with residential conversion angle; particularly in Melbourne and Sydney.

4. Specialty Sectors

- Self-Storage in Australia, Hong Kong, Singapore and Tokyo
- Student Accommodation in Australia & Japan
- Senior Living in China & Australia
- Data Centers in Hong Kong, Singapore & Japan

As witnessed through Heitman's experience in investing across the various specialty asset classes, these property types have demand drivers that are not directly dependent on the cyclical recovery in the way that office and retail are, and, therefore, offer diversification benefits.

Effective execution in specialty sectors will require partnership with good quality operators. Opportunities to develop scale through portfolio aggregation still exist across Heitman's focus markets as the number of significant players is still small when compared to the US although the recognition of this particular asset class is starting to gain some attention. Meaningful exposure to good quality assets is still likely to rely on refurbishment and/or development strategies.

Moreover, there is potential for intrinsic growth as these specialty sectors mature across the region and exhibit meaningful differences across countries due to demographics. Heitman classes senior living, student housing, and self-storage and data centers as the main specialty sectors to focus on in Asia-Pacific. Australia has perhaps the most mature specialty sectors, though it is still nascent in comparison with the US.

Specialty sectors trade at a clear yield premium to the more traditional sectors which is a combination of perceptions of liquidity and shorter income streams. Spreads range from 200 bps to up to 300 bps depending on the level of penetration of these asset types in the domestic markets.

While Heitman expects the yield gap between specialty and traditional sectors to narrow somewhat over the next decade as maturity and liquidity grows, the prime motivation for investing in specialty sectors is the diversity and basis of their income streams. While they are not entirely delinked from the conventional business cycle, demand is primarily driven by demographic factors.

Self-storage is still an immature sector in Asia-Pacific with a lack of consolidated and experienced operators. Demand continues to grow as housing formation patterns change and evolve. The Australian self-storage industry has proven resilient over the recent difficult economic period, continuing to provide operators and investors with stable, sustained cash flows. This contrasts with evidence of increased vacancies in some segments of the industrial markets and office market over recent years which have shown unstable and uncertain cash flows, particularly where larger tenancy areas have fallen vacant.

A lack of on-site storage is the key demand driver among individual and corporate users. Self-storage provides an off-site storage option with significant lease flexibility for the user. With the cost of real estate rising – especially in densely populated cities like Hong Kong, Singapore, and Tokyo – off-site storage has become a cost-effective alternative for households and businesses. In these tightly packed and growing metropolises, self-storage is a simple and cost-efficient way to expand one's household storage without upsizing living space. According to the Self Storage Association Asia and estimates from CBRE, the self-storage penetration rate in Asia is low – 0.17 square foot per capita per person in Japan, 0.28 square foot per capita per person in Singapore, and 0.35 square foot per capita per person in Hong Kong. But given that Asia's gateway cities are densifying rapidly and with many rapidly embracing consumerism, it goes without saying that self-storage has incredible potential. Thinking of self-storage in conjunction with the growth of internet shopping and e-commerce, this particular real estate asset class is on the cusp of an industry boom.

The increase in the number of Australians turning 65 over the next 20 years is now an established demographic fact. The Australian Treasury projects a doubling of the senior population by 2050 with an economically reduction in the ratio of taxpayers to retirees. To support this growth, there needs to be a corresponding increase in the amount of purpose built housing, so that the 8.1 million Australians who will be over 65 by 2050 continues to have the choice and autonomy that they expect and deserve.

The Retirement Living Council, a specialist division of the Property Council of Australia, estimates about 184,000 Australian presently live in retirement villages or 5.7% of the over 65 population. This penetration rate is projected to increase to 7.5% in 2025. This is double the 184,000 residents currently living in retirement home pointing clearly to a lack of such facilities. The increased rate, combined with the increase in the seniors' population, means that there will be approximately 382,000 people wanting to live in a retirement village in 2025.

China's ageing demographics and the lack of nationalized care facilities presents significant opportunities for experienced private sector operators. On current trends, over 30% of China's population will be aged 65 or over within the next 20 years. Latest Ministry of Civil Affairs data suggests China has approximately 3.5 million senior care beds, catering to less than 2% of the country's elderly population. In developed markets, notably US, Japan and Australia, this ratio ranges between 5% and 7%. Government policy is specifically focused on addressing this challenge and therefore very supportive of increases in bed capacity. The impact of the one-child policy on historic family support patterns is now becoming more evident. And the current residential market adjustment presents opportunities for senior operators to design, build and operate new facilities in new developments. Developers, aggressively competing for market share, are looking to distinguish product through high quality design and amenity; partnering with senior operators is now seen as an attractive means to boost sales.

Experienced international operators have been studying and evaluating the market over recent years to ascertain the most appropriate business model given the immaturity of the sector, challenges in securing well qualified staff and affordability questions. A number of operators are now starting to make more significant moves in developing facilities particularly as domestic institutions – largely insurance companies – express increased interest in holding facilities long term.

Australia is the world's fourth most popular destination for international students, after the US, UK and France, according to UNESCO data. Approximately 1.3 million of the country's 23.5 million residents are university enrolled (5.5%) which is in-line with ratios in the US (5.7%). However, close to one-third (411,000) are international students. Historically, Australian students tended to remain in state and live at home through their studies. According to JLL data, total private sector provision in Australia in the six major cities comes to 53,459 beds for 1.3 million students.

In the UK, there are approximately 235,000 bedrooms of accommodation for 1.7 million full-time students; Australia appears significantly undersupplied.

Heitman has also witnessed pockets of new student accommodation development in other Asian markets, notably Beijing and Tokyo as well as Hong Kong and Singapore. With the increasing emphasis on higher education and cross-cultural exchanges, a growing number of Asian students are seeking to increase their educational exposure. Whilst English remains the predominant language used in many places, the use of Chinese and Japanese is also growing. More importantly, for many parents in the region, such student accommodation can provide for the safety and well-being of their children as they seek higher education.

Data centers are specialized facilities designed to house mission-critical networking and computer equipment like servers, data storage systems, routers, switches, and telecommunications equipment. Data centers provide the power, cooling, and network connectivity to operate such equipment in a secure, controlled and reliable environment. These facilities are connected to telecommunications networks, which allow the servers and data storage systems within to communicate information and exchange data with end users or other servers around the world.

Data growth has been driven by several factors including the proliferation of internet-enabled devices, growth in video streaming and file sharing, the increase in popularity of e-commerce and social networking, and, more generally, the increase in global Internet users. The recent trend towards "Big Data" has underscored the increasing demand for data storage.

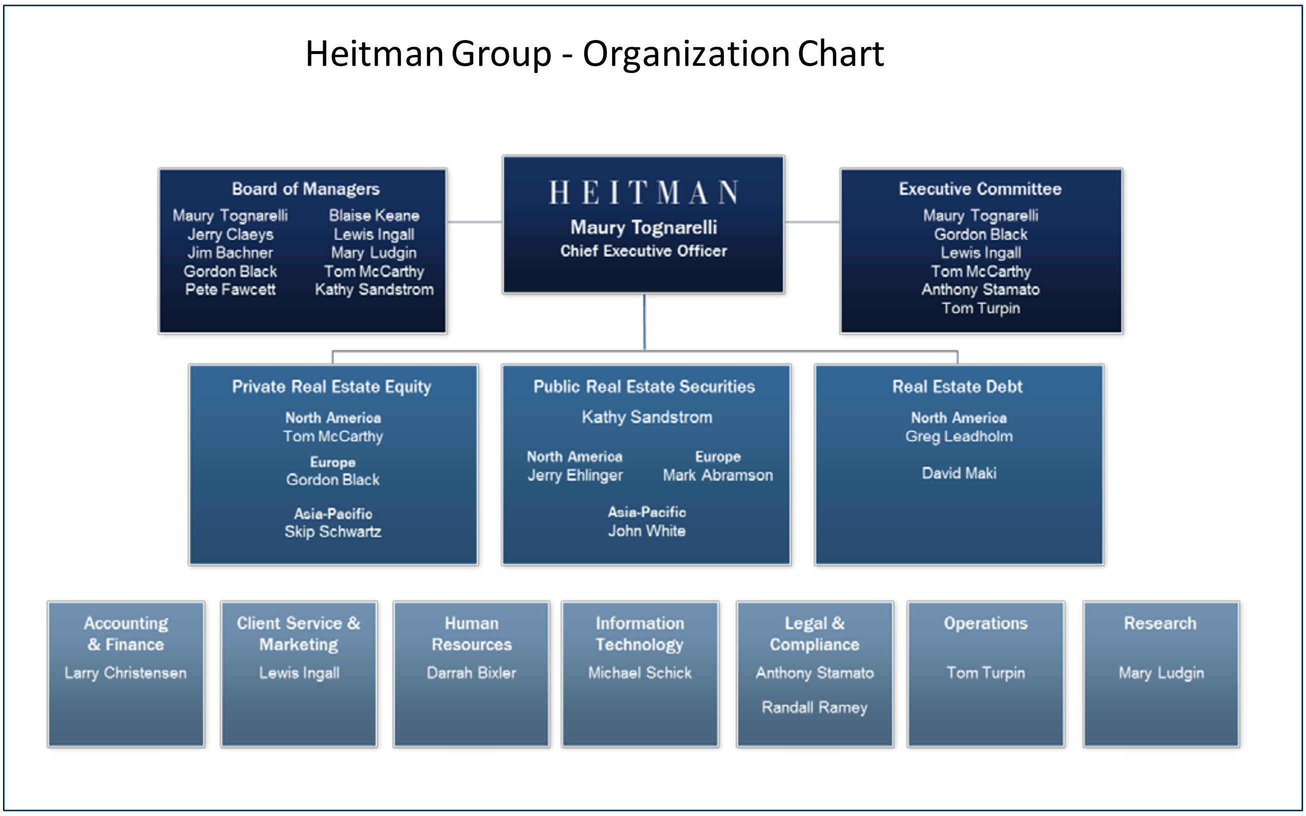
Demand for higher specification and professionally managed data centers have shown strong growth, and this trend is set to continue due to the following key drivers:

- Growth in data creation and data storage needs;
- Growth in cloud computing;
- Increasing compliance and regulatory requirements on data security; and
- Increasing outsourcing of data center requirements.

Organizations are also increasingly outsourcing data center requirements to third-party providers. Their reasons for this shift include:

- Outsourcing allows users to focus on their core competencies: Owning and managing in-house data centers is not a core competency for many organizations. In fact, a number of organizations are facing challenges in managing data center infrastructure in-house as they often lack the process knowledge and skills to ensure high data availability and security, amongst others. ;
- Cost effectiveness: Data centers require large upfront construction costs, often making it cost effective and capital efficient for organizations to use experienced data center providers to meet their needs for co-location and managed hosting services;
- Increased complexity: Organizations running in-house data centers are having difficulty attracting and retaining staff competent to manage such data centers; and
- Changing needs: As an organization's needs can change quickly, third-party providers can provide flexible, on-demand, and customizable solutions faster than in-house options.

EXHIBIT E: ORGANIZATION CHART



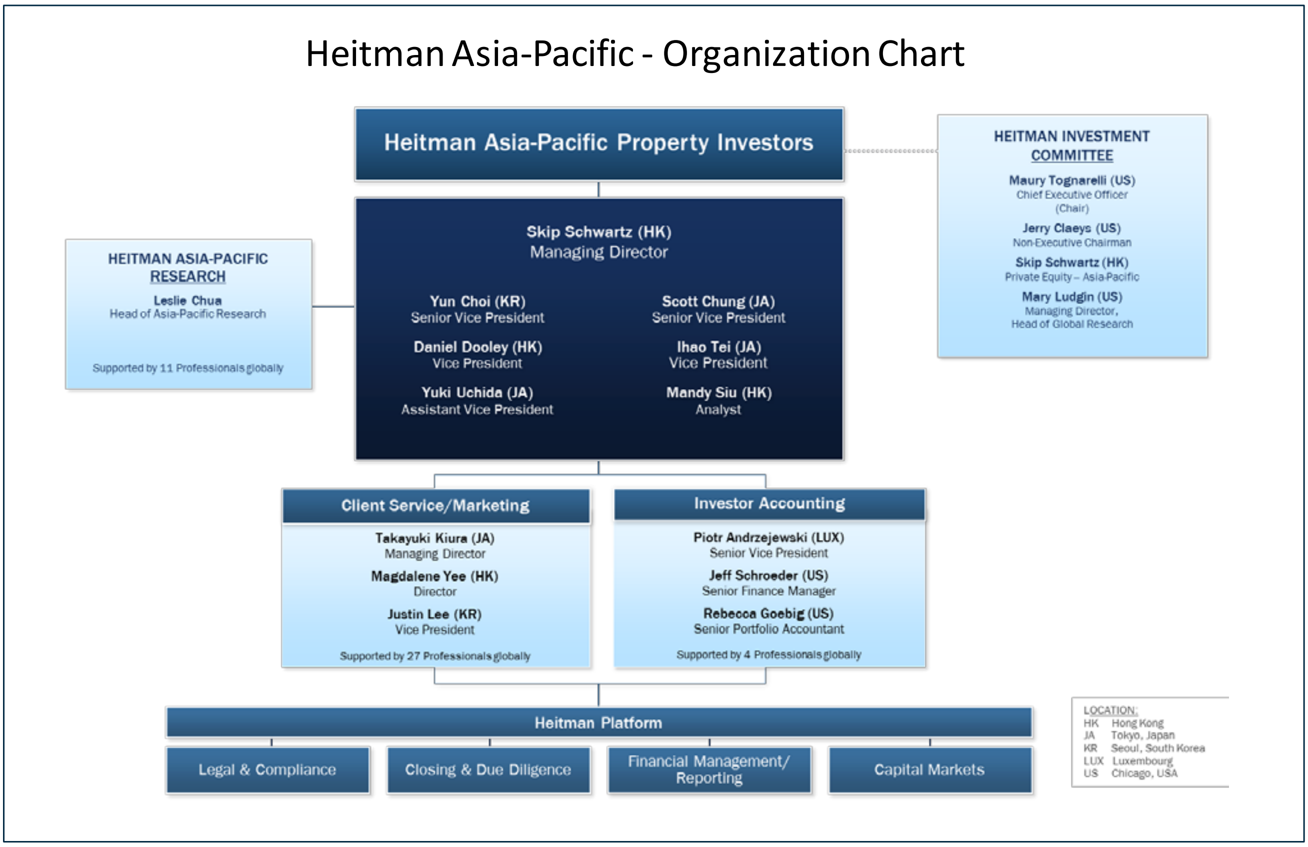


EXHIBIT F: Management Biographies

Maury R. Tognarelli, Chief Executive Officer: Maury is the Chief Executive Officer of Heitman and an equity owner of the firm. He is a member of the firm's Executive Committee, Board of Managers, Management Committee, and also chairs the Private Equity and Debt Investment Committees. His responsibilities include day-to-day management of the firm's operations and its investment activity. Maury started his career at Heitman as an investment analyst in the firm's North American private equity group. In 1994, Maury assumed responsibility for the firm's private equity and debt investment groups, and subsequently was made a member of the firm's Management, Investment and Executive Committees. In 1999, Maury was named President and Chief Operating Officer of Heitman; in 2002, he became the firm's Chief Executive Officer. Maury received a BS in real estate finance from Indiana University's Kelley School of Business. He is a member of the Real Estate Roundtable and Pension Real Estate Association.

Jerry Claeys, Non-Executive Chairman: Jerry is the Non-Executive Chairman of Heitman and an equity owner of the firm. He is a member of the firm's Board of Managers, Management Committee, and Private Equity and Debt Investment Committees. He started his career at White, Weld & Company as a member of the corporate finance department, concentrating in real estate finance and raising capital for developers, operating companies and the early REITs. In 1978, he became co-head of acquisitions for JMB Realty. Jerry was named Chairman of JMB Institutional in 1990. In 1994, JMB Institutional Realty merged with Heitman and he became head of the advisory business of the newly formed investment advisory entity. In 1999, he was named Chairman and CEO of Heitman. Jerry received a BSBA from Georgetown University and an MBA from the University of Notre Dame. He is a member of Pension Real Estate Association and served a six-year term as a member of its Board.

Mary Ludgin, Managing Director - Head of Global Research: Mary is Heitman's Managing Director, Head of Global Research and an equity owner of the firm. She is a member of the firm's Board of Managers, Global Management Committee, North American Private Equity Valuation Committee, and Private Equity and Debt Investment Committees. She is the author of numerous articles and research studies relating to real estate markets, portfolio management and strategy. Prior to joining Heitman, she was an urban planner for the City of Chicago and she worked in retail site location. Mary received an AB from Vassar College and an MA and PhD from Northwestern University. Among other professional affiliations, she served two terms on the board of the Pension Real Estate Association and was its president. She is a member of the board of the Urban Land Institute and sits on its Operating Committee. Mary is also a former president of the National Council of Real Estate Investment Fiduciaries. She was named a fellow of the Homer Hoyt Institute in 2000, is a docent for the Chicago Architecture Foundation and is a member of the board of the Metropolitan Planning Council of Chicago.

Skip Schwartz, Managing Director – Asia-Pacific Private Equity: Skip is the Managing Director of Heitman's Asia-Pacific Private Real Estate Equity group, a member of Heitman's Asia-Pacific Management Committee and Asia-Pacific Private Equity Investment Committee, and an equity owner of the firm. He is responsible for creating the firm's investment platform in the Asia-Pacific region and manages the regional team as it sources new real estate investments and joint venture partnerships across Asia-Pacific. Skip is also responsible for overseeing the acquisitions and asset management process for a large private equity global separate account. Since arriving in the region in 2008, he has grown the regional AUM to nearly USD1 billion. He moved to Heitman's Hong Kong office in 2013, after spending five years in Tokyo. Prior to relocating to Tokyo, Skip was in Heitman's London and Frankfurt offices for a total of seven years and was involved in numerous investment, joint venture, and development transactions across Central Europe and Germany. During his prior five years in the company's Chicago headquarters, he was involved in transactions and joint ventures of all property types across the US. Skip received his BA with honors in International Relations and his MA in Organizational Behavior from Stanford University. He received his MBA from the Fuqua School of Business at Duke University. Skip is also a member of ANREV and on the Executive Committee of ULI, North Asia.

Yunjung Choi, Senior Vice President - Portfolio Management: Yun is a Senior Vice President, Portfolio Manager in Heitman's Asia-Pacific Portfolio & Asset Management group, and Director of Heitman's Seoul office. She develops and monitors strategic business plans, coordinates and oversees property acquisitions and dispositions, and assists in identifying and implementing new strategic initiatives for direct and joint venture investments. Prior to joining

Heitman, Yun worked as a portfolio manager at National Pension Service Korea. She was primarily responsible for executing NPS' Global Real Estate investment program and leading its strategic development. Before joining NPS, Yun served on the strategic planning team at Samsung Everland Inc, where she developed a five-year master plan for the resort, conducting financial feasibility studies, competitive analysis, and strategic asset management. Yun received a BS in Architectural Engineering from Yonsei University and a Master of Management in Hospitality with a Concentration in Real Estate Finance and Investment from Cornell University. She is fluent in Korean and English.

Scott Chung, Senior Vice President: Scott is a Senior Vice President and Asset Manager in Heitman's Asia-Pacific Portfolio & Asset Management group. He develops and monitors strategic business plans, coordinates and oversees property acquisitions, financings, dispositions, and directs all aspects of property level leasing and operations. Prior to joining Heitman, Scott worked as a Senior Portfolio Manager at Goldman Sachs Realty in Tokyo where he headed the real estate portfolio management group managing over USD10 billion of various real estate portfolios throughout the Asia region on behalf of Goldman Sachs' Real Estate Principal Investment Area (REPIA) and Special Situations Group (SSG) as well as other third party joint ventures. He started his real estate career with Archon Group, LP in Dallas, TX and then relocated to Tokyo in 2002 to help setup Archon's Asia asset management platform. Scott received a BA in Economics from University of Texas in Austin. He is fluent in English and Japanese and also speaks Korean.

Yuki Uchida, Assistant Vice President, Private Real Estate Equity – Asia-Pacific: Yuki is an Assistant Vice President and Asset Manager in Heitman's Asia-Pacific Portfolio & Asset Management group. She develops and monitors strategic business plans, coordinates and oversees property acquisitions and dispositions, and directs all aspects of property level leasing and operations. Prior to joining Heitman, Yuki worked as an asset manager at CapitaMalls Japan, retail department of CapitaLand Group. There, she managed portfolio of real estate investment comprised of retail properties in Japan. Before working at CapitaLand, Yuki worked as a Controller at Goldman Sachs in Japan and was responsible for accounting of investments in public and private equities in Asia as well as non-performing and sub-performing loan portfolios. Yuki received a BA in Economics from Michigan State University. She is fluent in Japanese and English.

Ihao Tei, Vice President, Private Real Estate Equity – Asia-Pacific: Ihao is a Vice President in Heitman's Asia-Pacific Acquisitions group. He is responsible for underwriting and quantitative analysis of real estate private equity investments in Asia-Pacific region, assisting with new acquisitions and investment strategy. Prior to joining Heitman, Ihao was an investment analyst at MGPA (currently Blackrock), where he was responsible for underwriting new acquisitions and assisting asset management on a mixed portfolio of office and residential properties across Japan. Prior to MGPA, Ihao worked as a risk management analyst at GE Consumer Finance, where he helped develop credit scorecards for home mortgage. Ihao received a BS in physics and an MS in applied mathematics from the University of Washington. Ihao is a native speaker of Japanese and Chinese Mandarin.

Daniel Dooley, Vice President, Private Real Estate Equity – Asia-Pacific: Dan is a Vice President in Heitman's Asia-Pacific Acquisitions group. He is responsible for sourcing and analyzing investments in direct equity real estate within Asia-Pacific. Prior to joining Heitman's Hong Kong office, Dan worked in the firm's North American Acquisitions group. His experience has encompassed a variety of asset classes (office, retail, multifamily, industrial, student housing, senior living, and self-storage), as well as a variety of investment structures (e.g., development joint ventures, investment joint ventures and 100% free and clear acquisitions). Since joining Heitman, Dan has been a part of more than USD1.2 billion of completed investments in numerous countries. Dan started his real estate career at Transwestern Commercial Services as a commercial office broker. Dan received a BBA in Real Estate and Urban Land Economics from the University of Wisconsin-Madison.

Mandy Siu, Analyst, Private Real Estate Equity – Asia-Pacific: Mandy is an Analyst in Heitman's Asia-Pacific Acquisitions group. She is responsible for underwriting of real estate private equity investments in the Asia-Pacific region, assisting with new acquisitions and setting investment strategy. Prior to joining Heitman, Mandy was working at Beijing Capital Land within the property Investment team and at Sino Group, where she was providing financial analysis and research on property market within Greater China region. Mandy received a BComm in Accounting and Finance from University of New South Wales and an MSc in Finance and Actuarial Science degree from the City University of Hong Kong. She is fluent in English, Mandarin, and Cantonese.

Leslie Chua, Senior Vice President, Head of Asia Pacific Investment Research: Leslie is Senior Vice President and Head of Asia Pacific Investment Research. He is responsible for all research and analysis in the Asia-Pacific region, including assisting with new acquisitions, dispositions, and asset management of properties. Additionally, he researches trends in macroeconomics, demographics, capital markets and property market fundamentals in order to identify relative value and shape investment strategies. Prior to joining Heitman, Leslie was a senior researcher and strategist at Deutsche Asset & Wealth Management (previously known as RREEF), a boutique Singapore-based real estate platform (Pacific Star), Standard Chartered Bank and at Jones Lang LaSalle. He has worked in Singapore and Tokyo, and speaks Mandarin. Leslie received a BA with Honors in Political Science and History from the University of Western Australia.

Piotr Andrzejewski, Vice President, European Team Lead, Investor Accounting – Europe: Piotr is a Vice President in Heitman's Investor Accounting group. He is primarily responsible for consolidation and investor-related reporting of Heitman Central Europe Property Partners II and Heitman European Property Partners IV. Piotr is also responsible for the coordination of investor reporting activities, including financial audits and active tax structure maintenance. In addition, he has been involved in various projects including mergers and implementation of tax structuring. Prior to joining Heitman, Piotr worked for ING Real Estate Investment Management as a finance assistant. Previously, he worked for Lufthansa as an accountant. Piotr received an engineer diploma in Information Technology from the Warsaw University of Technology and has completed postgraduate studies in finance at the University of Warsaw.

Jeffrey Schroeder, Vice President, Senior Finance Manager: Jeff is a Vice President and a Senior Finance Manager in Heitman's Investor Accounting group. He acts as a Portfolio Analyst for a large global private equity separate account in addition to three smaller separate accounts with assets in the US and Asia-Pacific region. His responsibilities include overseeing the financial analysis and reporting for investments in the four accounts, preparing internal valuations, reviewing external valuations, preparing various analyses used to support the Client Service & Marketing groups, GIPS compliance, and assisting in the annual budget processes. Prior to his current responsibilities, he worked on two large separate accounts. Jeff received a BS in Accounting from the University of Illinois at Urbana-Champaign and is a CPA.

EXHIBIT G: VALUE-ADDED TRACK REOCRD OF HEITMAN IN ASIA-PACIFIC

Vehicle	Country	Vintage	Source of Capital	Deal Information
Office JV	Australia	2011	Heitman Global Fund	- A joint venture with Abacus Property Group (25% owner) to identify and execute value-added office opportunities in the Australian market. - Abacus, founded in 1996 and listed as an A-REIT in 2002, is an owner, developer, operator and asset manager of real estate across Australia and focused on executing value-enhancement strategies in its entire portfolio including office, retail, logistics, self storage and residential development. - The venture portfolio included three assets in Sydney, one in Melbourne and one in Brisbane. - The investments had a variety of business plans, with a large component focused on capitalizing on below-market rents, near-term lease expiries, deferred capex and improving overall operations. - The business plan has been executed successfully and the North Sydney asset, acquired in June 2011, was able to maintain its dominant market position with average occupancy consistently maintained at or near 100%, while the venture upgraded the lobby, elevators and some common areas; in the meantime, average headline rents have grown nearly 20% in 4 years while incentives have shrunk. - Given stronger than anticipated capital market demand for assets of similar size and location within the portfolio, the venture decided to undertake its disposition strategy earlier, with the exit of one Melbourne asset in Q3 2014 and one Sydney asset in Q1 2015. - Disposition of the remaining three assets in the portfolio is in progress. - The venture is structured with a 9% cumulative preferred return to Heitman.
Self Storage JV	Australia	2011	Heitman Global Fund	- A joint venture with National Storage Operation ("NSO") (10% owner) to capitalize on the opportunity to invest in the self-storage sector in Australia. The strategy was to assemble and stabilize a geographically diverse portfolio of self storage properties in a partnership with one of the Australia's leading operators. - NSO, founded in 2000 and listed on the Australian Stock Exchange in 2013, is the third-largest storage operator in Australia and has over 20 years' experience as an owner, developer, acquirer and operator of professionally-managed self storage properties across Australia. - The venture portfolio included 21 self storage assets with 12,903 units totaling over 124,000 rentable square feet. The facilities are located in sub-markets across greater Sydney, Melbourne, Brisbane, Hobart, the Sunshine Coast, the Gold Coast and Perth. - The business plan of the venture is to increase value in the portfolio through increased revenue via gains in occupancy

				and rental rates benefitting from NSO's operational expertise, infrastructure, unique national call centre, brand identity and marketing - The business plan has been executed successfully and NSO was able to raise average rents at a level that outperformed underwriting; however overall occupancy growth, due to a number of changing macro and specific sub-market and property factors, lagged, resulting in NOI growth slightly less than expected. - The venture is structured with a preferred 6% annual cashflow return to Heitman in year 1, increasing to 12% in year 5, and a 15% preferred total return - Heitman is in discussions with NSO regarding their right of first offer to acquire Heitman's interest in the existing portfolio; discussions are on track for a disposition in Q3 2016 for a 15% total return
Tokyo Office 1 and 2	Japan	2013	Heitman Global Fund	- After observing signs of improving market conditions, Heitman undertook a strategy to capitalize on the dynamics around the deep and liquid B+ office market within Tokyo Central - The portfolio included two properties, the Shiba Building with GFA of circa 25,000 sqft in Minato-ku, and the Shuwa Building with GFA of circa 50,000 sqft in Chuo-ku. Both buildings are 100% owned by the Heitman Global Fund - The investment strategy was to capitalize an expected increase in rents and the business plan was to enhance the overall operations of the buildings. The sellers of Shiba Building were not skilled in real estate investment, providing Heitman with the ability to immediately improveoperational efficiencies in the asset. The seller of Shuwa Nuilding was a domestic fund in disposition mode that did not focus on te asset's market position for some time. - With respect to both assets, the strategy is benefitting from solid NOI increases (Shiba's NOI has increased by 13% since acquisition) across the portfolio and also a greater-than-anticipated market cap rate compression - Heitman has initiated a discrete marketing campaign for the two properties and expect them to be sold as a portfolio, delivering a combined return in excess of underwriting. Initial offers have been received and the dispositions are expected to be completed in Q3 2016
Self Storage	Singapore	2015	Townsend & Heitman Asia Fund	- After monitoring the market for a numbers of years, Heitman undertook a strategy to capitalize on the self-storage undersupply in Singapore, a market of high density with strong projected population growth. - To capture the market opportunities, Heitman formed an off-market joint venture with Mandarin Self Storage ("MSS") and invests in the self-storage sector in Singapore. The strategy is to assemble (through a change of use strategy) and stabilize a portfolio of self-storage properties in a partnership with a Singapore based regionally experienced operator, as well to exploit the fundamental supply/demand imbalance in the Singapore self-storage market. - MSS is let by Angus Miller, who before forming MSS, was the

				CEO of Big Orange Self Storage ("BOSS"), which created a portfolio of five self-storage assets; two in Hong Kong and three in Singapore. The Singapore assets were sold to Capitaland and are now part of StorHub, Capitaland's self-storage brand. Prior to BOSS, Mr. Miller was the CEO of Millers Self Storage, founded by Angus' father. Their portfolio was eventually sold to Kennards Self Storage (one of Australia's largest self-storage operators). - The venture will create a portfolio of 5-8 assets through a change of use strategy. That is to say, the Venture will acquire obsolete flatted factories (warehouses) and convert them to the higher and better use of self-storage. In many cases, the self-storage space will be created in phases to allow units to be brought to the market in a controlled and calculated way. The Venture ultimately assumes it will fill the facilities to an occupancy rate of 90%, which is in line with what other institutional facilities are currently achieving in the Singapore market. This strategy will produce a healthy spread to stabilized yields, therefore providing development-like returns to the Venture without taking ground-up development risk. - The Venture has purchased one asset, 91 Defu Lane, with three assets in various stages of due diligence and seller negotiation; it is expected the full capital will be allocated by the end of the 18-month commitment period. - The Venture projects property-level leveraged returns (utilizing 60% LTC debt) of 17-18% which will net to a 14-15% to the Investor.

Office JV in Australia - Transaction Summaries

Abacus Joint Venture	
Property Type:	Office
JV Strategy:	Value-added
Number of Assets:	5
Total Venture Size:	A$220.3M
Equity Investment:	A$80.8M
Leverage:	51%
Heitman Ownership:	75%
Executed:	2011-2012
Target Investment Gross IRR	11.5%
Realized/Projected Gross IRR	16.7%

Original Investment Strategy: In 2011, Heitman, on behalf of the Asia-Pacific allocation of a discretionary global separate account mandate, formed an off-market joint venture with Abacus Property Group (ticker: ASX:ABP), a Sydney-based owner of commercial assets across the major metropolitan areas of Australia. The venture was formed to provide Heitman exposure to value-added opportunities in the Australian market, partnering with a local group whose main competency is in such strategies and was seeded by an office property in North Sydney. The Abacus venture provided Heitman with the ability to aggregate a diversified office portfolio across the major Eastern Seaboard markets with a focus on a variety of value-enhancement strategies.

Venture Partner & Structure: Abacus, founded in 1996 and listed as an A-REIT in 2002, is an owner, developer, operator and asset manager of real estate across Australia and solely focused on executing value-enhancement strategies across its entire portfolio. As of December 2015, Abacus had total assets of over A$1.5 billion, through a combination of wholly owned properties, ones owned through various joint ventures and development projects, all across various asset classes. Abacus' ability to identify and capitalize on acquisition opportunities and successfully execute value-added business plans has provided an opportunity to work with an experienced and complementary partner for Heitman's initial strategy in Australia.

The 75/25 venture was structured with a preferred return to Heitman where the investor gets its entire venture equity back and a 9% IRR before Abacus receives its commensurate return, with an opportunity for Abacus to then earn a disproportionate return above a 12% total IRR. Heitman contributed A$80.8 million in equity, representing a 75% interest in the venture, with Abacus contributing the remaining 25%. Originally A$100million of investor capital was allocated to the program but, through our evaluation of market and aggregation of the portfolio, Heitman felt the venture was best positioned with the first five assets and, with its discretionary authority, re-allocated the remainder of the capital to a B-class office strategy in Tokyo. The assets in the portfolio were leveraged individually with an average 51% first mortgage financing and the overall capitalization was roughly A$220million.

Investment Overview: The venture was seeded with an office asset in North Sydney, and further acquired over the subsequent 15 months two properties in Brisbane, one in Melbourne and another in Sydney. As part of the venture governance, Heitman underwrote and approved each investment; it also advised Abacus of assets under consideration that it felt would not be appropriate for the portfolio. The investments had a variety of business plans, with a large component focused on capitalizing on below-market rents, near-term lease expiries, deferred cap ex and improving overall operations. The business plans and all major economic decisions were approved by Heitman. Heitman ensured that the investments had various options to achieve strong upside potential from an operating and leasing perspective. For example, the North Sydney asset, acquired June 2011, was able to maintain its dominant market position with average occupancy consistently maintained at or near 100%, while the venture upgraded the lobby, elevators and some common areas; in the meantime, average headline rents have grown nearly 20% in 4 years while incentives have shrunk. Another example of full value execution is the property sold in Melbourne, which completed its repositioning strategy ahead of schedule. It benefitted from leasing vacant ground-floor retail space, modest upgrades of common areas, successful releasing and refurbishing the top two floors to attract a key tenant on a 10-year lease at a new benchmark rent. The sale also capitalized on investor demand for a well-positioned asset in a supply-constrained infill suburban submarket of Melbourne. The venture has also been taking advantage of the competitive debt capital markets and Heitman has been leading the effort to actively refinance the assets at significantly lower costs of funds.

Outcome: Given stronger than anticipated capital market demand for assets of similar size and location within the portfolio, Heitman initiated the disposition strategy for the venture earlier than underwritten, with the exit of its Melbourne property in September 2014 and the sale of one Sydney asset in March 2015, producing IRRs well in excess of the original underwriting. Not only did Heitman identify market dynamics that it believes will deliver outperformance, but also, with these particular properties, the venture was able to accelerate the completion of the business plans, providing an opportune window to harvest the value-added gains earlier than expected. Heitman is formulating a disposition strategy of the remaining assets over the next 12 months.

Self Storage JV in Australia - Transaction Summaries

National Storage Self-Storage Joint Venture	
Property Type:	Self-Storage
JV Strategy:	Value-added
Number of Assets:	26
Total Venture Size:	A$243.8M
Equity Investment:	A$112.1M
Leverage:	49%
Heitman Ownership:	90%
Executed:	2011-2014
Target Investment Gross IRR	14.1%
Projected Gross IRR	15.0%

Original Investment Strategy: Heitman, on behalf of the Asia-Pacific allocation of a discretionary global separate account, formed a joint venture with National Storage Operations (“NSO”) in August 2011 to capitalize on the opportunity to invest in the maturing self-storage sector in Australia. The strategy was to assemble and stabilize a geographically diverse portfolio of self-storage properties in a partnership with one of Australia’s leading operators. This venture was formed direct and off-market, as NSO approached Heitman with the opportunity given our global experience in self-storage and joint venture structuring. In evaluating early investment strategies in Asia-Pacific, given our global experience, Heitman recognized that the maturing self-storage industry in Australia presented an attractive (and unique) opportunity; this review included Heitman Research undertaking a thorough review of the market and completing a white paper on the Australian Self-Storage thesis.

Venture Partner & Structure: NSO is the third-largest storage operator in Australia, based in Brisbane. NSO has over 20 years’ experience as an owner, developer, acquirer and operator of professionally-managed self-storage properties across the country. While private at the time of the formation of the venture, NSO subsequently listed on the Australia Stock Exchange in December 2013 (ticker: NSR) to become the first listed dedicated storage operator in Asia-Pacific.

At the formation of the venture, Heitman committed A$135 million in equity, representing a 90% interest in the ultimate portfolio capitalization. Approximately A$100.5 million was invested in the initial acquisitions, with a further A$11.6 million invested with subsequent investments. The venture utilized only 49% leverage. The investment structure provided Heitman with significant downside protection with a preferred 6% annual cash flow return in Year 1, increasing to 12% in Year 5, and a 15% preferred total return. In exchange, NSO is able to receive a disproportionate share of further upside above a 15% preferred total return.

Investment Overview: The seed portfolio comprised of 21 self-storage facilities with 12,903 units totaling over 120,400 rentable square meters. The facilities were located in sub-markets across greater Sydney, Melbourne, Brisbane, Hobart, the Sunshine Coast, the Gold Coast and Perth. Value creation in the portfolio was to be predominantly through increased revenue via gains in occupancy and rental rates benefitting from NSO's operational expertise, infrastructure, unique national call center, brand identity and marketing efforts. Subsequent to acquiring the seed portfolio, the venture acquired through separate transactions five properties. As part of the venture governance, Heitman underwrote and approved each investment; it also advised NSO of assets under consideration that it felt would not be appropriate for the portfolio and which were subsequently passed-on. The business plans and all major economic decisions were approved by Heitman at the venture board.

NSO was able to raise average rents at a level that outperformed underwriting; however, overall occupancy growth, due to a number of changing macro and specific sub-market and property factors, lagged, resulting in NOI growth slightly less than expected. In particular, the business plan has been executed well in the NSW, VIC and TAS markets, although slower than anticipated, by seeing much higher than expected rent growth and modest occupancy increases; performance in commodity-based markets, notably Perth and parts of QLD, muted the gains in other markets. In addition, lease-up of unstabilized assets has been tracking well; overall portfolio occupancy has increased to c. 73% vs c. 64% at acquisition.

The venture has also been able to capitalize on competitive debt capital market conditions, allowing for restructuring the existing debt facility with lower margins. In addition, the venture is also starting to benefit from the expected cap rate compression of the sector, with a meaningful valuation uplift seen at the end of 2015. The venture did not deploy all of the dedicated capital, with approximately A$23 million of Heitman's total commitment un-invested, namely due to Heitman passing on a couple of opportunities based on the outcome of due diligence or due to some assets deemed not accretive to the overall portfolio strategy.

Outcome: We are in highly confidential discussions with our partner regarding their right of first offer to acquire Heitman's interest in the existing portfolio; discussions are on-track for a disposition in Q3 2016 for a 15% total return, in-line with both timing and underwriting expectations and as envisioned by the highly preferred structure.

Tokyo Office 1 and 2 - Transaction Summaries

Central Tokyo B+ Office Portfolio Strategy	
Property Type:	Office
JV Strategy:	Value-added
Gross Floor Area:	2,201 tsubo (7,276 sqn
Total Project Cost:	JPY 5,700B
Total Equity Investment:	JPY 1,910B
Leverage:	65%
Heitman Ownership:	100%
Executed:	2013-14
Target Investment Gross IRR	12.4%

Projected/Realized Gross IRR	23.6%

Original Investment Strategy: After observing signs of improving market conditions, Heitman undertook a strategy to capitalize on the dynamics around the deep and liquid B+ office market within Central Tokyo. The B+ market represents a very broad and diverse set of assets, principally properties that would be considered in other markets "boutique" based on their smaller floorplates or, alternatively, while perhaps large and well located, are 10-15 years older than the most recent generation of developments. Nevertheless, the assets are generally located within the Central Five Wards, in close proximity to train or subway stations and are the single most actively traded asset class in Japan. In addition, Heitman would be able to use the in-house asset management team's local experience to deliver value-add returns through aggressive releasing, improving operations and floor refurbishments.

Investment Structure: Under its discretionary mandate from its global discretionary separate account, Heitman re-allocated capital from the expiring Australia strategy with Abacus Property Group to the more opportune one in Tokyo. As such, Heitman was able to source directly and on an off-market basis a 100% acquisition of 2 properties: the Shiba Daimon Excellent building, a 702 tsubo (approximately 25,000 square feet) asset near the Daimon station in Minato-ku, Tokyo in 2013, and the Shuwa Daini Shinkawa building, a 1,499 tsubo (approximately 50,000 square feet) asset in Chuo-ku, east of Tokyo Station. The investments also took advantage of attractive debt capital market conditions and utilized 65% LTV financing for the acquisitions.

Investment Overview: The investment strategy was to capitalize on not only improving market conditions and an expected increase in rents but also to enhance the overall operations of the buildings. The seller of Daimon was not skilled in real estate investment, providing Heitman with the ability to immediately improve operational efficiencies in the asset. The seller of Shinkawa was a domestic fund in disposition mode that had not focused on the asset's market position for some time. Furthermore, given the short-term nature of the leases, Heitman targeted increasing market rents as existing spaces are released.

With Daimon, the team renewed three traditional Japanese leases with nearly 5% rent increases and signed two new leases with nearly 20% rent increases; furthermore, NOI has increased by 13% in the 30 months since acquisition. With Shinkawa, the team successfully achieved expansion of the existing lease to take over a part of the vacant floor with 11% rent increase. Overall business plan execution has been slowed by longer-than-expected vacancy on one floor (which has resulted in NOI being slightly below projections due to the prolonged downtime) although a renewed releasing strategy is underway to capitalize on the domestic-driven demand in the submarket.

Outcome: With respect to both assets, the strategy is benefitting from not only solid NOI increases across the portfolio but also a greater-than-anticipated market cap rate compression (i.e., over 50 bps), particularly for well-performing Class B assets such as these. Heitman has recognized that the current market environment has presented an opportune window to realize significant returns on the assets, nearly two years earlier than underwritten. As such, we have initiated a discrete marketing campaign for the two properties and expect them to be sold as a portfolio, delivering a combined return well in excess of underwriting. Initial offers have been received and the dispositions are expected to be completed in Q3 2016, with the anticipated pricing reflected in the projected IRR above.

Self Storage JV in Singapore

Singapore Self-Storage JV	
Property Type:	Self-storage
JV Strategy:	Value-added
Gross Floor Area:	n/a
Total Project Cost:	USD 130M
Total Equity Investment:	USD 65.5M

Leverage:	(LTPP) 60%
Heitman Ownership:	90%
Executed:	2015
Target Investment Gross IRR	16.5%

* First acquisition was closed in March 2016 and further investments are in progress

Original Investment Strategy: After monitoring the market for a number of years, Heitman undertook a strategy to capitalize on the self-storage undersupply in Singapore, a market of high density with strong projected population growth. In order to capture the foreseen demand, Heitman formed an off-market joint venture with Angus Miller of Mandarin Self Storage ("MSS"), an operator who had successfully created and sold institutional self-storage in the market with a previous capital partner. Heitman and Miller had been in dialogue for nearly eight years, with this venture the culmination of a mutually desired partnership. Both Heitman and Mandarin's market scoping exercises concluded the Singapore market is undersupplied, providing the opportunity to deliver new product over the short- and medium-term; this review included Heitman Research undertaking a thorough review of the market and completing a white paper on the Singapore Self Storage thesis. Singapore's strict land use and acquisition laws make it difficult to develop, inferring that a supply/demand imbalance will remain into the foreseeable future. The venture will thus undertake a "change of use" strategy, acquiring older yet functional multi-story industrial assets and convert them on a floor-by-floor basis to self-storage. This will not only increase the underlying NOI yield but deliver a total return well in excess of traditional property types, with an ultimate portfolio that will be one of the largest in the Singapore market.

Venture Partner & Structure: MSS is led by Angus Miller, who previously was the CEO of Big Orange Self Storage ("BOSS"), which created a portfolio of five self-storage assets: two in Hong Kong and three in Singapore. The Singapore assets were sold to CapitaLand and are now part of StorHub, CapitaLand's self-storage brand; the Hong Kong assets were sold to individual buyers. Prior to BOSS, Mr. Miller was the CEO of Millers Self Storage, founded by Angus' father. Their portfolio was eventually sold to Kennard's Self-Storage (one of Australia's largest self-storage operators).

At the formation of the venture, Heitman committed up to $60 million in equity, with MSS committing 10%, up to $5.5 million. Of the Heitman equity, $40 million was provided by The Townsend Group on behalf of discretionary capital; the additional $20 million will come from HAPI so long as the first close occurs by 6 September 2016. The first property with GLA of 130,300sqf, 91 Defu Lane, was acquired in May 2016 for S$22.3M. The venture utilized 60% loan-to-purchase price financing, and assumes no revaluation refinancing, which is the likely level of debt that will be used by the venture going forward. The investment structure allows MSS to earn a disproportionate level of return above a 13% IRR to Heitman.

Investment Overview: The venture will create a portfolio of 5-8 assets through a change of use strategy. That is, the Venture will acquire older flatted factories (warehouses) and convert them to the higher and better use of self-storage. Per Heitman's research, we believe the converted self-storage will generate approximately two times higher rent per square foot than under-utilized warehouses. In many cases, the self-storage space will be created in phases to allow units to be brought to the market in a controlled and calculated way. The Venture ultimately assumes it will fill the facilities to an occupancy rate of 90%, which is in line with what other institutional facilities are currently achieving in the Singapore market. This strategy will produce a healthy spread to stabilized yields, therefore providing development-like returns to the Venture without taking ground-up development risk.

As part of the venture governance, Heitman underwrites and approves each investment; the business plans (including variances thereto) and all major economic decisions are also approved by Heitman at the venture board. Heitman will also work with Miller to oversee the conversion execution. In addition, Heitman negotiated and secured the debt for the venture's first asset and will continue doing so for future acquisitions.

Outcome: With the first acquisition in-hand, the Venture has four more assets in various levels of negotiation and evaluation; it is expected that the Venture's capital will be fully deployed within the targeted 18-month commitment period. The Venture assumes all assets will be stabilized within five-years of Venture formation. The possible exit scenarios include one-off sales, a portfolio sale to another self-storage operator, a portfolio sale to an institution, or a roll-up to an initial public offering. Heitman believes the most likely outcome will be a portfolio sale to an institution or self-storage operator.

As of June 30, 2017

ATTACHMENT 2

Heitman Asia-Pacific Property Investors, L.P.
Track Record

Vehicle name	Investment style	Year of final close	Geo-graphic focus	Sector focus	Equity raised or invested	Number of investments to date	Target net IRR	Target net multiple	Current net IRR* since inception	Current gross multiple	Current net multiple	Fore-casted gross IRR	Fore-casted net IRR	LTV %	% realised
1. Office JV	Value Add	2011	Australia	Office	$84	5	11-13%	1.60x	18.3%	1.92x	1.87x	18-20%	17-19%	51%	66.10%
2. Self-Storage JV	Value Add	2011	Australia	Self-Storage	$119	26	13-15%	1.73x	14.1%	1.82x	1.78x	N/A	N/A	N/A	100%
3. Industrial JV	Core Plus	2012	Australia	Industrial	$195	20	9-11%	2.35x	12.3%	1.57x	1.53x	12-13%	11-12%	55%	N/A
4. Retail Club	Core	2013	Malaysia	Retail	$250	1	10-12%	1.89x	9.1%	1.35x	1.33x	9-10%	8-9%	11%	N/A
5. Tokyo Office 1	Core Plus	2013	Japan	Office	$9	1	9-11%	1.51x	33.5%	2.25x	2.19x	N/A	N/A	N/A	100%
6. Tokyo Office 2	Core Plus	2014	Japan	Office	$14	1	10-12%	1.59x	11.5%	1.38x	1.33x	N/A	N/A	N/A	100%
7. Tokyo Retail	Core	2015	Japan	Retail	$81	1	7-8%	1.87x	24.1%	1.60x	1.57x	11-12%	10-11%	59%	N/A
8. Self-storage 2	Value Add	2016	Singapore	Self-storage	$60	4	16-18%	2.00x	N/A	N/A	N/A	18-20%	16-18%	52%	N/A

ATTACHMENT 3

Heitman Asia-Pacific Property Investors, L.P.

SUMMARY OF FUND TERMS

Fund Size	$250 million (Cap of $350 million)
Fund Manager	Heitman
Investment Strategy	Value-add
Investment Period	18 months from final closing (estimated as of July 2018)
Fund Term	6 years from expiration of the investment period, with two, one-year extensions
Target Return	Net IRR of 11%-13%
General Partner Commitment	1% of the aggregate commitments
Distributions to Investors	First, to all LPs pro-rata until each partner has received distributions in an amount equal to their unreturned contributions, together with a 10% cumulative preferred return thereon; Next, until LPs have received a cumulative preferred return until 13%, 85% to LPs and 15% to GP Thereafter, 80% to LPs and 20% to GP
Fees	
Management Fees	88 basis points on invested capital
Property Investments Profile	Value-Add strategy focused in Sydney, Melbourne, Brisbane, Tokyo, Osaka, Hong Kong, Seoul and Singapore
Leverage	55% loan-to-value at Fund level; 60% of the gross asset value at the property level

LACERA

February 5, 2018

TO: Each Member
Board of Investments

FROM: Steven P. Rice SPR
Chief Counsel

FOR: February 14, 2018 Board of Investments Meeting

SUBJECT: **LACERA ELECTION FOR THIRD MEMBER: STATEMENT OF POWERS AND DUTIES OF INVESTMENTS BOARD MEMBERS**

Recommendation

Approve the attached ballot insert entitled "Powers and Duties of Investments Board Members," which will be included with the ballot materials for the election of the Third Member of the Board of Investments and posted on lacera.com.

Legal Authority

The information in the Power and Duties is based on the responsibilities of Board of Investments members under the California Constitution (Cal. Const., art XVI, § 17), the County Employees Retirement Law of 1937 (CERL) (Cal. Gov't Code §§ 31540 et seq.), the California Public Employees' Retirement Law of 2013 (PEPRA) (Cal. Gov't Code §§ 7522 et seq.), and LACERA's policies and procedures. Approval of this document is consistent with the exercise of the Board's plenary authority over the investments of the system under the California Constitution. Cal. Const., art. XVI, § 17.

Background

Each year, the Board of Supervisors adopts a resolution to govern that year's LACERA election. The election this year for the Board of Investments will include the position of Third Member (currently held by Herman Santos) for a three-year term commencing January 1, 2019.

At LACERA's request, the Board of Supervisors will include with Board election materials a ballot insert entitled "Powers and Duties of Investments Board Members" provided by the Board to assist voters in evaluating candidates. In addition, the Powers and Duties serve as a reference for Board candidates to understand the responsibilities of Board members. Finally, the Powers and Duties are posted on lacera.com, and they are available to stakeholders and the public to communicate the responsibilities of Board members.

The proposed Powers and Duties is attached as Exhibit A. The document is based on a restated template reviewed and approved by the Board for the elections conducted in 2017. No material changes have been made from last year's version, except that the fund size has been updated to $52.5 billion as of June 30, 2017.

Discussion

The proposed Powers and Duties complies with best practices to fully and clearly describe the responsibilities and duties of Board members. The Power and Duties is generally based on the approach recommended in a report issued by The Stanford Institutional Investors' Forum Committee on Fund Governance. *The Clapman Report 2.0 Model Governance Provisions to Support Pension Fund Best Practice Principles*, at pages 9-10 (Clapman Report).

The proposed Powers and Duties includes the following information:

> ***Introduction***. This section states the general responsibilities of Board of Investments members. The section states that, under the law, LACERA duties are included as part of an elected Board member's County or public employment and shall normally take precedence over any other duties. This section also addresses the time commitment required of Board members. The Clapman Report recommends that an estimated time commitment be provided. Last year, the Board approved an overall estimate of 80 hours per month, which includes 6 to 8 hours to attend each Board meeting, plus 24 hours of preparation time, and 1 to 2 hours to attend each committee meeting, with an equal amount of time to prepare; the 80 hours also includes education and time spent on other responsibilities. Staff requests the Board review these estimates and provide direction as to whether they are still accurate or should be changed.
>
> ***Board Member Responsibilities.*** This section provides a detailed description of the main responsibilities of Board members, including paragraphs on:

1. Board and Committee Meetings;
2. Pension Fund Investments;
3. Retiree Healthcare Funds;
4. Contribution Rates and Actuarial Services;
5. Securities Litigation;

6. Other Fund Management;

7. Retention and Oversight of Vendors, Consultants, and Experts;

8. Delegation;

9. Legal Compliance; and

10. Education.

Fiduciary Duties. The Powers and Duties includes a separate section on fiduciary duties, with separate subsections on the Duty of Loyalty and the Duty of Care.

Conflicts of Interest. The Powers and Duties concludes with a section on basic conflict principles.

Conclusion

The proposed Powers and Duties provides information that will be helpful to voters, candidates, and the public in understanding the responsibilities of members of the Board of Investments.

THEREFORE, IT IS RECOMMENDED THAT THE BOARD:

Approve the attached ballot insert entitled "Powers and Duties of Investments Board Members," which will be included with the ballot materials for the election of the Third Member of the Board of Investments and posted on lacera.com.

Attachment

c: Robert Hill
James Brekk
John Popowich
Bernie Buenaflor
Jon Grabel

EXHIBIT A

PROPOSED POWERS & DUTIES

POWERS AND DUTIES

OF INVESTMENTS BOARD MEMBERS

The Board of Investments provides this summary to enable voters to evaluate candidates for the Board. The Board urges voters to review this summary prior to voting.

INTRODUCTION

The Board of Investments oversees investment of LACERA's pension retirement fund ($52.5 billion as of June 30, 2017) and determination of County and member contribution rates. In total, members of the Board of Investments can expect to commit approximately 80 hours of their time each month to discharging their duties to the retirement system.

As to those elected Board members who are employed by the County or a participating district, the law provides that these LACERA duties are included as part of their County or other public employment and shall normally take precedence over any other duties. Given the time commitment necessary to fulfill the responsibilities of Board membership, elected Board members will be required to spend a great majority of their working time each month in carrying out their important LACERA duties and responsibilities.

The responsibilities and duties of Board members are explained in detail below.

BOARD MEMBER RESPONSIBILITIES

A Board member's duties include:

1. ***Board and Committee Meetings.*** The Board meets once each month unless otherwise specified, usually on the second Wednesday, with each meeting generally lasting from 6 to 8 hours. In addition to the time required to attend meetings, approximately 24 hours per meeting is required to prepare for meetings and review relevant materials developed by staff and management. The Board has established committees to assist in carrying out its responsibilities. The Board also shares additional committees jointly with the system's Board of Retirement, including the Audit Committee. Committee meetings may be held both before and after regular Board meetings, and at other times, and generally last 1 to 2 hours per committee plus additional preparation time of a similar or greater number of hours.

2. ***Pension Fund Investments.*** The Board of Investments has exclusive control of all retirement system investments and is responsible for establishing investment beliefs and objectives, strategies, policies, and governance processes, which are subject to change by Board action. The Board evaluates risk and return, including consideration of corporate

governance issues. The Board makes these decisions based on information and input provided by staff and external consultants. Currently, LACERA's investment portfolio is, with a few exceptions, externally managed. The Board does not make individual investment selections for the externally managed portfolio; rather, it selects investment advisors and managers to make investments for LACERA in accordance with investment objectives and guidelines established by the Board. The Board of Investments and its staff then regularly monitor and evaluate the investment activities and results of its advisors and managers.

3. ***Retiree Healthcare Funds.*** Under agreement with the County and other participating employers, the Board of Investments manages and invests trust funds prepaid for future retiree healthcare benefits.

4. ***Contribution Rates and Actuarial Services.*** Using an actuarial valuation process, the Board of Investments determines the level of contributions necessary to fund retirement benefits. The Board of Investments is responsible for setting actuarial valuation policies, selecting the actuary who will perform the valuation, and approving the actuarial valuation services provided. The actuary submits to the Board of Investments for the Board's approval such changes in County and member contribution rates as are necessary to fund retirement benefits.

5. ***Securities Litigation.*** The Board of Investments, with the assistance of counsel and staff, is charged with actively identifying, evaluating and monitoring securities class action lawsuits in which the fund has sustained a loss, and to determine whether the best interests of the fund are served by actively participating in such cases.

6. ***Other Fund Management.*** A few management functions are shared with the Board of Retirement. The Boards of Retirement and Investments, acting jointly, adopt the annual budget covering LACERA's operations. The two Boards also act jointly in certain employee relations matters, including the approval of class specifications for LACERA's employees, the approval of Memoranda of Understanding (MOU's) negotiated with SEIU Local 721, the union bargaining for represented employees of LACERA, and the approval of compensation to be provided to LACERA's nonrepresented employees. The Board of Investments is not responsible for general administration of the retirement system and benefits. The Legislature assigned those responsibilities to the Board of Retirement.

7. ***Retention and Oversight of Vendors, Consultants, and Experts.*** The Board approves and oversees the retention and performance of vendors, consultants, and experts to assist in system operations and aid the Board when appropriate.

8. ***Delegation*.** The day-to-day investment operations of the retirement system are delegated to staff and outside service providers. Board members consider what responsibilities will be delegated and to whom delegation is made. Board members ensure that delegated responsibilities are properly performed through monitoring, questioning, and accountability.

9. ***Legal Compliance.*** The Board ensures that the retirement system maintains compliance with the plan documents and all applicable laws governing the system. Board members comply with this responsibility by conducting a periodic review of plan documents and monitoring changing legal requirements.

10. ***Education.*** Board members are legally required to educate themselves on appropriate topics, which may include pension fund investments and investment management processes, actuarial matters, pension funding, pension fund governance, new board member orientation, ethics, and fiduciary responsibilities, among other topics. Such education must consist of a minimum of 24 hours within two years of assuming office and 24 hours every subsequent two-year period the member continues on the Board. Board members may participate in state and national pension and investment related organizations, including serving as an executive or committee member in these organizations.

FIDUCIARY DUTIES

Board members have the following fiduciary duties:

1. ***Duty of Loyalty.*** The California Constitution provides that Board of Investments members are fiduciaries and are required to, "discharge their duties with respect to the system solely in the interest of, and for the exclusive purposes of providing benefits to, participants and their beneficiaries, minimizing employer contributions thereto, and defraying reasonable expenses of administering the system. A retirement board's duty to its participants and their beneficiaries shall take precedence over any other duty." All Board members, whether elected or appointed, have the same fiduciary duty. The Board members' duty of loyalty at all times is to the participants and beneficiaries as a whole. Board members do not serve as the agent or representative of the agency or group responsible for their election or appointment. Where different groups of participants have different interests on an issue, Board members have a duty to be impartial as between conflicting participant interests and act to serve the overall best interests of all of the participants of the system.

2. ***Duty of Care*.** The California Constitution provides that assets of the retirement system are trust funds to be used only for the purpose of providing benefits and paying the costs of administering the system.

Under the Constitution, members of the Board of Investments "shall diversify the investments of the system so as to minimize the risk of loss and to maximize the rate of return, unless under the circumstances it is clearly not prudent to do so." Governing law provides that the Board "may, in its discretion, invest, or delegate the authority to invest, the assets of the fund through the purchase, holding, or sale of any form or type of investment, financial instrument, or financial transaction when prudent in the informed opinion of the board." The Constitution further requires that Board members "shall discharge their duties with respect to the system 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 and with like aims."

The duty of care means that Board members must exercise reasonable effort and diligence in administering and exercising oversight over the investments of the system, including: implementing, and periodically reviewing and updating, policies, procedures, and processes; requesting necessary reports and information; analyzing the information, advice, and recommendations received; asking questions; seeking expert advice when required from staff and outside expert consultants; deliberating carefully before making decisions; and understanding the reason for actions before taking them. Board members must monitor the investments of the system, follow the plan documents and applicable law, and take corrective action when required to ensure the sound administration of the retirement fund's investments and the other matters under the responsibility of the Board of Investments are properly performed.

CONFLICTS OF INTEREST

Board members must be free of conflicts of interest in compliance with applicable legal requirements and LACERA's Code of Ethical Conduct. Board members cannot participate in decisions that will impact, positively or negatively, their own financial interests or the interests of certain of their related persons and entities. Board members are public officials under California conflict of interest laws, and they must be familiar with and follow those laws. Board members are in positions that are subject to disclosure of economic interests and annual reporting requirements under the Political Reform Act and Fair Political Practices Commission regulations. Conflict of interest laws and regulations are complex, and Board members should seek legal advice when appropriate.

APPROVED BY THE BOARD OF INVESTMENTS ON FEBRUARY __, 2018.

January 26, 2018

TO: Each Member
Board of Investments

FROM: Christopher J. Wagner
Principal Investment Officer – Private Equity

David E. Simpson, CFA
Investment Officer – Private Equity

FOR: February 14, 2018 Board of Investments Meeting

SUBJECT: **PRIVATE EQUITY CO-INVESTMENT PROGRAM**

RECOMMENDATION

Allocate an additional $100 million to Morgan Stanley Alternative Investment Program, as manager of LACERA's Private Equity Co-Investment Program.

BACKGROUND

GTB Capital Partners ("GTB" or the "Program") is the separate account entity formed by LACERA and Morgan Stanley to manage the co-investment opportunities primarily sourced from LACERA's portfolio along with deal flow sourced by the Morgan Stanley Alternative Investments Program ("MS" or "AIP") leveraging their relationships. Co-investments are seen as additive to portfolio returns because they allow LACERA to overweight exposure to its highest expected return asset category on preferred terms.

In 2006, after educational sessions presented to the Board and a Request for Proposal ("RFP") process, the Board approved a $250 million commitment to GTB I. In 2013, after that initial allocation to GTB I was depleted, based on GTB I's performance, the Board approved a second tranche of $300 million to GTB II.

As of December 2017, GTB II has allocated and reserved $285 million of the $300 million in commitments (approximately 95%). The separate account has capacity for one more deal with several opportunities in various stages of due diligence.

The Program's performance to date is attractive. As of September 30, 2017, the 2006 tranche of capital (GTB I) has generated a 1.9x **TVPI**[1] and 12.1% net **IRR**. The 2014 tranche (GTB II), stands at 1.3x TVPI and 15.0% net IRR. Both compare favorably to LACERA's private equity performance in the same vintage years. Factors such as an experienced and stable investment team

[1] Terms highlighted in **BOLD** are defined in the **Glossary** in **Attachment 1**.

and reasonable program costs were important considerations in this evaluation and recommendation. Importantly, no substantive changes have occurred with the Morgan Stanley AIP team since the Board awarded the 2013 mandate. A summary of the Program's terms is included in **Attachment 2**.

Staff recommends extending the existing Program to ensure continued investment in co-investments, while allowing LACERA sufficient time to conduct a comprehensive review of the Program, including assessing the costs and benefits of managing the Program internally.

PERFORMANCE TRACK RECORD

As indicated in **Table 1**, based on the September 30, 2017 data, both tranches of the Program generated first or second quartile performance on all metrics versus the Private iQ benchmark for global buyouts.

Table 1
Summary of Performance for the Program as of September 30, 2017

Fund	VY	Fund Size	Invested	Realized	Un-realized	Total Value	Net IRR	Upper Quartile	Median	Net TVPI	Upper Quartile	Median	Net DPI	Upper Quartile	Median
GTB I	2006	$263	$261	$436	$122	$558	**12.1%**	12%	8%	**1.9x**	1.8x	1.5x	**1.5x**	1.6x	1.3x
GTB II	2014	$306	$215	$20	$271	$292	**15.0%**	24%	13%	**1.3x**	1.4x	1.2x	**0.1x**	0.3x	0.1x
TOTAL		**$568**	**$476**	**$456**	**$393**	**$850**									

Private iQ Benchmarks - Global BO (as of September 30, 2017).

Quartile	1st	2nd	3rd	4th

The majority of investments in the Program are sourced from LACERA primary fund manager relationships. Accordingly, the Program's performance is contingent on the performance of the underlying buyout portfolio. **Table 2** captures the performance of LACERA's buyout funds for the investment periods that match the GTB I and II investment periods.

Table 2
LACERA Core Portfolio Buyout Fund Performance – Vintage Years 2004-2017
June 30, 2017* ($ Millions)

Vintage Years	Capital Invested	Distributions	Net Asset Value	Total Value	Net IRR	Net TVPI	Net DPI
2004-2012	$3,319.8	$3,815.6	$1,392.1	$5,207.7	10.3%	1.6x	1.1x
2013-2017	$1,400.6	$207.5	$1,398.3	$1,605.8	10.6%	1.1x	0.1x
Total	**$4,720.4**	**$4,023.1**	**$2,790.4**	**$6,813.5**	**10.3%**	**1.4x**	**0.9x**

**Data set for September 30, 2017 not yet complete.*

The GTB I portfolio outperformed LACERA's 2004-2012[2] portfolio buyout funds by 180 basis points on an IRR basis, by 0.3x on a TVPI, and by 0.4x on a **DPI** basis. While GTB II and the 2013-2017 funds are still early in their life cycle, the Program performance exceeds LACERA's buyout funds by 440 basis points on an IRR basis, and by 0.2x on a TVPI basis. These results confirm that both GTB I and GTB II have been accretive to the LACERA private equity portfolio.

[2] GTB I portfolio co-invested in deals from vintage year 2004-2012 funds.

PORTFOLIO CONSTRUCTION

The portfolio has been successfully structured within the investment guidelines set for Morgan Stanley during the course of the Program. Staff has monitored and reviewed the Program's progress on a regular basis. Staff members participate on the investment committee conference calls and regularly discuss portfolio construction objectives. Morgan Stanley has assembled a well-diversified portfolio as measured by vintage year, sector, geography, and general partner. Approximately 80% of the two portfolios are invested in buyouts, 55% in North America, and 80% in four sectors (consumer services, industrials, telecommunications, and financials). These capital allocations are in line with the partnership agreements' investment guidelines.

INVESTMENT GUIDELINES

Staff believes the existing investment guidelines which stipulate maximum exposure per deal and permissible non-U.S. exposure provide prudent parameters for the Program while allowing adequate flexibility. Staff recommends no changes to the guidelines during the extension period.

INVESTMENT TEAM

The Morgan Stanley AIP team consists of 10 portfolio managers supported by 19 principals and associates. The AIP senior team averages nine years at AIP and, save the departure of one professional, has been stable while adding investment professionals possessing specific skill sets (such as emerging markets). Neha Markle Champaneria, Michael Carroll, and Jean Reynolds will continue to serve as primary contacts to the LACERA relationship.

The AIP team has been a constructive partner with LACERA. In addition to LACERA staff participating on investment committee conference calls, staff has met with numerous AIP team members to discuss investments in all relevant global markets and strategies. Staff has traveled alongside AIP team members on due diligence trips assessing co-investments. AIP has consistently communicated regarding the portfolio's performance and investment strategy via in-person meetings and quarterly reports. Additionally, they have been very helpful in sharing due diligence findings on managers in the marketplace and facilitating introductions.

MANAGEMENT FEES AND CARRIED INTEREST

The management fee structure in the Program has evolved during the relationship with Morgan Stanley. The investment period management fee started at 85 basis points in GTB I, moved to 60 basis points in GTB II. A 10% carried interest fee in GTB I dropped to 7.5% in GTB II (though if the net IRR exceeds 15%, the carried interest rate reverts to 10%). The hurdle rate for both portfolios is 8%. While recognizing that LACERA is proposing a one-year extension to the existing program, staff will seek to renegotiate fees where opportunities exist.

CONCLUSION

In summary, Morgan Stanley has a seasoned team of investment professionals that can continue to manage the Program until staff has an opportunity to fully evaluate the Program, and determine the best course of action, which may result in the launch of an RFP search process. As of September 30, 2017, the Program's performance has proven accretive to LACERA’s private equity portfolio. Therefore, staff recommends an additional allocation of $100 million to the Program.

Attachments

Noted and Reviewed:

Jonathan Grabel
Chief Investment Officer

CW:DES:mm

ATTACHMENT 1

GLOSSARY OF TERMS

Term	Acronym	Definition
Dollar loss ratio	N/A	The percentage of total capital in deals below investment cost divided by the total invested capital.
Distributions to Paid-in Capital	DPI	A ratio of total capital returned to investors to the capital paid-in.
Earnings Before Interest, Taxes, Depreciation, and Amortization	EBITDA	A measure of a company's operating performance which is calculated by adding back the non-cash expenses of depreciation and amortization to a firm's operating income.
Enterprise Value	EV	Enterprise value represents the entire economic value of a company. More specifically, it is a measure of the theoretical takeover price that an investor would have to pay in order to acquire a particular firm.
Free Cash Flow	FCF	A measure of how much cash a business generates after accounting for capital expenditures such as buildings or equipment. This cash can be used for expansion, dividends, reducing debt, or other purposes.
Internal Rate of Return	IRR	IRR is a measure of performance used to evaluate the attractiveness of an investment. The interest rate at which the net present value of all cash flows is zero.
Multiple of Invested Capital	MOIC	A ratio of the current value of remaining investments within a fund plus the total value of all distributions, to date, to the amount of capital paid-in, to date.
Total Value to Paid-in Capital	TVPI	A ratio of the current value of remaining investments within a fund plus the total value of all distributions, to date, to the amount of capital paid-in, to date.
Exposure	N/A	Net asset value plus undrawn capital.

ATTACHMENT 2

LACERA's Private Equity Emerging Manager-of-Managers Program Summary

Fund Overview		**Economics (To be Negotiated)**		
Fund Name	GTB II-EXT	**GP Commitment**	TBD	
Separate Account Manager	Morgan Stanley AIP GP LP	**Management Fee**	**Year One**	0.60% per annum on invested capital
Capital Commitment	$100 million		**Thereafter**	To be reduced by 10% on an annual basis, or 0.30%, whichever is greater
Headquarters	100 Front Street, 7th Floor West Conshohocken, PA 19428			Management fee will conclude at the earlier of 6 years or the fund's final distribution
Timing	August 2016	**Distribution Waterfall**	**Preferred Return**	8.0%
Diligence Contact	Neha Markle Champaneria 610-260-7731 neha.markle@morganstanley.com		**Carried Interest**	7.5% after LACERA receives all its committed capital and the preferred return; 10.0 % if LACERA net IRR exceeds 15%

Strategy		**Key Terms**	
Fund Type	Separate Account Co-Investments	**Investment Period**	One year with a six month extension at Manager's discretion
Geography	Global	**Term**	Until the last fund makes its final distribution
Sector Focus	Diverse	**Manager Termination**	Yes
No. of Investments	Four to six investments	**No Fault**	Yes
Underlying Fund Sizes	NA	**Clawback**	Yes
Investment Size	$15 million to $25 million	**Recycling**	N/A
Investment Limitations	Maximum in any one position - $25 million	**Key Person(s)**	Neha Markle Champaneria Michael Carroll Jean Reynolds

PERFORMANCE REVIEW

AS OF DECEMBER 31, 2017

Performance Review

As of December 31, 2017

Board of Investments

February 14, 2018

Jonathan Grabel
Chief Investment Officer

LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION

Executive Summary

- LACERA's Total Fund benefited from benign capital markets in 2017
- Total Fund Returns (Net-of-Fees):
  - 7.5% for FYTD
  - 14.9% for 1 year
  - 8.1% for 3 years
  - 9.1% for 5 years
  - 5.7% for 10 years*
- All major asset categories up for FYTD and 1-year period
- LACERA's Total Fund Market Value at 12/31/16: $49.6 Billion
  12/31/17: $55.6 Billion
- Low realized volatility

* Inclusive of Great Financial Crisis

LACERA Total Fund – Performance

LACERA (Net-of-Fees)	FYTD	1 Year	3 Year	5 Year	10 Year
Total Fund Returns	7.5%	14.9%	8.1%	9.1%	5.7%
Policy Benchmark	6.7%	13.4%	7.8%	8.8%	5.8%
Total Fund Standard Deviation	--	--	5.2%	5.1%	8.7%
Total Fund Sharpe Ratio	--	--	1.5	1.8	0.6

Source: State Street & StyleAdvisor

Total Fund Performance Net-of-Fees

For the Quarter Ended December 31, 2017

	Qtr	FYTD	1 Year	3 Years	5 Years	7 Years	10 Years
U.S. Equity	**6.0**	**10.8**	**20.9**	**10.9**	**15.4**	**13.3**	**8.5**
Russell 3000	6.3	11.2	21.1	11.1	15.6	13.5	8.6
Non-U.S. Eq 50% Dev Mkt Hdg	**5.1**	**11.2**	**25.3**	**9.5**	**9.2**	**6.6**	**3.1**
Custom MSCI ACWI IMI N 50% Hdg	5.2	11.0	24.6	9.0	8.8	6.3	2.8
Fixed Income*	**0.5**	**1.8**	**5.2**	**3.7**	**3.2**	**4.4**	**5.3**
FI Custom Index	0.4	1.4	4.1	2.8	2.5	3.6	4.4
Real Estate**	**1.9**	**3.8**	**7.2**	**9.9**	**9.4**	**9.1**	**3.0**
Real Estate Target	1.7	3.3	7.1	10.3	10.9	11.5	6.3
Private Equity**	**4.3**	**10.4**	**17.6**	**12.0**	**14.8**	**14.4**	**11.1**
Private Equity Target	3.1	6.2	12.8	13.0	13.2	12.2	10.4
Commodities	**5.6**	**9.2**	**4.1**	**-3.4**	**-7.1**	**-6.5**	**-5.4**
Bloomberg Commodity Index	4.7	7.3	1.7	-5.0	-8.5	-8.1	-6.8
Hedge Funds (Net All)***	**1.4**	**2.9**	**5.8**	**2.5**	**5.2**		
Hedge Fund Custom Index	1.5	3.0	5.8	5.4	5.2		
Cash	**0.2**	**0.5**	**1.1**	**0.8**	**0.6**	**0.6**	**0.8**
Citigroup 6 M Treasury Bill Index	0.3	0.6	0.9	0.5	0.3	0.3	0.5
Total Fund (Net of Fees)	**3.6**	**7.5**	**14.9**	**8.1**	**9.1**	**8.2**	**5.7**
Total Fund Policy Benchmark	3.4	6.7	13.4	7.8	8.8	7.9	5.8

* Includes two portfolios that are reported with a one-month lag.
** Portfolio market values are one quarter in arrears. Preliminary returns.
*** Portfolio market values are one month in arrears.

Asset Allocation

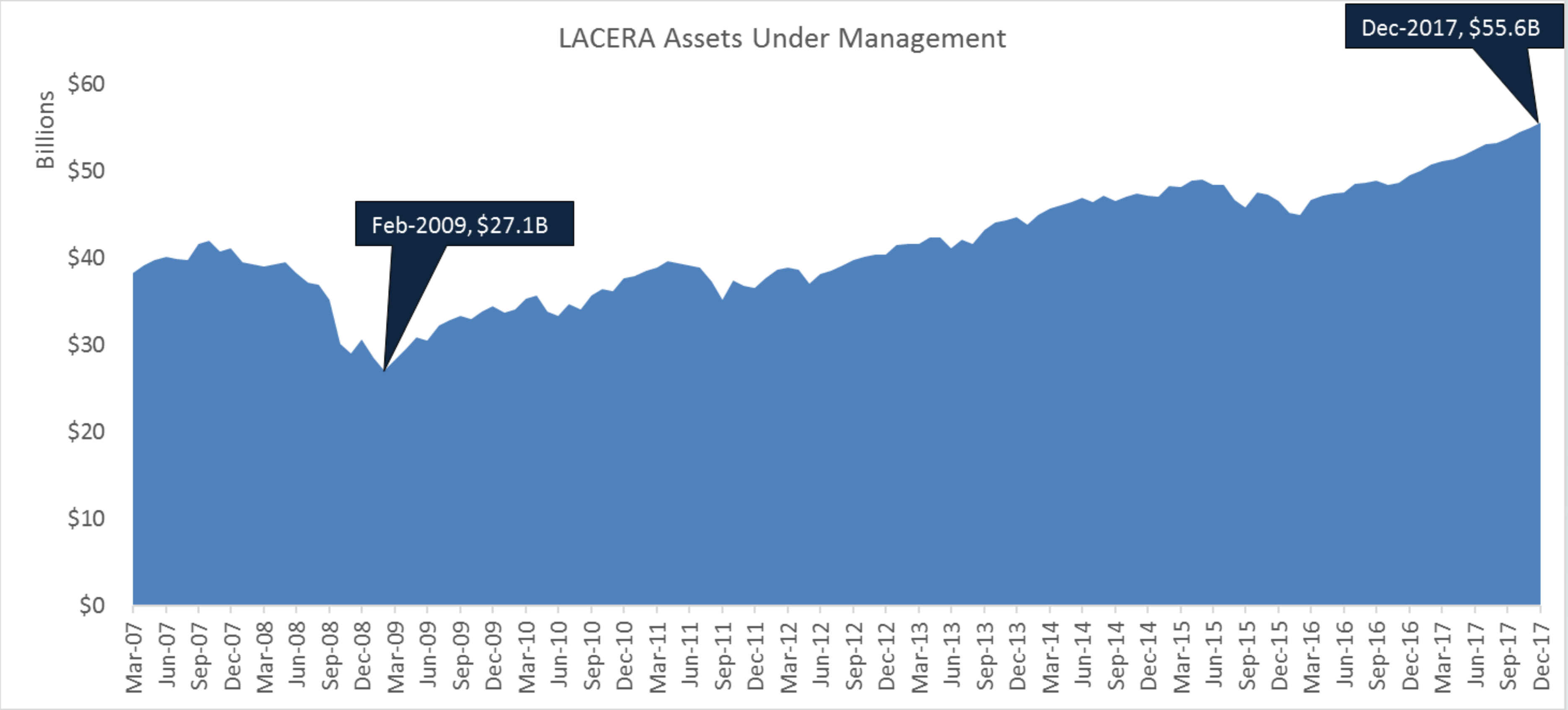
For the Quarter Ended December 31, 2017

		Percentage Allocation					
	Ending Market Value	Actual	Target	Relative	Min	Max	In Policy Range?
Total Equity	26,609,879,542	47.9	45.4	2.5	35.4	55.4	✓
Fixed Income*	13,617,302,958	24.5	25.4	-0.9	22.4	28.4	✓
Real Estate**	6,233,446,456	11.2	11.0	0.2	8.0	16.0	✓
Private Equity**	5,270,716,218	9.5	10.0	-0.5	7.0	14.0	✓
Commodities	1,400,538,497	2.5	2.8	-0.3	0.0	4.8	✓
Hedge Funds***	1,386,095,161	2.5	3.4	-0.9	0.4	5.4	✓
Cash	1,089,482,339	2.0	2.0	0.0	0.0	4.0	✓
Total Fund	55,607,461,171	100	100	0.0			

- Portfolio rebalancing is difficult in a strong bull market

* Includes two portfolios that are reported with a one-month lag.
** Portfolio market values are one quarter in arrears. Preliminary returns.
*** Portfolio market values are one month in arrears.

LACERA Assets Under Management



Public Markets Asset Category Highlights

Global Equities:

2017 Returns			
U.S. EQ Composite	Benchmark	Non-U.S. EQ	Benchmark
20.9%	21.1%	25.3%	24.6%

- Synchronized global growth and strong corporate earnings drove equity markets as global stocks rose 24% in 2017. Global equities advanced in every month of the year since the inception of relevant benchmarks.
- 2017 change in market leadership; U.S. no longer outperforming; emerging markets led all equities, rising nearly 37% for the year
- Sectors with exposure to sustained economic growth rallied, particularly information technology and consumer discretionary. Materials and industrials sectors also posted strong results.
- Within the U.S., growth stocks outperformed value stocks by over 16% while large caps outperformed small caps by over 7%

Public Markets Asset Category Highlights (cont'd)

Fixed Income:

2017 Returns	
Composite	Benchmark
5.2%	4.1%

- The Federal Reserve began unwinding its balance sheet while raising rates three times in 2017
- Yield curve flattened throughout the year as long-term bonds outperformed short-term bonds
- Credit sectors such as emerging markets and high yield outperformed because yield spreads compressed

Public Markets Asset Category Highlights (cont'd)

Commodities:

2017 Returns	
Composite	Benchmark
4.1%	1.7%

- Tale of two halves: Commodities rallied in second half of 2017, erasing losses from the first half of the year
- "V"-shaped performance driven by the energy sector. The energy index returned -19.99% in the first half of the year, and +19.58% in the second half.
- Industrial metals gained 29% as global growth accelerated

Private Markets Asset Category Highlights

Private Equity:

2017 Returns	
Composite	Benchmark
17.6%	12.8%

- Strong equity markets, low cost of capital, and strong demand for private equity drove performance
- Vibrant M&A market and the re-emergence of IPO activity (especially non-U.S.) further supported private equity gains
- Private markets have a harder time outperforming public in short-term bull markets

Private Markets Asset Category Highlights (cont'd)

Real Estate:

2017 Returns	
Composite	Benchmark
7.2%	7.1%

- Continued central bank stimulus generated strong demand for all real estate types
- Restrained supply in most markets led to modestly increasing values
- Industrial properties have reached historical low vacancy rates, facilitating strong rental growth. Industrial was the best performing major property type for the year.

Private Markets Asset Category Highlights (cont'd)

Hedge Funds:

2017 Returns	
Composite	Benchmark
5.8%	5.8%

- By design, LACERA's hedge fund program has low equity exposure
- Performance was generally positive against a backdrop of strong fundamentals, continued momentum, suppressed market volatility, and a limited number of surprises in the merger and event-driven space
- Strongest performance came from hedged equity strategies, event driven equity, and credit arbitrage strategies
- Weakest strategy type was macro/trading, particularly commodities related

State Street TruView Risk

- Inaugural inclusion of State Street's TruView risk in the quarterly performance book
- Useful for trend analysis
  - Monthly VAR
  - Monthly Volatility
- Equity is the majority of risk even in a low volatility environment
- Multiple asset classes provide diversification benefits
- U.S. centric portfolio with ~70% to U.S. investments
- Stress tests
  - Target versus benchmark
  - Diversification (upside/downside)

Conclusion

- LACERA's FYTD, 1 year, 3 year, 5 year and 7 year returns reflective of supportive capital markets
- FYTD, LACERA is above the actuarial target
- Low realized volatility environment
  - May have adverse allocation influence
- Economic expansion is 104 months long
- Forward-looking expectations are more muted
- Asset allocation study allows LACERA to position these investment gains in a potentially more diversified manner

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EXECUTIVE SUMMARY

for the quarter ended December 31, 2017

TOTAL FUND PERFORMANCE

LACERA's Total Fund rose 3.7% and exceeded its policy benchmark return of 3.4% by 30 basis points (bps) in the fourth quarter. For fiscal year-to-date, the Total Fund returned 7.6% and outperformed the policy benchmark by 90 bps. All asset classes generated positive returns for the quarter, fiscal year-to-date and for the year.

LACERA's U.S. Equity composite returned 6.1% for the quarter, which was the strongest absolute return for all asset classes. The composite underperformed its benchmark by 20 bps as five of seven active managers trailed their respective benchmarks.

LACERA's Non-U.S. equity composite matched its benchmark for the quarter despite six of ten active managers underperforming their respective benchmarks. Strong performance from developed market managers was offset by underperformance from emerging market managers.

LACERA's Fixed Income composite outpaced its benchmark by 20 bps for the quarter and a solid 140 bps for the year. Core and Core Plus manager outperformance along with allocations to High Yield and Opportnistic strategies drove the relative gain.

LACERA's Private Equity portfolio rose 4.3% versus its benchmark return of 3.1%, an outperformance of 120 bps. The relative results were the strongest among all asset classes. LACERA's Real Estate portfolio outperformed its benchmark return of 1.7% by 40 bps. The Hedge Funds portfolio rose 1.5% and was flat versus its benchmark. As a reminder, short-term results are not very meaningful for these three categories.

LACERA's Commodities composite outperformed by 90 bps for the quarter, with two of the three managers outperforming the Index.

	Qtr	FYTD	1 Yr	3 Yrs	5 Yrs	10 Yrs
U.S. Equity	**6.1**	**10.9**	**21.1**	**11.0**	**15.6**	**8.6**
RUSSELL 3000 (DAILY)	6.3	11.2	21.1	11.1	15.6	8.6
Non-U.S. Eq 50% Dev Mkt Hdg'd	**5.2**	**11.3**	**25.6**	**9.7**	**9.4**	**3.3**
CUSTOM MSCI ACWI IMI N 50%H	5.2	11.0	24.6	9.0	8.8	2.8
Fixed Income*	**0.6**	**2.0**	**5.5**	**4.0**	**3.5**	**5.5**
FI CUSTOM INDEX	0.4	1.4	4.1	2.8	2.5	4.4
BBG BC U.S. Universal	0.4	1.4	4.1	2.8	2.5	4.3
Real Estate**	**2.1**	**4.2**	**7.9**	**10.7**	**10.4**	**3.7**
REAL ESTATE TARGET	1.7	3.3	7.1	10.3	10.9	6.3
Private Equity**	**4.3**	**10.4**	**17.6**	**12.0**	**14.8**	**11.1**
PRIVATE EQUITY TARGET	3.1	6.2	12.8	13.0	13.2	10.4
Commodities	**5.6**	**9.4**	**4.4**	**-3.1**	**-6.7**	**-5.0**
Bloomberg Commodity Index Total Return	4.7	7.3	1.7	-5.0	-8.5	-6.8
Hedge Funds***	**1.5**	**3.0**	**5.9**	**2.6**	**5.3**	
HEDGE FUND CUSTOM INDEX	1.5	3.0	5.8	5.4	5.2	
Cash	**0.2**	**0.6**	**1.2**	**0.8**	**0.6**	**0.8**
Citigroup 6 M Treasury Bill Index	0.3	0.6	0.9	0.5	0.3	0.5
Total Fund (Gross of Fees)	**3.7**	**7.6**	**15.2**	**8.3**	**9.4**	**5.9**
TOTAL FUND POLICY BENCHMARK	3.4	6.7	13.4	7.8	8.8	5.8
Total Fund (Net of Fees)	**3.6**	**7.5**	**14.9**	**8.1**	**9.1**	**5.7**

All asset class returns shown are Gross of Fees. Yearly returns are annualized.
See Glossary for all benchmark definitions.
* The performance and market values of two opportunistic portfolios are reported with a one-month lag.
** Portfolio and benchmark are reported with a one-quarter lag. Preliminary returns.
*** Portfolio and benchmark are reported with a one-month lag.

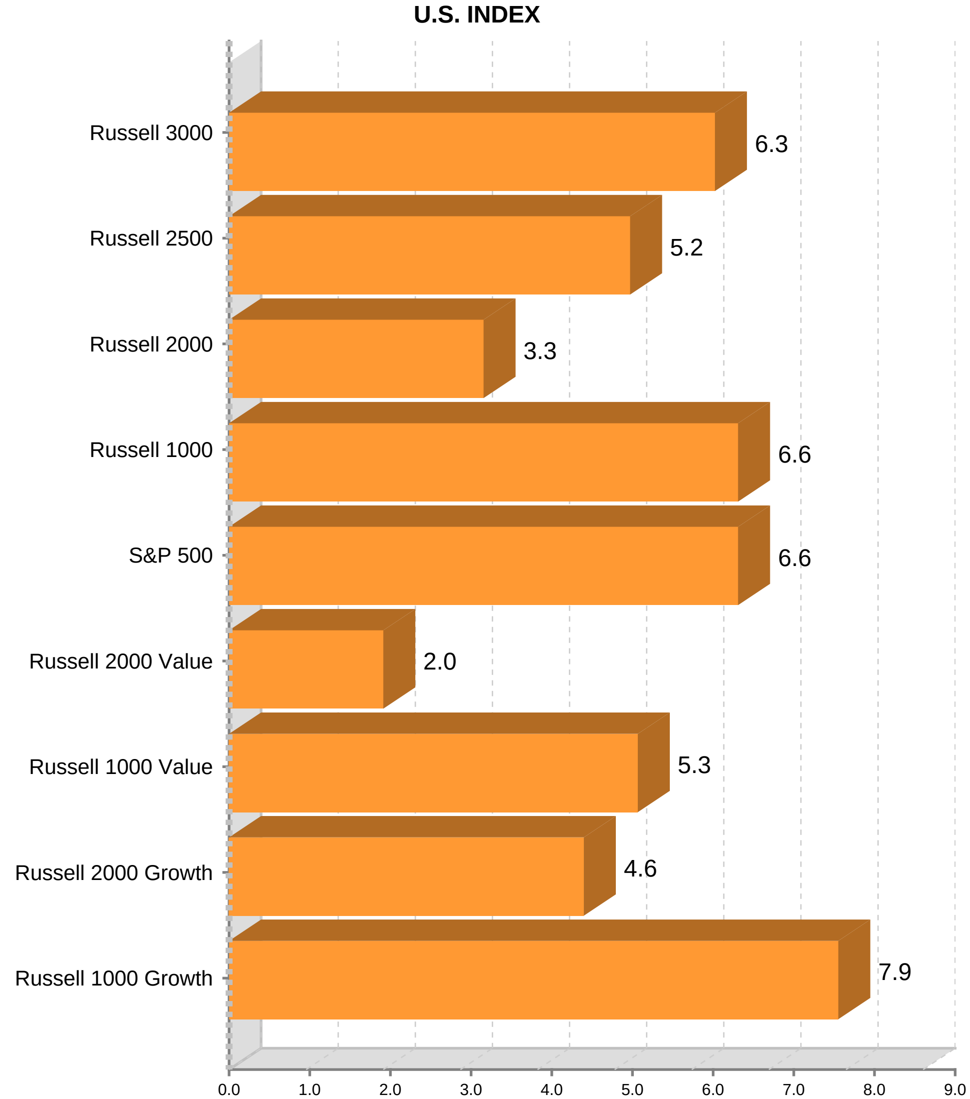
EXECUTIVE SUMMARY
for the quarter ended December 31, 2017

EQUITY MARKET REVIEW

Global equities ended the year on a positive note, advancing in each month of the quarter. The market rally was fueled by investor optimism over the continued synchronized global growth, a strong corporate earnings picture, and the prospects of U.S. corporate tax reform. The MSCI ACWI IMI index gained 5.7% in the fourth quarter and 24.0% for the year.

U.S. stocks rose for the ninth consecutive quarter as major market indices reached new highs throughout the period. Stock performance was driven by positive economic data that was released during the quarter. Data reflected better-than-expected third quarter GDP growth, an improving labor market, strong corporate earnings, and growth in consumer spending.

LACERA's U.S. equity benchmark, the Russell 3000 Index, returned 6.3%. Large capitalization (cap) stocks outperformed small caps. The large cap Russell 1000 Index gained 6.6% compared to a 3.3% increase in the small cap Russell 2000 Index. Growth stocks outperformed their value counterparts across all market capitalizations.



EXECUTIVE SUMMARY
for the quarter ended December 31, 2017

EQUITY MARKET REVIEW

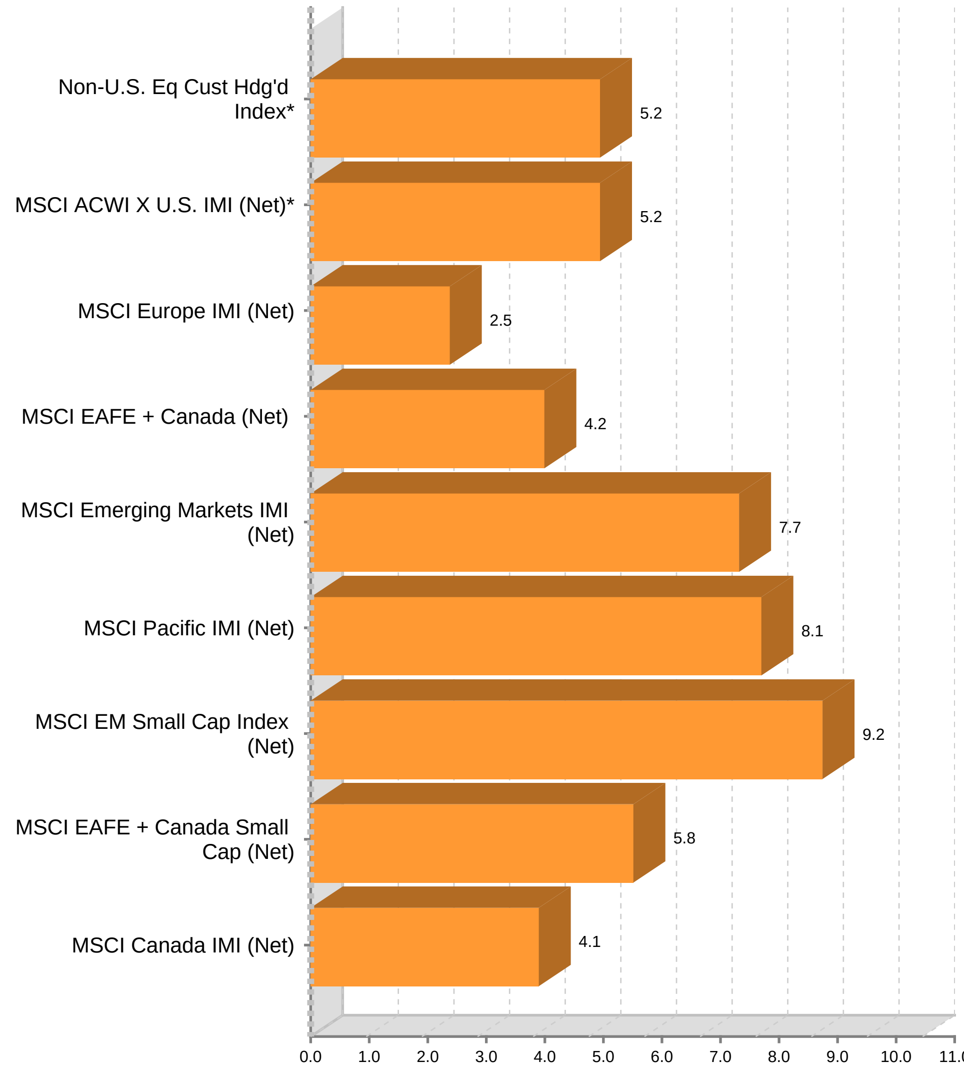
Non-U.S. equity markets, as represented by the MSCI ACWI ex-U.S. IMI (unhedged) index, gained 5.2% for the quarter and 27.8% for the year. The Pacific region posted the strongest returns in the fourth quarter, rising 8.1%. Emerging markets, Canada, and Europe rose 7.7%, 4.1%, and 2.5% respectively for the quarter.

The U.S. dollar (USD) had mixed results versus most major currencies. The USD weakened 1.6% versus the Euro and 0.9% against the British pound. The USD strengthened 0.8% versus the Canadian dollar and 0.2% versus the Japanese yen. Changes in the USD relative to other currencies can impact returns for dollar-based investors that own non-dollar denominated securities. LACERA's passive 50% developed markets currency hedge into USD was flat for the quarter.

European equities extended gains from prior quarter, rising 2.5% in the fourth quarter and 26.8% for the year. Results were driven by relatively positive macro-economic data within the Eurozone. Data released in the quarter indicated a continued recovery as the region's GDP grew by 0.6% in Q3. Other data also showed an improvement in the labor market, as the unemployment rate fell to 8.8%, the lowest rate since January 2009. Despite improved economic forecasts for the region, the ECB left rates unchanged at its December meeting, as officials remained focused on below target inflation.

The Pacific Basin region posted the strongest results for the quarter as Japan led the region higher. Japan equities were bolstered by upbeat economic data, strong corporate earnings, and Prime Minister Shinzo Abe's landslide victory in the October parliamentary elections. Emerging markets had another solid quarter, registering back-to-back quarterly gains above 7.5%. Investor risk appetite was spurred by the continued global expansion, coupled with the rise in commodity prices, and USD weakness relative to EM currencies. For the year, emerging markets rose nearly 37%, their best annual performance since 2009.

NON-U.S. INDEX



* See Glossary

EXECUTIVE SUMMARY
for the quarter ended December 31, 2017

EQUITY MANAGER REVIEW

Large Cap

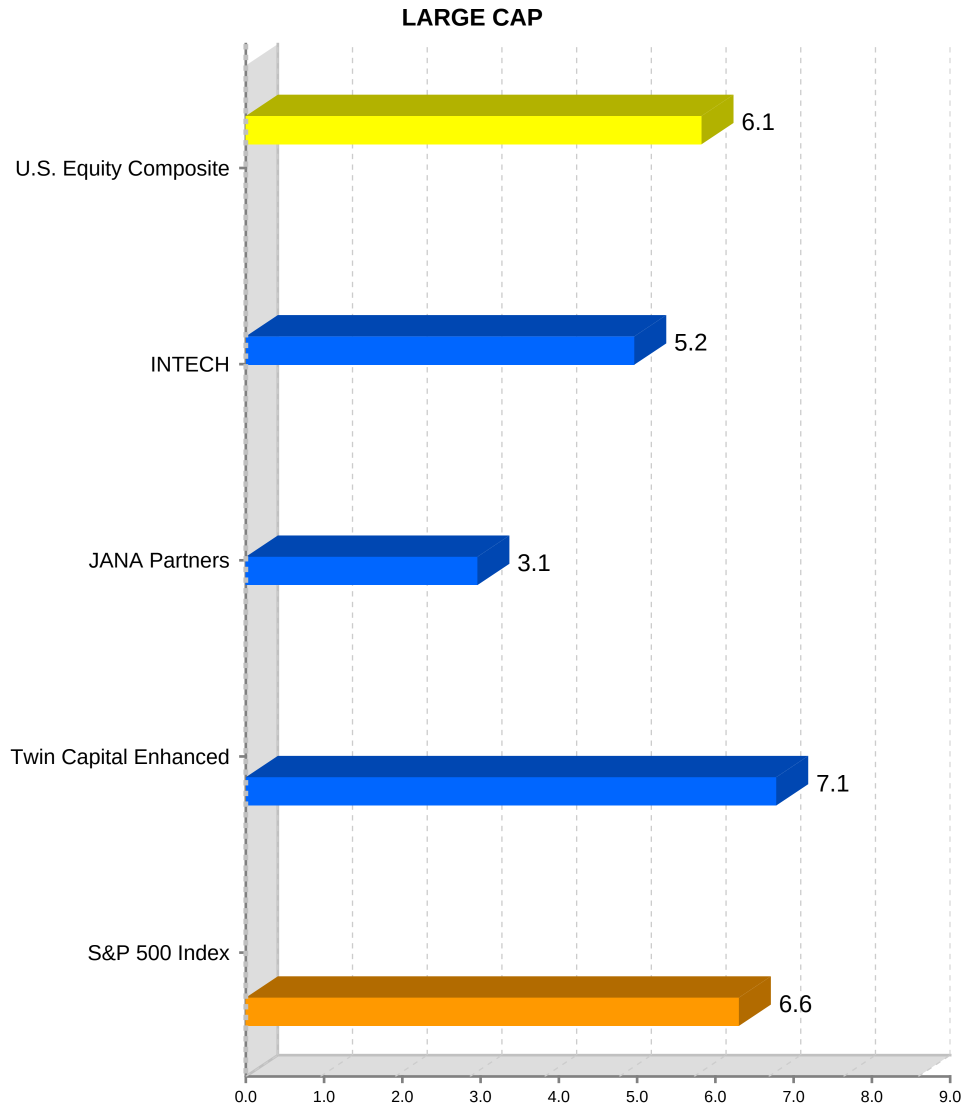
LACERA's active U.S. Large Cap managers posted negative relative returns as two of the three managers underperformed their respective benchmarks during the quarter. The U.S. equity market posted strong positive returns as investors were factoring the positive impact on earnings from prospective corporate tax rate changes. For the year, the large cap managers in aggregate posted moderate outperformance relative to their respective benchmarks.

INTECH, one of LACERA's two quantitative managers, underperformed its benchmark by 140 bps due to stock selection within the information technology and consumer discretionary sectors. An overweight to the utilities sector also detracted from relative performance. For the calendar year, INTECH outperformed by 200 bps due to stock selection in the health care, information technology, industrials, and financials sectors.

Twin, the other quantitative manager, outperformed its benchmark by 50 bps through stock selection in the utilities, consumer discretionary, and industrials sectors. For the calendar year, Twin underperformed by 70 bps due to stock selection in the health care and consumer discretionary sectors.

JANA Partners, the U.S. focused activist manager, underperformed its benchmark by 350 bps as the manager had a large position in the energy sector that had a negative price change during the quarter. For the calendar year, JANA Partners outperformed by 250 bps due to a position in the consumer staples sector.

As of the quarter end, no large cap manager had observations* outside their calculated performance bands.



See Glossary for all Custom Index definitions.
* Each quarterly observation is based on trailing one year excess returns.

EQUITY MANAGER REVIEW (...cont.)

Small/Mid Cap

LACERA's small/mid cap managers posted mixed results but underperformed as a group as three of the four managers trailed their respective benchmarks. For the year, the small/mid cap managers in aggregate underperformed as three of the four managers lagged their respective benchmarks.

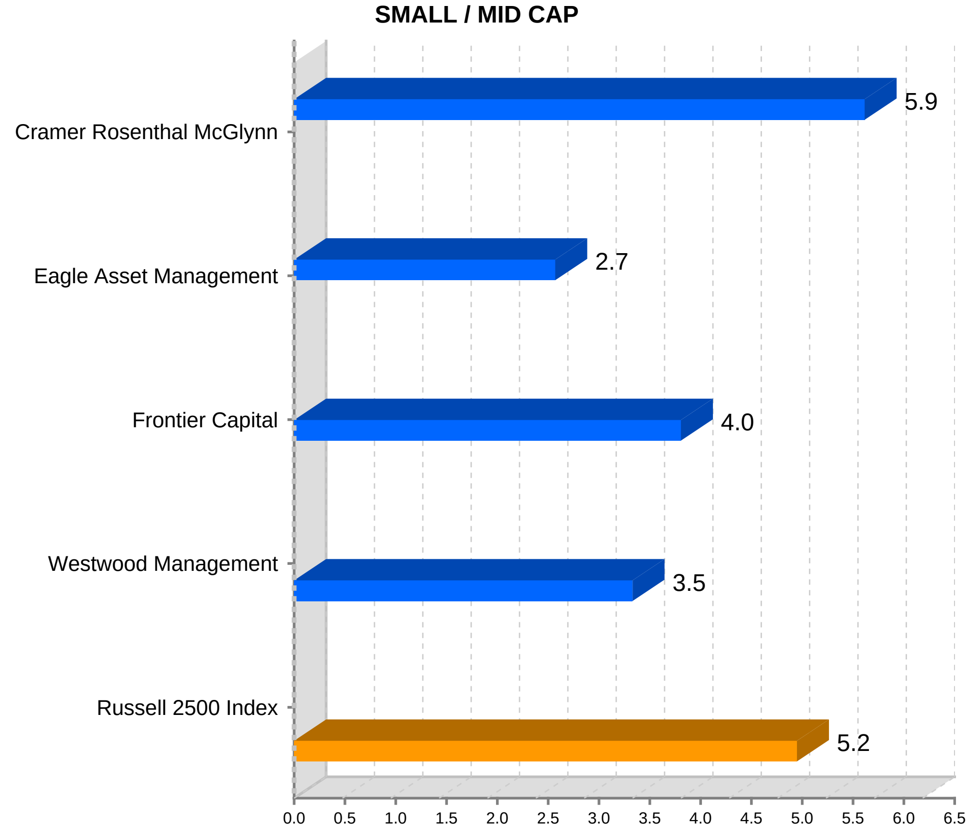
CRM outperformed its benchmark by 70 bps due to positive stock selection in the industrials and information technology sectors. For the calendar year, CRM underperformed by 120 bps due to stock selection in the consumer staples sector.

Eagle underperformed its benchmark by 250 bps through negative stock selection in the consumer discretionary, information technology, industrials, and materials sectors. For the calendar year, Eagle underperformed by 120 bps due to stock selection in the materials sector.

Frontier underperformed by 120 bps due to an overweight to and stock selection in the information technology sector. For the calendar year, Frontier outperformed by 280 bps due to stock selection in the materials and financials sectors.

Westwood underperformed its benchmark by 170 bps driven by stock selection in the information technology, consumer discretionary, and materials sectors. For the calendar year, Westwood underperformed by 560 bps due to stock selection in the information technology, health care, industrials, and consumer discretionary sectors.

As of the quarter end, no small/mid cap manager had observations* outside their calculated performance bands.



* Each quarterly observation is based on trailing one year excess returns.

EXECUTIVE SUMMARY
for the quarter ended December 31, 2017

EQUITY MANAGER REVIEW (...cont.)

Non-U.S.

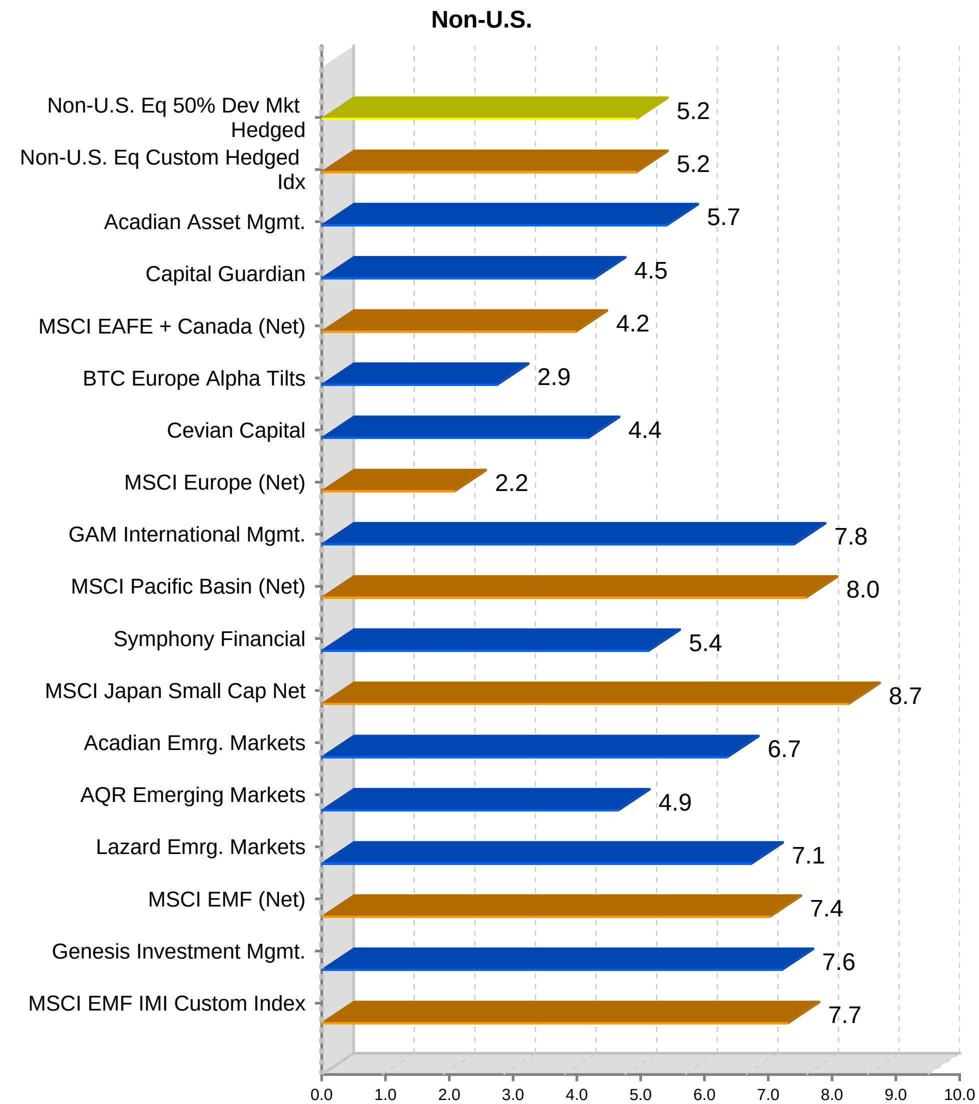
LACERA's non-U.S. equity managers matched the composite benchmark as a group despite six of ten active managers underperforming their respective benchmarks for the quarter.

Among the developed markets managers, **Acadian** exceeded its benchmark by 150 bps due to stock selection in Germany and in the financials sector. **Capital Guardian's** EAFE+Canada strategy generated 30 bps of relative returns mainly due to stock selection in France and Germany. Stock selection within the financials sector also contributed to the outperformance.

BlackRock Europe Tilts outperformed its benchmark by 70 bps driven by stock selection in Norway and in the consumer discretionary sector. **Cevian** surpassed its benchmark by 220 bps. The positive results were mostly attributable to stock selection in Sweden and Germany within the information technology and industrials sectors. **GAM** lagged its benchmark by 20 bps due to an overweight allocation to Singapore and stock selection within the telecoms sector. **Symphony** trailed its index by 330 bps. An overweight to and stock selection within the information technology sector drove results.

In emerging markets, **Acadian** lagged its benchmark by 70 bps as stock selection in China and in the information technology sector detracted from relative performance. **AQR** underperformed by 250 bps mainly due to negative stock selection and currency positioning. **Lazard's** closed-end fund strategy underperformed its index by 30 bps driven by negative selection among its Asian funds. An underweight allocation to China also detracted from results. **Genesis** trailed its benchmark by 10 bps as stock selection in Russia and in the financials sector negatively impacted the portfolio's relative performance.

As of quarter end, three non-U.S. equity managers had observations* outside their calculated performance bands: Acadian Developed (three observations above), BlackRock Europe Tilts (one observation above), and Capital Group (one observation above).



See Glossary for all Custom Index definitions.
* Each quarterly observation is based on trailing one year excess returns.

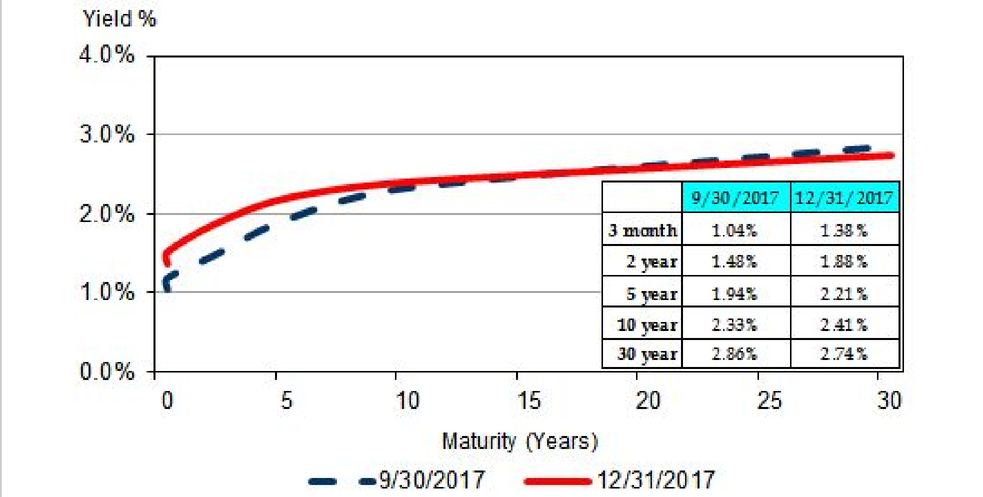
FIXED INCOME MARKET REVIEW

The U.S. fixed income market experienced a gain of 0.4% in the fourth quarter (measured by the Bloomberg Barclays U.S. Universal Index) to end the year up 4.1%. The fundamental backdrop remained favorable during the quarter with continuing economic expansion and the passing of sweeping tax reform. This fueled a rally in risk assets while grinding credit spreads to record tights. U.S. 10-year Treasury yields rose in the quarter while government bond yields in most other developed markets fell. In November, Federal Reserve Governor, Jerome Powell, was selected as the next Fed Chair. This was largely anticipated by the market and signals a continuation of Janet Yellen's monetary policies.

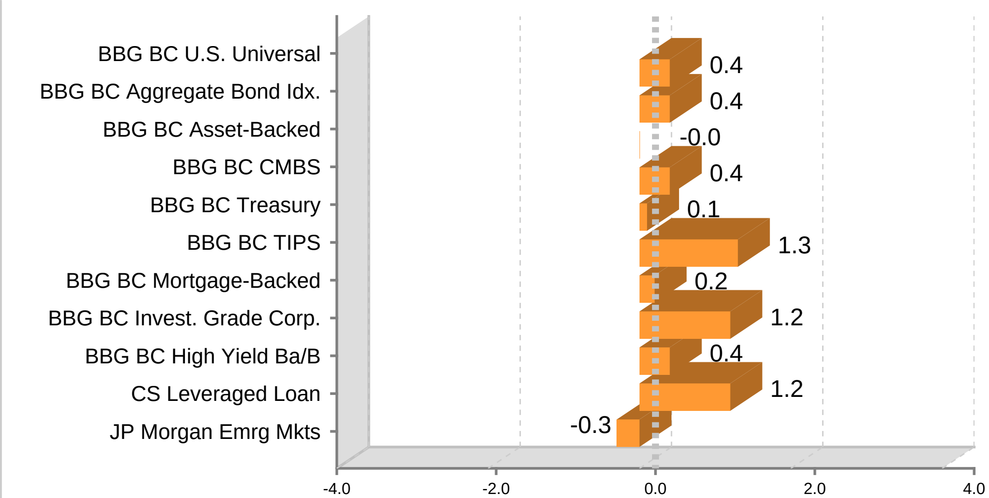
Developed market yield curves broadly flattened in the quarter, continuing a year-long trend as central banks shifted toward less accommodation. In the fourth quarter, the Fed started to reduce its balance sheet and raised rates by 0.25% for the third time this year. The 2-year Treasury yield rose 0.4% while the 30-year Treasury yield fell by 0.1% further flattening the curve. In 2018, the Fed is projected to increase rates 3 times. The BoE hiked rates by 0.25% for the first time in 10 years.

All sectors of the bond market were modestly positive for the fourth quarter with the exception of EMD[1] which was down slightly. Longer term bonds outperformed shorter term bonds in the quarter and the year on continued curve flattening. Credit sectors outperformed government bonds; however, higher quality bonds fared better than their lower rated counterparts. Metals, mining, and energy were particularly strong on rising commodity prices. Mortgage credit, specifically non-agency mortgage-backed securities, also performed well as housing fundamentals remained strong. TIPS[1] were the top performer at 1.3%, outperforming nominal treasuries by 1.2%, as inflation expectations increased. Investment grade and leveraged loan sectors both returned 1.2% for the quarter, outperforming high yield by 0.8%. Among securitized sectors, CMBS[1] outperformed MBS[1] (0.4% vs 0.2%) and ABS[1] (0.0%) for the quarter.

U.S. Treasury Yield Curve



Total Returns



1 ABS = asset-backed securities; EMD = emerging market debt; MBS = mortgage-backed securities; CMBS = commercial mortgage-backed securities; TIPS = Treasury Inflation Protected Securities.

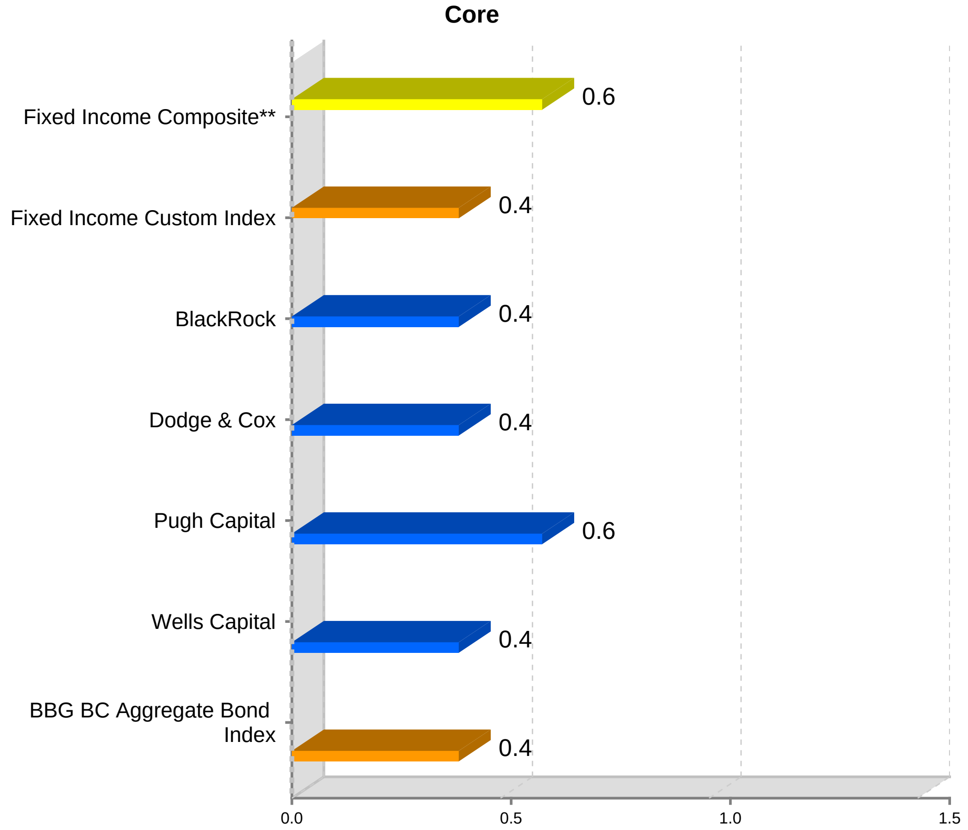
FIXED INCOME MANAGER REVIEW

Core

All of LACERA's core bond managers either matched or surpassed the index for the quarter and the year. **Pugh Capital**, one of LACERA's emerging managers, performed the best in the quarter, outpacing the Bloomberg Barclays Aggregate Bond Index by 20 bps for the quarter and 50 bps for the year. Pugh's outperformance resulted from an overweight allocation to and security selection within corporates, combined with an overweight to CMBS and ABS sectors. **Dodge & Cox** matched the index for the quarter, but produced 100 bps of outperformance for the year. The portfolio's duration positioning, overweight allocation to and security selection within corporates, along with an underweight to U.S. Treasury securities drove performance for the year.

Wells Capital and BlackRock matched the index for the quarter, but added 40 bps for the year. Wells' results came from sector and security selection within consumer ABS and corporates, combined with relative value trading in MBS. BlackRock's security selection within securitized sectors (CMBS, ABS, and MBS) were the biggest contributors to the portfolio's overall performance. Corporate security selection was also additive.

As of quarter end, one core manager had observations* outside its calculated performance bands: Dodge & Cox (five observations above).



* Each quarterly observation is based on trailing one year excess returns.
** The performance and market values of two opportunistic portfolios are reported with a one-month lag.

FIXED INCOME MANAGER REVIEW (...cont.)

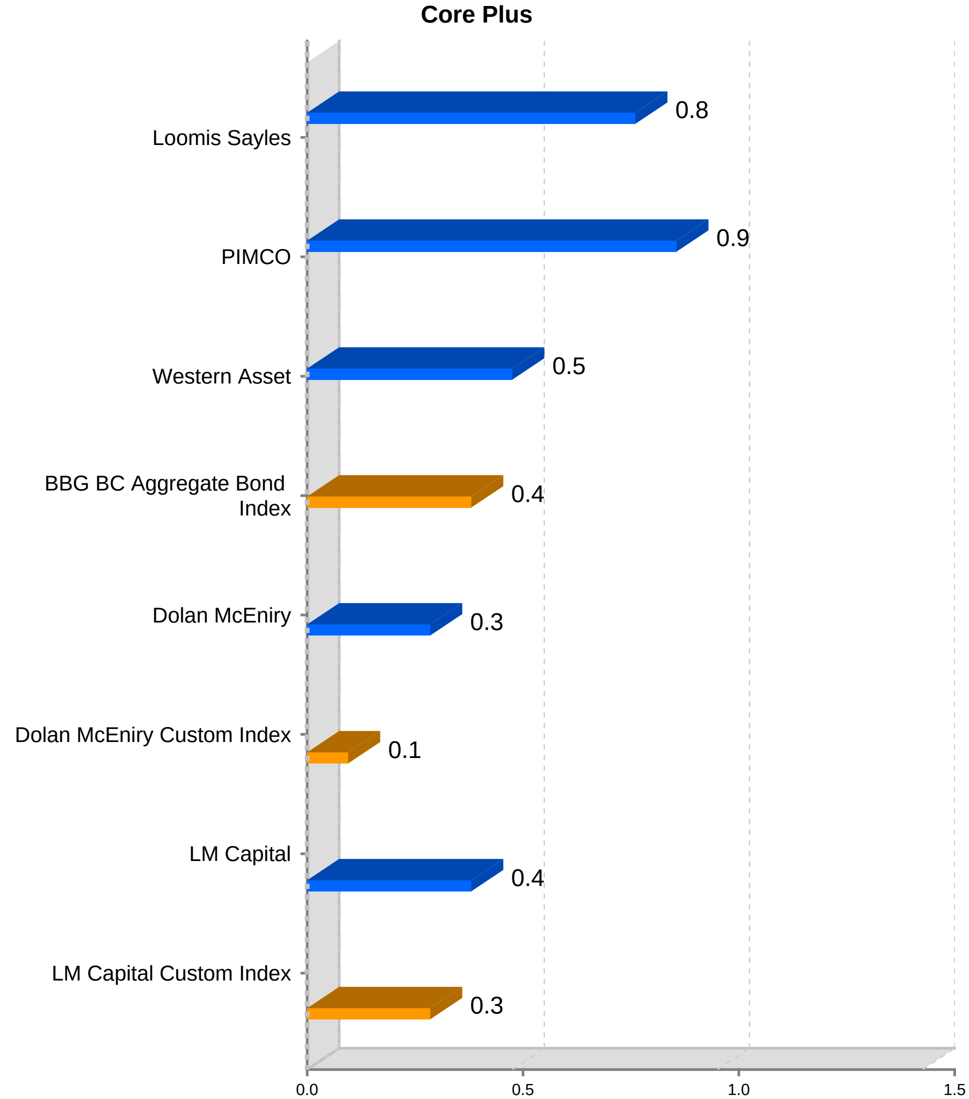
Core Plus

All of LACERA's five core plus managers outperformed their respective benchmarks for the quarter. **PIMCO** bested all other core plus managers, surpassing the Aggregate Index by 50 bps for the quarter and 300 bps for the year. The portfolio's shorter-than-benchmark duration positioning, allocation to Agency and non-Agency MBS, overweight to corporates (primarily financials), and holdings in TIPS drove performance. **Loomis Sayles'** outperformance of 40 bps for the quarter and 200 bps for the year was the result of an out-of-index allocation to high yield and EMD, exposure to TIPS, and an underweight to U.S. Treasury securities.

Dolan McEniry, LACERA's other fixed income emerging manager, outpaced its custom benchmark by 20 bps and 180 bps for the quarter and year, respectively. Dolan's overweight to and security selection within investment grade corporates, combined with an underweight to U.S. Treasury securities were the portfolio's sources of excess return. **Western Asset** generated 10 bps and 250 bps of outperformance over its benchmark for the quarter and year, respectively. The portfolio benefitted from yield curve positioning, exposure to investment grade and high yield corporates, and positions in securitized sectors (non-Agency MBS, CMBS, and ABS).

LM Capital outpaced its custom benchmark by 10 bps for the quarter and 70 bps for the year. Security selection within EMD and corporates added positively to performance, as well as yield curve positioning.

As of quarter end, four core plus managers had observations* outside their calculated performance bands: Dolan McEniry, Loomis Sayles, Western Asset (each had six observations above) and PIMCO (four observations above).



See Glossary for all Custom Index definitions.
* Each quarterly observation is based on trailing one year excess returns.

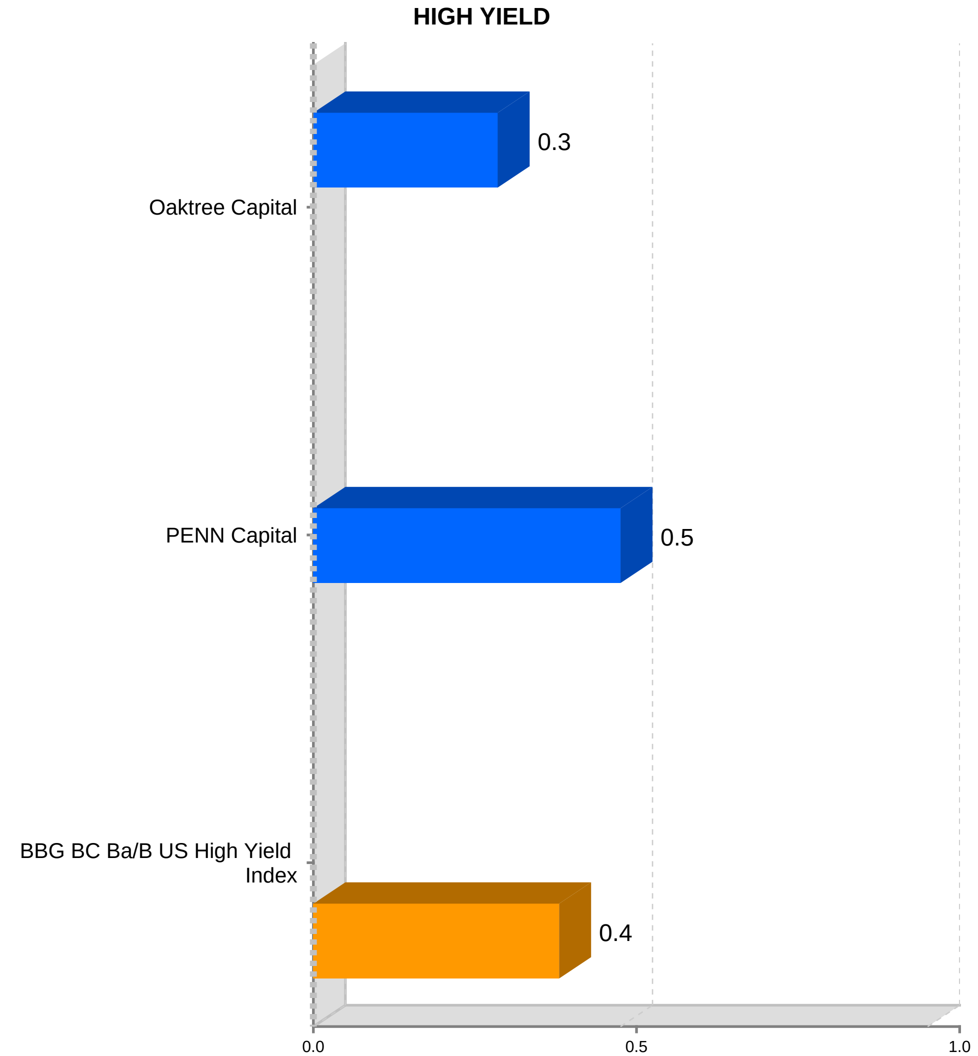
FIXED INCOME MANAGER REVIEW (...cont.)

High Yield

LACERA's high yield managers had mixed results for the quarter. **PENN Capital** surpassed the Bloomberg Barclays High Yield Ba/B Index by 10 bps for the quarter and for the year. The portfolio's outperformance was driven by good credit selection within metals & mining, technology, and media & broadcasting sectors, and an underweight to BB-rated securities.

Oaktree Capital lagged the index by 10 bps and 80 bps for the quarter and year, respectively. Oaktree's security selection within independent energy, wireless, banking, oil field services, and retail contributed to this negative performance.

As of quarter end, one high yield manager had observations* outside its calculated performance bands: Oaktree Capital (four observations below).



* Each quarterly observation is based on trailing one year excess returns.

EXECUTIVE SUMMARY
for the quarter ended December 31, 2017

FIXED INCOME MANAGER REVIEW (...cont.)

Opportunistic

LACERA's non-traditional fixed income investments include portfolios comprised of securitized assets, bank loans, high yield corporate bonds, distressed securities, emerging markets debt, and private debt. Last year was a favorable market environment for opportunistic credit; collectively, the opportunistic managers returned 7.5%, surpassing the Core and Core Plus sub-composites by 3.5% and 1.7%, respectively.

Tennenbaum was the best performing opportunistic manager for the quarter, beating the index by 90 bps and 420 bps for the year. Performance for both time periods was driven by security selection within utilities and agriculture. **Ashmore** outperformed by 40 bps as exposure to Mexican and South American sovereign bonds added the most value in the quarter.

Beach Point exceeded its benchmark by 30 bps for the quarter and 350 bps for the year. High yield and bank loan debt benefitted the portfolio throughout the year, primarily in healthcare, gaming, and media sectors. **Aberdeen** outpaced its index by 10 bps. The portfolio's country allocation decisions drove the relative gain. Bond selection within Ecuador and Ghana also positively impacted performance.

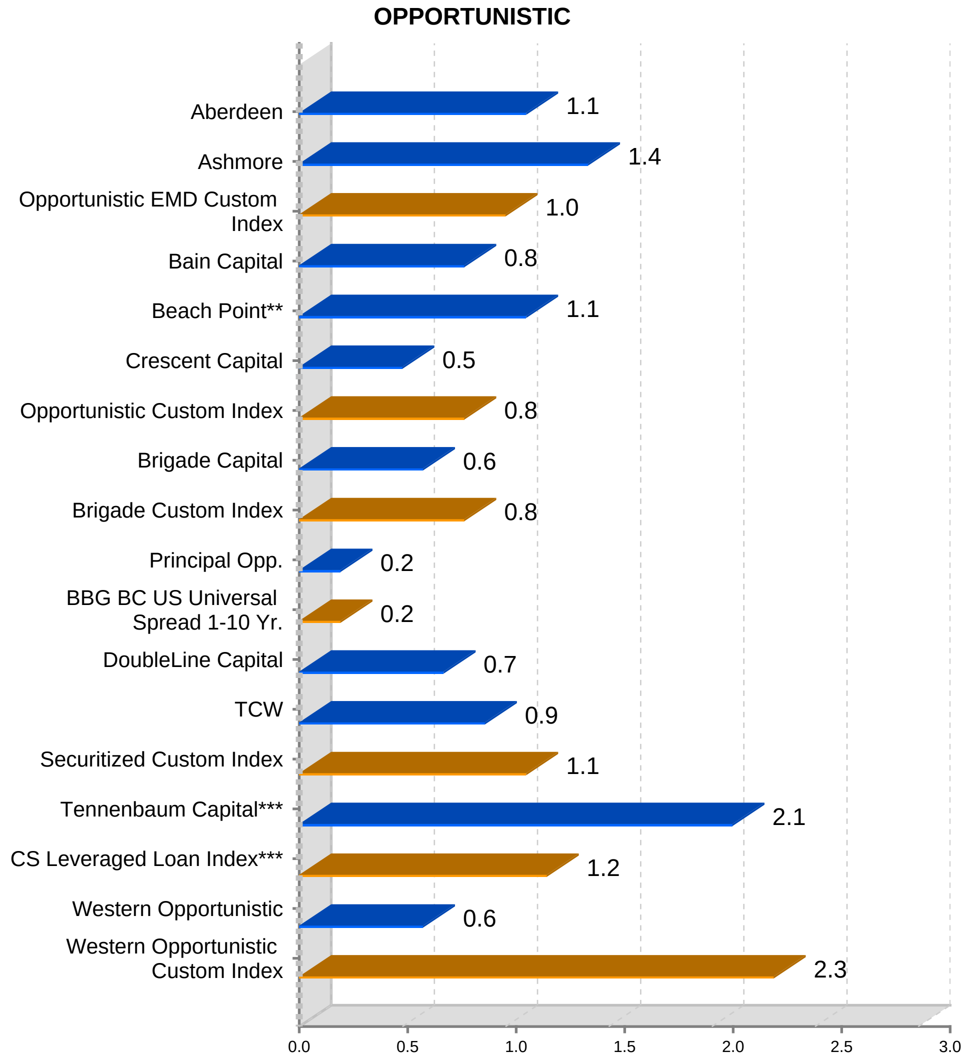
Bain and Principal matched their respective benchmarks in the quarter. Bain's high yield debt exposure was additive while an underweight to the energy sector, which rallied in the fourth quarter, detracted. **Principal's** positioning within high yield also contributed to outperformance but was offset by holdings within EMD.

Despite **Brigade's** 20 bps of underperformance for the quarter, the manager beat its benchmark by 170 bps for the year. Quarter results were dampened by security selection within high yield; however, the portfolio's allocation to high yield bonds was beneficial over the full year. **TCW** also lagged by 20 bps for the quarter, as the manager's overweight to and bond selection within CMBS detracted.

Crescent lagged its benchmark by 30 bps. The manager's consumer-related and technology fixed income holdings were the primary detractors to relative performance. **DoubleLine** trailed its index by 40 bps as exposure to the ABS sector detracted.

The **Western Opportunistic** portfolio lagged its benchmark by 170 bps. However, the vast majority of underperformance was due to anomalies in the construction of Western's benchmark. Over the years, many securities have fallen out of the index and it is now made up of only nine securities. As a result, returns for the benchmark can be highly irregular since any one security can drive performance. Staff will review Western's benchmark in the coming months.

As of quarter end, five opportunistic managers had observations* outside their calculated performance bands: Beach Point (eleven observations above), Tennenbaum (nine observations above), Western Opportunistic (one observation below), TCW (one observation below), and DoubleLine (one observation below).



See Glossary for all Custom Index definitions.
* Each quarterly observation is based on trailing one year excess returns.
** Represents the combined performance of two portfolios, one of which is reported with a one-month lag.
*** One-month lag.

EXECUTIVE SUMMARY

for the quarter ended December 31, 2017

COMMODITIES MARKET REVIEW

The Bloomberg Commodity Index (BCOM) returned 4.7% for the quarter and 1.70% for the year. Over the quarter, energy and industrial metals contributed the most to Index performance.

The largest sector in the Index, **Energy**, climbed 8.9% in the quarter. The continued reduction of U.S. crude inventories and disciplined supply cuts from OPEC and non-member countries such as Russia drove the market rally. Brent crude (+19.2%) led the sector, followed by WTI crude (+16.0%), diesel (+13.9%), and unleaded gasoline (+13.7%). Natural gas was a notable drag for the sector, declining 11.8% and 36.4% for the year due to high inventory levels and a mild winter season.

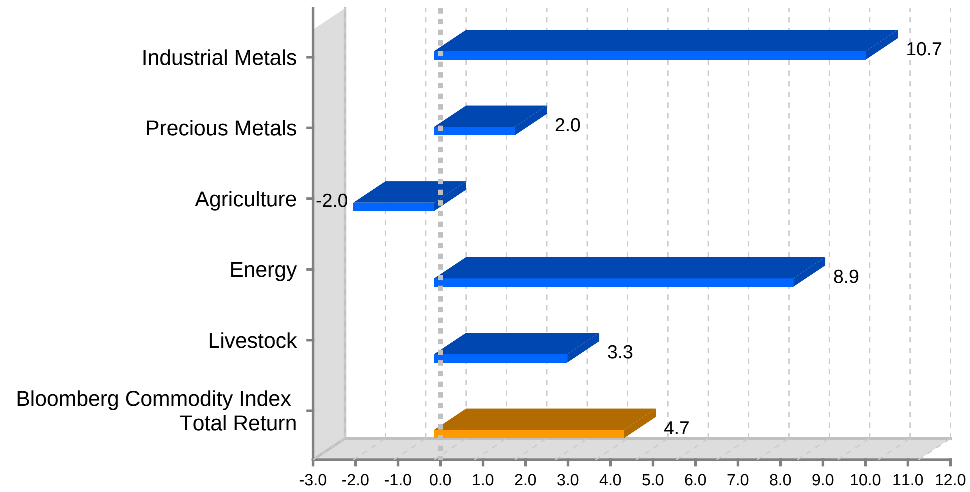
Agriculture, the second largest Index group, fell 2.0%. Exceptionally strong global production kept price pressure on grains, which represents roughly 80% of the sector. Forecasts of larger-than-expected U.S. harvests caused Chicago and Kansas City Wheat to decline 8.2% and 6.9%, respectively. Corn also fell, registering a -4.6% return as U.S. stockpiles reached an 11-year high in December. Softs, at a 20% weight of the sector, performed relatively well. Cotton was the stand-out commodity within softs, increasing 14.9% on bad crop harvests in Pakistan and India, two of the world's largest suppliers of cotton.

The **Industrial Metals** sector was the best performer in the quarter, gaining 10.7%. A favorable global demand outlook, weaker dollar, and dwindling inventories underpinned the rally in base metals. Improved economic growth in China was an added boost to sector return as China accounts for roughly half of global industrial metals consumption. Nickel registered the best performance for the quarter and year, up 21.3% and 25.6%, respectively. In an environment of increasing global demand, nickel experienced a supply shock that played out over the whole of 2017. During the year, numerous Philippine nickel mines were closed for failing to meet environmental standards. The balance of the sector also performed well: Copper rallied 11.3%, aluminum increased 7.6%, and zinc was up 6.0% in the quarter.

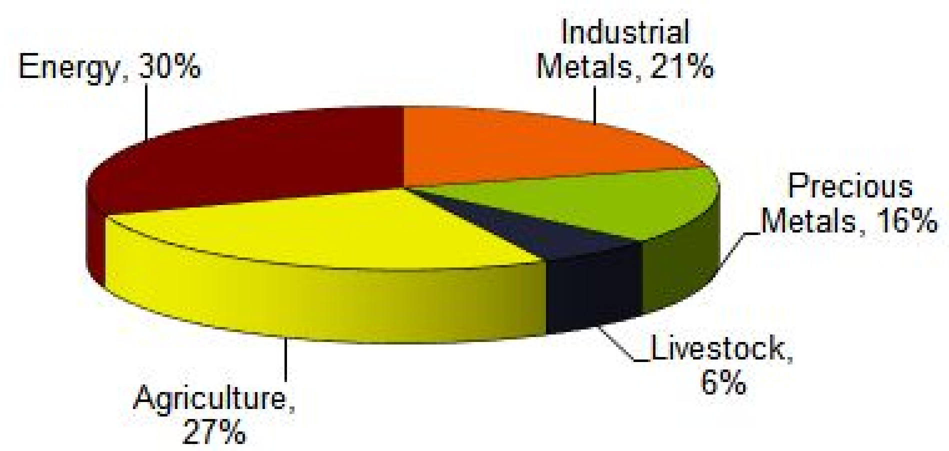
Precious Metals returned 2.0% in the quarter. Silver gained 2.5% while gold, the largest weighting in the Index, posted a 1.9% increase.

Livestock continued to recover from a seven-year low in 2016, gaining 3.3% in the quarter. Strong exports drove the returns for lean hogs (+7.8%) and live cattle (+0.9%).

Bloomberg Commodity Index Total Returns



Bloomberg Commodity Index Sector Weights



EXECUTIVE SUMMARY

for the quarter ended December 31, 2017

COMMODITIES MANAGER REVIEW

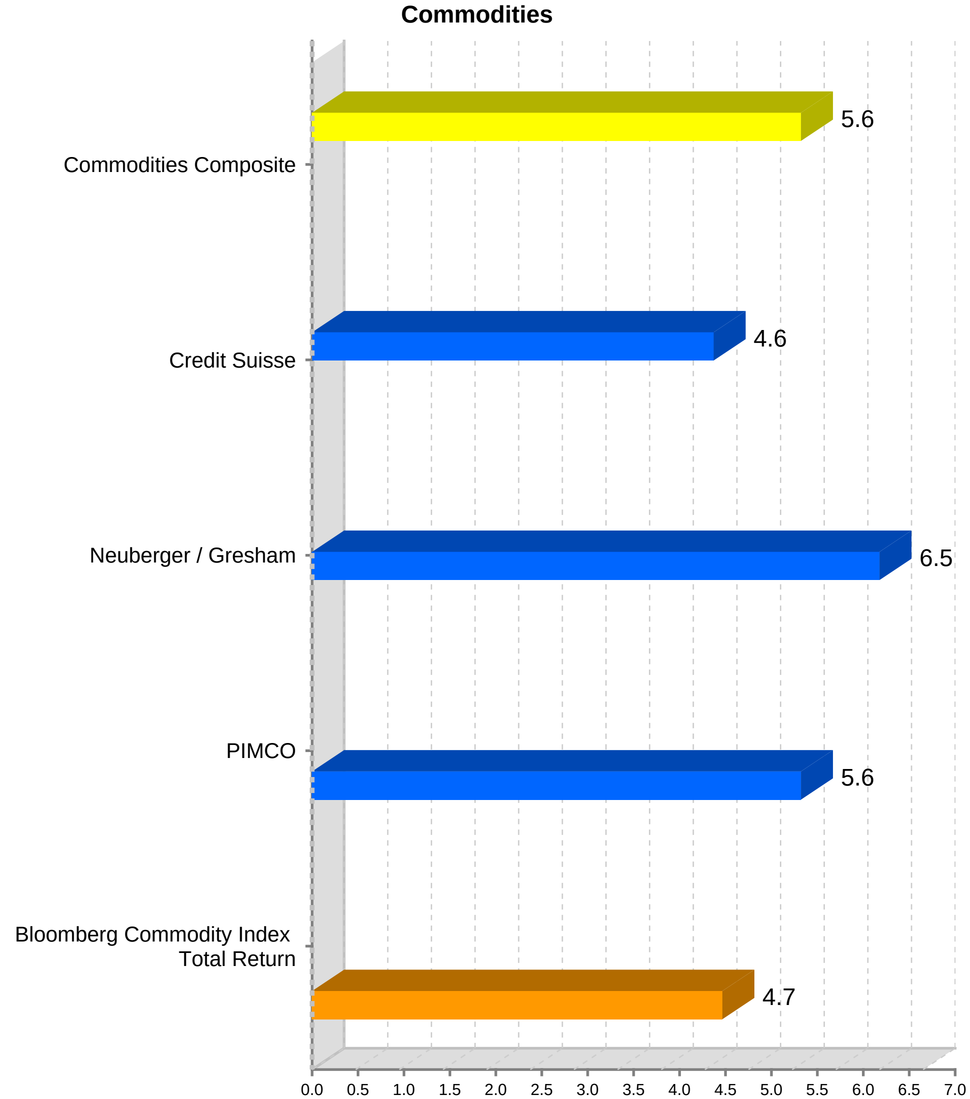
LACERA's commodities composite outperformed the benchmark, the Bloomberg Commodity Index (BCOM), by 90 bps for the quarter and 270 bps for the whole of 2017. Two of three portfolio managers succeeded in outpacing the benchmark for the quarter, and all three outperformed for the year.

The **Gresham** and **Neuberger Berman** combination outpaced the benchmark by 180 bps for the quarter and 430 bps for the year. Most of the quarter's excess return was attributable to the manager's commodity sector allocation: Gresham had an overweight to the energy sector with a concurrent underweight to agriculture. Sector positioning proved positive as the BCOM index returns for energy and agriculture were 8.9% and -2.0%, respectively. The fixed income collateral underlying the commodities added another 10 bps for the quarter.

PIMCO outperformed the Index by 90 bps for the quarter. Commodities management was also the main contributor to relative return, providing 80 bps to overall performance. Within commodities, the portfolio's tactical trading strategies within energy and industrial metals were the most additive. PIMCO's management of the cash collateral added another 10 bps, primarily through holding a modest weight to TIPS. At year end, the account was up 340 bps versus the Index.

Credit Suisse, the most conservative of the three managers, lagged the benchmark by 10 bps for the quarter, but surpassed the BCOM Index by 40 bps for the year. Credit Suisse manages the underlying fixed income collateral in liquid, short duration U.S. Treasury and agency debt, which was flat for the quarter. Therefore, underperformance for the account was attributable to active commodities strategies, specifically within energy.

As of quarter end, all three managers had observations* that fell outside their calculated performance bands: PIMCO (six observations above), Gresham/Neuberger (two observations above), and Credit Suisse (two observations below).



* Each quarterly observation is based on trailing one year excess returns.

TOTAL FUND
ANNUALIZED & ANNUAL RETURNS
for the quarter ended December 31, 2017

Gross of Fees

	Qtr End	1 Year	3 Years	5 Years	7 Years	10 Years	Dec 31 2017	Dec 31 2016	Dec 31 2015	Dec 31 2014
U.S. Equity	**6.1**	**21.1**	**11.0**	**15.6**	**13.4**	**8.6**	**21.1**	**12.6**	**0.4**	**12.6**
RUSSELL 3000 (DAILY)	6.3	21.1	11.1	15.6	13.5	8.6	21.1	12.7	0.5	12.6
Non-U.S. Eq 50% Dev Mkt Hdg	**5.2**	**25.6**	**9.7**	**9.4**	**6.8**	**3.3**	**25.6**	**7.2**	**-1.9**	**0.8**
CUSTOM MSCI ACWI IMI N 50%H	5.2	24.6	9.0	8.8	6.3	2.8	24.6	6.2	-2.0	0.1
Fixed Income*	**0.6**	**5.5**	**4.0**	**3.5**	**4.7**	**5.5**	**5.5**	**6.6**	**-0.1**	**5.3**
FI CUSTOM INDEX	0.4	4.1	2.8	2.5	3.6	4.4	4.1	3.9	0.4	5.6
BBG BC U.S. Universal	0.4	4.1	2.8	2.5	3.6	4.3	4.1	3.9	0.4	5.6
Real Estate**	**2.1**	**7.9**	**10.7**	**10.4**	**10.0**	**3.7**	**7.9**	**9.2**	**15.0**	**11.2**
REAL ESTATE TARGET	1.7	7.1	10.3	10.9	11.5	6.3	7.1	9.5	14.3	11.8
Private Equity**	**4.3**	**17.6**	**12.0**	**14.8**	**14.4**	**11.1**	**17.6**	**7.9**	**10.8**	**19.6**
PRIVATE EQUITY TARGET	3.1	12.8	13.0	13.2	12.2	10.4	12.8	12.7	13.6	13.5
Commodities	**5.6**	**4.4**	**-3.1**	**-6.7**	**-6.1**	**-5.0**	**4.4**	**14.9**	**-24.1**	**-16.2**
Bloomberg Commodity Index Total Return	4.7	1.7	-5.0	-8.5	-8.1	-6.8	1.7	11.8	-24.7	-17.0
Hedge Funds***	**1.5**	**5.9**	**2.6**	**5.3**			**5.9**	**2.2**	**-0.1**	**5.4**
HEDGE FUND CUSTOM INDEX	1.5	5.8	5.4	5.2			5.8	5.3	5.0	5.0
Cash	**0.2**	**1.2**	**0.8**	**0.6**	**0.6**	**0.8**	**1.2**	**0.9**	**0.4**	**0.3**
Citigroup 6 M Treasury Bill Index	0.3	0.9	0.5	0.3	0.3	0.5	0.9	0.4	0.1	0.1
Total Fund (Gross of Fees)	**3.7**	**15.2**	**8.3**	**9.4**	**8.4**	**5.9**	**15.2**	**8.6**	**1.6**	**7.0**
TOTAL FUND POLICY BENCHMARK	3.4	13.4	7.8	8.8	7.9	5.8	13.4	8.3	2.1	6.6

See Glossary for all benchmark definitions.
* The performance and market values of two opportunistic portfolios are reported with a one-month lag.
** Portfolio and benchmark are reported with a one-quarter lag. Preliminary returns.
*** Portfolio and benchmark are reported with a one-month lag. Performance included in Total Fund beginning 10/31/11.

TOTAL FUND

ANNUALIZED & ANNUAL RETURNS

for the quarter ended December 31, 2017

Net of Fees

	Qtr End	1Year	3 Years	5 Years	7 Years	10 Years	Dec 31 2017	Dec 31 2016	Dec 31 2015	Dec 31 2014
U.S. Equity	**6.0**	**20.9**	**10.9**	**15.4**	**13.3**	**8.5**	**20.9**	**12.5**	**0.2**	**12.4**
RUSSELL 3000 (DAILY)	6.3	21.1	11.1	15.6	13.5	8.6	21.1	12.7	0.5	12.6
Non-U.S. Eq 50% Dev Mkt Hdg	**5.1**	**25.3**	**9.5**	**9.2**	**6.6**	**3.1**	**25.3**	**7.0**	**-2.1**	**0.6**
CUSTOM MSCI ACWI IMI N 50%H	5.2	24.6	9.0	8.8	6.3	2.8	24.6	6.2	-2.0	0.1
Fixed Income*	**0.5**	**5.2**	**3.7**	**3.2**	**4.4**	**5.3**	**5.2**	**6.3**	**-0.3**	**5.0**
FI CUSTOM INDEX	0.4	4.1	2.8	2.5	3.6	4.4	4.1	3.9	0.4	5.6
BBG BC U.S. Universal	0.4	4.1	2.8	2.5	3.6	4.3	4.1	3.9	0.4	5.6
Real Estate**	**1.9**	**7.2**	**9.9**	**9.4**	**9.1**	**3.0**	**7.2**	**8.4**	**14.1**	**10.0**
REAL ESTATE TARGET	1.7	7.1	10.3	10.9	11.5	6.3	7.1	9.5	14.3	11.8
Private Equity**	**4.3**	**17.6**	**12.0**	**14.8**	**14.4**	**11.1**	**17.6**	**7.9**	**10.8**	**19.6**
PRIVATE EQUITY TARGET	3.1	12.8	13.0	13.2	12.2	10.4	12.8	12.7	13.6	13.5
Commodities	**5.6**	**4.1**	**-3.4**	**-7.1**	**-6.5**	**-5.4**	**4.1**	**14.5**	**-24.4**	**-16.6**
Bloomberg Commodity Index Total Return	4.7	1.7	-5.0	-8.5	-8.1	-6.8	1.7	11.8	-24.7	-17.0
Hedge Funds (Net All) ***	**1.4**	**5.8**	**2.5**	**5.2**			**5.8**	**2.0**	**-0.2**	**5.4**
HEDGE FUND CUSTOM INDEX	1.5	5.8	5.4	5.2			5.8	5.3	5.0	5.0
Cash	**0.2**	**1.1**	**0.8**	**0.6**	**0.6**	**0.8**	**1.1**	**0.8**	**0.3**	**0.2**
Citigroup 6 M Treasury Bill Index	0.3	0.9	0.5	0.3	0.3	0.5	0.9	0.4	0.1	0.1
Total Fund (Net of Fees)	**3.6**	**14.9**	**8.1**	**9.1**	**8.2**	**5.7**	**14.9**	**8.3**	**1.5**	**6.7**
TOTAL FUND POLICY BENCHMARK	3.4	13.4	7.8	8.8	7.9	5.8	13.4	8.3	2.1	6.6

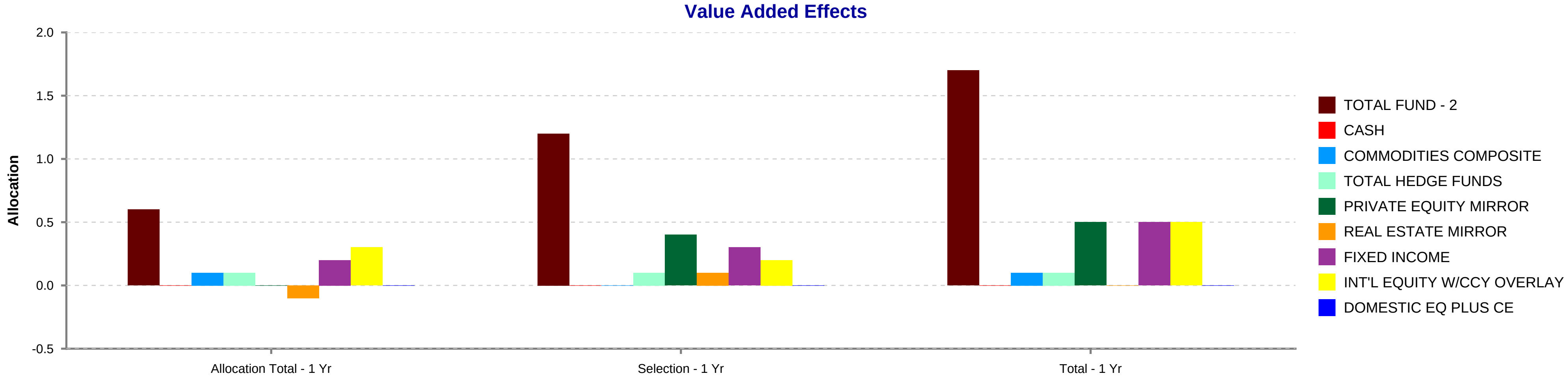
See Glossary for all benchmark definitions.
* The performance and market values of two opportunistic portfolios are reported with a one-month lag.
** Portfolio and benchmark are reported with a one-quarter lag. Preliminary returns.
*** Portfolio and benchmark are reported with a one-month lag. Performance included in Total Fund beginning 10/31/11.

TOTAL FUND
FISCAL YEAR RETURNS

	FYTD	Jun 30 2017	Jun 30 2016	Jun 30 2015	Jun 30 2014	Jun 30 2013
U.S. Equity	**10.9**	**18.7**	**1.6**	**7.4**	**25.8**	**21.8**
RUSSELL 3000 (DAILY)	11.2	18.5	2.1	7.3	25.2	21.5
Non-U.S. Eq 50% Dev Mkt Hdg	**11.3**	**23.0**	**-8.7**	**1.1**	**20.9**	**16.9**
CUSTOM MSCI ACWI IMI N 50%H	11.0	21.7	-9.4	0.9	20.3	16.1
Fixed Income*	**2.0**	**4.3**	**4.7**	**1.6**	**6.6**	**2.6**
FI CUSTOM INDEX	1.4	0.9	5.8	1.6	5.2	0.2
BBG BC U.S. Universal	1.4	0.9	5.8	1.6	5.2	0.2
Real Estate**	**4.2**	**8.4**	**13.2**	**12.8**	**9.1**	**8.7**
REAL ESTATE TARGET	3.3	7.8	13.1	12.8	12.2	10.2
Private Equity**	**10.4**	**12.5**	**6.7**	**13.2**	**23.5**	**10.9**
PRIVATE EQUITY TARGET	6.2	12.7	13.0	13.8	13.3	13.2
Commodities	**9.4**	**-3.6**	**-12.7**	**-23.0**	**10.2**	**-5.5**
Bloomberg Commodity Index Total Return	7.3	-6.5	-13.3	-23.7	8.2	-8.0
Hedge Funds***	**3.0**	**7.0**	**-4.2**	**3.1**	**8.3**	**13.5**
HEDGE FUND CUSTOM INDEX	3.0	5.4	5.1	5.0	5.0	5.1
Cash	**0.6**	**1.0**	**0.6**	**0.4**	**0.4**	**0.5**
Citigroup 6 M Treasury Bill Index	0.6	0.5	0.2	0.1	0.1	0.1
Total Fund (Gross of Fees)	**7.6**	**13.0**	**1.1**	**4.3**	**16.8**	**12.1**
TOTAL FUND POLICY BENCHMARK	6.7	11.2	2.2	4.5	15.3	11.4
Total Fund (Net of Fees)	**7.5**	**12.7**	**0.8**	**4.1**	**16.5**	**11.9**

See Glossary for all benchmark definitions.
* The performance and market values of two opportunistic portfolios are reported with a one-month lag.
** Portfolio and benchmark are reported with a one-quarter lag. Preliminary returns.
*** Portfolio and benchmark are reported with a one-month lag. Performance included in Total Fund beginning 10/31/11.

TOTAL FUND ATTRIBUTION
TOTAL FUND vs. BENCHMARK
for the one-year ended December 31, 2017

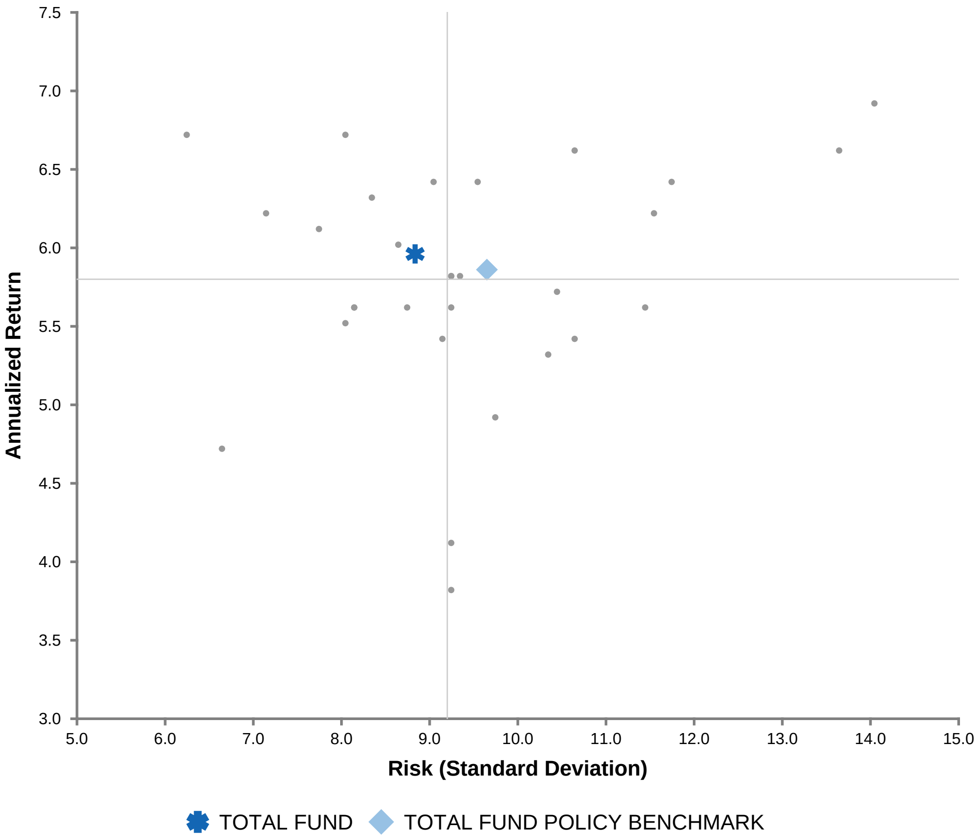


	Fund Weight	Target Weight	Relative	Fund Return	Benchmark Return	Return Difference	Allocation Effect*	Selection Effect**	BM Impact	Residual	Total Value Add
TOTAL FUND - 2	100.0	100.0	0.0	15.2	13.4	1.8	0.6	1.2	0.7	-0.6	1.7
CASH	2.0	2.0	-0.0	1.2	0.9	0.3	0.0	0.0	-	-	0.0
COMMODITIES COMPOSITE	2.5	2.8	-0.3	4.4	1.7	2.7	0.1	0.0	-	-	0.1
TOTAL HEDGE FUNDS	2.5	3.4	-0.9	5.9	5.8	0.1	0.1	0.1	-	-	0.1
PRIVATE EQUITY MIRROR	9.5	10.0	-0.5	17.6	12.8	4.9	0.0	0.4	-	-	0.5
REAL ESTATE MIRROR	11.2	11.0	0.2	7.9	7.1	0.8	-0.1	0.1	-	-	0.0
FIXED INCOME	24.5	25.4	-0.9	5.5	4.1	1.4	0.2	0.3	-	-	0.5
INT'L EQUITY W/CCY OVERLAY	24.0	21.9	2.1	25.6	24.6	1.0	0.3	0.2	-	-	0.5
DOMESTIC EQ PLUS CE	23.8	23.5	0.3	21.1	21.1	-0.0	0.0	-0.0	-	-	0.0

* Allocation decision reflects the asset class over or underweight (versus the policy weight) multiplied by the difference between the asset class benchmark and Fund Policy benchmark return.
** Selection decision reflects the Fund's asset class return minus the asset class benchmark return, multiplied by the asset class weight.

TOTAL FUND
RISK-ADJUSTED RETURN
for the quarter ended December 31, 2017

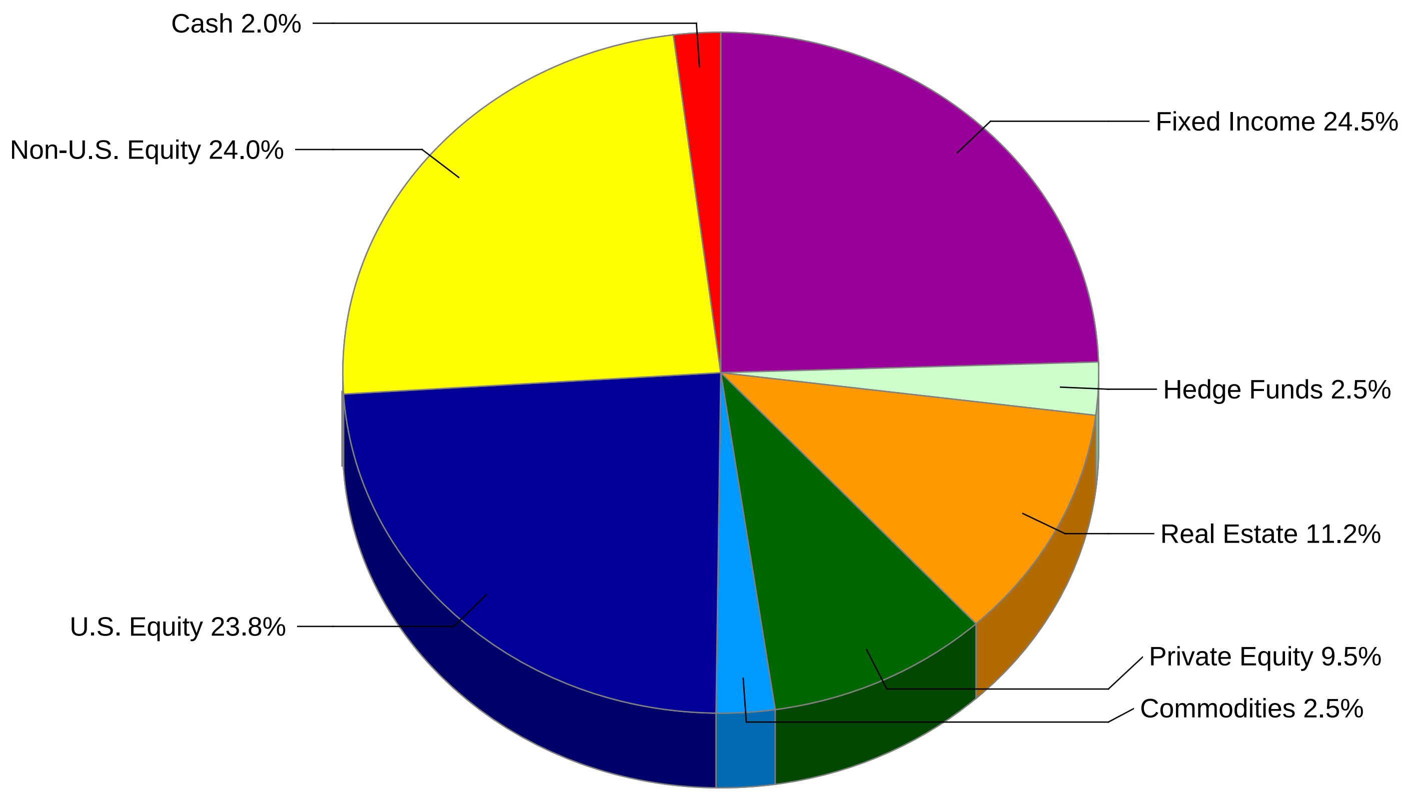
10 Year Risk vs Return



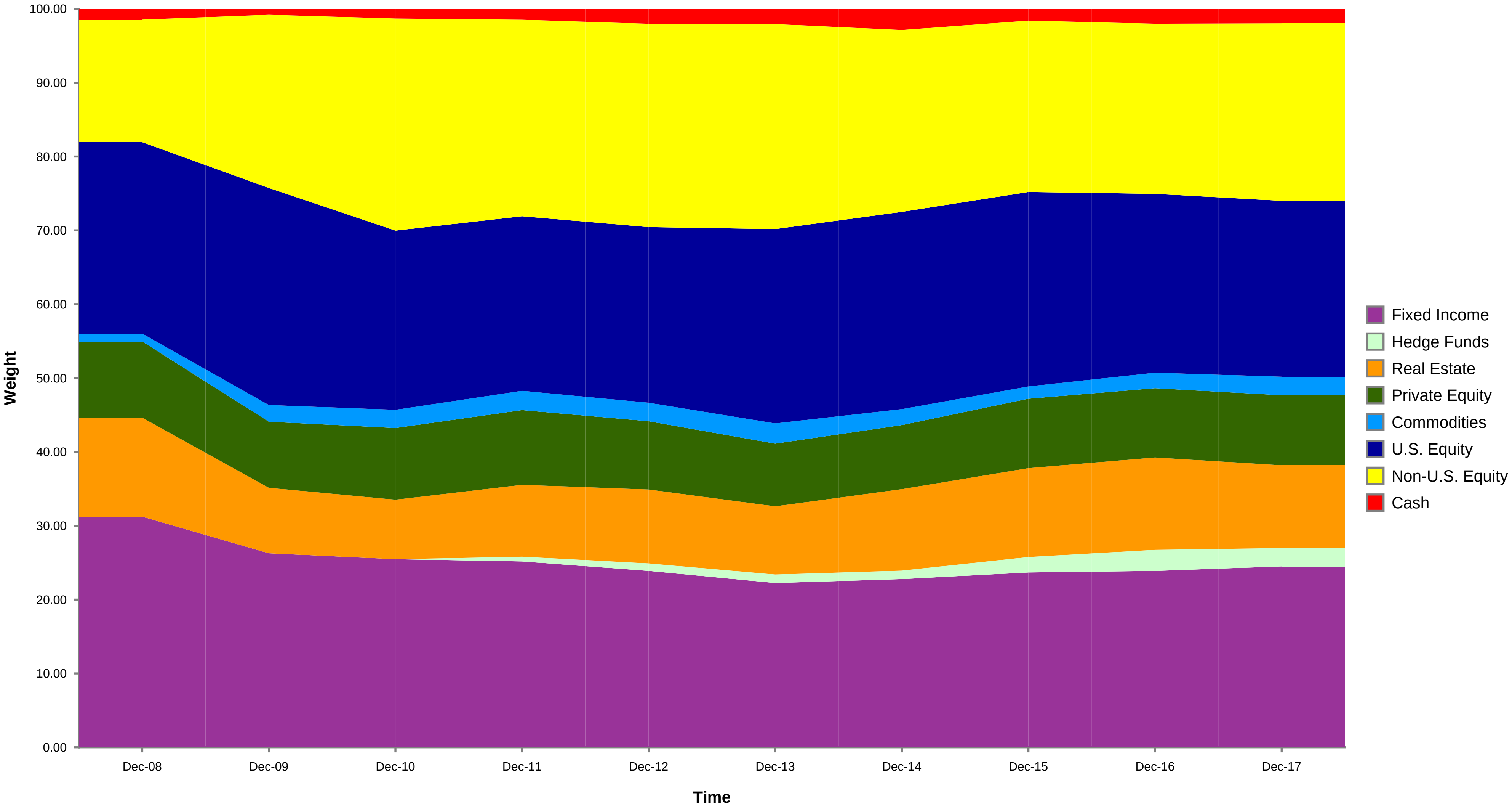
	Rate of Return 10 Years	Standard Deviation 10 Years
TOTAL FUND	**5.9** *46*	**8.7** *36*
TOTAL FUND POLICY BENCHMARK	5.8 *51*	9.5 *64*
5th Percentile	6.9	6.4
25th Percentile	6.4	8.1
50th Percentile	5.8	9.2
75th Percentile	5.5	10.4
95th Percentile	4.0	13.7
Number of Observations	30	30

Public Funds (DB) > $1 Billion	Rate of Return 10 Years	Standard Deviation 10 Years	Tracking Error 10 Years
TOTAL FUND - 2	5.9 *46*	8.7 *36*	1.1
TOTAL FUND POLICY BENCHMARK	5.8 *51*	9.5 *64*	

ASSET ALLOCATION
TOTAL FUND
for the quarter ended December 31, 2017

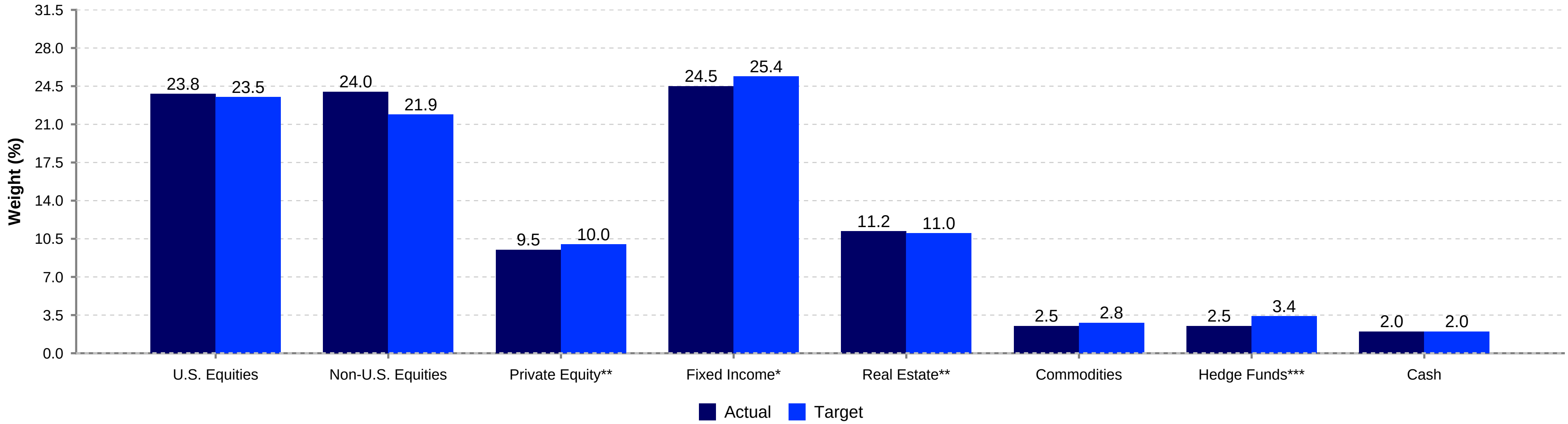


ASSET ALLOCATION
TOTAL FUND
for the quarter ended December 31, 2017



ASSET ALLOCATION
ACTUAL vs. TARGET
for the quarter ended December 31, 2017

Actual vs Target Weights



	Ending Market Value	Actual	Target	Relative	Min	Max
Total Equity	**26,609,879,542**	**47.9**	**45.4**	**2.5**	**35.4**	**55.4**
U.S. Equities	**13,239,212,151**	**23.8**	**23.5**	**0.3**		
Non-U.S. Equities	**13,370,667,392**	**24.0**	**21.9**	**2.1**		
Fixed Income*	**13,617,302,958**	**24.5**	**25.4**	**-0.9**	**22.4**	**28.4**
Real Estate**	**6,233,446,456**	**11.2**	**11.0**	**0.2**	**8.0**	**16.0**
Private Equity**	**5,270,716,218**	**9.5**	**10.0**	**-0.5**	**7.0**	**14.0**
Commodities	**1,400,538,497**	**2.5**	**2.8**	**-0.3**	**0.0**	**4.8**
Hedge Funds***	**1,386,095,161**	**2.5**	**3.4**	**-0.9**	**0.4**	**5.4**
Cash	**1,089,482,339**	**2.0**	**2.0**	**-0.0**	**0.0**	**4.0**
Total Fund	**55,607,461,171**	**100.0**	**100.0**	**0.0**		

* The performance and market values of two opportunistic portfolios are reported with a one-month lag.
** Portfolio and benchmark are reported with a one-quarter lag. Preliminary returns.
*** Portfolio and benchmark are reported with a one-month lag.

ASSET ALLOCATION
U.S. EQUITY MANAGERS
for the quarter ended December 31, 2017

December 31, 2017	Assets ($ millions)	% of Composite
PASSIVE		
BTC Russell 1000 Index	9,484.0	71.6
BTC Russell 2000 Index	101.5	0.8
BTC Russell 3000 Index	592.5	4.5
LOW RISK		
INTECH	857.7	6.5
Twin Capital	531.7	4.0
MODERATE / HIGH RISK		
Cramer Rosenthal McGlynn	273.6	2.1
Eagle Asset Mgmt.	343.1	2.6
Frontier Capital Mgmt.	692.0	5.2
JANA Partners	105.9	0.8
Westwood Mgmt. Corp.	257.5	1.9
TOTAL U.S. EQUITY	**13,239.2**	**100.0**

September 30, 2017	Assets ($ millions)	% of Composite
PASSIVE		
BTC Russell 1000 Index	9,677.0	73.0
BTC Russell 2000 Index	98.1	0.7
BTC Russell 3000 Index	557.1	4.2
LOW RISK		
INTECH	816.0	6.2
Twin Capital	496.7	3.7
MODERATE / HIGH RISK		
Cramer Rosenthal McGlynn	258.8	2.0
Eagle Asset Mgmt.	334.5	2.5
Frontier Capital Mgmt.	666.5	5.0
JANA Partners	98.3	0.7
Relational Investors*	0.4	0.0
Westwood Mgmt. Corp.	249.2	1.9
TOTAL U.S. EQUITY	**13,252.0**	**100.0**

* Relational completed liquidation of assets in December 2015. The remaining balance is part of a contingency reserve to cover any post liquidation expenses.

ASSET ALLOCATION
NON-U.S. EQUITY MANAGERS (cont's...)
for the quarter ended December 31, 2017

	December 31, 2017 Assets ($ millions)	December 31, 2017 % of Composite		September 30, 2017 Assets ($ millions)	September 30, 2017 % of Composite
PASSIVE			**PASSIVE**		
BTC Canada Index IMI	814.7	6.1	BTC Canada Index IMI	780.9	5.8
BTC EAFE Index IMI	5,010.8	37.5	BTC EAFE Index IMI	5,487.9	40.9
BTC EAFE Small Cap	209.7	1.6	BTC EAFE Small Cap	197.5	1.5
BTC Emerging Markets Index	1,394.9	10.4	BTC Emerging Markets Index	1,299.0	9.7
BTC Europe Index	383.8	2.9	BTC Europe Index	375.4	2.8
BTC Emerging Markets Small Cap Index	148.5	1.1	BTC Emerging Markets Small Cap Index	136.2	1.0
NON-US DEVELOPED			**NON-US DEVELOPED**		
Acadian Asset Mgmt.	897.1	6.7	Acadian Asset Mgmt.	849.2	6.3
Capital Guardian	383.7	2.9	Capital Guardian	367.4	2.7
REGIONAL DEVELOPED			**REGIONAL DEVELOPED**		
BTC Europe Alpha Tilts	1,021.1	7.6	BTC Europe Alpha Tilts	993.7	7.4
Cevian Capital	303.9	2.3	Cevian Capital	292.2	2.2
GAM International Mgmt.	893.8	6.7	GAM International Mgmt.	829.9	6.2
Symphony Financial Partners	130.1	1.0	Symphony Financial Partners	123.4	0.9
EMERGING MARKETS			**EMERGING MARKETS**		
Acadian Emrg. Markets	423.2	3.2	Acadian Emrg. Markets	397.2	3.0
AQR Emerging Markets	269.4	2.0	AQR Emerging Markets	257.2	1.9
Genesis Investment Mgmt.	715.7	5.4	Genesis Investment Mgmt.	666.7	5.0
Lazard	372.5	2.8	Lazard	348.5	2.6
TOTAL NON-U.S. EQUITY (Unhedged)	**13,372.9**	**100.0**	**TOTAL NON-U.S. EQUITY (Unhedged)**	**13,403.7**	**100.0**

ASSET ALLOCATION
NON-U.S. EQUITY MANAGERS (...cont'd)
for the quarter ended December 31, 2017

December 31, 2017	Assets ($ millions)	*September 30, 2017*	Assets ($ millions)
PASSIVE HEDGE		**PASSIVE HEDGE**	
Currency Hedge Gain/Loss	-2.3	Currency Hedge Gain/Loss	-59.0
TOTAL NON-U.S. EQUITY (Hedged)	**13,370.7**	**TOTAL NON-U.S. EQUITY (Hedged)**	**13,344.7**

ASSET ALLOCATION
FIXED INCOME MANAGERS & PROGRAMS (cont's...)
for the quarter ended December 31, 2017

	December 31, 2017 Assets ($ millions)	December 31, 2017 % of Composite		September 30, 2017 Assets ($ millions)	September 30, 2017 % of Composite
CORE			**CORE**		
BTC US Debt Index	1,978.2	14.5	BTC US Debt Index	872.0	7.0
BTC Intermediate Credit Index	239.9	1.8	BTC Intermediate Credit Index	239.6	1.9
BlackRock	719.2	5.3	BlackRock	716.7	5.8
Dodge & Cox	1,297.5	9.5	Dodge & Cox	1,292.3	10.4
Pugh Capital Mgmt.	137.3	1.0	Pugh Capital Mgmt.	111.7	0.9
Wells Capital Mgmt.	1,360.0	10.0	Wells Capital Mgmt.	1,355.0	10.9
TOTAL CORE	**5,732.1**	**42.1**	**TOTAL CORE**	**4,587.2**	**36.9**
CORE PLUS			**CORE PLUS**		
Dolan McEniry Capital Mgmt.	347.3	2.6	Dolan McEniry Capital Mgmt.	346.5	2.8
LM Capital Group	456.3	3.4	LM Capital Group	454.6	3.7
Loomis, Sayles & Co.	1,085.6	8.0	Loomis, Sayles & Co.	1,077.6	8.7
PIMCO	1,060.6	7.8	PIMCO	1,051.9	8.5
Western Asset Mgmt.	1,153.0	8.5	Western Asset Mgmt.	1,147.3	9.2
TOTAL CORE PLUS	**4,102.7**	**30.1**	**TOTAL CORE PLUS**	**4,077.9**	**32.8**

Policy Ranges **Core: 25% - 45%** **Core Plus: 25% - 45%** **High Yield: 0 - 10%** **Opportunistic: 15% - 35%**

ASSET ALLOCATION
FIXED INCOME MANAGERS & PROGRAMS (...cont'd)
for the quarter ended December 31, 2017

	December 31, 2017 Assets ($ millions)	December 31, 2017 % of Composite		September 30, 2017 Assets ($ millions)	September 30, 2017 % of Composite
HIGH YIELD			**HIGH YIELD**		
Oaktree Capital Mgmt.	408.9	3.0	Oaktree Capital Mgmt.	422.3	3.4
PENN Capital Mgmt.	108.8	0.8	PENN Capital Mgmt.	108.4	0.9
TOTAL HIGH YIELD	**517.7**	**3.8**	**TOTAL HIGH YIELD**	**530.7**	**4.3**
OPPORTUNISTIC			**OPPORTUNISTIC**		
Aberdeen	207.9	1.5	Aberdeen	205.7	1.7
Ashmore	210.2	1.5	Ashmore	208.0	1.7
Bain Capital	301.1	2.2	Bain Capital	299.1	2.4
Beach Point Capital*	382.3	2.8	Beach Point Capital*	379.9	3.1
Brigade Capital Mgmt.	486.7	3.6	Brigade Capital Mgmt.	484.8	3.9
Crescent Capital	271.0	2.0	Crescent Capital	270.2	2.2
DoubleLine Capital	266.4	2.0	DoubleLine Capital	265.2	2.1
Principal Opportunistic	269.2	2.0	Principal Opportunistic	268.8	2.2
TCW Asset Mgmt.	270.2	2.0	TCW	268.2	2.2
Tennenbaum Capital**	262.3	1.9	Tennenbaum Capital**	232.8	1.9
Western Opportunistic	303.5	2.2	Western Opportunistic	301.7	2.4
TOTAL OPPORTUNISTIC	**3,230.8**	**23.7**	**TOTAL OPPORTUNISTIC**	**3,184.5**	**25.7**
MORTGAGE PROGRAM			**MORTGAGE PROGRAM**		
Member Home Loan Program (MHLP)	33.9	0.2	Member Home Loan Program (MHLP)	34.6	0.3
TOTAL FIXED INCOME* **	**13,617.3**	**100.0**	**TOTAL FIXED INCOME*** **	**12,414.9**	**100.0**

Policy Ranges **Core: 25% - 45%** **Core Plus: 25% - 45%** **High Yield: 0 - 10%** **Opportunistic: 15% - 35%**

* Represents the combined assets of three portfolios, one of which is reported with a one-month lag.
** Reported with a one-month lag.
*** Does not include cash. The performance and market values of two opportunistic portfolios are reported with a one-month lag.

ASSET ALLOCATION
COMMODITIES MANAGERS
for the quarter ended December 31, 2017

December 31, 2017	Assets ($ millions)	% of Composite	*September 30, 2017*	Assets ($ millions)	% of Composite
Credit Suisse	458.4	32.7	Credit Suisse	388.9	32.9
Neuberger Berman/Gresham	471.5	33.7	Neuberger Berman/Gresham	394.6	33.4
PIMCO	470.7	33.6	PIMCO	397.4	33.6
TOTAL COMMODITIES	**1,400.5**	**100.0**	**TOTAL COMMODITIES**	**1,180.9**	**100.0**

ANNUALIZED TOTAL RETURNS
U.S. EQUITY MANAGERS
for the quarter ended December 31, 2017

Gross of Fees

	Mkt Value ($Mil)	Qtr	1 Yr	3 Yrs	5 Yrs
LARGE CAP					
INTECH	857.7	5.2	23.8	11.3	16.1
JANA Partners	105.9	3.1	24.3		
Twin Capital	531.7	7.1	21.2	11.6	16.1
S&P 500		6.6	21.8	11.4	15.8
BTC Russell 1000	9,484.0	6.6	21.7	11.3	15.7
Russell 1000		6.6	21.7	11.2	15.7
BTC Russell 3000	592.5	6.3			
Russell 3000		6.3	21.1	11.1	15.6
SMALL / MID CAP					
Cramer Rosenthal McGlynn	273.6	5.9	15.6	8.4	12.5
Eagle Asset Management	343.1	2.7	15.6	12.4	15.6
Frontier Capital Management	692.0	4.0	19.6	11.0	16.7
Westwood Management	257.5	3.5	11.2	6.8	11.8
Russell 2500		5.2	16.8	10.1	14.3
BTC Russell 2000	101.5	3.4	14.9	10.2	14.4
Russell 2000		3.3	14.6	10.0	14.1

Net of Fees

	Mkt Value ($Mil)	Qtr	1 Yr	3 Yrs	5 Yrs
LARGE CAP					
INTECH	857.7	5.1	23.5	11.0	15.8
JANA Partners	105.9	2.8	19.2		
Twin Capital	531.7	7.1	21.0	11.4	15.9
S&P 500		6.6	21.8	11.4	15.8
BTC Russell 1000	9,484.0	6.6	21.7	11.3	15.7
Russell 1000		6.6	21.7	11.2	15.7
BTC Russell 3000	592.5	6.3			
Russell 3000		6.3	21.1	11.1	15.6
SMALL / MID CAP					
Cramer Rosenthal McGlynn	273.6	5.7	15.0	7.8	11.9
Eagle Asset Management	343.1	2.6	15.0	11.8	15.0
Frontier Capital Management	692.0	3.8	18.7	10.2	15.8
Westwood Management	257.5	3.4	10.5	6.2	11.1
Russell 2500		5.2	16.8	10.1	14.3
BTC Russell 2000	101.5	3.4	14.9	10.2	14.4
Russell 2000		3.3	14.6	10.0	14.1

ANNUALIZED TOTAL RETURNS
NON-U.S. EQUITY MANAGERS (cont's...)
for the quarter ended December 31, 2017

Gross of Fees

	Mkt Value ($Mil)	Qtr	1 Yr	3 Yrs	5 Yrs
NON U.S.					
Acadian Asset Management	897.1	5.7	35.2	13.9	12.7
Capital Guardian	383.7	4.5	32.3	9.6	9.1
MSCI EAFE + CANADA Net (Daily)		4.2	24.2	7.4	7.5
BTC EAFE IMI*	5,010.8	4.5	26.7	9.1	8.9
MSCI EAFE IMI Custom Index		4.5	26.2	8.6	8.5
BTC EAFE Small Cap	209.7	6.1	33.6		
MSCI EAFE Small Cap Net		6.1	33.0	14.2	12.9
BTC Canada IMI*	814.7	4.3	16.5	3.7	3.5
MSCI Canada Custom IMI (Net)		4.1	15.6	3.0	2.7
PACIFIC BASIN					
GAM Pacific Basin	893.8	7.8	26.3	10.2	8.0
MSCI Pacific (Net)		8.0	24.6	10.2	9.0
Symphony Financial Partners	130.1	5.4	17.3		
MSCI Japan Small Cap Net		8.7	31.3	17.6	15.4

Net of Fees

	Mkt Value ($Mil)	Qtr	1 Yr	3 Yrs	5 Yrs
NON U.S.					
Acadian Asset Management	897.1	5.6	34.7	13.4	12.3
Capital Guardian	383.7	4.4	31.8	9.2	8.7
MSCI EAFE + Canada Net (Daily)		4.2	24.2	7.4	7.5
BTC EAFE IMI*	5,010.8	4.5	26.6	9.1	8.9
MSCI EAFE IMI Custom Index		4.5	26.2	8.6	8.5
BTC EAFE Small Cap	209.7	6.1	33.5		
MSCI EAFE Small Cap Net		6.1	33.0	14.2	12.9
BTC Canada IMI*	814.7	4.3	16.4	3.7	3.5
MSCI Canada Custom IMI (Net)		4.1	15.6	3.0	2.7
PACIFIC BASIN					
GAM Pacific Basin	893.8	7.7	25.8	9.7	7.5
MSCI Pacific (Net)		8.0	24.6	10.2	9.0
Symphony Financial Partners	130.1	5.2	16.4		
MSCI Japan Small Cap Net		8.7	31.3	17.6	15.4

See Glossary for all Custom index definitions.
* BTC EAFE & Canada Funds; 8/31/08 - Present: BTC EAFE & Canada IMI Funds.

ANNUALIZED TOTAL RETURNS
NON-U.S. EQUITY MANAGERS (...cont'd)
for the quarter ended December 31, 2017

Gross of Fees

	Mkt Value ($Mil)	Qtr	1 Yr	3 Yrs	5 Yrs
EUROPE					
BTC Euro Tilts	1,021.1	2.9	28.6	9.7	10.4
BTC Europe Index	383.8	2.2	26.1	7.2	7.9
Cevian Capital	303.9	4.4	17.0		
MSCI Europe (Net)		2.2	25.5	6.7	7.4
EMERGING MARKETS					
Acadian Emerging Markets	423.2	6.7	38.8	9.2	5.6
AQR Emerging Markets	269.4	4.9	36.7	9.4	
Lazard Emerging Markets	372.5	7.1	38.4	8.8	
BTC - Emerging Markets	1,394.9	7.4	37.2	9.0	4.3
MSCI EM Standard (Net)		7.4	37.3	9.1	4.3
BTC Emerging Markets Small Cap	148.5	9.1	34.0	8.4	5.4
MSCI EM Small Cap - Net Return		9.2	33.8	8.4	5.4
Genesis	715.7	7.6	35.1	9.1	5.6
MSCI EM IMI Custom Index		7.7	36.8	9.0	4.5
PASSIVE HEDGE					
BTC Passive Currency Hedge	-2.3	-0.0	-3.3	0.6	1.7
50% FX Hedge Index		-0.1	-3.3	0.6	1.7

Net of Fees

	Mkt Value ($Mil)	Qtr	1 Yr	3 Yrs	5 Yrs
EUROPE					
BTC Euro Tilts	1,021.1	2.8	28.1	9.3	9.9
BTC Europe Index	383.8	2.2	26.1	7.2	7.9
Cevian Capital	303.9	4.0	15.0		
MSCI Europe (Net)		2.2	25.5	6.7	7.4
EMERGING MARKETS					
Acadian Emerging Markets	423.2	6.5	38.2	8.7	5.1
AQR Emerging Markets	269.4	4.8	35.7	8.6	
Lazard Emerging Markets	372.5	6.9	37.3	8.0	
BTC - Emerging Markets	1,394.9	7.4	37.1	8.9	4.1
MSCI EM Standard (Net)		7.4	37.3	9.1	4.3
BTC Emerging Markets Small Cap	148.5	9.1	33.8	8.2	5.2
MSCI EM Small Cap - Net Return		9.2	33.8	8.4	5.4
Genesis	715.7	7.4	34.2	8.3	4.8
MSCI EM IMI Custom Index		7.7	36.8	9.0	4.5
PASSIVE HEDGE					
BTC Passive Currency Hedging	-2.3	-0.0	-3.3	0.6	1.7
50% FX Hedge Index		-0.1	-3.3	0.6	1.7

See Glossary for all Custom index definitions.

ANNUALIZED TOTAL RETURNS
FIXED INCOME MANAGERS & PROGRAMS (cont's...)
for the quarter ended December 31, 2017

Gross of Fees

	Mkt Value ($Mil)	Qtr	1 Yr	3 Yrs	5 Yrs
CORE					
BTC US Debt Index	1,978.2	0.4	3.7	2.3	2.2
BlackRock	719.2	0.4	3.9	2.7	2.5
Dodge & Cox	1,297.5	0.4	4.5	3.5	3.5
Pugh Capital Mgmt.	137.3	0.6	4.0	2.5	2.4
Wells Capital Mgmt.	1,360.0	0.4	3.9	2.7	2.6
BBG BC Aggregate Bond Index		0.4	3.5	2.2	2.1
BTC Intermediate Credit Index	239.9	0.1	3.7	2.8	2.5
BBG BC Credit Intermediate Index		0.1	3.7	2.7	2.4
CORE PLUS					
Loomis, Sayles & Co.	1,085.6	0.8	5.6	3.1	3.2
PIMCO	1,060.6	0.9	6.6	3.8	2.8
Western Asset Mgmt.	1,153.0	0.5	6.0	4.1	3.6
BBG BC Aggregate Bond Index		0.4	3.5	2.2	2.1
Dolan McEniry Capital Mgmt.	347.3	0.3	5.5	4.4	4.3
Dolan McEniry Custom Index		0.1	3.7	2.8	2.6
LM Capital Group	456.3	0.4	4.7	3.0	2.4
LM Custom Index		0.3	4.0	2.7	2.2

Net of Fees

	Mkt Value ($Mil)	Qtr	1 Yr	3 Yrs	5 Yrs
CORE					
BTC US Debt Index	1,978.2	0.4	3.7	2.3	2.2
BlackRock	719.2	0.4	3.7	2.5	2.3
Dodge & Cox	1,297.5	0.4	4.4	3.4	3.4
Pugh Capital Mgmt.	137.3	0.5	3.8	2.3	2.2
Wells Capital Mgmt.	1,360.0	0.4	3.8	2.6	2.5
BBG BC Aggregate Bond Index		0.4	3.5	2.2	2.1
BTC Intermediate Credit Index	239.9	0.1	3.7	2.8	2.5
BBG BC Credit Intermediate Index		0.1	3.7	2.7	2.4
CORE PLUS					
Loomis, Sayles & Co.	1,085.6	0.7	5.5	3.0	3.1
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Dolan McEniry Custom Index		0.1	3.7	2.8	2.6
LM Capital Group	456.3	0.4	4.6	2.8	2.2
LM Custom Index		0.3	4.0	2.7	2.2

See Glossary for all Custom index definitions.

ANNUALIZED TOTAL RETURNS

FIXED INCOME MANAGERS & PROGRAMS (...cont'd)

for the quarter ended December 31, 2017

Gross of Fees

	Mkt Value ($Mil)	Qtr	1 Yr	3 Yrs	5 Yrs
HIGH YIELD					
Oaktree Capital Mgmt.	408.9	0.3	6.1	5.6	5.2
PENN Capital Mgmt.	108.8	0.5	7.0	5.7	4.9
BBG BC Ba/B US High Yield Index		0.4	6.9	5.9	5.4
OPPORTUNISTIC					
Aberdeen	207.9	1.1			
Ashmore	210.2	1.4			
Opportunistic EMD Custom Index		1.0			
Bain Capital	301.1	0.8	7.1	5.9	
Beach Point Capital*	382.3	1.1	9.3	10.0	
Crescent Capital Group	271.0	0.5	6.6	5.5	
Opportunistic Custom Index		0.8	5.9	5.4	5.1
Brigade Capital Mgmt.	486.7	0.6	7.3	6.7	6.2
Brigade Custom Index		0.8	5.6	5.2	4.9
Principal Opportunistic	269.2	0.2	6.3	4.0	4.1
BBG BC US Universal Spread 1-10 Yr.		0.2	4.6	3.8	3.2
DoubleLine Capital	266.4	0.7	6.0		
TCW	270.2	0.9	6.0		
Securitized Custom Index		1.1	6.6		
Tennenbaum Capital**	262.3	2.1	9.2	8.2	
CS Leveraged Loan Index**		1.2	5.0	4.0	
Western Opportunistic	303.5	0.6	5.4	3.8	3.8
Western Opportunistic Custom Index		2.3	6.3	3.2	3.1

Net of Fees

	Mkt Value ($Mil)	Qtr	1 Yr	3 Yrs	5 Yrs
HIGH YIELD					
Oaktree Capital Mgmt.	408.9	0.2	5.7	5.1	4.7
PENN Capital Mgmt.	108.8	0.4	6.5	5.2	4.4
BBG BC Ba/B US High Yield Index		0.4	6.9	5.9	5.4
OPPORTUNISTIC					
Aberdeen	207.9	1.0			
Ashmore	210.2	1.0			
Opportunistic EMD Custom Index		1.0			
Bain Capital	301.1	0.7	6.0	5.0	
Beach Point Capital*	382.3	0.6	7.3	8.0	
Crescent Capital Group	271.0	0.3	6.0	4.9	
Opportunistic Custom Index		0.8	5.9	5.4	5.1
Brigade Capital Mgmt.	486.7	0.4	6.5	5.8	5.3
Brigade Custom Index		0.8	5.6	5.2	4.9
Principal Opportunistic	269.2	0.1	6.1	3.9	3.9
BBG BC US Universal Spread 1-10 Yr.		0.2	4.6	3.8	3.2
DoubleLine Capital	266.4	0.5	5.2		
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Securitized Custom Index		1.1	6.6		
Tennenbaum Capital**	262.3	1.9	8.2	7.2	
CS Leveraged Loan Index**		1.2	5.0	4.0	
Western Opportunistic	303.5	0.6	5.3	3.7	3.8
Western Opportunistic Custom Index		2.3	6.3	3.2	3.1

See Glossary for all Custom index definitions.
* Represents the combined assets & performance of two portfolios, one of which is reported with a one-month lag.
** Reported with a one-month lag.

ANNUALIZED TOTAL RETURNS
COMMODITIES MANAGERS
for the quarter ended December 31, 2017

Gross of Fees

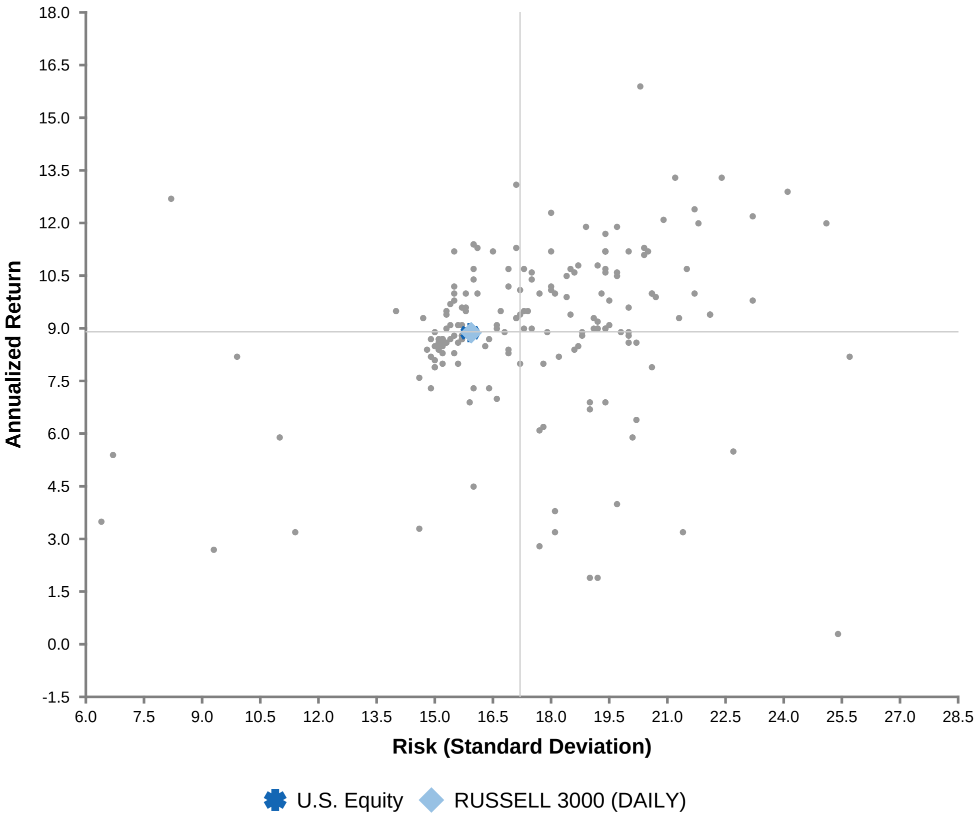
	Mkt Value ($Mil)	Qtr	1 Yr	3 Yrs	5 Yrs
COMMODITIES MANAGERS					
Credit Suisse	458.4	4.6	2.1	-4.0	-7.7
Neuberger Berman/Gresham	471.5	6.5	6.0	-3.5	-6.9
PIMCO	470.7	5.6	5.1	-1.9	-6.0
Bloomberg Commodity Index Total Return		4.7	1.7	-5.0	-8.5

Net of Fees

	Mkt Value ($Mil)	Qtr	1 Yr	3 Yrs	5 Yrs
COMMODITIES MANAGERS					
Credit Suisse	458.4	4.5	1.8	-4.3	-7.9
Neuberger Berman/Gresham	471.5	6.4	5.6	-3.9	-7.2
PIMCO	470.7	5.5	4.7	-2.3	-6.5
Bloomberg Commodity Index Total Return		4.7	1.7	-5.0	-8.5

U.S. EQUITY
RISK ADJUSTED RETURN
for the quarter ended December 31, 2017

10 Year Risk vs Return



	Rate of Return 10 Years	Standard Deviation 10 Years
U.S. Equity	**8.6** *60*	**15.6** *28*
RUSSELL 3000 (DAILY)	8.6 *62*	15.6 *31*
5th Percentile	12.1	14.5
25th Percentile	10.1	15.4
50th Percentile	8.9	17.2
75th Percentile	8.3	19.3
95th Percentile	3.4	22.0
Number of Observations	191	189

	Rate of Return 10 Years	Standard Deviation 10 Years	Tracking Error 10 Years
U.S. Equity	8.6 *60*	15.6 *28*	0.5
RUSSELL 3000 (DAILY)	8.6 *62*	15.6 *31*	

Universe data: U.S. Equity Funds - plans > $1 billion

U.S. EQUITY - LARGE CAP
INTECH INVESTMENT MANAGEMENT LLC
for the quarter ended December 31, 2017

Manager Profile

Firm:	INTECH Investment Management LLC
Location:	West Palm Beach, FL
Year Founded:	1987
Contact:	Nancy Holden, Sr. Managing Director
Inception Date:	December 2006
Assigned Role:	Enhanced Index
Benchmark:	S&P 500
Investment Style:	Core

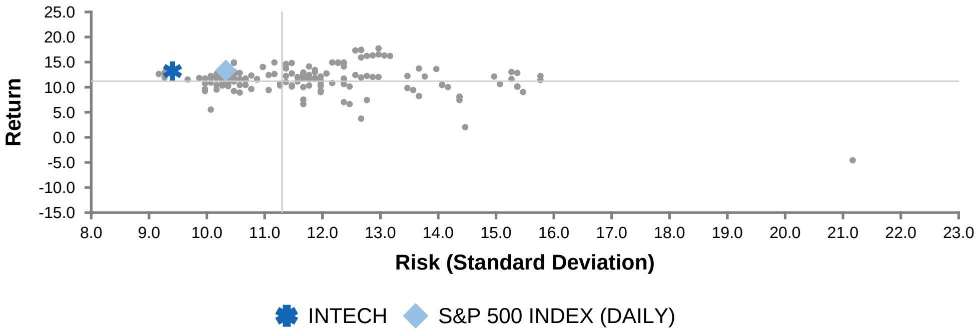
Manager vs. Benchmark: Return through December 31, 2017 (not annualized if less than 1 year)

	Ending Mkt Val ($mil)	1 Quarter	1 Year	3 Years	5 Years	Since Inception
INTECH	857.7	5.17	23.79	11.26	16.14	8.88
S&P 500 INDEX (DAILY)		6.64	21.83	11.41	15.79	8.29

Universe

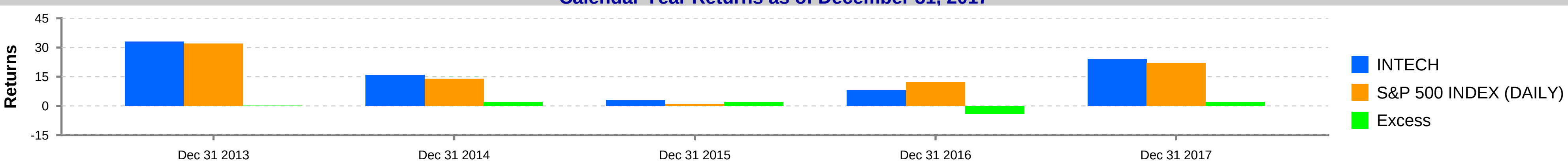
	1 Qtr	1 Year	3 Years	5 Years
US Equity Funds - Large Cap				
Median	6.63	21.82	11.23	15.84
Number of Observations	196.00	192.00	180.00	151.00

3 Year Risk vs Return



	3 Year Return		3 Year Standard Deviation	
INTECH	11.3	47	9.2	2
S&P 500 INDEX (DAILY)	11.4	41	10.1	14
5th Percentile	15.6		9.9	
25th Percentile	12.0		10.2	
50th Percentile	11.2		11.3	
75th Percentile	9.8		12.3	
95th Percentile	6.9		15.2	

Calendar Year Returns as of December 31, 2017



LACERA Investments

Universe data: U.S. Equities Total Large Cap

U.S. EQUITY - LARGE CAP

JANA PARTNERS LLC

for the quarter ended December 31, 2017

Manager Profile

Firm:	JANA Partners LLC
Location:	New York, NY
Year Founded:	2001
Contact:	Jordan Gershuny, Head of Client Adv. Group
Inception Date:	October 2016
Assigned Role:	Large Cap Equity
Benchmark:	S&P 500
Investment Style:	Activist

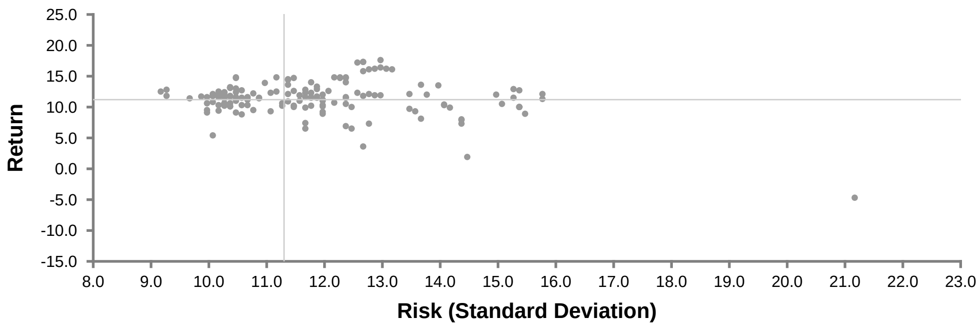
Manager vs. Benchmark: Return through December 31, 2017
(not annualized if less than 1 year)

	Ending Mkt Val ($mil)	1 Quarter	1 Year	3 Years	5 Years	Since Inception
JANA Partners	105.9	3.08	24.32			44.82
S&P 500 INDEX (DAILY)		6.64	21.83			20.65

Universe

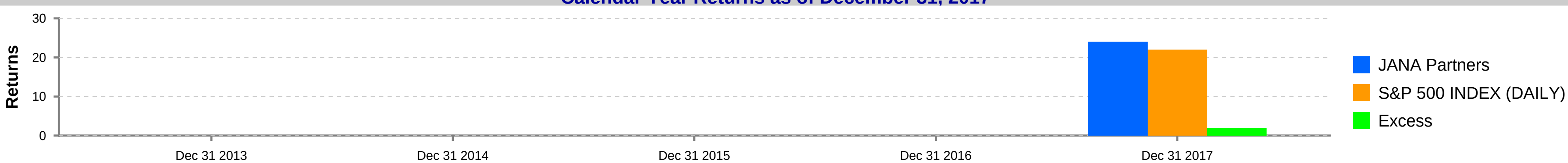
	1 Qtr	1 Year	3 Years	5 Years
US Equity Funds - Large Cap				
Median	6.63	21.82	11.23	15.84
Number of Observations	196.00	192.00	180.00	151.00

3 Year Risk vs Return



	3 Year Return	3 Year Standard Deviation
5th Percentile	15.6	9.9
25th Percentile	12.0	10.2
50th Percentile	11.2	11.3
75th Percentile	9.8	12.3
95th Percentile	6.9	15.2

Calendar Year Returns as of December 31, 2017



Universe data: U.S. Equities Total Large Cap

U.S. EQUITY - LARGE CAP
TWIN CAPITAL MANAGEMENT, INC.
for the quarter ended December 31, 2017

Manager Profile

Firm:	Twin Capital Management, Inc.
Location:	McMurray, PA
Year Founded:	1990
Contact:	Geoffrey Gerber, Ph.D., President
Inception Date:	December 2006
Assigned Role:	Enhanced Index
Benchmark:	S&P 500
Investment Style:	Core

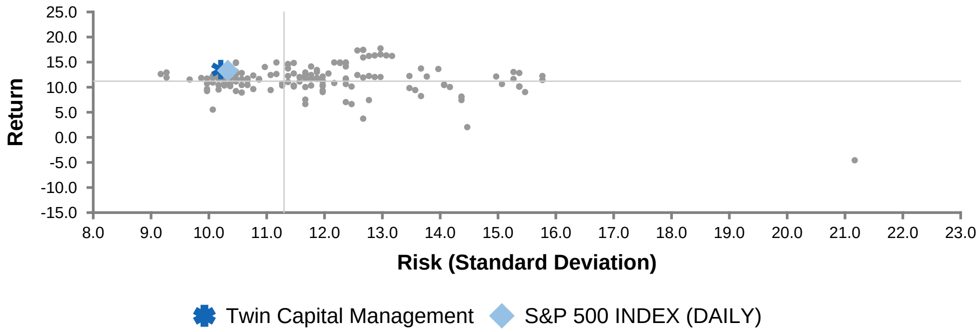
Manager vs. Benchmark: Return through December 31, 2017
(not annualized if less than 1 year)

	Ending Mkt Val ($mil)	1 Quarter	1 Year	3 Years	5 Years	Since Inception
Twin Capital Management	531.7	7.10	21.17	11.60	16.05	8.73
S&P 500 INDEX (DAILY)		6.64	21.83	11.41	15.79	8.29

Universe

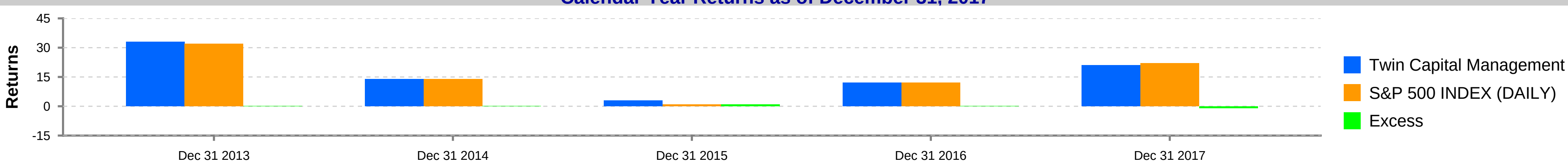
	1 Qtr	1 Year	3 Years	5 Years
US Equity Funds - Large Cap				
Median	6.63	21.82	11.23	15.84
Number of Observations	196.00	192.00	180.00	151.00

3 Year Risk vs Return



	3 Year Return		3 Year Standard Deviation	
Twin Capital Management	11.6	33	10.0	10
S&P 500 INDEX (DAILY)	11.4	41	10.1	14
5th Percentile	15.6		9.9	
25th Percentile	12.0		10.2	
50th Percentile	11.2		11.3	
75th Percentile	9.8		12.3	
95th Percentile	6.9		15.2	

Calendar Year Returns as of December 31, 2017



Universe data: U.S. Equities Total Large Cap

U.S. EQUITY - SMALL/MID CAP

CRAMER, ROSENTHAL, McGLYNN LLC

for the quarter ended December 31, 2017

Manager Profile

Firm:	Cramer, Rosenthal, McGlynn LLC
Location:	New York, NY
Year Founded:	1973
Contact:	Clair Pomponi, Marketing Associate
Inception Date:	April 2010
Assigned Role:	Small/Mid Cap Equity
Benchmark:	Russell 2500
Investment Style:	Core / Value

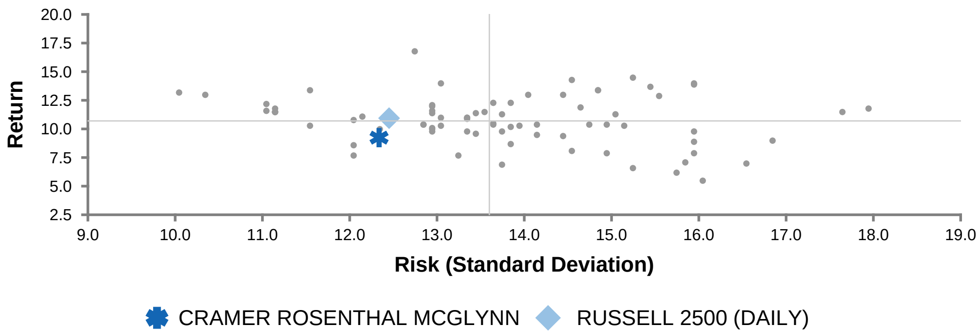
Manager vs. Benchmark: Return through December 31, 2017 (not annualized if less than 1 year)

	Ending Mkt Val ($mil)	1 Quarter	1 Year	3 Years	5 Years	Since Inception
Cramer Rosenthal McGlynn	273.6	5.88	15.60	8.37	12.48	11.80
RUSSELL 2500 (DAILY)		5.24	16.81	10.07	14.33	13.14

Universe

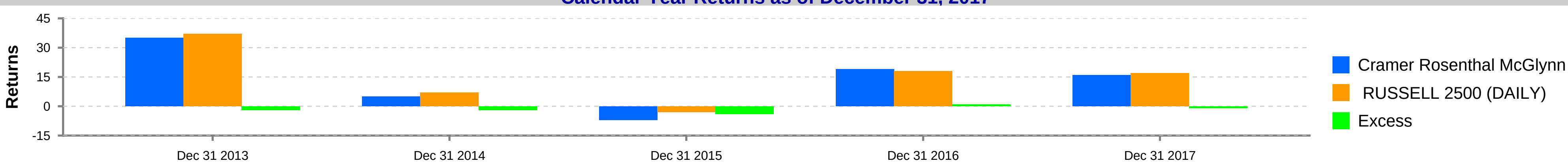
	1 Qtr	1 Year	3 Years	5 Years
US Equity Funds - SMID				
Median	3.95	12.91	10.65	15.15
Number of Observations	84.00	82.00	78.00	69.00

3 Year Risk vs Return



	3 Year Return		3 Year Standard Deviation	
CRAMER ROSENTHAL MCGLYNN	8.4	84	12.2	19
RUSSELL 2500 (DAILY)	10.1	61	12.3	21
5th Percentile	13.8		11.0	
25th Percentile	11.8		12.8	
50th Percentile	10.7		13.6	
75th Percentile	9.5		14.9	
95th Percentile	6.6		16.5	

Calendar Year Returns as of December 31, 2017



Universe data: U.S. Equities SMID

U.S. EQUITY - SMALL/MID CAP

EAGLE ASSET MANAGEMENT, INC.

for the quarter ended December 31, 2017

Manager Profile

Firm:	Eagle Asset Management, Inc.
Location:	St. Petersburg, FL
Year Founded:	1976
Contact:	Ed Rick, CFA, Senior Vice President
Inception Date:	February 2005
Assigned Role:	Small/Mid Cap Equity
Benchmark:	Russell 2500
Investment Style:	Core / Growth

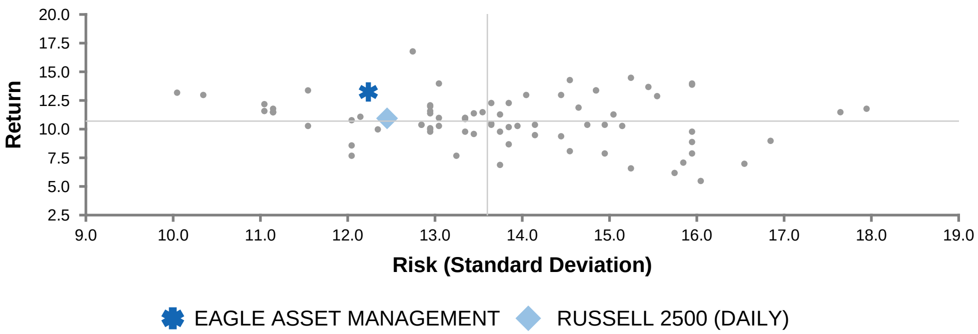
Manager vs. Benchmark: Return through December 31, 2017
(not annualized if less than 1 year)

	Ending Mkt Val ($mil)	1 Quarter	1 Year	3 Years	5 Years	Since Inception
Eagle Asset Management	343.1	2.71	15.60	12.38	15.60	10.62
RUSSELL 2500 (DAILY)		5.24	16.81	10.07	14.33	9.38

Universe

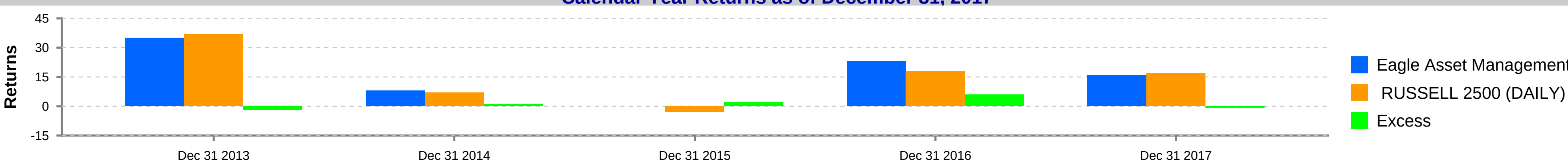
	1 Qtr	1 Year	3 Years	5 Years
US Equity Funds - SMID				
Median	3.95	12.91	10.65	15.15
Number of Observations	84.00	82.00	78.00	69.00

3 Year Risk vs Return



	3 Year Return		3 Year Standard Deviation	
EAGLE ASSET MANAGEMENT	12.4	20	12.1	18
RUSSELL 2500 (DAILY)	10.1	61	12.3	21
5th Percentile	13.8		11.0	
25th Percentile	11.8		12.8	
50th Percentile	10.7		13.6	
75th Percentile	9.5		14.9	
95th Percentile	6.6		16.5	

Calendar Year Returns as of December 31, 2017



Universe data: U.S. Equities SMID

U.S. EQUITY - SMALL/MID CAP

FRONTIER CAPITAL MANAGEMENT COMPANY, LLC

for the quarter ended December 31, 2017

Manager Profile

Firm:	Frontier Capital Mgmt. Company, LLC
Location:	Boston, MA
Year Founded:	1980
Contact:	Michael Cavarretta, Chairman-Portf. Manager
Inception Date:	June 2002
Assigned Role:	Small/Mid Cap Equity
Benchmark:	Russell 2500
Investment Style:	Core / Growth

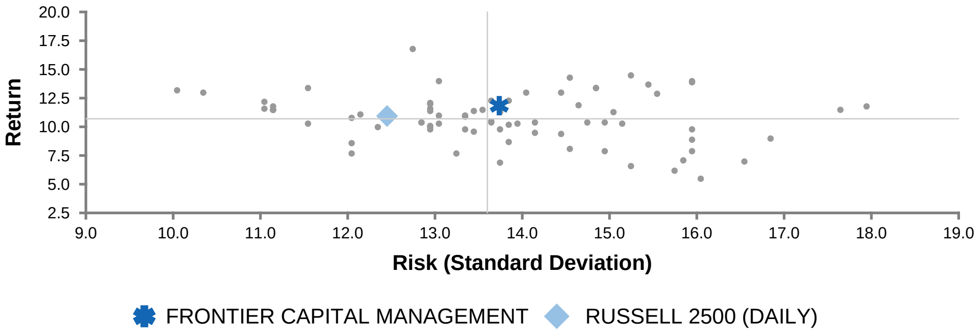
Manager vs. Benchmark: Return through December 31, 2017
(not annualized if less than 1 year)

	Ending Mkt Val ($mil)	1 Quarter	1 Year	3 Years	5 Years	Since Inception
Frontier Capital Management	692.0	4.01	19.64	10.99	16.71	12.10
RUSSELL 2500 (DAILY)		5.24	16.81	10.07	14.33	9.87

Universe

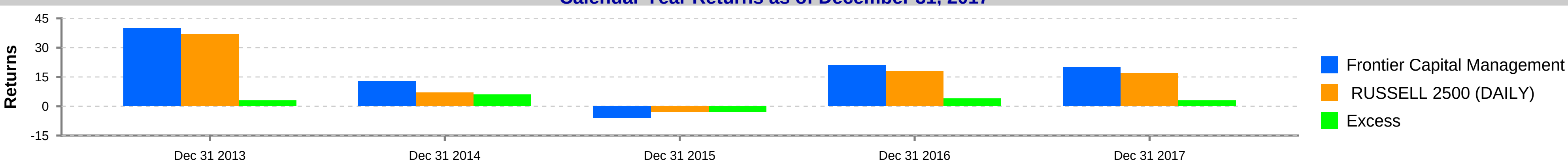
	1 Qtr	1 Year	3 Years	5 Years
US Equity Funds - SMID				
Median	3.95	12.91	10.65	15.15
Number of Observations	84.00	82.00	78.00	69.00

3 Year Risk vs Return



	3 Year Return		3 Year Standard Deviation	
FRONTIER CAPITAL MANAGEMENT	11.0	46	13.6	49
RUSSELL 2500 (DAILY)	10.1	61	12.3	21
5th Percentile	13.8		11.0	
25th Percentile	11.8		12.8	
50th Percentile	10.7		13.6	
75th Percentile	9.5		14.9	
95th Percentile	6.6		16.5	

Calendar Year Returns as of December 31, 2017



LACERA Investments

Universe data: U.S. Equities SMID

U.S. EQUITY - SMALL/MID CAP

WESTWOOD MANAGEMENT CORP.

for the quarter ended December 31, 2017

Manager Profile

Firm:	Westwood Management Corporation
Location:	Dallas, TX
Year Founded:	1983
Contact:	Kim Calhoun, QPA, Sr. Vice President
Inception Date:	April 2009
Assigned Role:	Small/Mid Cap Equity
Benchmark:	Russell 2500
Investment Style:	Core / Value

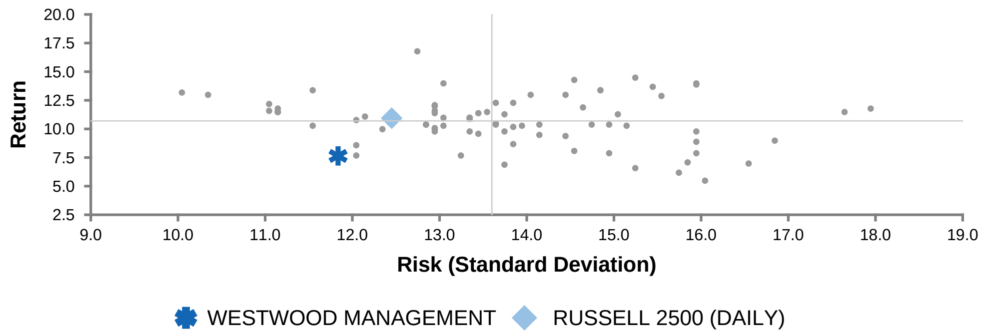
Manager vs. Benchmark: Return through December 31, 2017
(not annualized if less than 1 year)

	Ending Mkt Val ($mil)	1 Quarter	1 Year	3 Years	5 Years	Since Inception
Westwood Management	257.5	3.51	11.21	6.81	11.82	16.08
RUSSELL 2500 (DAILY)		5.24	16.81	10.07	14.33	18.18

Universe

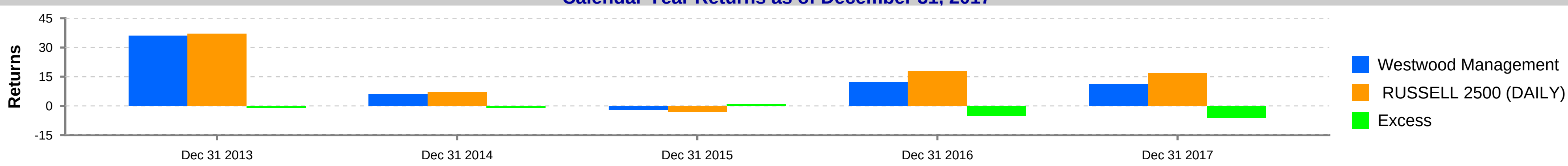
	1 Qtr	1 Year	3 Years	5 Years
US Equity Funds - SMID				
Median	3.95	12.91	10.65	15.15
Number of Observations	84.00	82.00	78.00	69.00

3 Year Risk vs Return



	3 Year Return		3 Year Standard Deviation	
WESTWOOD MANAGEMENT	6.8	93	11.7	14
RUSSELL 2500 (DAILY)	10.1	61	12.3	21
5th Percentile	13.8		11.0	
25th Percentile	11.8		12.8	
50th Percentile	10.7		13.6	
75th Percentile	9.5		14.9	
95th Percentile	6.6		16.5	

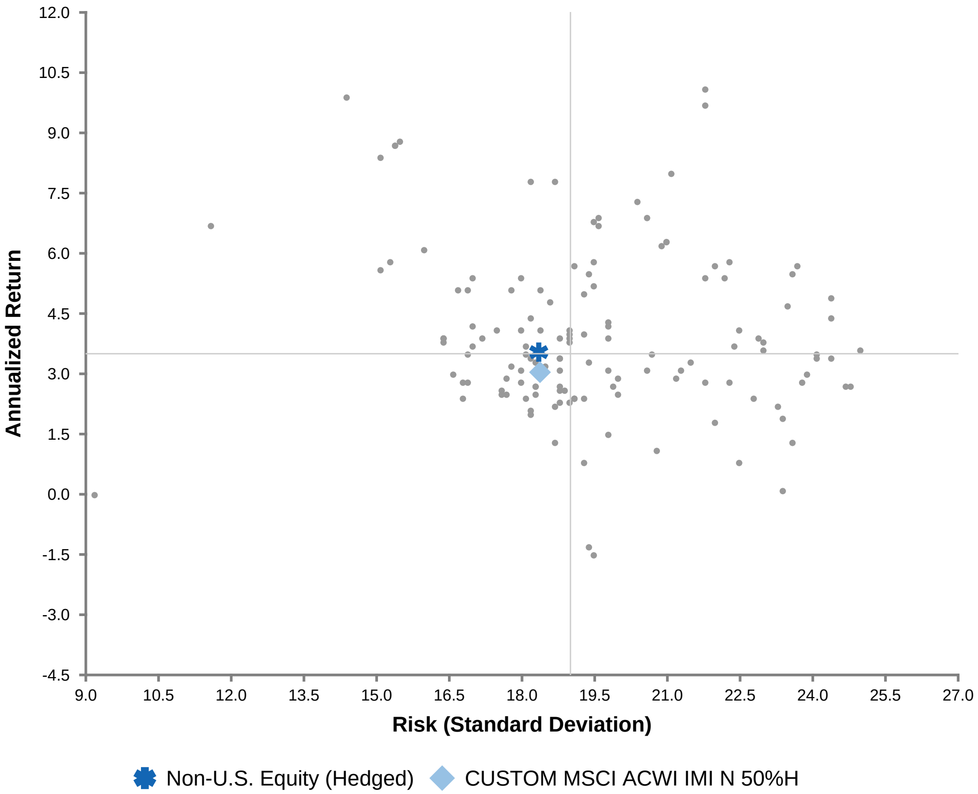
Calendar Year Returns as of December 31, 2017



Universe data: U.S. Equities SMID

NON-U.S. EQUITY
RISK ADJUSTED RETURN
for the quarter ended December 31, 2017

10 Year Risk vs Return



	Rate of Return 10 Years		Standard Deviation 10 Years	
Non-U.S. Equity (Hedged)	**3.3**	*57*	**18.1**	*30*
CUSTOM MSCI ACWI IMI N 50%H	2.8	*66*	18.1	*33*
5th Percentile	8.6		15.3	
25th Percentile	5.1		17.7	
50th Percentile	3.5		19.0	
75th Percentile	2.6		21.1	
95th Percentile	1.2		24.0	
Number of Observations	139		142	

	Rate of Return 10 Years	Standard Deviation 10 Years	Tracking Error 10 Years
Non-U.S. Equity (Hedged)	3.3	18.1	0.6
CUSTOM MSCI ACWI IMI N 50%H	2.8	18.1	

Universe data: Non-U.S. Equity Funds

NON-U.S. EQUITY
ACADIAN ASSET MANAGEMENT, LLC
for the quarter ended December 31, 2017

Manager Profile

Firm:	Acadian Asset Management, LLC
Location:	Boston, MA
Year Founded:	1986
Contact:	Douglas Coughlin, CFA, Sr. Vice President
Inception Date:	April 2006
Assigned Role:	Non-U.S. Equity
Benchmark:	MSCI EAFE + Canada (Net)
Investment Style:	Core / Value

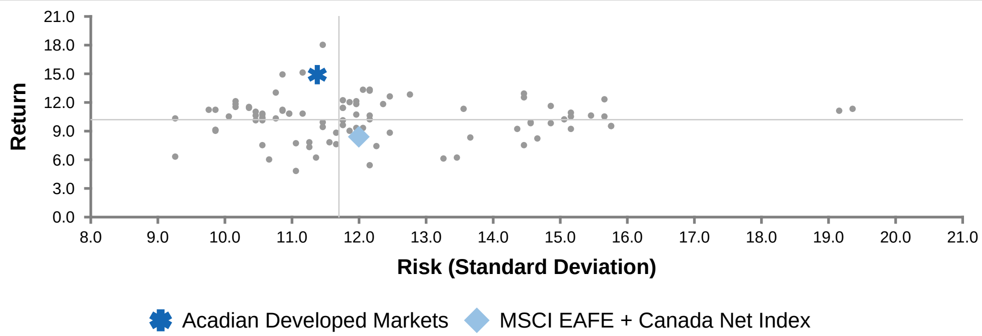
Manager vs. Benchmark: Return through December 31, 2017
(not annualized if less than 1 year)

	Ending Mkt Val ($mil)	1 Quarter	1 Year	3 Years	5 Years	Since Inception
Acadian Developed Markets	897.1	5.74	35.19	13.86	12.70	5.34
MSCI EAFE + Canada Net Index		4.23	24.21	7.36	7.46	3.83

Universe

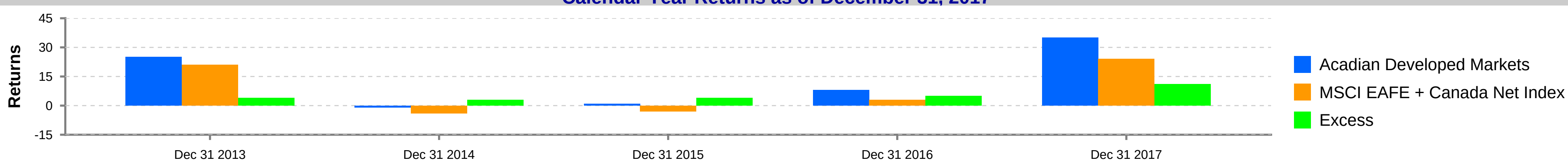
	1 Qtr	1 Year	3 Years	5 Years
Intl/Global Equity Funds - Core				
Median	5.24	25.90	10.17	11.56
Number of Observations	106.00	107.00	93.00	64.00

3 Year Risk vs Return



	3 Year Return		3 Year Standard Deviation	
Acadian Developed Markets	13.9	6	11.2	39
MSCI EAFE + Canada Net Index	7.4	88	11.8	53
5th Percentile	14.6		9.8	
25th Percentile	11.2		10.5	
50th Percentile	10.2		11.7	
75th Percentile	8.9		13.4	
95th Percentile	5.9		15.7	

Calendar Year Returns as of December 31, 2017



Universe data: International Equity Funds Core

NON-U.S. EQUITY
CAPITAL GUARDIAN TRUST COMPANY
for the quarter ended December 31, 2017

Manager Profile

Firm:	Capital Guardian Trust Company
Location:	Los Angeles, CA
Year Founded:	1968
Contact:	Michael Bowman, Relationship Manager
Funding / Inception Date:	October 1987 / November 1994*
Assigned Role:	Non-U.S. Equity
Benchmark:	EAFE Custom Index
Investment Style:	Core / Growth

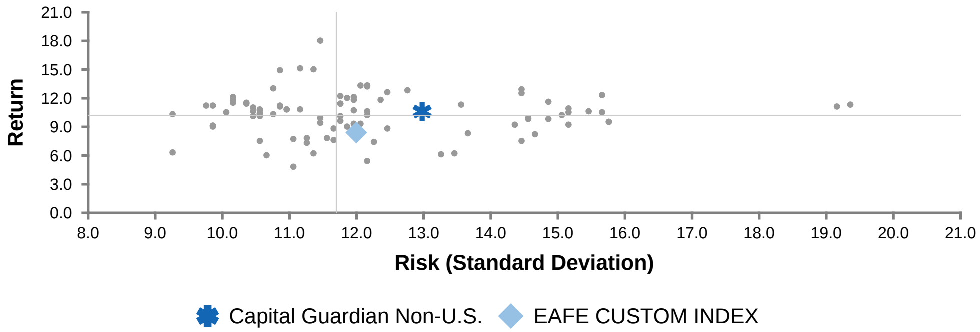
Manager vs. Benchmark: Return through December 31, 2017
(not annualized if less than 1 year)

	Ending Mkt Val ($mil)	1 Quarter	1 Year	3 Years	5 Years	Since Inception
Capital Guardian Non-U.S.	383.7	4.52	32.29	9.59	9.14	7.86
EAFE CUSTOM INDEX		4.23	24.21	7.36	7.46	5.15

Universe

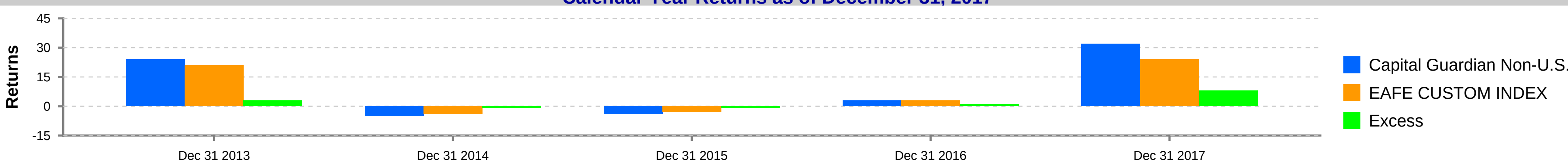
	1 Qtr	1 Year	3 Years	5 Years
Intl/Global Equity Funds - Core				
Median	5.24	25.90	10.17	11.56
Number of Observations	106.00	107.00	93.00	64.00

3 Year Risk vs Return



	3 Year Return		3 Year Standard Deviation	
Capital Guardian Non-U.S.	9.6	64	12.8	73
EAFE CUSTOM INDEX	7.4	88	11.8	53
5th Percentile	14.6		9.8	
25th Percentile	11.2		10.5	
50th Percentile	10.2		11.7	
75th Percentile	8.9		13.4	
95th Percentile	5.9		15.7	

Calendar Year Returns as of December 31, 2017



* State Street performance data begins November 1994.
Universe data: International Equity Funds Core

NON-U.S. EQUITY - PACIFIC BASIN
GAM INTERNATIONAL MANAGEMENT LTD.
for the quarter ended December 31, 2017

Manager Profile

Firm:	GAM International Management Ltd.
Location:	London, England
Year Founded:	1993
Contact:	Michael Bunker, Portfolio Manager
Inception Date:	April 1994
Assigned Role:	Pacific Basin
Benchmark:	MSCI Pacific Basin Net
Investment Style:	Core

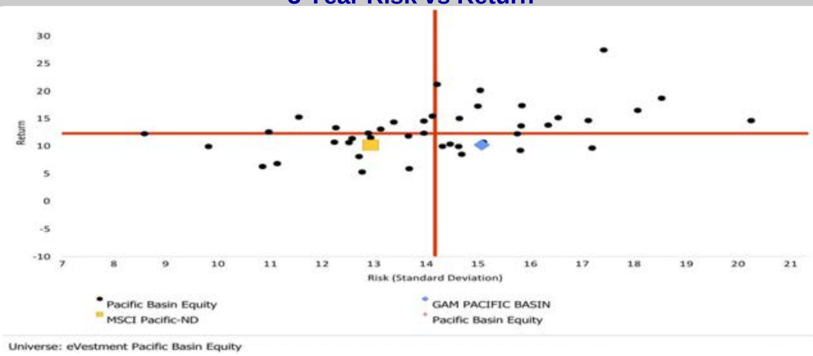
Manager vs. Benchmark: Return through December 31, 2017
(not annualized if less than 1 year)

	Ending Mkt Val ($mil)	1 Quarter	1 Year	3 Years	5 Years	Since Inception
GAM Pacific Basin	893.8	7.81	26.33	10.18	8.02	7.48
MSCI PACIFIC $ (DAILY)		7.99	24.64	10.16	9.00	2.89

Universe

	1 Qtr	1 Year	3 Years	5 Years
Pacific Basin Equity				
Median	8.28	32.69	12.34	11.30
Number of Observations	45	45	42	38

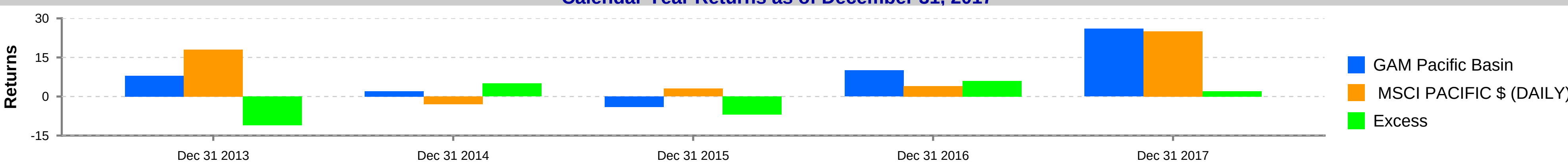
3 Year Risk vs Return



3 Year Risk vs Return

	3 Year Return		3 Year Standard Deviation (Qtr)	
GAM PACIFIC BASIN	10.2	74	15.1	30
MSCI PACIFIC $ (DAILY)	10.2	74	12.9	69
5th Percentile	20.0		18.0	
25th Percentile	14.9		15.8	
50th Percentile	12.3		14.2	
75th Percentile	10.0		12.7	
95th Percentile	6.3		10.9	

Calendar Year Returns as of December 31, 2017



Universe data: eVestment's Pacific Basin Equity

NON-U.S. EQUITY - PACIFIC BASIN
SYMPHONY FINANCIAL PARTNERS PTE. LTD.
for the quarter ended December 31, 2017

Manager Profile

Firm:	Symphony Financial Partners Pte. Ltd.
Location:	Singapore, Singapore
Year Founded:	2001
Contact:	David Baran, Co-CEO/Co-Founder
Inception Date:	November 2016
Assigned Role:	Pacific Basin
Benchmark:	MSCI Japan Small Cap Net
Investment Style:	Activist

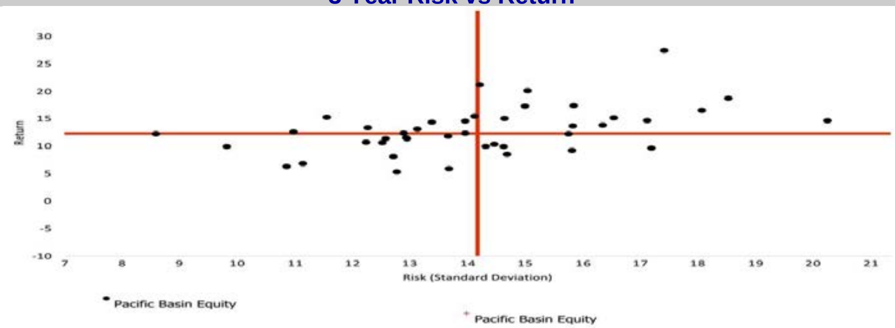
Manager vs. Benchmark: Return through December 31, 2017
(not annualized if less than 1 year)

	Ending Mkt Val ($mil)	1 Quarter	1 Year	3 Years	5 Years	Since Inception
Symphony Financial Partners	130.1	5.41	17.25			25.25
MSCI JAPAN SMALL CAP NET		8.72	31.26			23.02

Universe

	1 Qtr	1 Year	3 Years	5 Years
Pacific Basin Equity				
Median	8.28	32.69	12.34	11.30
Number of Observations	45	45	42	38

3 Year Risk vs Return

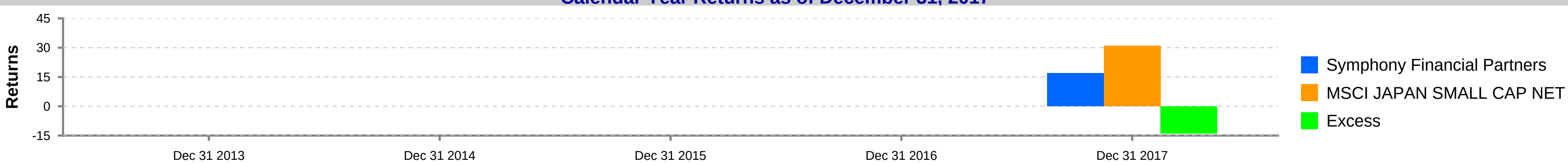


Universe: eVestment Pacific Basin Equity

3 Year Risk vs Return

	3 Year Return		3 Year Standard Deviation (Qtr)	
SYMPHONY FINANCIAL PARTNERS	N/A	-	N/A	-
MSCI PACIFIC $ (DAILY)	10.2	74	12.9	69
5th Percentile	20.0		18.0	
25th Percentile	14.9		15.8	
50th Percentile	12.3		14.2	
75th Percentile	10.0		12.7	
95th Percentile	6.3		10.9	

Calendar Year Returns as of December 31, 2017



NON-U.S. EQUITY - EUROPE

BLACKROCK INSTITUTIONAL TRUST COMPANY, N.A. - EUROPE ALPHA TILTS

for the quarter ended December 31, 2017

Manager Profile

Firm:	BlackRock Institutional Trust Company, N.A.
Location:	San Francisco, CA
Year Founded:	1985
Contact:	Lilian Wan, Managing Director
Inception Date:	January 2007
Assigned Role:	Non-U.S. Equity Enhanced Index
Benchmark:	MSCI Europe Net
Investment Style:	Core

Manager vs. Benchmark: Return through December 31, 2017
(not annualized if less than 1 year)

	Ending Mkt Val ($mil)	1 Quarter	1 Year	3 Years	5 Years	Since Inception
BTC Euro Tilts	1,021.1	2.86	28.64	9.74	10.41	3.93
MSCI EUROPE (DAILY)		2.21	25.51	6.69	7.37	2.42

Universe

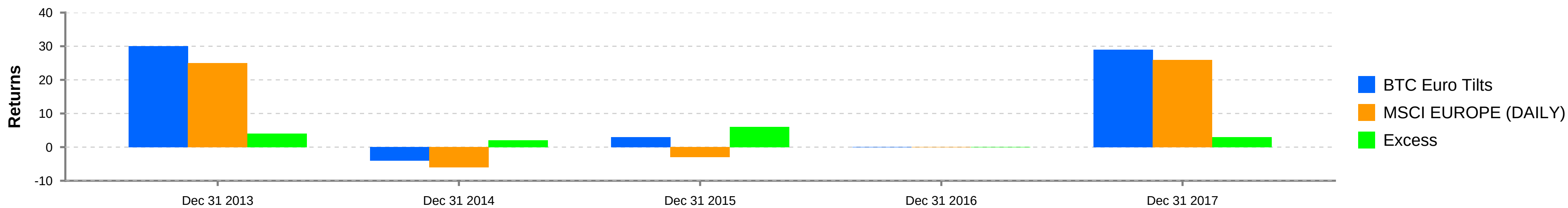
	1 Qtr	1 Year	3 Years	5 Years
Europe Equity				
Median	2.37	29.08	10.04	10.13
Number of Observations	498	497	475	436

3 Year Risk vs Return

3 Year Risk vs Return

	3 Year Return		3 Year Standard Deviation	
BTC EURO TILTS	9.7	54	9.4	87
MSCI EUROPE (DAILY)	6.7	90	9.7	79
5th Percentile	18.1		14.7	
25th Percentile	12.8		12.4	
50th Percentile	10.0		11.1	
75th Percentile	7.7		10.0	
95th Percentile	5.5		8.9	

Calendar Year Returns as of December 31, 2017



Universe data: eVestment's All Europe Equity

NON-U.S. EQUITY - EUROPE

CEVIAN CAPITAL

for the quarter ended December 31, 2017

Manager Profile

Firm:	Cevian Capital
Location:	Stockholm, Sweden
Year Founded:	2002
Contact:	David Henderson, Director
Inception Date:	October 2016
Assigned Role:	Europe
Benchmark:	MSCI Europe Net
Investment Style:	Activist

Manager vs. Benchmark: Return through December 31, 2017
(not annualized if less than 1 year)

	Ending Mkt Val ($mil)	1 Quarter	1 Year	3 Years	5 Years	Since Inception
Cevian Capital	303.9	4.44	16.96			18.38
MSCI EUROPE (DAILY)		2.21	25.51			19.51

Universe

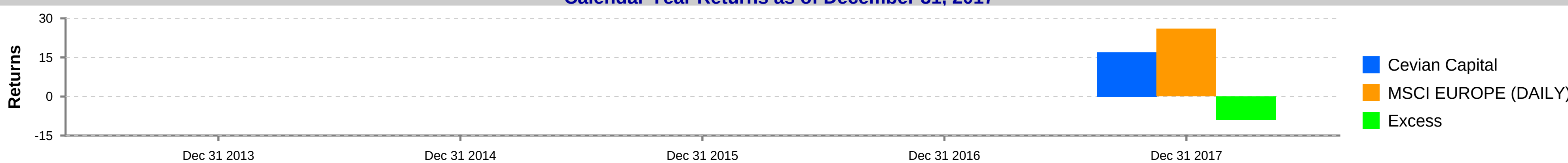
	1 Qtr	1 Year	3 Years	5 Years
Europe Equity				
Median	2.37	29.08	10.04	10.13
Number of Observations	498	497	475	436

3 Year Risk vs Return

3 Year Risk vs Return

	3 Year Return		3 Year Standard Deviation	
CEVIAN CAPITAL	N/A	-	N/A	-
MSCI EUROPE (DAILY)	6.7	90	9.7	79
5th Percentile	18.1		14.7	
25th Percentile	12.8		12.4	
50th Percentile	10.0		11.1	
75th Percentile	7.7		10.0	
95th Percentile	5.5		8.9	

Calendar Year Returns as of December 31, 2017



NON-U.S. EQUITY - EMERGING MARKETS
ACADIAN ASSET MANAGEMENT, LLC
for the quarter ended December 31, 2017

Manager Profile

Firm:	Acadian Asset Management, LLC
Location:	Boston, MA
Year Founded:	1986
Contact:	Douglas Coughlin, CFA, Sr. Vice President
Inception Date:	January 2013
Assigned Role:	Emerging Markets
Benchmark:	MSCI EMF (Net)
Investment Style:	Core / Value

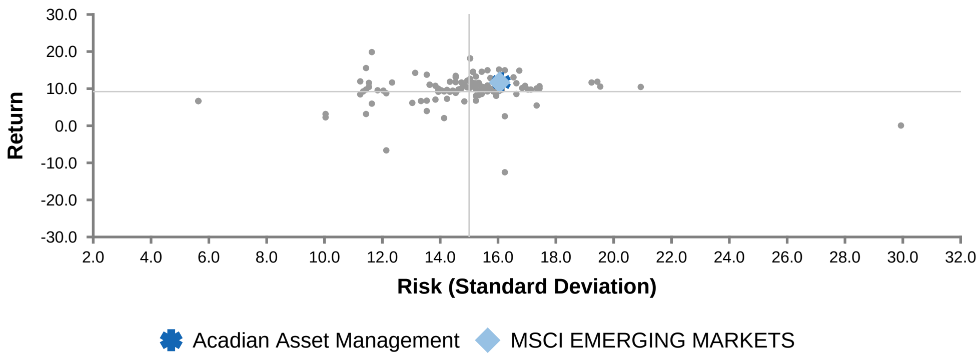
Manager vs. Benchmark: Return through December 31, 2017
(not annualized if less than 1 year)

	Ending Mkt Val ($mil)	1 Quarter	1 Year	3 Years	5 Years	Since Incept
Acadian Asset Management	423.2	6.66	38.80	9.24	5.65	5.65
MSCI EMERGING MARKETS		7.44	37.28	9.10	4.35	4.35

Universe

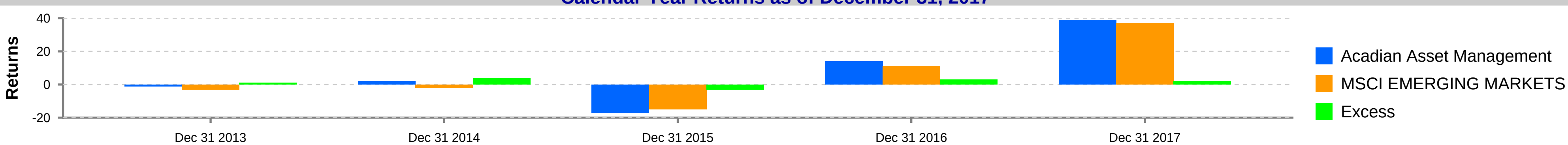
	1 Qtr	1 Year	3 Years	5 Years
Intl Equity Emerging Mkt Funds				
Median	6.77	35.08	9.21	5.16
Number of Observations	165.00	153.00	128.00	103.00

3 Year Risk vs Return



	3 Year Return		3 Year Standard Deviation	
Acadian Asset Management	9.2	49	15.7	76
MSCI EMERGING MARKETS	9.1	52	15.6	74
5th Percentile	14.1		11.1	
25th Percentile	10.7		13.8	
50th Percentile	9.2		15.0	
75th Percentile	8.3		15.6	
95th Percentile	2.3		17.3	

Calendar Year Returns as of December 31, 2017



Universe data: International Equity Funds Emerging Markets

NON-U.S. EQUITY - EMERGING MARKETS
AQR CAPITAL MANAGEMENT, LLC
for the quarter ended December 31, 2017

Manager Profile

Firm:	AQR Capital Management, LLC
Location:	Greenwich, CT
Year Founded:	1998
Contact:	Joey Lee, Vice President
Inception Date:	February 2014
Assigned Role:	Emerging Markets
Benchmark:	MSCI EMF (Net)
Investment Style:	Core

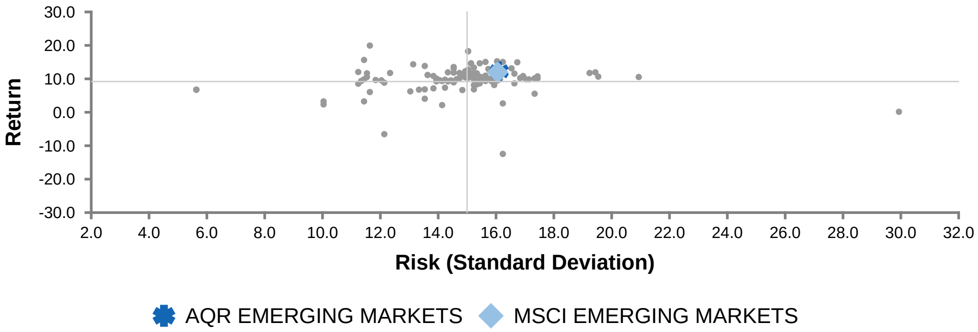
Manager vs. Benchmark: Return through December 31, 2017
(not annualized if less than 1 year)

	Ending Mkt Val ($mil)	1 Quarter	1 Year	3 Years	5 Years	Since Incept
AQR Emerging Markets	269.4	4.95	36.66	9.42		8.67
MSCI EMERGING MARKETS		7.44	37.28	9.10		8.14

Universe

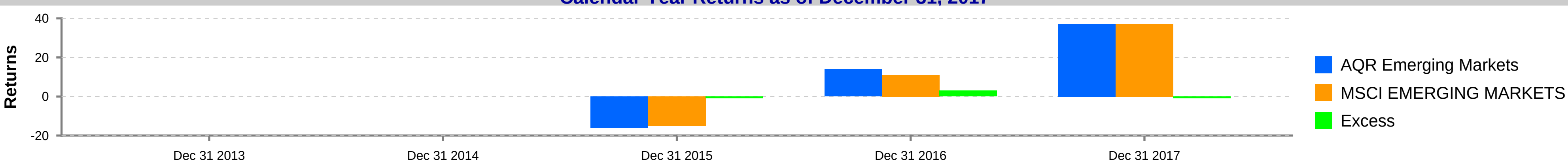
	1 Qtr	1 Year	3 Years	5 Years
Intl Equity Emerging Mkt Funds				
Median	6.77	35.08	9.21	5.16
Number of Observations	165.00	153.00	128.00	103.00

3 Year Risk vs Return



	3 Year Return		3 Year Standard Deviation	
AQR EMERGING MARKETS	9.4	44	15.7	75
MSCI EMERGING MARKETS	9.1	52	15.6	74
5th Percentile	14.1		11.1	
25th Percentile	10.7		13.8	
50th Percentile	9.2		15.0	
75th Percentile	8.3		15.6	
95th Percentile	2.3		17.3	

Calendar Year Returns as of December 31, 2017



Universe data: International Equity Funds Emerging Markets

NON-U.S. EQUITY - EMERGING MARKETS
GENESIS INVESTMENT MANAGEMENT, LLP
for the quarter ended December 31, 2017

Manager Profile

Firm:	Genesis Investment Management, LLP
Location:	London, England
Year Founded:	1989
Contact:	Jonathan Snow, Director
Inception Date:	September 2007
Assigned Role:	Emerging Markets
Benchmark:	MSCI EMF IMI Custom
Investment Style:	Core

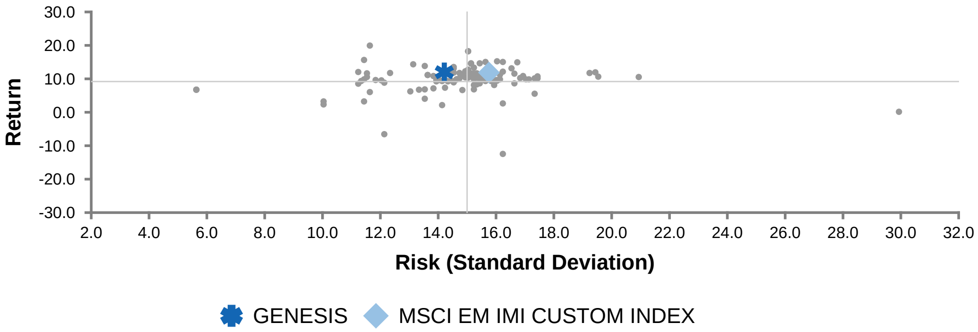
Manager vs. Benchmark: Return through December 31, 2017
(not annualized if less than 1 year)

	Ending Mkt Val ($mil)	1 Quarter	1 Year	3 Years	5 Years	Since Inception
Genesis	715.7	7.56	35.13	9.10	5.56	6.23
MSCI EM IMI CUSTOM INDEX		7.67	36.83	9.01	4.47	3.27

Universe

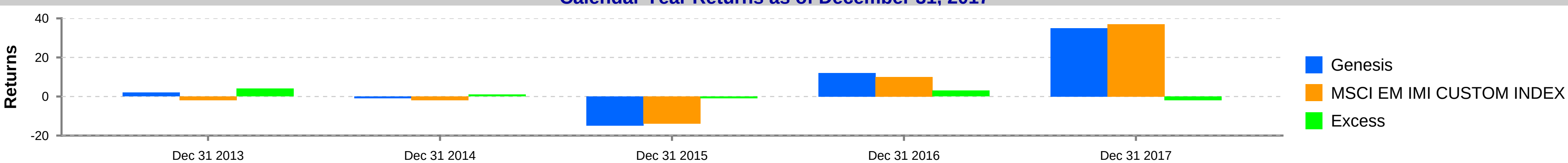
	1 Qtr	1 Year	3 Years	5 Years
Intl Equity Emerging Mkt Funds				
Median	6.77	35.08	9.21	5.16
Number of Observations	165.00	153.00	128.00	103.00

3 Year Risk vs Return



	3 Year Return		3 Year Standard Deviation	
GENESIS	9.1	53	13.8	25
MSCI EM IMI CUSTOM INDEX	9.0	53	15.3	63
5th Percentile	14.1		11.1	
25th Percentile	10.7		13.8	
50th Percentile	9.2		15.0	
75th Percentile	8.3		15.6	
95th Percentile	2.3		17.3	

Calendar Year Returns as of December 31, 2017



Universe data: International Equity Funds Emerging Markets

NON-U.S. EQUITY - EMERGING MARKETS

LAZARD ASSET MANAGEMENT, LLC

for the quarter ended December 31, 2017

Manager Profile

Firm:	Lazard Asset Management, LLC
Location:	New York, NY
Year Founded:	1970
Contact:	Tony Dote, Managing Director
Inception Date:	February 2013
Assigned Role:	Emerging Markets
Benchmark:	MSCI EMF (Net)
Investment Style:	Core

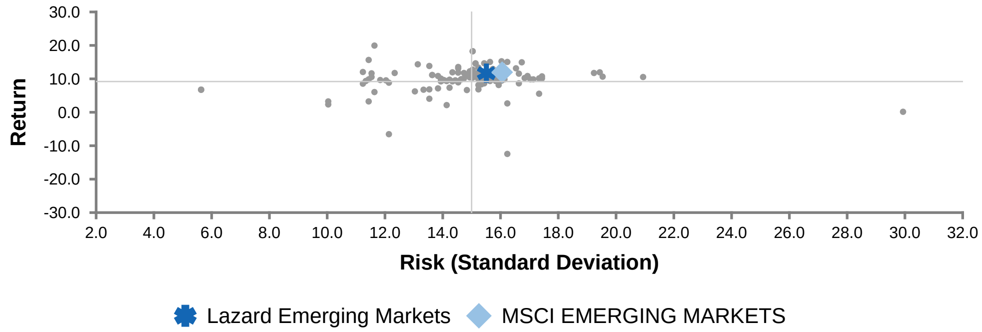
Manager vs. Benchmark: Return through December 31, 2017
(not annualized if less than 1 year)

	Ending Mkt Val ($mil)	1 Quarter	1 Year	3 Years	5 Years	Since Incept
Lazard Emerging Markets	372.5	7.09	38.35	8.79		4.64
MSCI EMERGING MARKETS		7.44	37.28	9.10		4.14

Universe

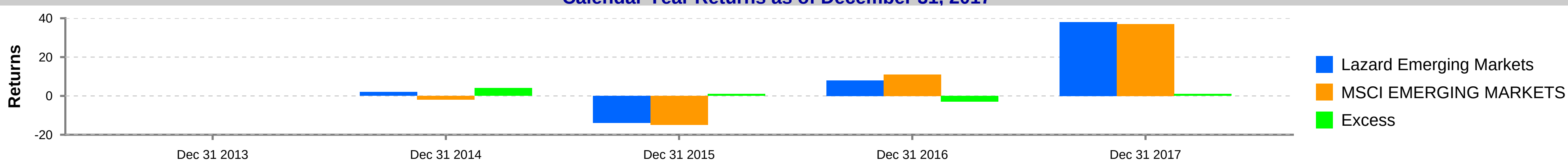
	1 Qtr	1 Year	3 Years	5 Years
Intl Equity Emerging Mkt Funds				
Median	6.77	35.08	9.21	5.16
Number of Observations	165.00	153.00	128.00	103.00

3 Year Risk vs Return



	3 Year Return		3 Year Standard Deviation	
Lazard Emerging Markets	8.8	63	15.1	52
MSCI EMERGING MARKETS	9.1	52	15.6	74
5th Percentile	14.1		11.1	
25th Percentile	10.7		13.8	
50th Percentile	9.2		15.0	
75th Percentile	8.3		15.6	
95th Percentile	2.3		17.3	

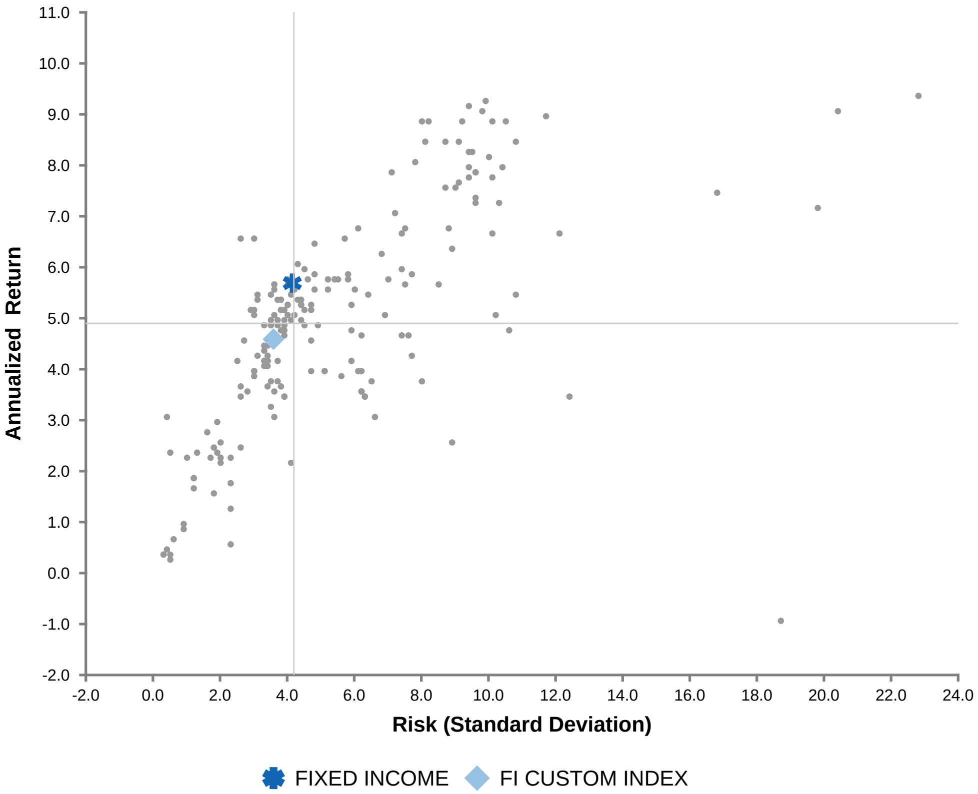
Calendar Year Returns as of December 31, 2017



Universe data: International Equity Funds Emerging Markets

FIXED INCOME
RISK ADJUSTED RETURN
for the quarter ended December 31, 2017

10 Year Risk vs Return



	Rate of Return 10 Years	Standard Deviation 10 Years
FIXED INCOME	**5.5** *34*	**3.8** *44*
FI CUSTOM INDEX	4.4 *60*	3.2 *25*
5th Percentile	8.8	0.8
25th Percentile	5.8	3.2
50th Percentile	4.9	4.2
75th Percentile	3.7	7.3
95th Percentile	1.2	10.4
Number of Observations	207	205

	Rate of Return 10 Years	Standard Deviation 10 Years	Tracking Error 10 Years
FIXED INCOME	5.5 *34*	3.8 *44*	1.7
FI CUSTOM INDEX	4.4 *60*	3.2 *25*	

Universe data: Fixed Income Funds - plans > $1 billion

FIXED INCOME - CORE
BLACKROCK FINANCIAL MANAGEMENT, INC.
for the quarter ended December 31, 2017

Manager Profile

Firm:	BlackRock Financial Management, Inc.
Location:	New York, NY
Year Founded:	1988
Contact:	Lilian Wan, Managing Director
Inception Date:	March 1997
Assigned Role:	Full Mandate
Benchmark:	BBG BC Aggregate Bond Index
Investment Style:	Core Fixed Income

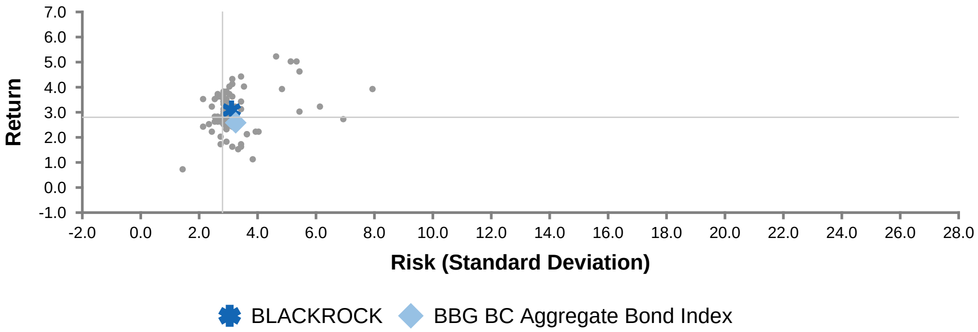
Manager vs. Benchmark: Return through December 31, 2017
(not annualized if less than 1 year)

	Ending Mkt Val ($mil)	1 Quarter	1 Year	3 Years	5 Years	Since Inception
BlackRock	719.2	0.40	3.89	2.68	2.50	5.61
BBG BC Aggregate Bond Index		0.39	3.54	2.24	2.10	5.22

Universe

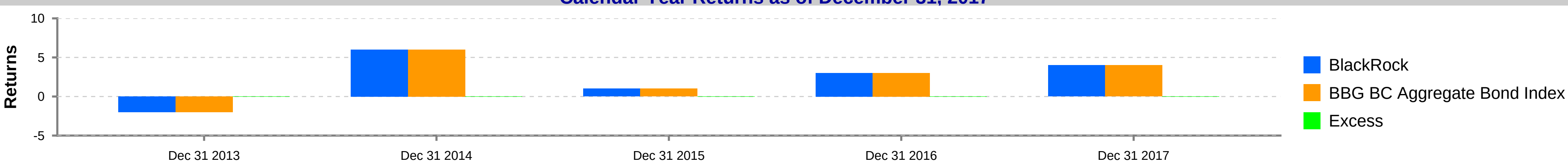
	1 Qtr	1 Year	3 Years	5 Years
US Fixed Income Funds - Core				
Median	0.47	4.00	2.76	2.61
Number of Observations	104.00	101.00	101.00	97.00

3 Year Risk vs Return



	3 Year Return		3 Year Standard Deviation	
BLACKROCK	2.7	57	2.7	23
BBG BC Aggregate Bond Index	2.2	85	2.8	51
5th Percentile	4.3		2.3	
25th Percentile	3.3		2.7	
50th Percentile	2.8		2.8	
75th Percentile	2.5		3.0	
95th Percentile	1.6		5.3	

Calendar Year Returns as of December 31, 2017



Universe data: U.S. Fixed Income Funds Core

FIXED INCOME - CORE
DODGE & COX
for the quarter ended December 31, 2017

Manager Profile

Firm:	Dodge & Cox
Location:	San Francisco, CA
Year Founded:	1930
Contact:	Terrill Armstrong, Client Relationship Mngr.
Inception Date:	March 1997
Assigned Role:	Full Mandate
Benchmark:	BBG BC Aggregate Bond Index
Investment Style:	Core Fixed Income

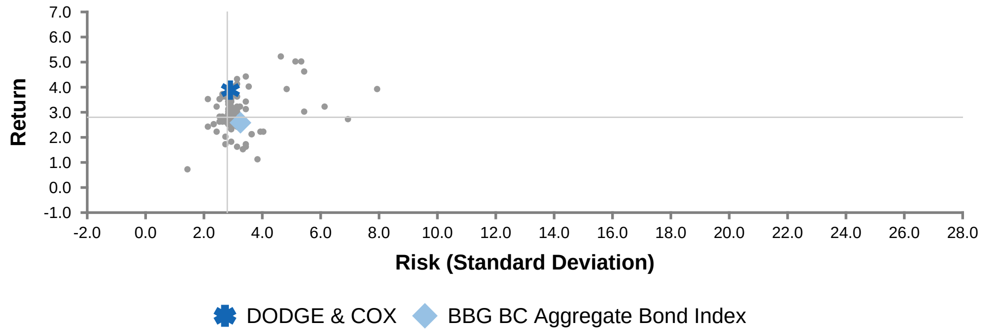
Manager vs. Benchmark: Return through December 31, 2017 (not annualized if less than 1 year)

	Ending Mkt Val ($mil)	1 Quarter	1 Year	3 Years	5 Years	Since Inception
Dodge & Cox	1,297.5	0.43	4.54	3.49	3.53	6.25
BBG BC Aggregate Bond Index		0.39	3.54	2.24	2.10	5.22

Universe

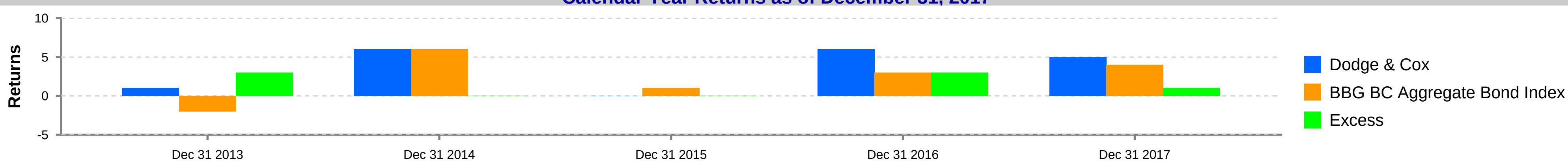
	1 Qtr	1 Year	3 Years	5 Years
US Fixed Income Funds - Core				
Median	0.47	4.00	2.76	2.61
Number of Observations	104.00	101.00	101.00	97.00

3 Year Risk vs Return



	3 Year Return		3 Year Standard Deviation	
DODGE & COX	3.5	19	2.5	13
BBG BC Aggregate Bond Index	2.2	85	2.8	51
5th Percentile	4.3		2.3	
25th Percentile	3.3		2.7	
50th Percentile	2.8		2.8	
75th Percentile	2.5		3.0	
95th Percentile	1.6		5.3	

Calendar Year Returns as of December 31, 2017



Universe data: U.S. Fixed Income Funds Core

FIXED INCOME - CORE
PUGH CAPITAL MANAGEMENT, INC.
for the quarter ended December 31, 2017

Manager Profile

Firm:	Pugh Capital Management, Inc.
Location:	Seattle, WA
Year Founded:	1991
Contact:	Mary E. Pugh, President
Inception Date:	July 2005
Assigned Role:	Emerging Manager
Benchmark:	BBG BC Aggregate Bond Index
Investment Style:	Core Fixed Income

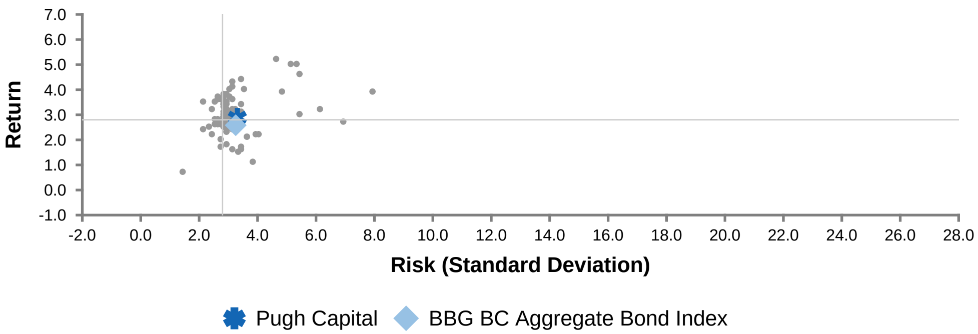
Manager vs. Benchmark: Return through December 31, 2017
(not annualized if less than 1 year)

	Ending Mkt Val ($mil)	1 Quarter	1 Year	3 Years	5 Years	Since Inception
Pugh Capital	137.3	0.57	4.03	2.52	2.41	4.70
BBG BC Aggregate Bond Index		0.39	3.54	2.24	2.10	4.09

Universe

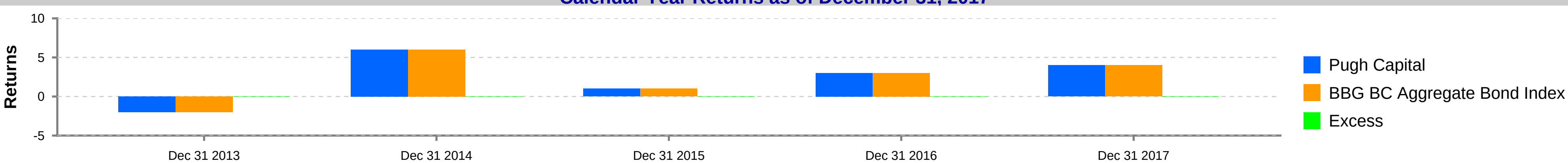
	1 Qtr	1 Year	3 Years	5 Years
US Fixed Income Funds - Core				
Median	0.47	4.00	2.76	2.61
Number of Observations	104.00	101.00	101.00	97.00

3 Year Risk vs Return



	3 Year Return		3 Year Standard Deviation	
Pugh Capital	2.5	67	2.9	65
BBG BC Aggregate Bond Index	2.2	85	2.8	51
5th Percentile	4.3		2.3	
25th Percentile	3.3		2.7	
50th Percentile	2.8		2.8	
75th Percentile	2.5		3.0	
95th Percentile	1.6		5.3	

Calendar Year Returns as of December 31, 2017



Universe data: U.S. Fixed Income Funds Core

FIXED INCOME - CORE
WELLS CAPITAL MANAGEMENT
for the quarter ended December 31, 2017

Manager Profile

Firm:	Wells Capital Management
Location:	Walnut Creek, CA
Year Founded:	1981
Contact:	Daniel Anderson, Client Relations Director
Inception Date:	March 2004
Assigned Role:	Full Mandate
Benchmark:	BBG BC Aggregate Bond Index
Investment Style:	Core Fixed Income

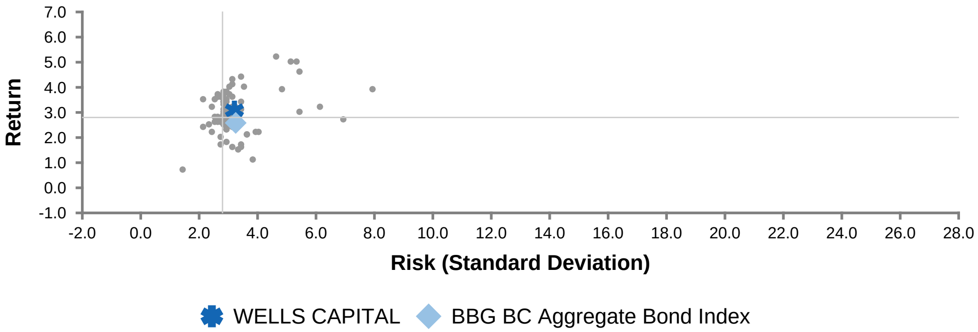
Manager vs. Benchmark: Return through December 31, 2017
(not annualized if less than 1 year)

	Ending Mkt Val ($mil)	1 Quarter	1 Year	3 Years	5 Years	Since Inception
Wells Capital	1,360.0	0.40	3.91	2.73	2.60	5.14
BBG BC Aggregate Bond Index		0.39	3.54	2.24	2.10	4.06

Universe

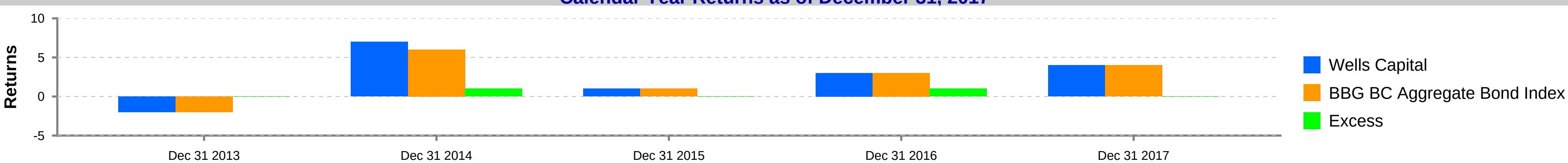
	1 Qtr	1 Year	3 Years	5 Years
US Fixed Income Funds - Core				
Median	0.47	4.00	2.76	2.61
Number of Observations	104.00	101.00	101.00	97.00

3 Year Risk vs Return



	3 Year Return		3 Year Standard Deviation	
WELLS CAPITAL	2.7	53	2.8	40
BBG BC Aggregate Bond Index	2.2	85	2.8	51
5th Percentile	4.3		2.3	
25th Percentile	3.3		2.7	
50th Percentile	2.8		2.8	
75th Percentile	2.5		3.0	
95th Percentile	1.6		5.3	

Calendar Year Returns as of December 31, 2017



Universe data: U.S. Fixed Income Funds Core

FIXED INCOME - CORE PLUS
DOLAN McENIRY CAPITAL MANAGEMENT, LLC
for the quarter ended December 31, 2017

Manager Profile

Firm:	Dolan McEniry Capital Management, LLC
Location:	Chicago, IL
Year Founded:	1997
Contact:	Daniel Dolan Jr., Principal
Inception Date:	July 2005
Assigned Role:	Emerging Manager
Benchmark:	Dolan McEniry Custom Index
Investment Style:	Core Plus Fixed Income

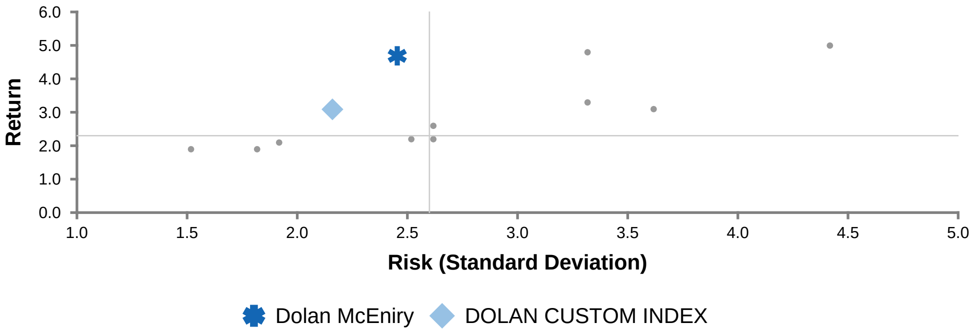
Manager vs. Benchmark: Return through December 31, 2017
(not annualized if less than 1 year)

	Ending Mkt Val ($mil)	1 Quarter	1 Year	3 Years	5 Years	Since Inception
Dolan McEniry	347.3	0.31	5.51	4.44	4.35	6.33
DOLAN CUSTOM INDEX		0.15	3.69	2.84	2.64	4.64

Universe

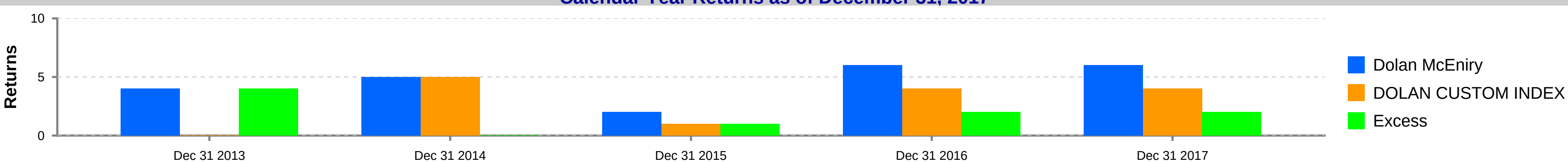
	1 Qtr	1 Year	3 Years	5 Years
US Fixed Income Funds - Core Plus				
Median	0.38	3.54	2.31	2.34
Number of Observations	13.00	13.00	10.00	10.00

3 Year Risk vs Return



	3 Year Return		3 Year Standard Deviation	
Dolan McEniry	4.4	21	2.4	36
DOLAN CUSTOM INDEX	2.8	40	2.1	31
5th Percentile	4.9		1.5	
25th Percentile	3.7		1.9	
50th Percentile	2.3		2.6	
75th Percentile	1.9		3.4	
95th Percentile	1.8		4.4	

Calendar Year Returns as of December 31, 2017



Universe data: U.S. Fixed Income Funds Core Plus

FIXED INCOME - CORE PLUS
LM CAPITAL GROUP, LLC
for the quarter ended December 31, 2017

Manager Profile

Firm:	LM Capital Group, LLC
Location:	San Diego, CA
Year Founded:	1989
Contact:	John Chalker, Managing Director
Inception Date:	January 2002
Assigned Role:	Full Mandate
Benchmark:	LM Custom Index
Investment Style:	Core Plus Fixed Income

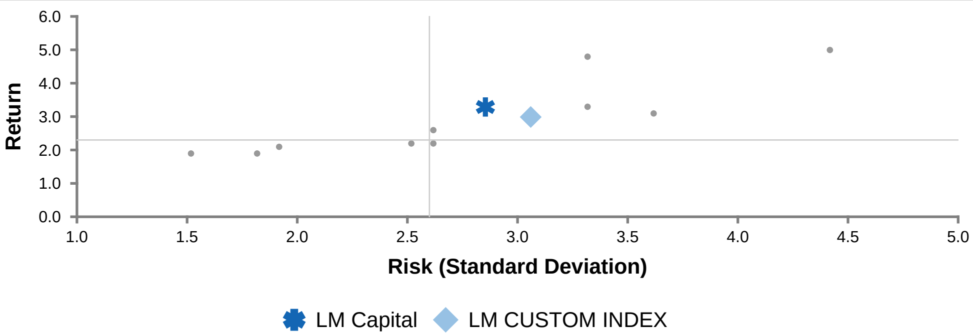
Manager vs. Benchmark: Return through December 31, 2017
(not annualized if less than 1 year)

	Ending Mkt Val ($mil)	1 Quarter	1 Year	3 Years	5 Years	Since Inception
LM Capital	456.3	0.42	4.74	2.99	2.41	5.58
LM CUSTOM INDEX		0.31	4.04	2.68	2.23	5.02

Universe

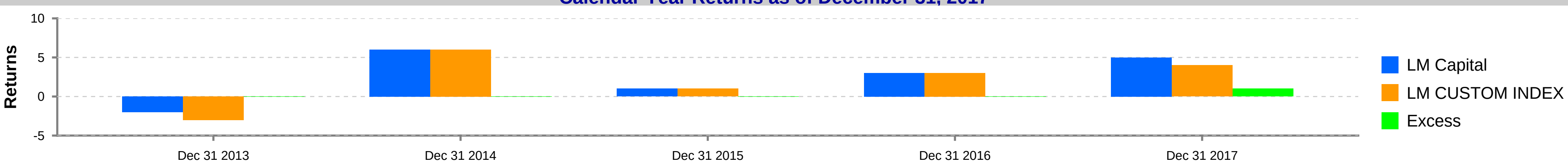
	1 Qtr	1 Year	3 Years	5 Years
US Fixed Income Funds - Core Plus				
Median	0.38	3.54	2.31	2.34
Number of Observations	13.00	13.00	10.00	10.00

3 Year Risk vs Return



	3 Year Return		3 Year Standard Deviation	
LM Capital	3.0	36	2.8	57
LM CUSTOM INDEX	2.7	43	3.0	59
5th Percentile	4.9		1.5	
25th Percentile	3.7		1.9	
50th Percentile	2.3		2.6	
75th Percentile	1.9		3.4	
95th Percentile	1.8		4.4	

Calendar Year Returns as of December 31, 2017



Universe data: U.S. Fixed Income Funds Core Plus

FIXED INCOME - CORE PLUS
LOOMIS, SAYLES & COMPANY, LP
for the quarter ended December 31, 2017

Manager Profile

Firm:	Loomis, Sayles & Company, LP
Location:	Boston, MA
Year Founded:	1926
Contact:	Stephanie S. Lord, Vice President
Inception Date:	March 1997
Assigned Role:	Full Mandate
Benchmark:	BBG BC Aggregate Bond Index
Investment Style:	Core Plus Fixed Income

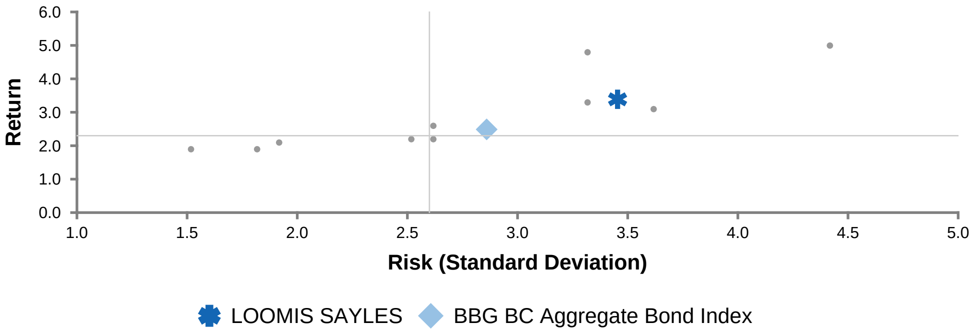
Manager vs. Benchmark: Return through December 31, 2017
(not annualized if less than 1 year)

	Ending Mkt Val ($mil)	1 Quarter	1 Year	3 Years	5 Years	Since Inception
Loomis Sayles	1,085.6	0.78	5.59	3.10	3.20	6.08
BBG BC Aggregate Bond Index		0.39	3.54	2.24	2.10	5.22

Universe

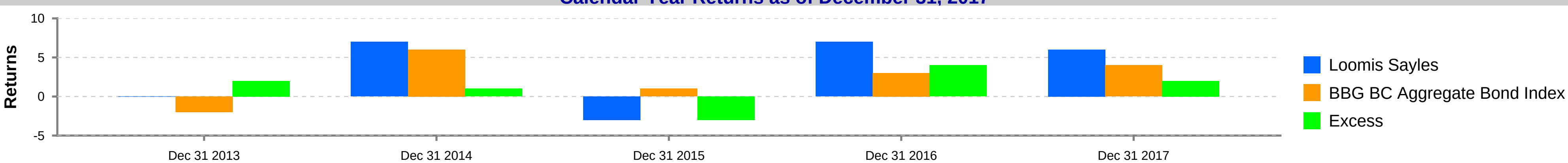
	1 Qtr	1 Year	3 Years	5 Years
US Fixed Income Funds - Core Plus				
Median	0.38	3.54	2.31	2.34
Number of Observations	13.00	13.00	10.00	10.00

3 Year Risk vs Return



	3 Year Return		3 Year Standard Deviation	
LOOMIS SAYLES	3.1	32	3.4	75
BBG BC Aggregate Bond Index	2.2	52	2.8	57
5th Percentile	4.9		1.5	
25th Percentile	3.7		1.9	
50th Percentile	2.3		2.6	
75th Percentile	1.9		3.4	
95th Percentile	1.8		4.4	

Calendar Year Returns as of December 31, 2017



Universe data: U.S. Fixed Income Funds Core Plus

FIXED INCOME - CORE PLUS
PACIFIC INVESTMENT MANAGEMENT COMPANY
for the quarter ended December 31, 2017

Manager Profile

Firm:	Pacific Investment Management Company
Location:	Newport Beach, CA
Year Founded:	1971
Contact:	Stephanie King, Executive Vice President
Inception Date:	March 2004
Assigned Role:	Full Mandate
Benchmark:	BBG BC Aggregate Bond Index
Investment Style:	Core Plus Fixed Income

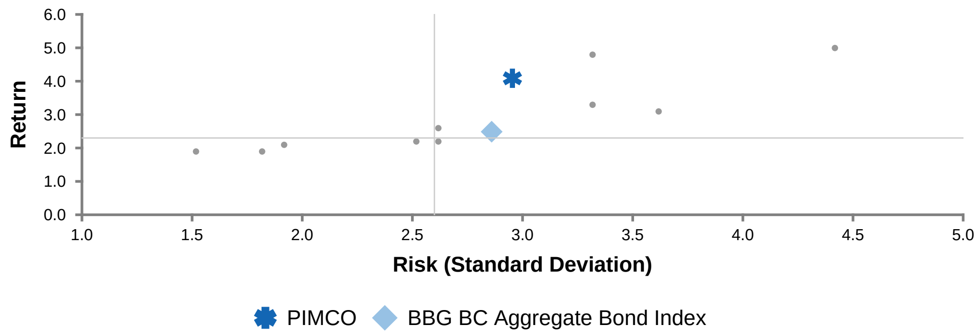
Manager vs. Benchmark: Return through December 31, 2017
(not annualized if less than 1 year)

	Ending Mkt Val ($mil)	1 Quarter	1 Year	3 Years	5 Years	Since Inception
PIMCO	1,060.6	0.87	6.57	3.75	2.83	5.26
BBG BC Aggregate Bond Index		0.39	3.54	2.24	2.10	4.06

Universe

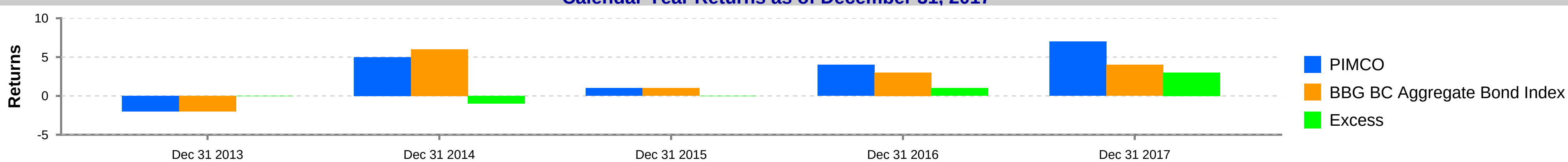
	1 Qtr	1 Year	3 Years	5 Years
US Fixed Income Funds - Core Plus				
Median	0.38	3.54	2.31	2.34
Number of Observations	13.00	13.00	10.00	10.00

3 Year Risk vs Return



	3 Year Return		3 Year Standard Deviation	
PIMCO	3.8	25	2.9	59
BBG BC Aggregate Bond Index	2.2	52	2.8	57
5th Percentile	4.9		1.5	
25th Percentile	3.7		1.9	
50th Percentile	2.3		2.6	
75th Percentile	1.9		3.4	
95th Percentile	1.8		4.4	

Calendar Year Returns as of December 31, 2017



Universe data: U.S. Fixed Income Funds Core Plus

FIXED INCOME - CORE PLUS
WESTERN ASSET MANAGEMENT COMPANY
for the quarter ended December 31, 2017

Manager Profile

Firm:	Western Asset Management Company
Location:	Pasadena, CA
Year Founded:	1971
Contact:	Veronica Amici, Head of Public Funds
Inception Date:	March 1997
Assigned Role:	Full Mandate
Benchmark:	BBG BC Aggregate Bond Index
Investment Style:	Core Plus Fixed Income

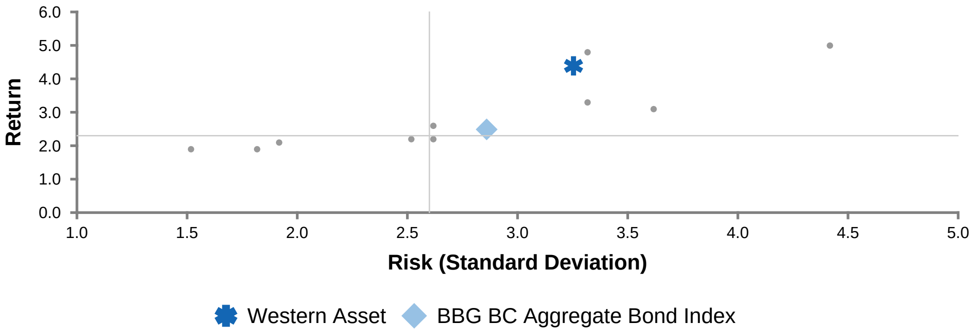
Manager vs. Benchmark: Return through December 31, 2017 (not annualized if less than 1 year)

	Ending Mkt Val ($mil)	1 Quarter	1 Year	3 Years	5 Years	Since Inception
Western Asset	1,153.0	0.52	6.00	4.11	3.60	6.59
BBG BC Aggregate Bond Index		0.39	3.54	2.24	2.10	5.22

Universe

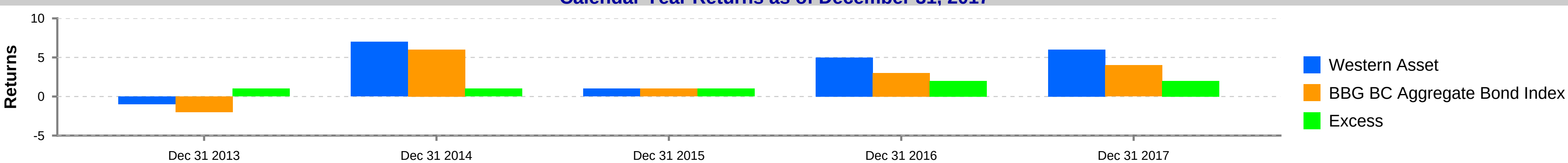
	1 Qtr	1 Year	3 Years	5 Years
US Fixed Income Funds - Core Plus				
Median	0.38	3.54	2.31	2.34
Number of Observations	13.00	13.00	10.00	10.00

3 Year Risk vs Return



	3 Year Return		3 Year Standard Deviation	
Western Asset	4.1	23	3.2	63
BBG BC Aggregate Bond Index	2.2	52	2.8	57
5th Percentile	4.9		1.5	
25th Percentile	3.7		1.9	
50th Percentile	2.3		2.6	
75th Percentile	1.9		3.4	
95th Percentile	1.8		4.4	

Calendar Year Returns as of December 31, 2017



Universe data: U.S. Fixed Income Funds Core Plus

FIXED INCOME - HIGH YIELD
OAKTREE CAPITAL MANAGEMENT, L.P.
for the quarter ended December 31, 2017

Manager Profile

Firm:	Oaktree Capital Management, L.P.
Location:	Los Angeles, CA
Year Founded:	1995
Contact:	Sheldon M. Stone, Principal
Inception Date:	July 1997
Assigned Role:	Full Mandate
Benchmark:	BBG BC Ba/B US High Yield Index
Investment Style:	High Yield

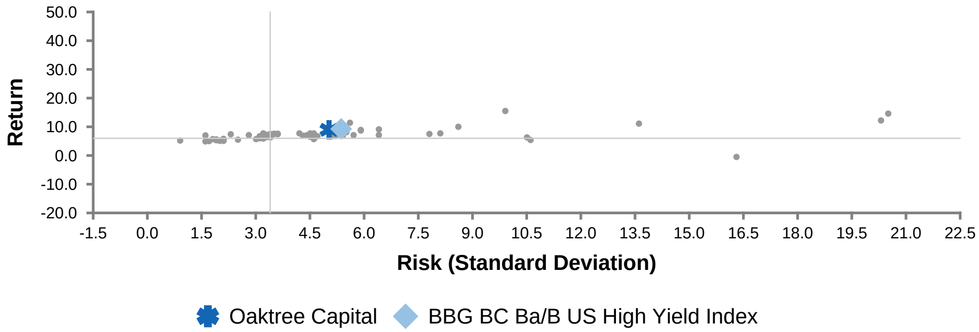
Manager vs. Benchmark: Return through December 31, 2017
(not annualized if less than 1 year)

	Ending Mkt Val ($mil)	1 Quarter	1 Year	3 Years	5 Years	Since Inception
Oaktree Capital	408.9	0.34	6.11	5.58	5.22	7.26
BBG BC Ba/B US High Yield Index		0.38	6.92	5.86	5.44	6.61

Universe

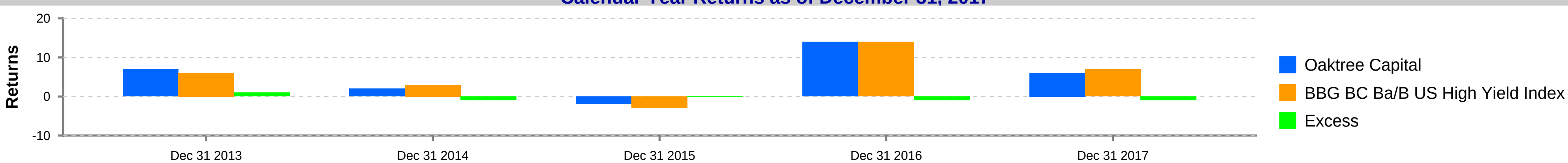
	1 Qtr	1 Year	3 Years	5 Years
US Fixed Income Funds - High Yield				
Median	0.43	6.89	6.04	6.17
Number of Observations	83.00	79.00	75.00	61.00

3 Year Risk vs Return



	3 Year Return		3 Year Standard Deviation	
Oaktree Capital	5.6	70	4.7	66
BBG BC Ba/B US High Yield Index	5.9	58	5.0	71
5th Percentile	12.3		1.6	
25th Percentile	6.6		3.0	
50th Percentile	6.0		3.4	
75th Percentile	5.0		5.1	
95th Percentile	4.0		13.5	

Calendar Year Returns as of December 31, 2017



Universe data: U.S. Fixed Income Funds High Yield

FIXED INCOME - HIGH YIELD
PENN CAPITAL MANAGEMENT COMPANY, INC.
for the quarter ended December 31, 2017

Manager Profile

Firm:	PENN Capital Management Co., Inc.
Location:	Philadelphia, PA
Year Founded:	1987
Contact:	Steve Leming, Director
Inception Date:	July 2005
Assigned Role:	Emerging Manager Program
Benchmark:	BBG BC Ba/B US High Yield Index
Investment Style:	High Yield

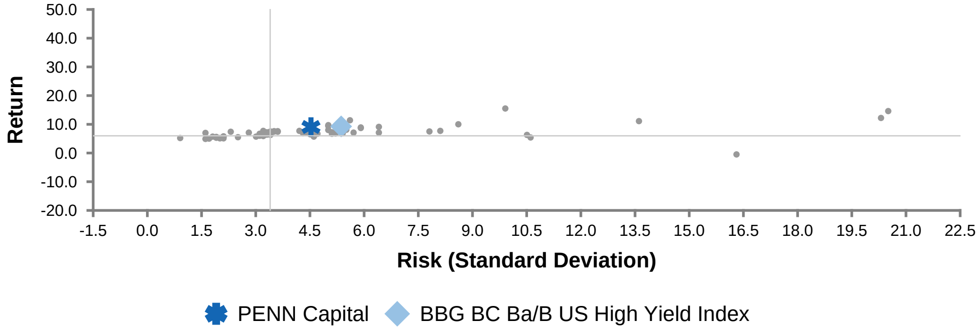
Manager vs. Benchmark: Return through December 31, 2017
(not annualized if less than 1 year)

	Ending Mkt Val ($mil)	1 Quarter	1 Year	3 Years	5 Years	Since Inception
PENN Capital	108.8	0.47	7.02	5.70	4.92	6.86
BBG BC Ba/B US High Yield Index		0.38	6.92	5.86	5.44	7.11

Universe

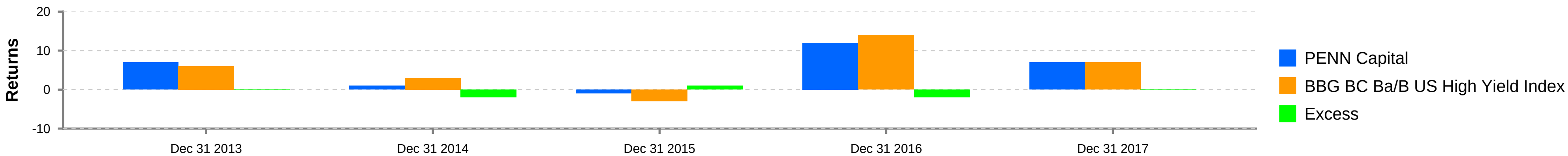
	1 Qtr	1 Year	3 Years	5 Years
US Fixed Income Funds - High Yield				
Median	0.43	6.89	6.04	6.17
Number of Observations	83.00	79.00	75.00	61.00

3 Year Risk vs Return



	3 Year Return		3 Year Standard Deviation	
PENN Capital	5.7	65	4.2	55
BBG BC Ba/B US High Yield Index	5.9	58	5.0	71
5th Percentile	12.3		1.6	
25th Percentile	6.6		3.0	
50th Percentile	6.0		3.4	
75th Percentile	5.0		5.1	
95th Percentile	4.0		13.5	

Calendar Year Returns as of December 31, 2017



Universe data: U.S. Fixed Income Funds High Yield

FIXED INCOME - OPPORTUNISTIC

ABERDEEN ASSET MANAGEMENT INC.

for the quarter ended December 31, 2017

Manager Profile

Firm:	Aberdeen Asset Management Inc.
Location:	London, England
Year Founded:	1983
Contact:	Teri Smith, Senior Relationship Manager
Inception Date:	July 2017
Assigned Role:	Full Mandate
Benchmark:	Opportunistic EMD Custom
Investment Style:	Opportunistic Credit – Emerging Mkt. Debt

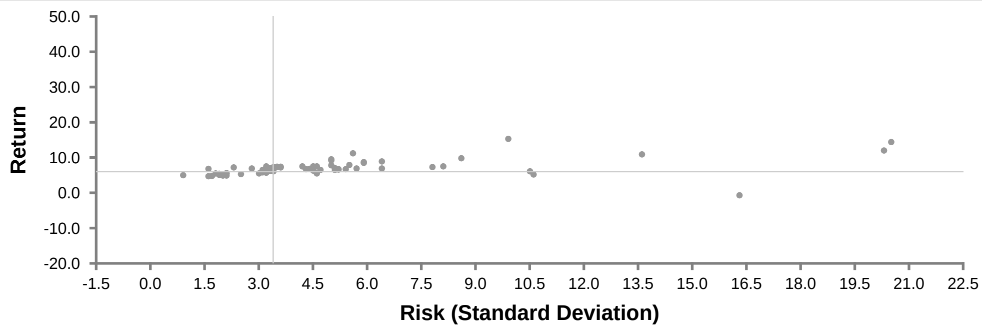
Manager vs. Benchmark: Return through December 31, 2017
(not annualized if less than 1 year)

	Ending Mkt Val ($mil)	1 Quarter	1 Year	3 Years	5 Years	Since Inception
Aberdeen	207.9	1.15				5.02
Opportunistic EMD Custom		0.97				3.73

Universe

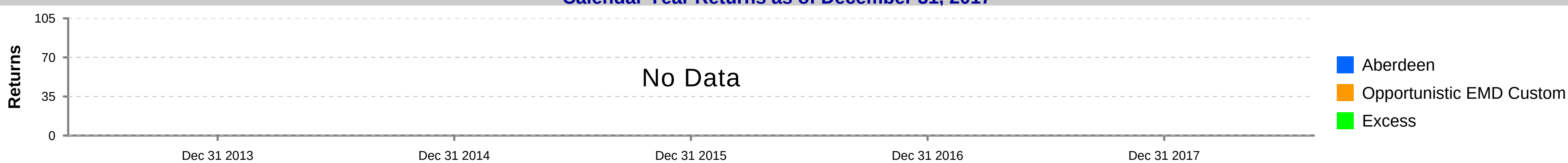
	1 Qtr	1 Year	3 Years	5 Years
US Fixed Income Funds - High Yield				
Median	0.43	6.89	6.04	6.17
Number of Observations	83.00	79.00	75.00	61.00

3 Year Risk vs Return



	3 Year Return	3 Year Standard Deviation
5th Percentile	12.3	1.6
25th Percentile	6.6	3.0
50th Percentile	6.0	3.4
75th Percentile	5.0	5.1
95th Percentile	4.0	13.5

Calendar Year Returns as of December 31, 2017



Universe data: U.S. Fixed Income Funds High Yield

FIXED INCOME - OPPORTUNISTIC
ASHMORE INVESTMENT MANAGEMENT LIMITED
for the quarter ended December 31, 2017

Manager Profile

Firm:	Ashmore Investment Management Limited
Location:	London, England
Year Founded:	1999
Contact:	John Ricketts, Inst. Business Development
Inception Date:	June 2017
Assigned Role:	Full Mandate
Benchmark:	Opportunistic EMD Custom
Investment Style:	Opportunistic Credit – Emerging Mkt. Debt

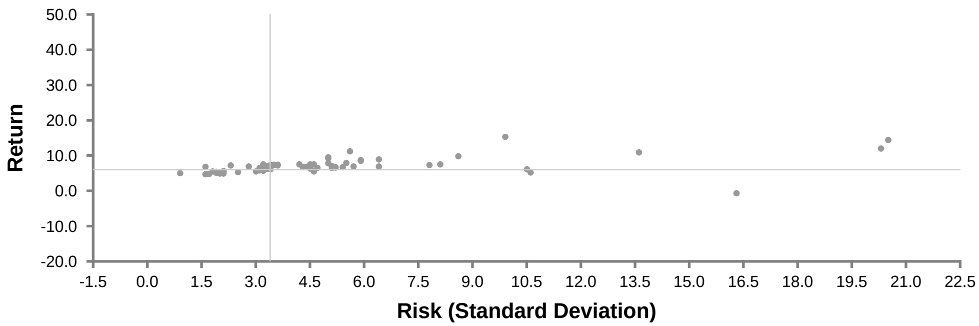
Manager vs. Benchmark: Return through December 31, 2017
(not annualized if less than 1 year)

	Ending Mkt Val ($mil)	1 Quarter	1 Year	3 Years	5 Years	Since Inception
Ashmore	210.2	1.37				5.38
Opportunistic EMD Custom		0.97				3.83

Universe

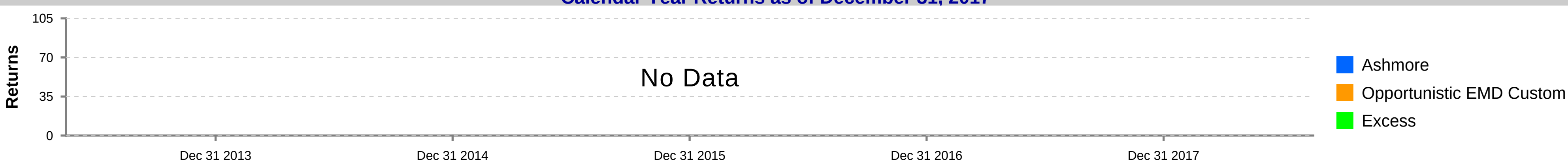
	1 Qtr	1 Year	3 Years	5 Years
US Fixed Income Funds - High Yield				
Median	0.43	6.89	6.04	6.17
Number of Observations	83.00	79.00	75.00	61.00

3 Year Risk vs Return



	3 Year Return	3 Year Standard Deviation
5th Percentile	12.3	1.6
25th Percentile	6.6	3.0
50th Percentile	6.0	3.4
75th Percentile	5.0	5.1
95th Percentile	4.0	13.5

Calendar Year Returns as of December 31, 2017



Universe data: U.S. Fixed Income Funds High Yield

FIXED INCOME - OPPORTUNISTIC

BAIN CAPITAL CREDIT, LP

for the quarter ended December 31, 2017

Manager Profile

Firm:	Bain Capital Credit, LP
Location:	Boston, MA
Year Founded:	1998
Contact:	Kyle Betty, Managing Director
Inception Date:	June 2014
Assigned Role:	Full Mandate
Benchmark:	Opportunistic Custom Index
Investment Style:	Opportunistic Credit – Multi Strategy

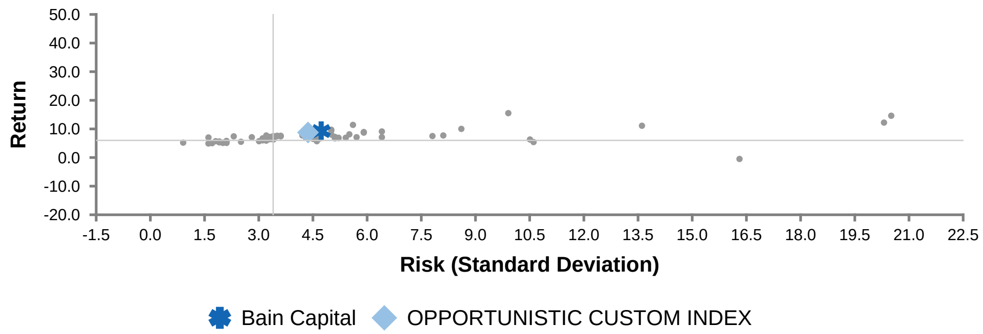
Manager vs. Benchmark: Return through December 31, 2017
(not annualized if less than 1 year)

	Ending Mkt Val ($mil)	1 Quarter	1 Year	3 Years	5 Years	Since Inception
Bain Capital	301.1	0.83	7.13	5.91		4.17
OPPORTUNISTIC CUSTOM INDEX		0.82	5.87	5.44		4.22

Universe

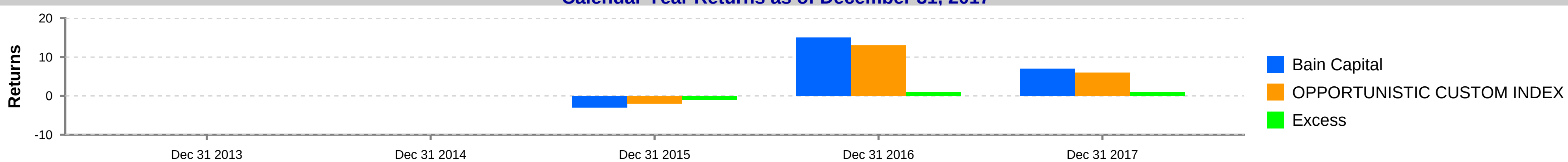
	1 Qtr	1 Year	3 Years	5 Years
US Fixed Income Funds - High Yield				
Median	0.43	6.89	6.04	6.17
Number of Observations	83.00	79.00	75.00	61.00

3 Year Risk vs Return



	3 Year Return		3 Year Standard Deviation	
Bain Capital	5.9	57	4.4	62
OPPORTUNISTIC CUSTOM INDEX	5.4	70	4.0	54
5th Percentile	12.3		1.6	
25th Percentile	6.6		3.0	
50th Percentile	6.0		3.4	
75th Percentile	5.0		5.1	
95th Percentile	4.0		13.5	

Calendar Year Returns as of December 31, 2017



Universe data: U.S. Fixed Income Funds High Yield

FIXED INCOME - OPPORTUNISTIC
BEACH POINT CAPITAL
for the quarter ended December 31, 2017

Manager Profile

Firm:	Beach Point Capital
Location:	Santa Monica, CA
Year Founded:	2008
Contact:	Larissa Chapin, Director
Inception Date:	March 2014
Assigned Role:	Full Mandate
Benchmark:	Opportunistic Custom Index
Investment Style:	Opportunistic – Credit

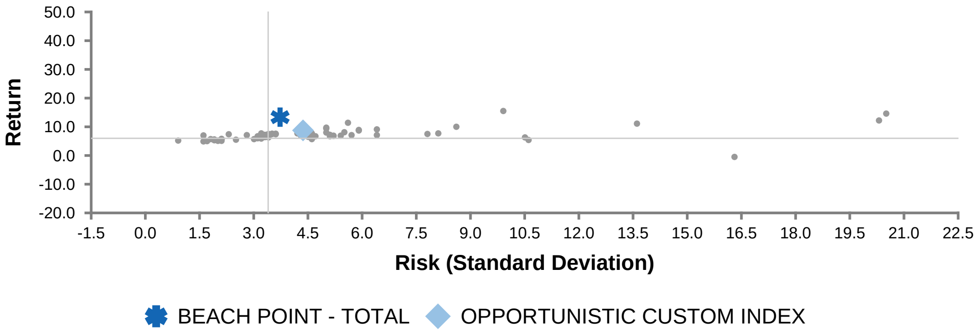
Manager vs. Benchmark: Return through December 31, 2017 (not annualized if less than 1 year)

	Ending Mkt Val ($mil)	1 Quarter	1 Year	3 Years	5 Years	Since Inception
Beach Point*	382.3	1.09	9.33	9.96		8.37
OPPORTUNISTIC CUSTOM INDEX		0.82	5.87	5.44		4.34

Universe

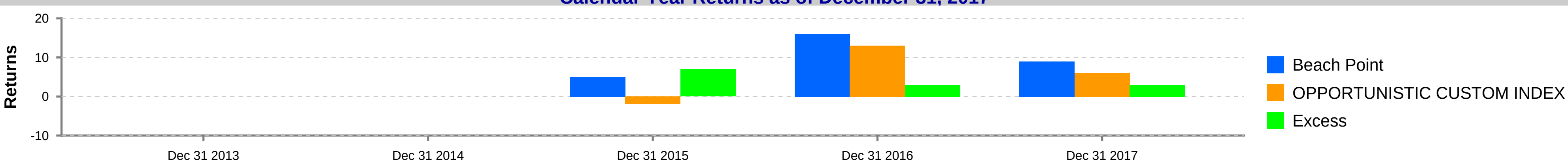
	1 Qtr	1 Year	3 Years	5 Years
US Fixed Income Funds - High Yield				
Median	0.43	6.89	6.04	6.17
Number of Observations	83.00	79.00	75.00	61.00

3 Year Risk vs Return



	3 Year Return		3 Year Standard Deviation	
BEACH POINT - TOTAL	10.0	9	3.4	51
OPPORTUNISTIC CUSTOM INDEX	5.4	70	4.0	54
5th Percentile	12.3		1.6	
25th Percentile	6.6		3.0	
50th Percentile	6.0		3.4	
75th Percentile	5.0		5.1	
95th Percentile	4.0		13.5	

Calendar Year Returns as of December 31, 2017



Universe data: U.S. Fixed Income Funds High Yield
* Represents the combined assets & performance of two portfolios, one of which is reported with a one-month lag.

FIXED INCOME - OPPORTUNISTIC
BRIGADE CAPITAL MANAGEMENT
for the quarter ended December 31, 2017

Manager Profile

Firm:	Brigade Capital Management
Location:	New York, NY
Year Founded:	2006
Contact:	Rob Brady, Director
Inception Date:	July 2010
Assigned Role:	Full Mandate
Benchmark:	Brigade Custom Index
Investment Style:	Opportunistic – Credit

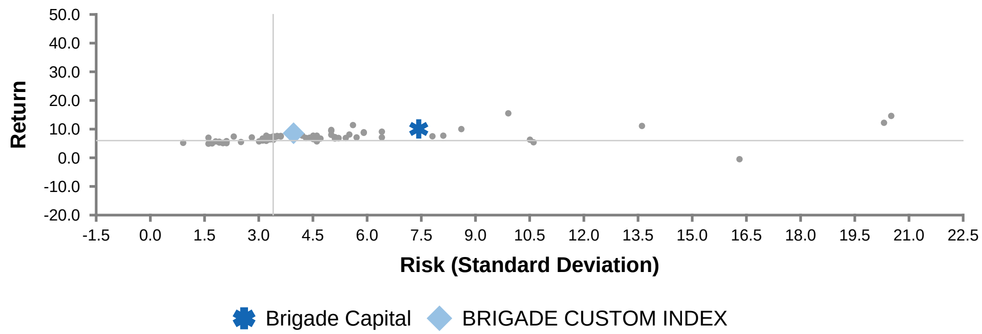
Manager vs. Benchmark: Return through December 31, 2017
(not annualized if less than 1 year)

	Ending Mkt Val ($mil)	1 Quarter	1 Year	3 Years	5 Years	Since Inception
Brigade Capital	486.7	0.57	7.33	6.65	6.16	8.81
BRIGADE CUSTOM INDEX		0.77	5.58	5.19	4.90	6.48

Universe

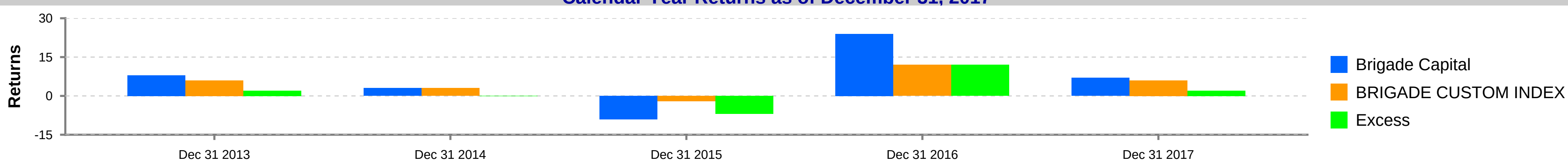
	1 Qtr	1 Year	3 Years	5 Years
US Fixed Income Funds - High Yield				
Median	0.43	6.89	6.04	6.17
Number of Observations	83.00	79.00	75.00	61.00

3 Year Risk vs Return



	3 Year Return		3 Year Standard Deviation	
Brigade Capital	6.7	20	7.1	86
BRIGADE CUSTOM INDEX	5.2	74	3.6	54
5th Percentile	12.3		1.6	
25th Percentile	6.6		3.0	
50th Percentile	6.0		3.4	
75th Percentile	5.0		5.1	
95th Percentile	4.0		13.5	

Calendar Year Returns as of December 31, 2017



Universe data: U.S. Fixed Income Funds High Yield

FIXED INCOME - OPPORTUNISTIC
CRESCENT CAPITAL GROUP LP
for the quarter ended December 31, 2017

Manager Profile

Firm:	Crescent Capital Group LP
Location:	Los Angeles, CA
Year Founded:	1991
Contact:	John Fekete, Managing Director
Inception Date:	May 2014
Assigned Role:	Full Mandate
Benchmark:	Opportunistic Custom Index
Investment Style:	Opportunistic Credit – Direct Lending

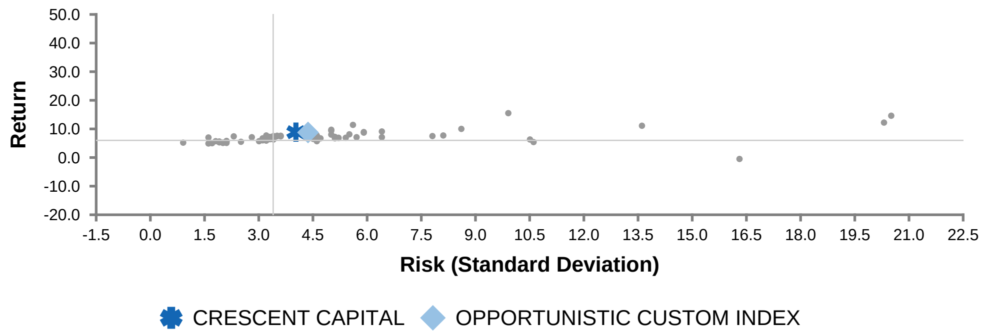
Manager vs. Benchmark: Return through December 31, 2017
(not annualized if less than 1 year)

	Ending Mkt Val ($mil)	1 Quarter	1 Year	3 Years	5 Years	Since Inception
Crescent Capital	271.0	0.46	6.61	5.49		3.31
OPPORTUNISTIC CUSTOM INDEX		0.82	5.87	5.44		4.34

Universe

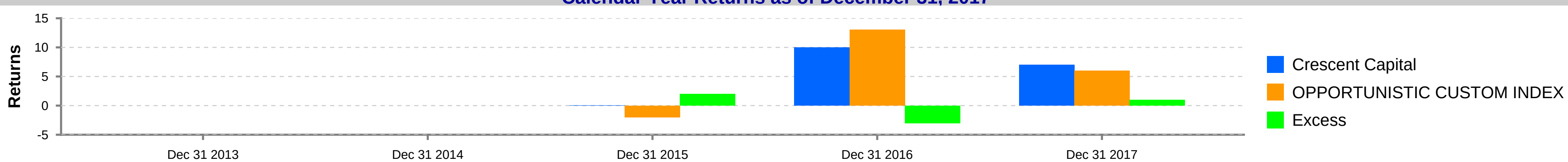
	1 Qtr	1 Year	3 Years	5 Years
US Fixed Income Funds - High Yield				
Median	0.43	6.89	6.04	6.17
Number of Observations	83.00	79.00	75.00	61.00

3 Year Risk vs Return



	3 Year Return		3 Year Standard Deviation	
CRESCENT CAPITAL	5.5	70	3.7	54
OPPORTUNISTIC CUSTOM INDEX	5.4	70	4.0	54
5th Percentile	12.3		1.6	
25th Percentile	6.6		3.0	
50th Percentile	6.0		3.4	
75th Percentile	5.0		5.1	
95th Percentile	4.0		13.5	

Calendar Year Returns as of December 31, 2017



Universe data: U.S. Fixed Income Funds High Yield

FIXED INCOME - OPPORTUNISTIC
DOUBLELINE CAPITAL LP
for the quarter ended December 31, 2017

Manager Profile

Firm:	DoubleLine Capital LP
Location:	Los Angeles, CA
Year Founded:	2009
Contact:	Aaron Prince, Sr. Product Specialist
Inception Date:	February 2016
Assigned Role:	Full Mandate
Benchmark:	Securitized Custom Index
Investment Style:	Opportunistic FI - Securitized Credit

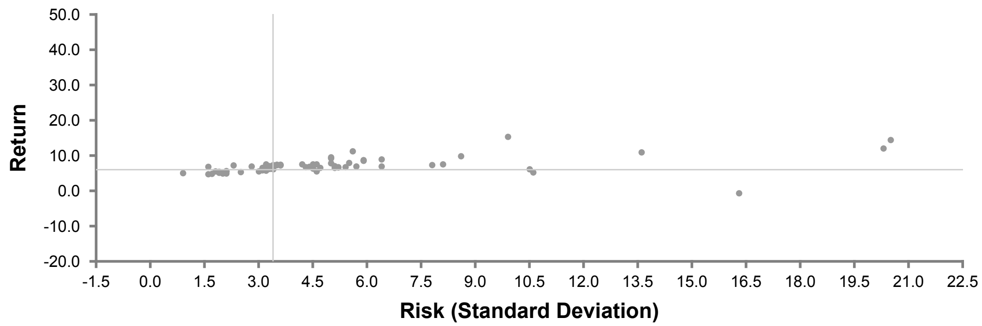
Manager vs. Benchmark: Return through December 31, 2017
(not annualized if less than 1 year)

	Ending Mkt Val ($mil)	1 Quarter	1 Year	3 Years	5 Years	Since Inception
DoubleLine Capital	266.4	0.67	5.97			5.11
Securitized Custom Index		1.15	6.60			5.61

Universe

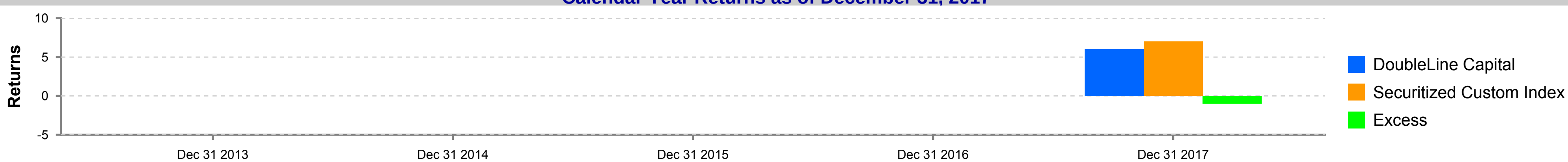
	1 Qtr	1 Year	3 Years	5 Years
US Fixed Income Funds - High Yield				
Median	0.43	6.89	6.04	6.17
Number of Observations	83.00	79.00	75.00	61.00

3 Year Risk vs Return



	3 Year Return	3 Year Standard Deviation
5th Percentile	12.3	1.6
25th Percentile	6.6	3.0
50th Percentile	6.0	3.4
75th Percentile	5.0	5.1
95th Percentile	4.0	13.5

Calendar Year Returns as of December 31, 2017



Universe data: U.S. Fixed Income Funds High Yield

FIXED INCOME - OPPORTUNISTIC
PRINCIPAL GLOBAL INVESTORS, LLC
for the quarter ended December 31, 2017

Manager Profile

Firm:	Principal Global Investors, LLC
Location:	Des Moines, IA
Year Founded:	1879
Contact:	Paul Stover, Relationship Manager
Inception Date:	February 2011
Assigned Role:	Full Mandate
Benchmark:	BBG BC US Universal Spread 1-10 Yr.
Investment Style:	Opportunistic – Credit

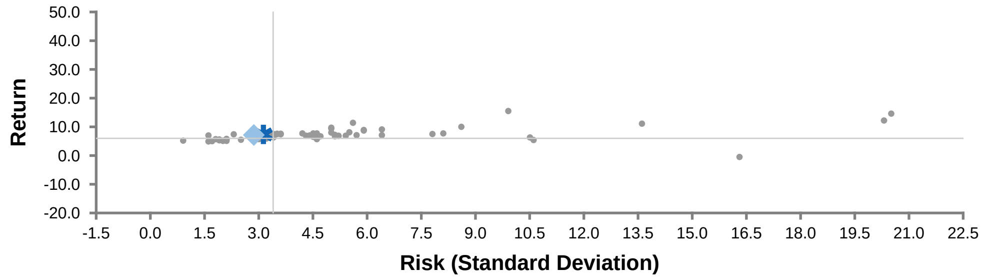
Manager vs. Benchmark: Return through December 31, 2017 (not annualized if less than 1 year)

	Ending Mkt Val ($mil)	1 Quarter	1 Year	3 Years	5 Years	Since Inception
Principal Opportunistic	269.2	0.17	6.25	4.05	4.09	5.11
BBG BC US Universal Spread 1-10 Yr.		0.21	4.59	3.75	3.20	4.31

Universe

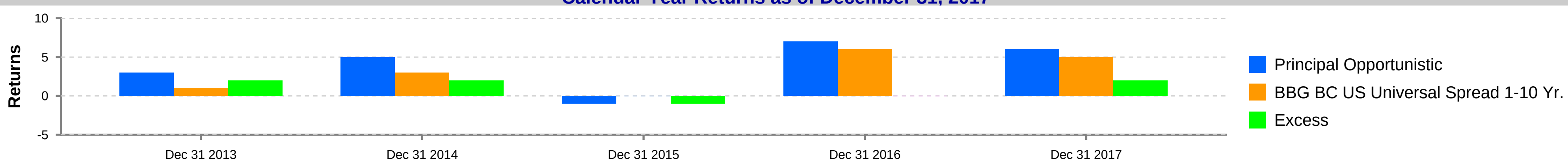
	1 Qtr	1 Year	3 Years	5 Years
US Fixed Income Funds - High Yield				
Median	0.43	6.89	6.04	6.17
Number of Observations	83.00	79.00	75.00	61.00

3 Year Risk vs Return



	3 Year Return		3 Year Standard Deviation	
PRINCIPAL OPPORTUNISTIC	4.0	94	2.8	22
BBG BC US Universal Spread 1-10 Yr.	3.8	99	2.5	20
5th Percentile	12.3		1.6	
25th Percentile	6.6		3.0	
50th Percentile	6.0		3.4	
75th Percentile	5.0		5.1	
95th Percentile	4.0		13.5	

Calendar Year Returns as of December 31, 2017



Universe data: U.S. Fixed Income Funds High Yield

FIXED INCOME - OPPORTUNISTIC
TCW ASSET MANAGEMENT COMPANY
for the quarter ended December 31, 2017

Manager Profile

Firm:	TCW Asset Management Company
Location:	Los Angeles, CA
Year Founded:	1971
Contact:	Jeffrey Katz, Sr. Vice President
Inception Date:	October 2015
Assigned Role:	Full Mandate
Benchmark:	Securitized Custom Index
Investment Style:	Opportunistic FI – Securitized Credit

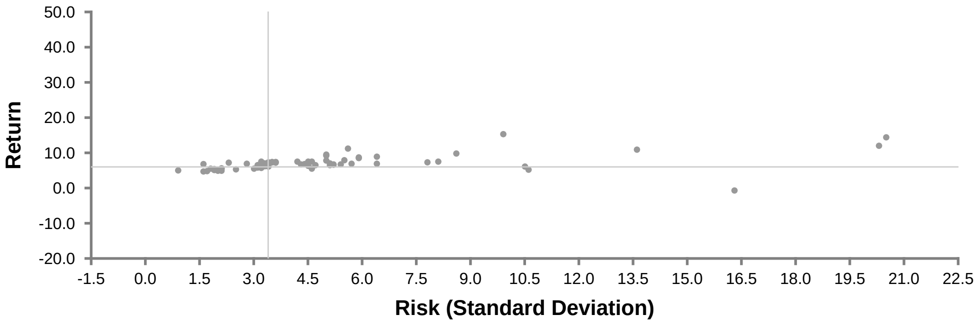
Manager vs. Benchmark: Return through December 31, 2017
(not annualized if less than 1 year)

	Ending Mkt Val ($mil)	1 Quarter	1 Year	3 Years	5 Years	Since Inception
TCW	270.2	0.90	5.98			4.83
Securitized Custom Index		1.15	6.60			5.88

Universe

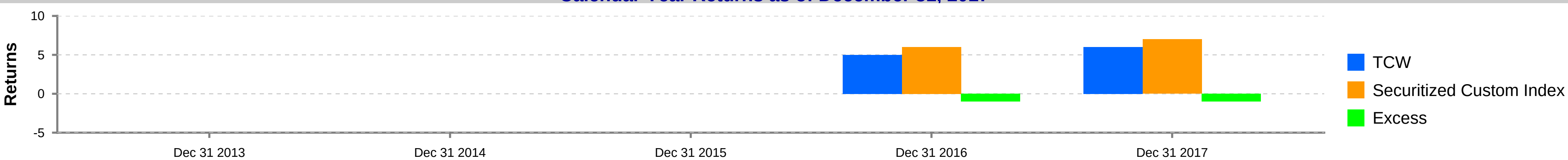
	1 Qtr	1 Year	3 Years	5 Years
US Fixed Income Funds - High Yield				
Median	0.43	6.89	6.04	6.17
Number of Observations	83.00	79.00	75.00	61.00

3 Year Risk vs Return



	3 Year Return	3 Year Standard Deviation
5th Percentile	12.3	1.6
25th Percentile	6.6	3.0
50th Percentile	6.0	3.4
75th Percentile	5.0	5.1
95th Percentile	4.0	13.5

Calendar Year Returns as of December 31, 2017



LACERA Investments

Universe data: U.S. Fixed Income Funds High Yield

FIXED INCOME - OPPORTUNISTIC
TENNENBAUM CAPITAL PARTNERS, LLC
for the quarter ended December 31, 2017

Manager Profile

Firm:	Tennenbaum Capital Partners, LLC
Location:	Santa Monica, CA
Year Founded:	1999
Contact:	Lee R. Landrum, Partner
Inception Date:	November 2014
Assigned Role:	Full Mandate
Benchmark:	Credit Suisse Leveraged Loan Index
Investment Style:	Opportunistic Credit – Direct Lending

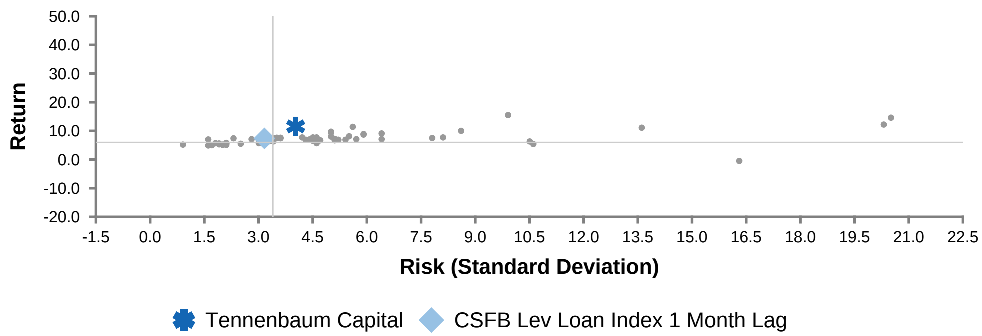
Manager vs. Benchmark: Return through December 31, 2017
(not annualized if less than 1 year)

	Ending Mkt Val ($mil)	1 Quarter	1 Year	3 Years	5 Years	Since Inception
Tennenbaum Capital*	262.3	2.11	9.19	8.16		8.03
CSFB Lev Loan Index 1 Month Lag		1.19	5.03	3.98		4.01

Universe

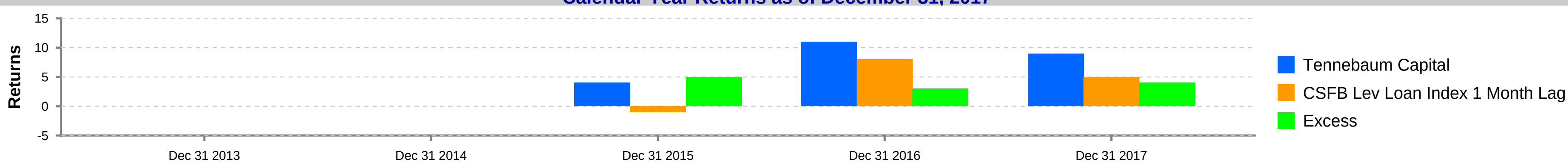
	1 Qtr	1 Year	3 Years	5 Years
US Fixed Income Funds - High Yield				
Median	0.43	6.89	6.04	6.17
Number of Observations	83.00	79.00	75.00	61.00

3 Year Risk vs Return



	3 Year Return		3 Year Standard Deviation	
Tennenbaum Capital	8.2	14	3.7	54
CSFB Lev Loan Index 1 Month Lag	4.0	95	2.8	22
5th Percentile	12.3		1.6	
25th Percentile	6.6		3.0	
50th Percentile	6.0		3.4	
75th Percentile	5.0		5.1	
95th Percentile	4.0		13.5	

Calendar Year Returns as of December 31, 2017



Universe data: U.S. Fixed Income Funds High Yield
* One-month lag.

FIXED INCOME - OPPORTUNISTIC
WESTERN ASSET MANAGEMENT COMPANY
for the quarter ended December 31, 2017

Manager Profile

Firm:	Western Asset Management Company
Location:	Pasadena, CA
Year Founded:	1971
Contact:	Veronica Amici, Head of Public Funds
Inception Date:	February 2009
Assigned Role:	Full Mandate
Benchmark:	Western Opp. Custom Index
Investment Style:	Opportunistic - Structured Credit

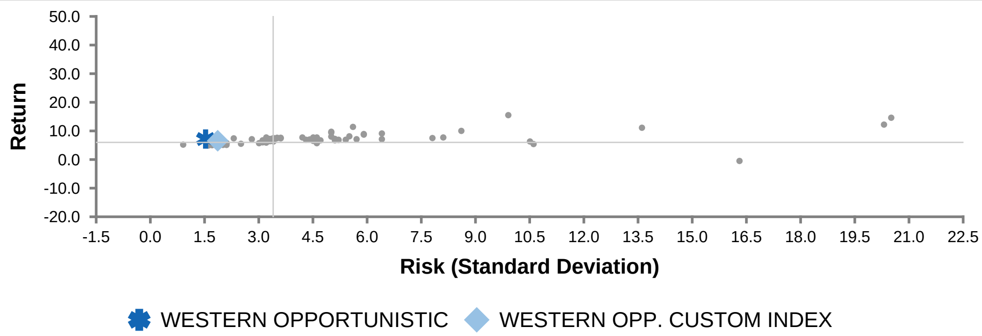
Manager vs. Benchmark: Return through December 31, 2017
(not annualized if less than 1 year)

	Ending Mkt Val ($mil)	1 Quarter	1 Year	3 Years	5 Years	Since Inception
Western Opportunistic	303.5	0.62	5.38	3.76	3.82	7.89
WESTERN OPP. CUSTOM INDEX		2.32	6.26	3.16	3.11	6.15

Universe

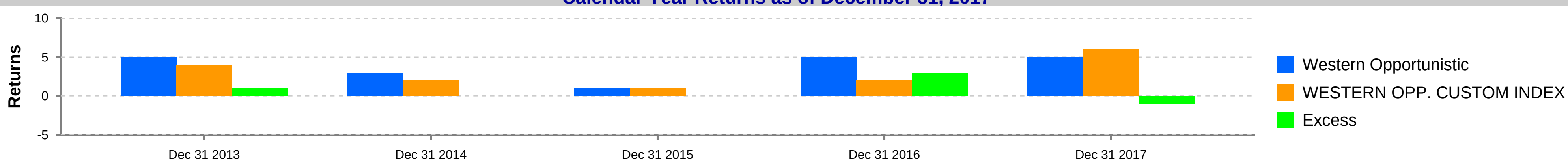
	1 Qtr	1 Year	3 Years	5 Years
US Fixed Income Funds - High Yield				
Median	0.43	6.89	6.04	6.17
Number of Observations	83.00	79.00	75.00	61.00

3 Year Risk vs Return



	3 Year Return		3 Year Standard Deviation	
WESTERN OPPORTUNISTIC	3.8	99	1.2	2
WESTERN OPP. CUSTOM INDEX	3.2	99	1.5	2
5th Percentile	12.3		1.6	
25th Percentile	6.6		3.0	
50th Percentile	6.0		3.4	
75th Percentile	5.0		5.1	
95th Percentile	4.0		13.5	

Calendar Year Returns as of December 31, 2017



Universe data: U.S. Fixed Income Funds High Yield

FIXED INCOME - CASH
J.P. MORGAN ASSET MANAGEMENT
for the quarter ended December 31, 2017

Manager Profile

Firm:	J.P. Morgan Asset Management
Location:	New York, NY
Year Founded:	1871
Contact:	Kyongsoo Noh (KNoh), Executive Director
Inception Date:	September 2012
Assigned Role:	Full Mandate
Benchmark:	Citigroup 6-month T-Bill
Investment Style:	Enhanced Cash

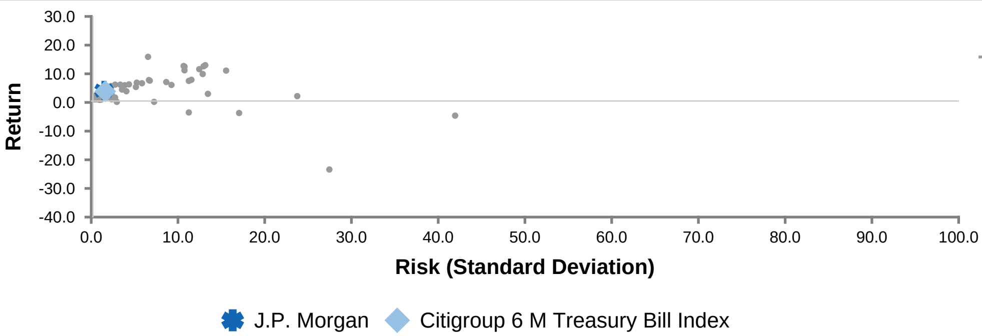
Manager vs. Benchmark: Return through December 31, 2017
(not annualized if less than 1 year)

	Ending Mkt Val ($mil)	1 Quarter	1 Year	3 Years	5 Years	Since Inception
J.P. Morgan	1,517.8	0.21	1.18	0.81	0.63	0.62
Citigroup 6 M Treasury Bill Index		0.30	0.88	0.46	0.31	0.30

Universe

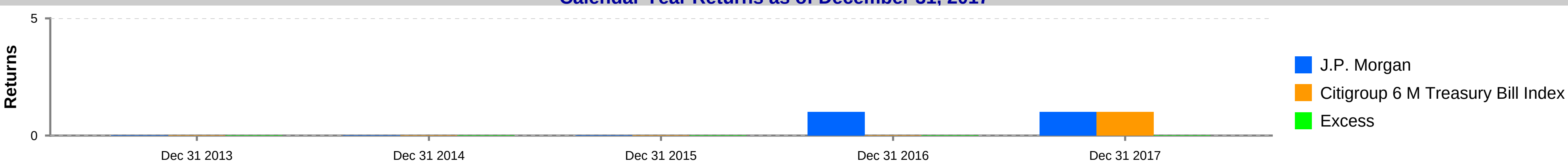
	1 Qtr	1 Year	3 Years	5 Years
Cash Funds				
Median	0.27	0.96	0.54	0.41
Number of Observations	359.00	320.00	272.00	231.00

3 Year Risk vs Return



	3 Year Return		3 Year Standard Deviation	
J.P. Morgan	0.8	30	0.1	35
Citigroup 6 M Treasury Bill Index	0.5	55	0.1	19
5th Percentile	6.5		0.0	
25th Percentile	0.9		0.1	
50th Percentile	0.5		0.2	
75th Percentile	0.3		0.6	
95th Percentile	0.0		10.8	

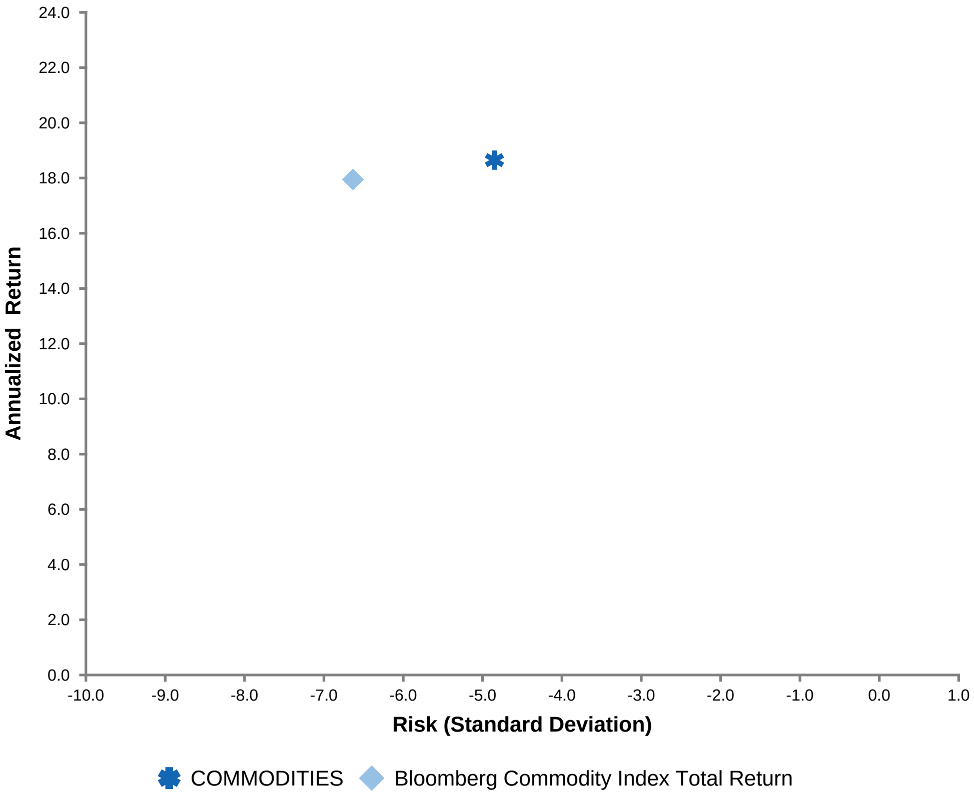
Calendar Year Returns as of December 31, 2017



Universe data: Cash Funds

COMMODITIES
RISK ADJUSTED RETURN
for the quarter ended December 31, 2017

7 Year Risk vs Return



	Rate of Return 10 Years	Standard Deviation 10 Years
COMMODITIES	**-5.0**	**18.3**
Bloomberg Commodity Index Total Return	-6.8	17.6

	Rate of Return 10 Years	Standard Deviation 10 Years	Tracking Error 10 Years
COMMODITIES	-5.0	18.3	2.1
Bloomberg Commodity Index Total Return	-6.8	17.6	

Universe data: Commodities Funds

COMMODITIES
CREDIT SUISSE ASSET MANAGEMENT, LLC
for the quarter ended December 31, 2017

Manager Profile

Firm:	Credit Suisse Asset Management, LLC
Location:	New York, NY
Year Founded:	1935
Contact:	Nelson Louie, Managing Director
Inception Date:	March 2011
Assigned Role:	Commodities
Benchmark:	Bloomberg Commodity Index Total Return
Investment Style:	Active Commodities

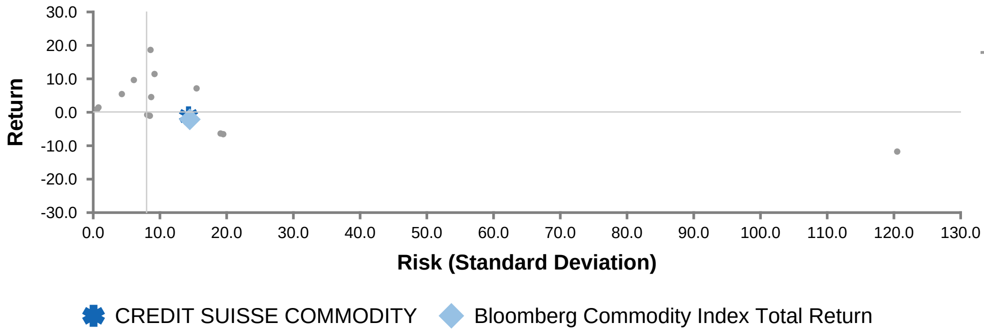
Manager vs. Benchmark: Return through December 31, 2017
(not annualized if less than 1 year)

	Ending Mkt Val ($mil)	1 Quarter	1 Year	3 Years	5 Years	Since Inception
Credit Suisse Commodity	458.4	4.60	2.09	-4.03	-7.65	-7.92
Bloomberg Commodity Index Total Return		4.71	1.70	-5.03	-8.45	-8.64

Universe

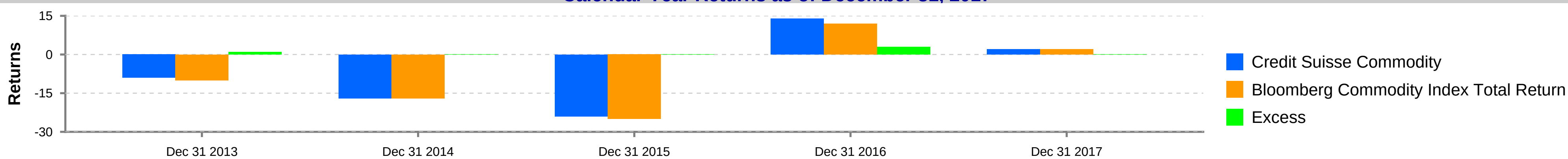
	1 Qtr	1 Year	3 Years	5 Years
Commodity Funds				
Median	1.17	5.38	0.07	1.28
Number of Observations	36.00	31.00	15.00	10.00

3 Year Risk vs Return



	3 Year Return		3 Year Standard Deviation	
CREDIT SUISSE COMMODITY	-4.0	77	12.5	67
Bloomberg Commodity Index Total Return	-5.0	78	12.5	67
5th Percentile	17.7		0.0	
25th Percentile	6.6		3.7	
50th Percentile	0.1		8.0	
75th Percentile	-3.7		14.9	
95th Percentile	-12.7		119.9	

Calendar Year Returns as of December 31, 2017



Universe data: Commodities Funds

COMMODITIES
NEUBERGER BERMAN ALTERNATIVE FUND MANAGEMENT LLC/GRESHAM
for the quarter ended December 31, 2017

Manager Profile

Firm:	Neuberger Berman/Gresham
Location:	New York, NY
Year Founded:	1850/1987
Contact:	Jonathan Spencer, President (Gresham)
Inception Date:	July 2007
Assigned Role:	Commodities
Benchmark:	Bloomberg Commodity Index Total Return
Investment Style:	Active Commodities

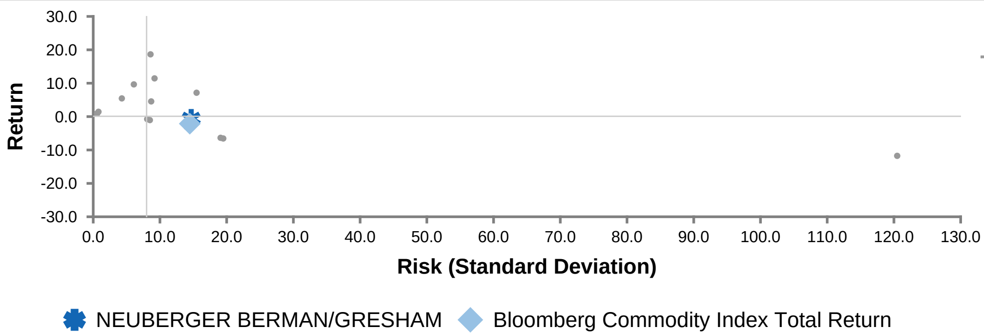
Manager vs. Benchmark: Return through December 31, 2017
(not annualized if less than 1 year)

	Ending Mkt Val ($mil)	1 Quarter	1 Year	3 Years	5 Years	Since Inception
Neuberger Berman/Gresham	471.5	6.50	5.98	-3.52	-6.86	-3.52
Bloomberg Commodity Index Total Return		4.71	1.70	-5.03	-8.45	-5.56

Universe

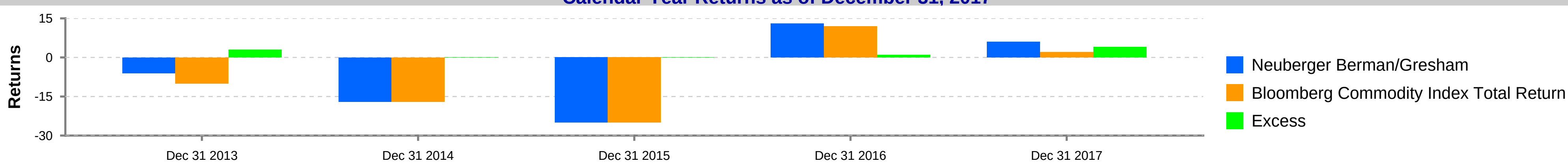
	1 Qtr	1 Year	3 Years	5 Years
Commodity Funds				
Median	1.17	5.38	0.07	1.28
Number of Observations	36.00	31.00	15.00	10.00

3 Year Risk vs Return



	3 Year Return		3 Year Standard Deviation	
NEUBERGER BERMAN/GRESHAM	-3.5	75	12.9	68
Bloomberg Commodity Index Total Return	-5.0	78	12.5	67
5th Percentile	17.7		0.0	
25th Percentile	6.6		3.7	
50th Percentile	0.1		8.0	
75th Percentile	-3.7		14.9	
95th Percentile	-12.7		119.9	

Calendar Year Returns as of December 31, 2017



Universe data: Commodities Funds

COMMODITIES
PACIFIC INVESTMENT MANAGEMENT COMPANY
for the quarter ended December 31, 2017

Manager Profile

Firm:	Pacific Investment Management Company
Location:	Newport Beach, CA
Year Founded:	1971
Contact:	Stephanie King, Executive Vice President
Inception Date:	July 2007
Assigned Role:	Commodities
Benchmark:	Bloomberg Commodity Index Total Return
Investment Style:	Active Commodities

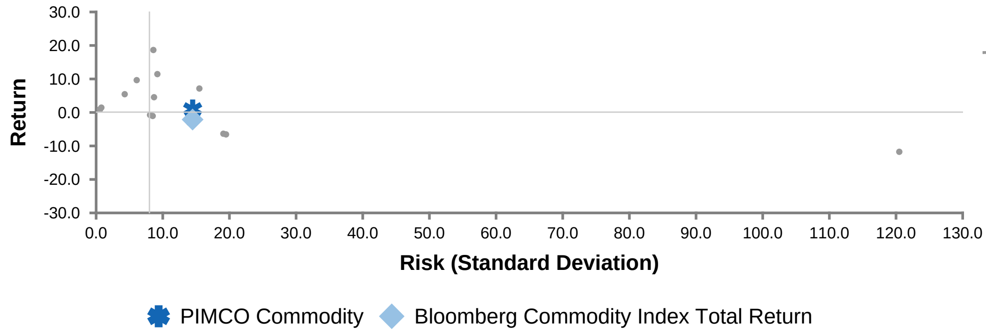
Manager vs. Benchmark: Return through December 31, 2017
(not annualized if less than 1 year)

	Ending Mkt Val ($mil)	1 Quarter	1 Year	3 Years	5 Years	Since Inception
PIMCO Commodity	470.7	5.60	5.09	-1.91	-6.04	-3.54
Bloomberg Commodity Index Total Return		4.71	1.70	-5.03	-8.45	-5.56

Universe

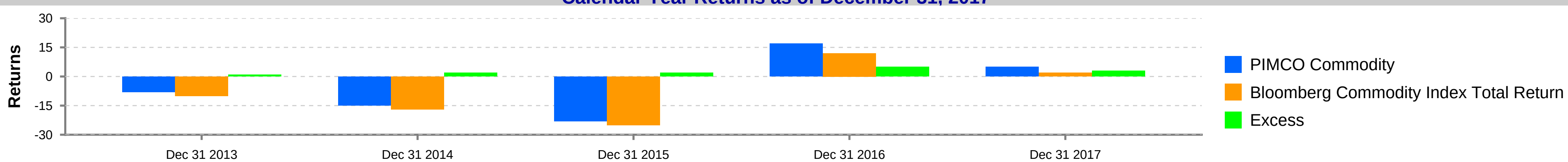
	1 Qtr	1 Year	3 Years	5 Years
Commodity Funds				
Median	1.17	5.38	0.07	1.28
Number of Observations	36.00	31.00	15.00	10.00

3 Year Risk vs Return



	3 Year Return		3 Year Standard Deviation	
PIMCO Commodity	-1.9	67	12.7	68
Bloomberg Commodity Index Total Return	-5.0	78	12.5	67
5th Percentile	17.7		0.0	
25th Percentile	6.6		3.7	
50th Percentile	0.1		8.0	
75th Percentile	-3.7		14.9	
95th Percentile	-12.7		119.9	

Calendar Year Returns as of December 31, 2017



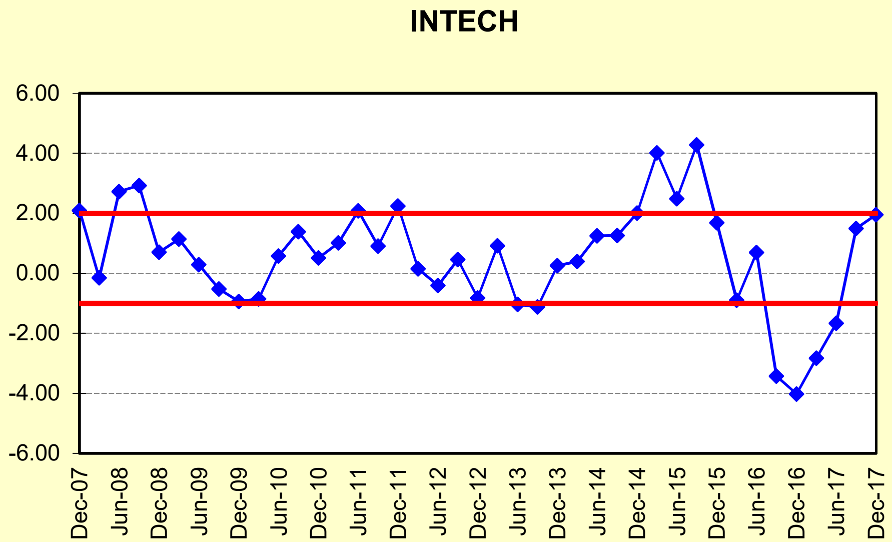
LACERA Investments

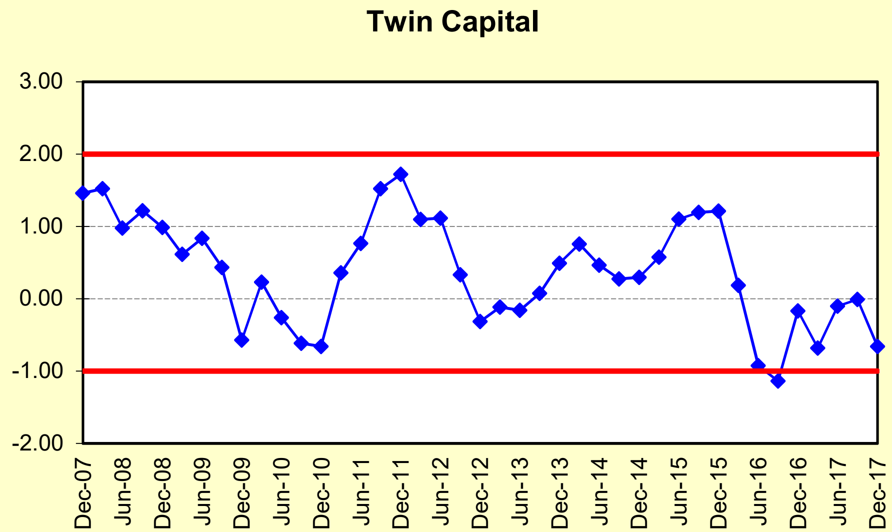
Universe data: Commodities Funds

U.S. EQUITY - LARGE CAP

ONE-YEAR ROLLING EXCESS RETURNS

for the quarter ended December 31, 2017

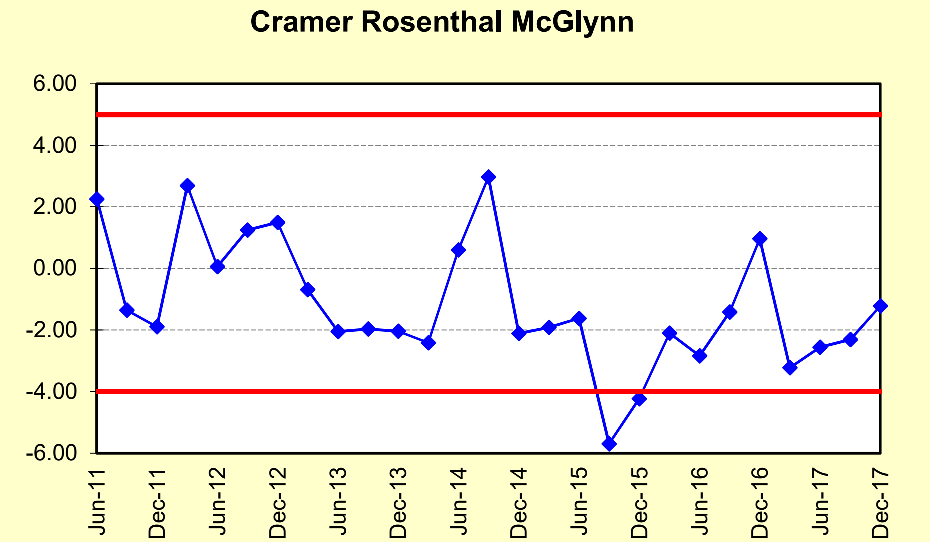


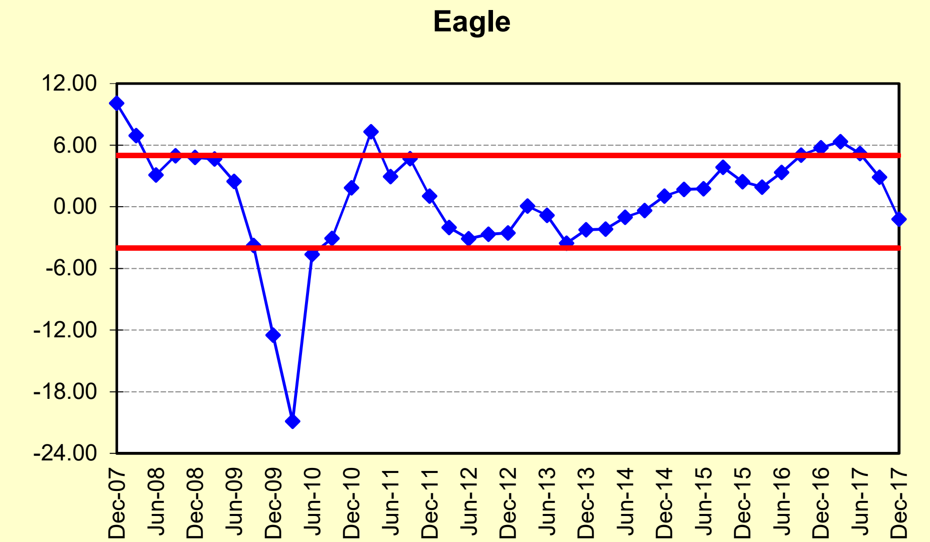


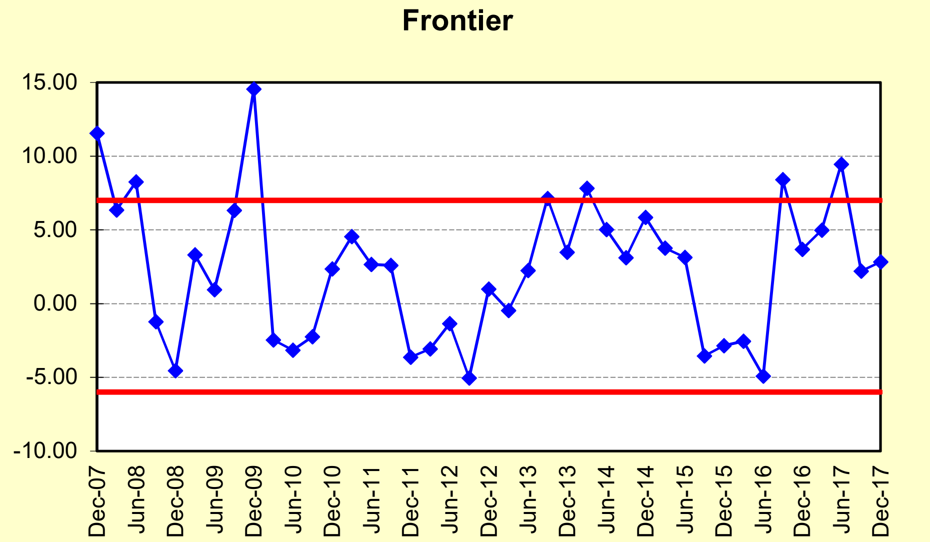
U.S. EQUITY - SMALL/MID CAP

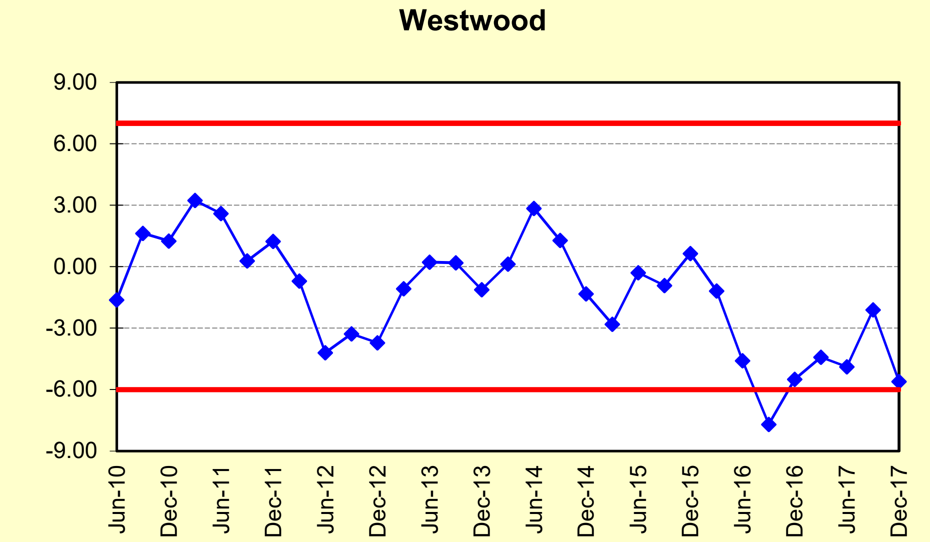
ONE-YEAR ROLLING EXCESS RETURNS

for the quarter ended December 31, 2017







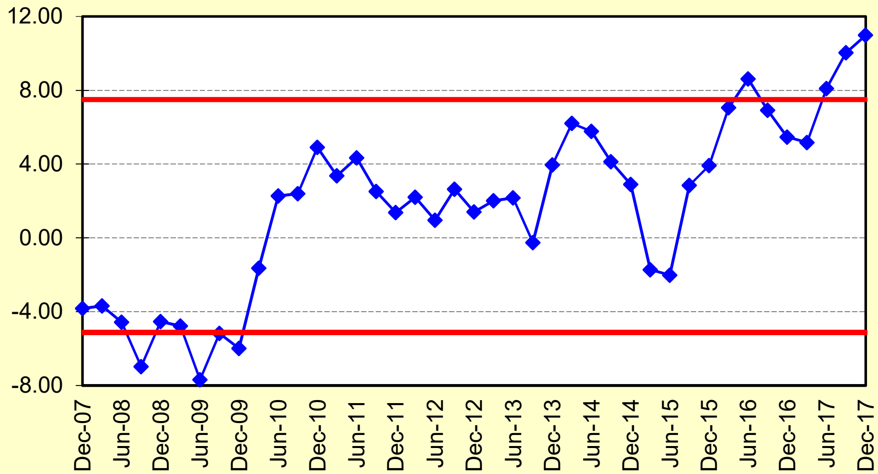


NON-U.S. EQUITY

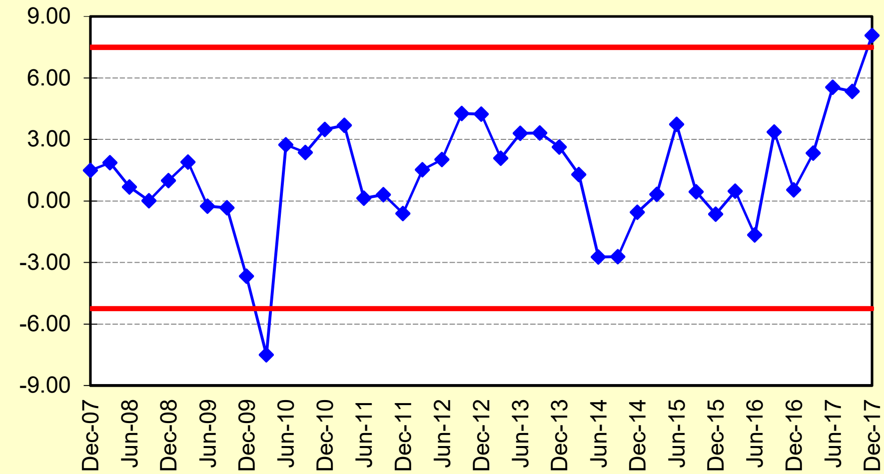
ONE-YEAR ROLLING EXCESS RETURNS

for the quarter ended December 31, 2017

Acadian



Capital Guardian Non-U.S.

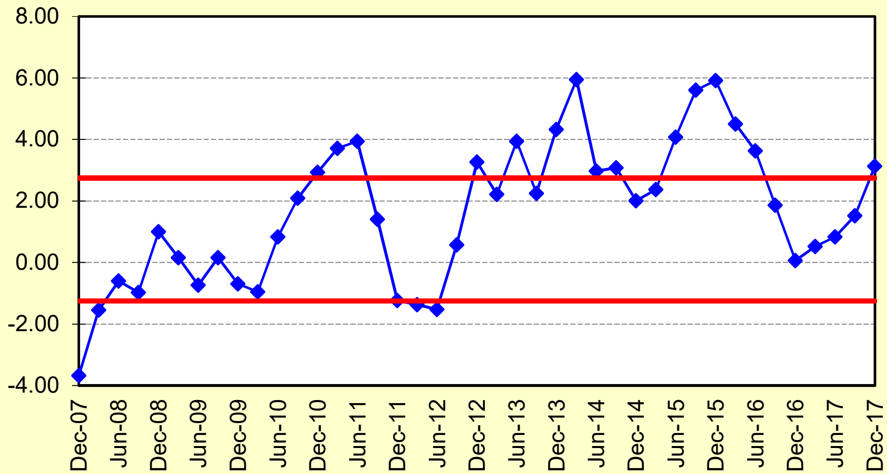


NON-U.S. EQUITY - PACIFIC BASIN & EUROPE

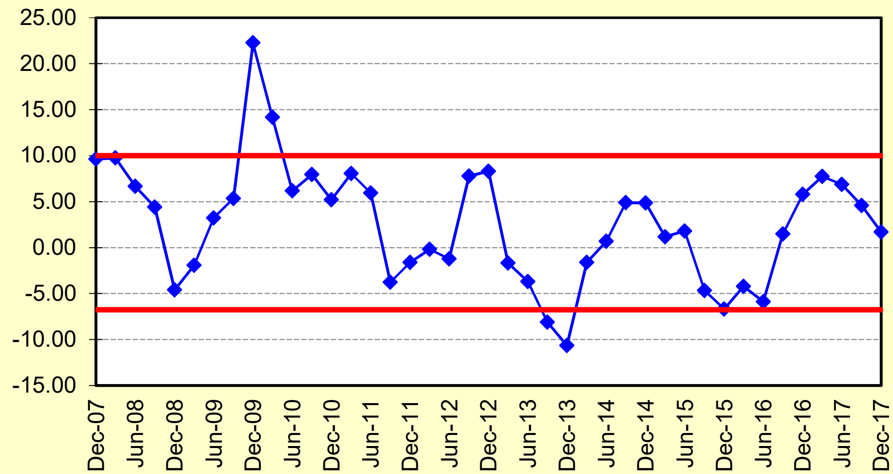
ONE-YEAR ROLLING EXCESS RETURNS

for the quarter ended December 31, 2017

BTC Europe Alpha Tilts



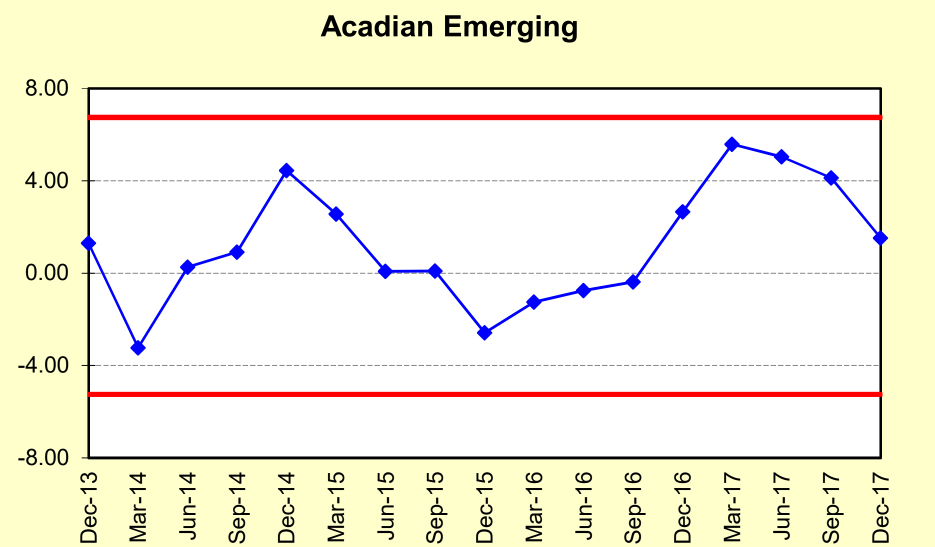
GAM

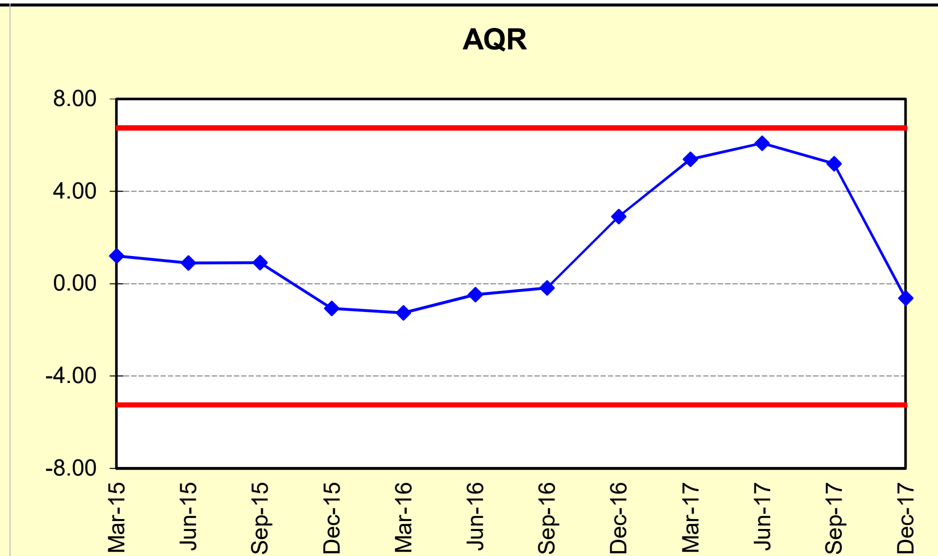


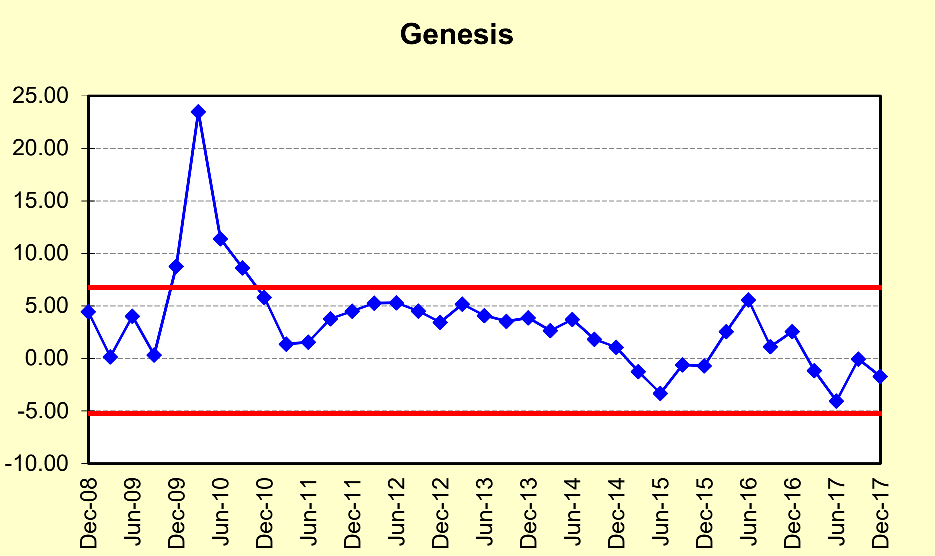
NON-U.S. EQUITY - EMERGING MARKETS

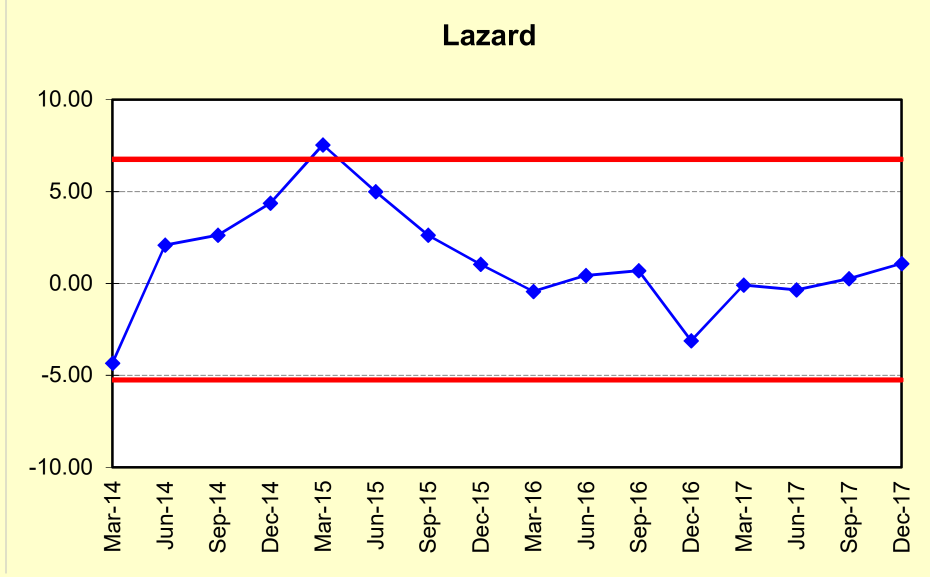
ONE-YEAR ROLLING EXCESS RETURNS

for the quarter ended December 31, 2017





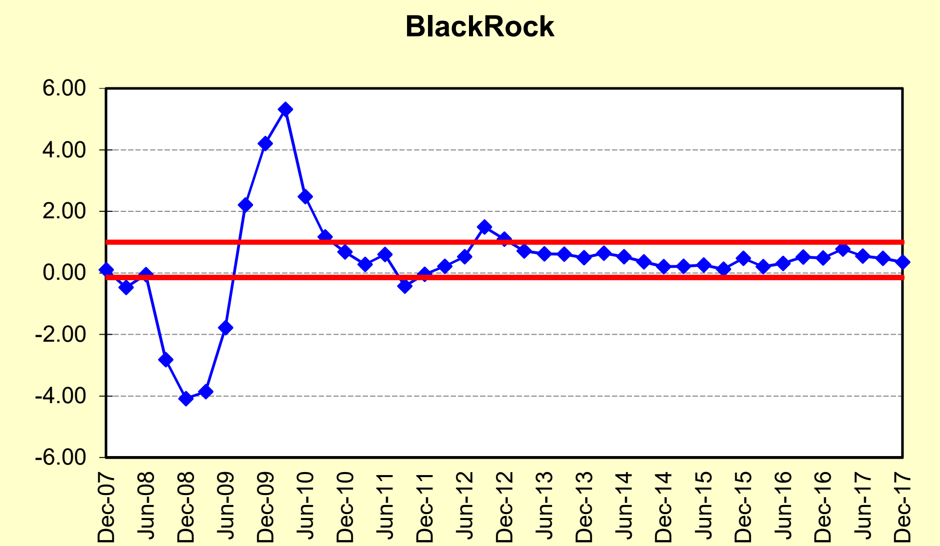


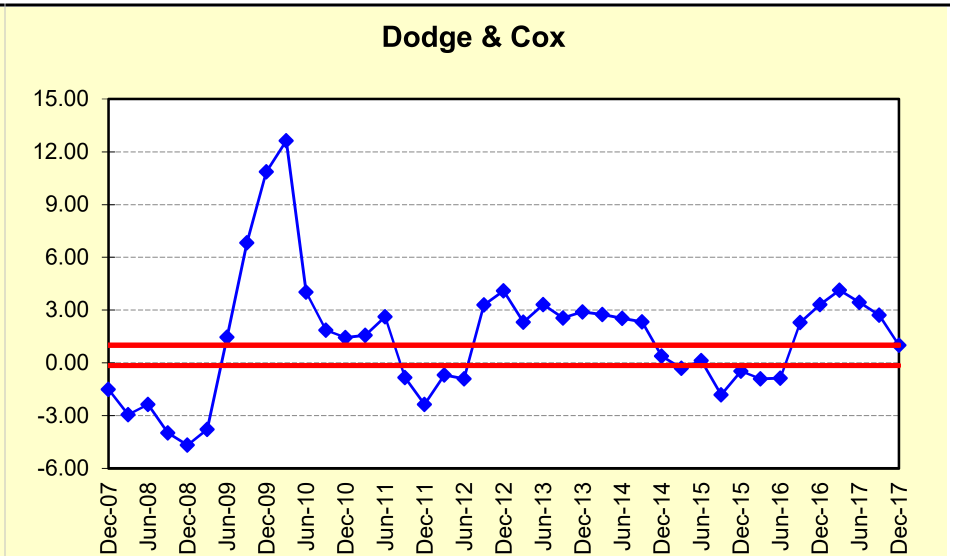


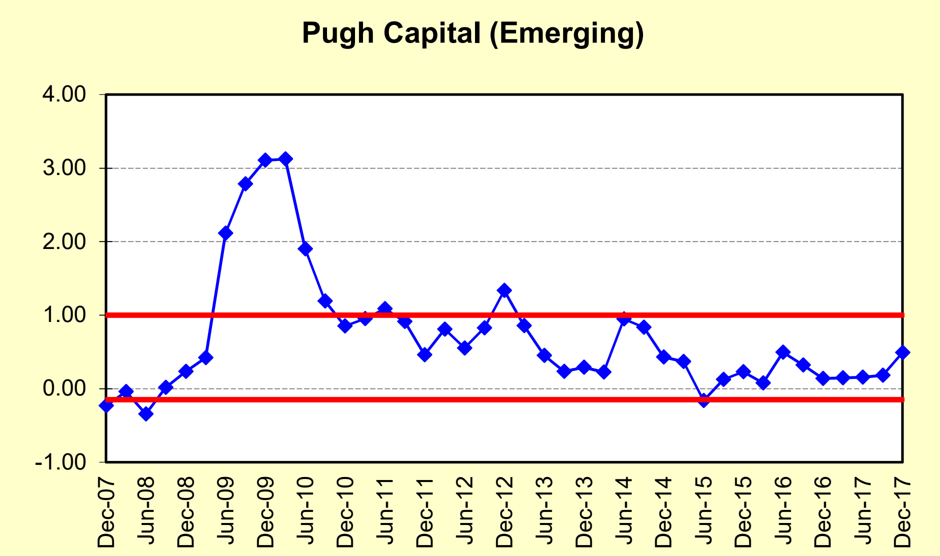
FIXED INCOME - CORE

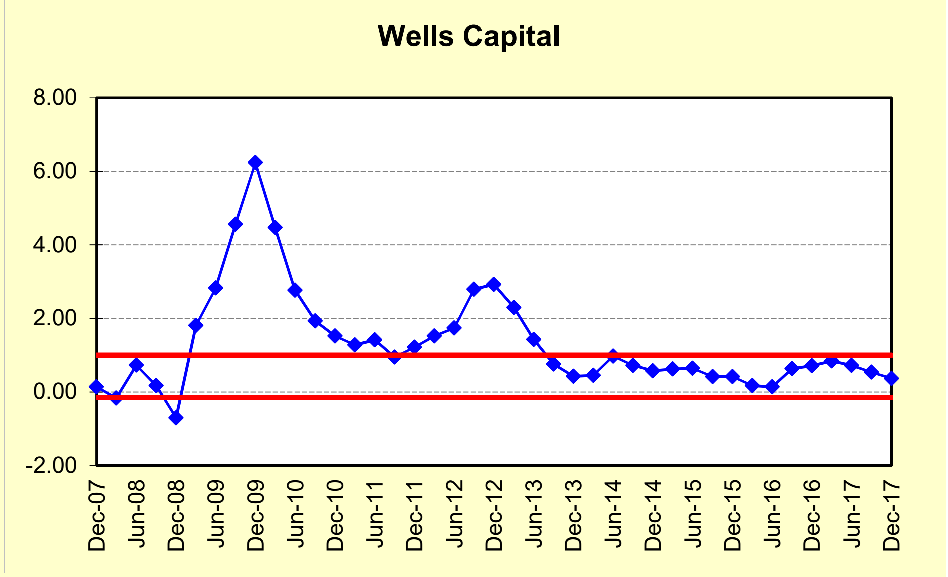
ONE-YEAR ROLLING EXCESS RETURNS

for the quarter ended December 31, 2017





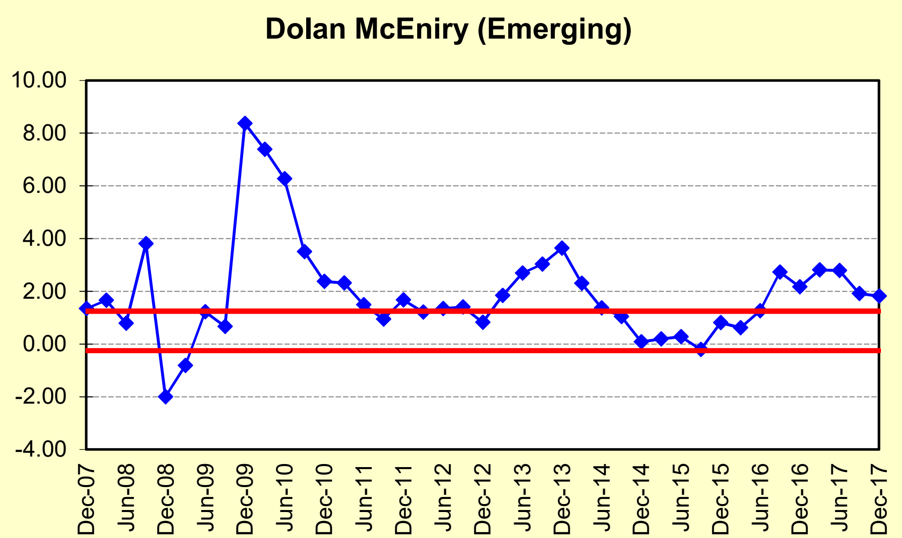


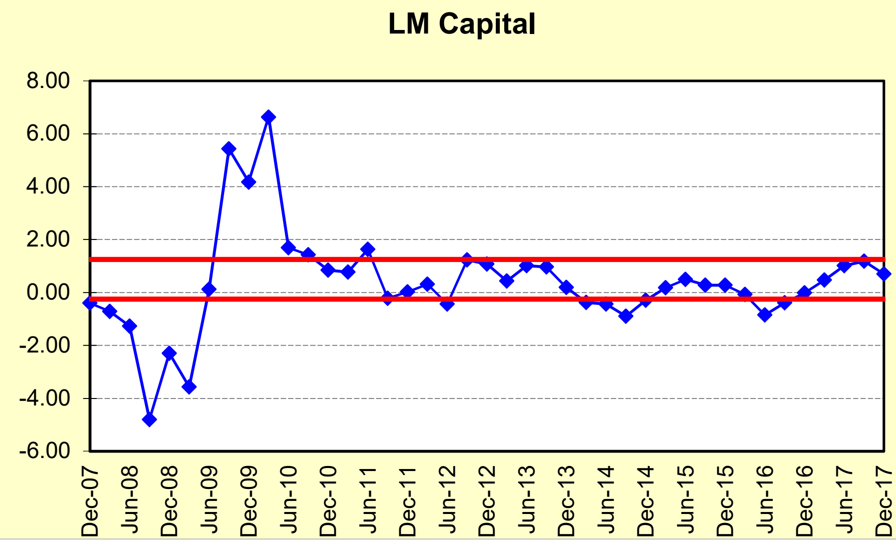


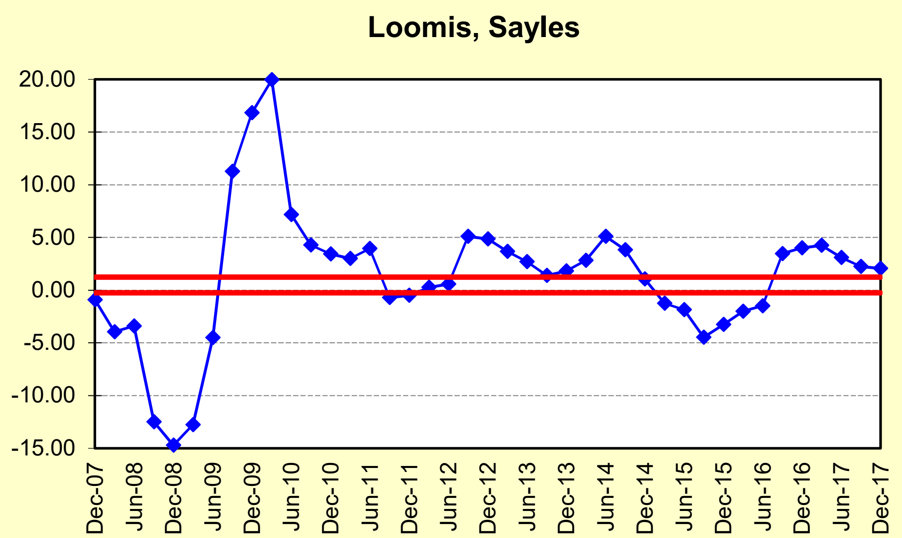
FIXED INCOME - CORE PLUS

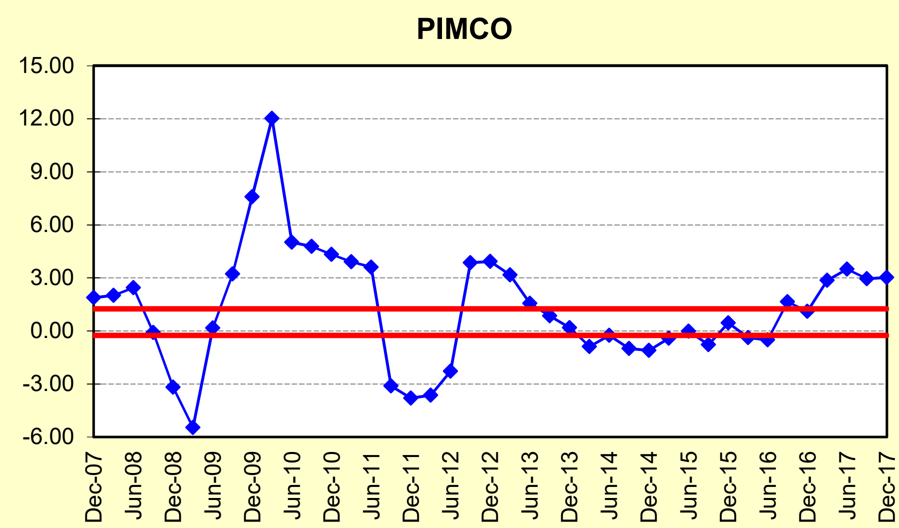
ONE-YEAR ROLLING EXCESS RETURNS

for the quarter ended December 31, 2017





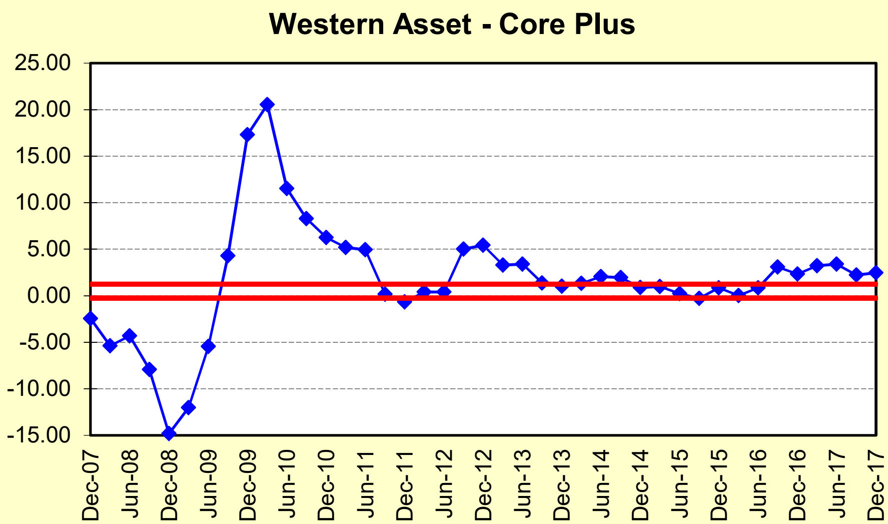




FIXED INCOME - CORE PLUS

ONE-YEAR ROLLING EXCESS RETURNS

for the quarter ended December 31, 2017

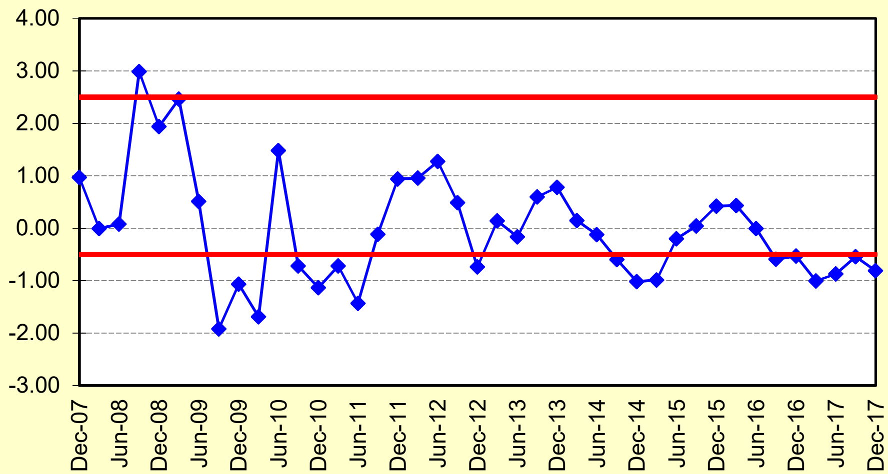


FIXED INCOME - HIGH YIELD

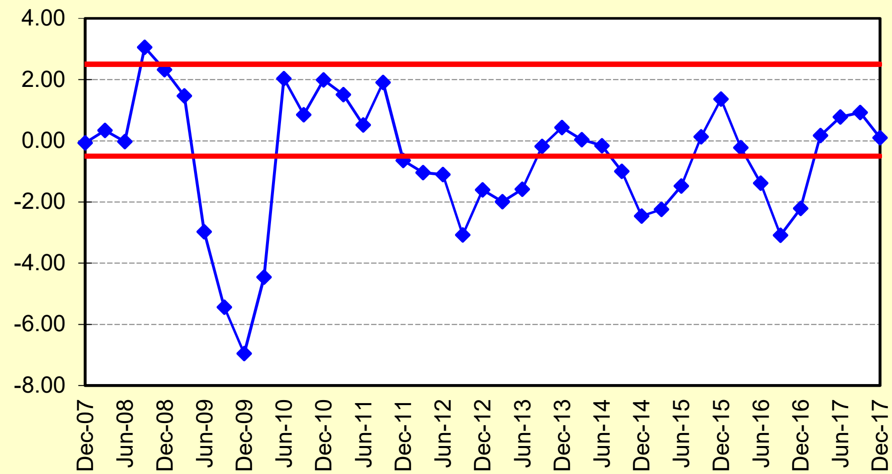
ONE-YEAR ROLLING EXCESS RETURNS

for the quarter ended December 31, 2017

Oaktree Capital



PENN Capital (Emerging)



FIXED INCOME - OPPORTUNISTIC

ONE-YEAR ROLLING EXCESS RETURNS

for the quarter ended December 31, 2017

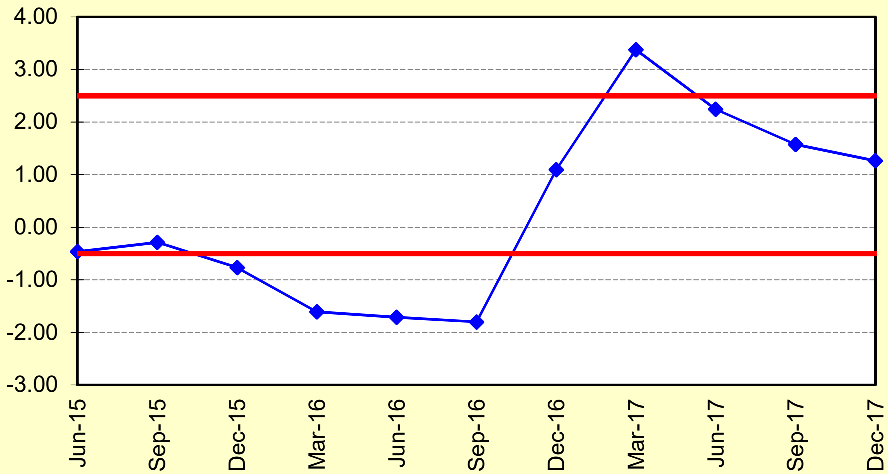
Aberdeen

Insufficient Data

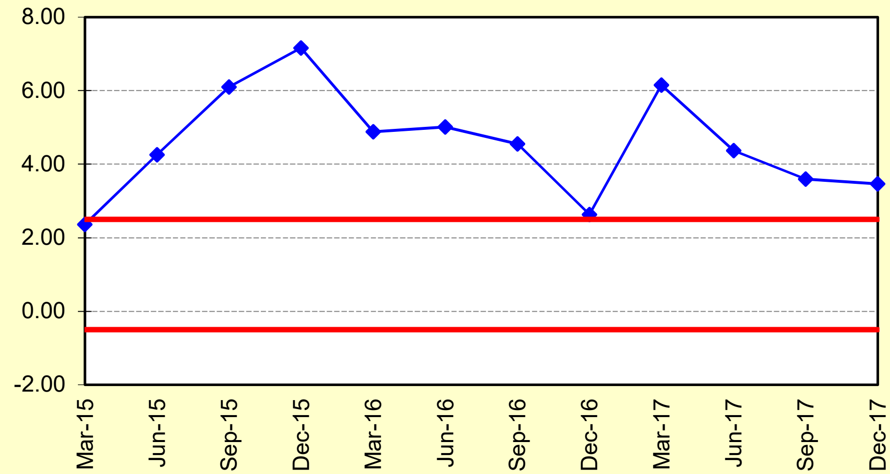
Ashmore

Insufficient Data

Bain Capital



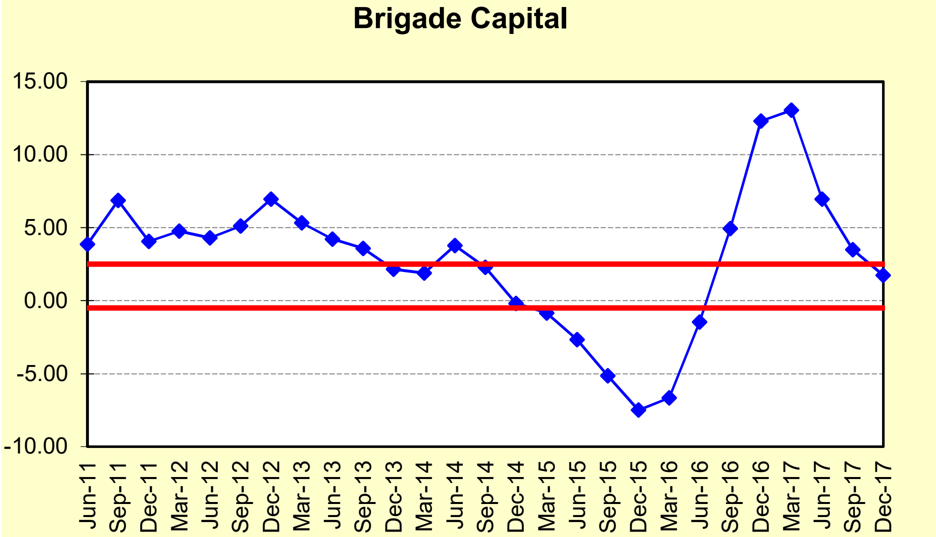
Beach Point

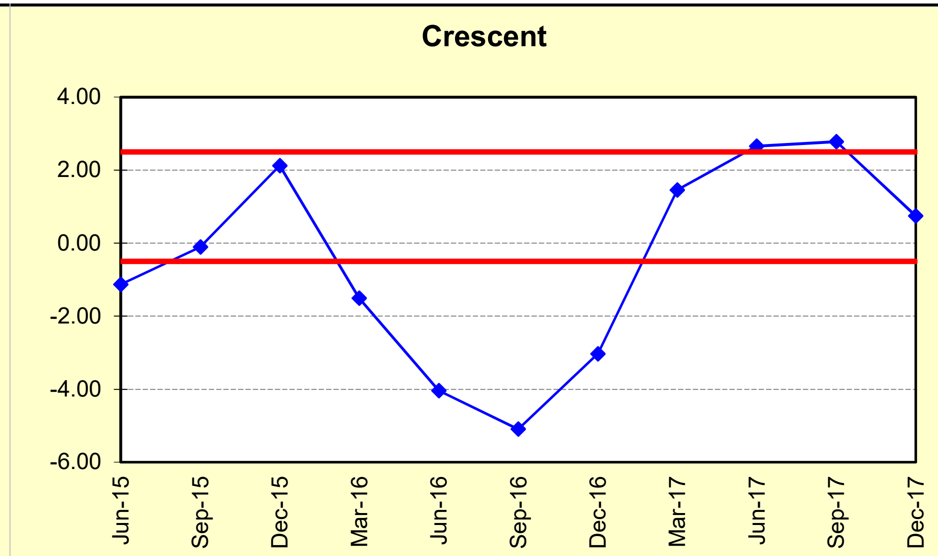


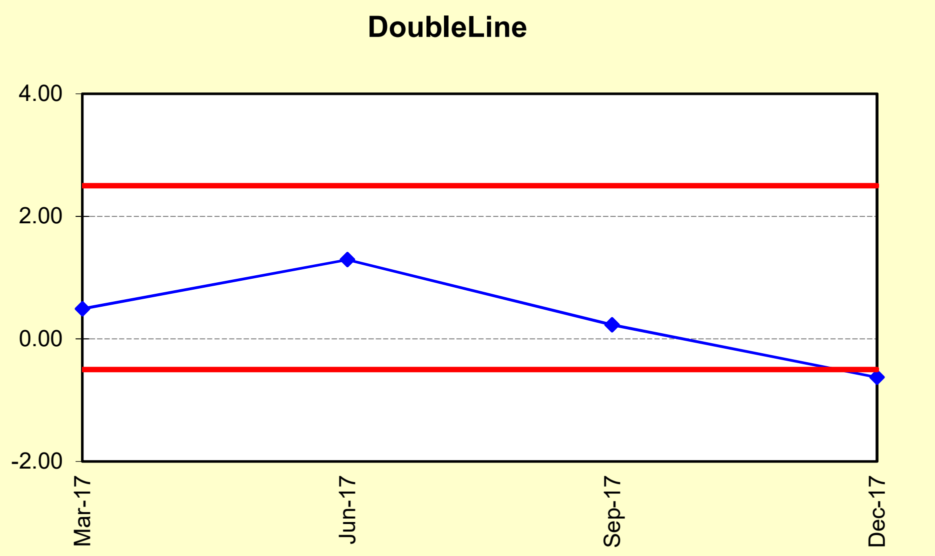
FIXED INCOME - OPPORTUNISTIC

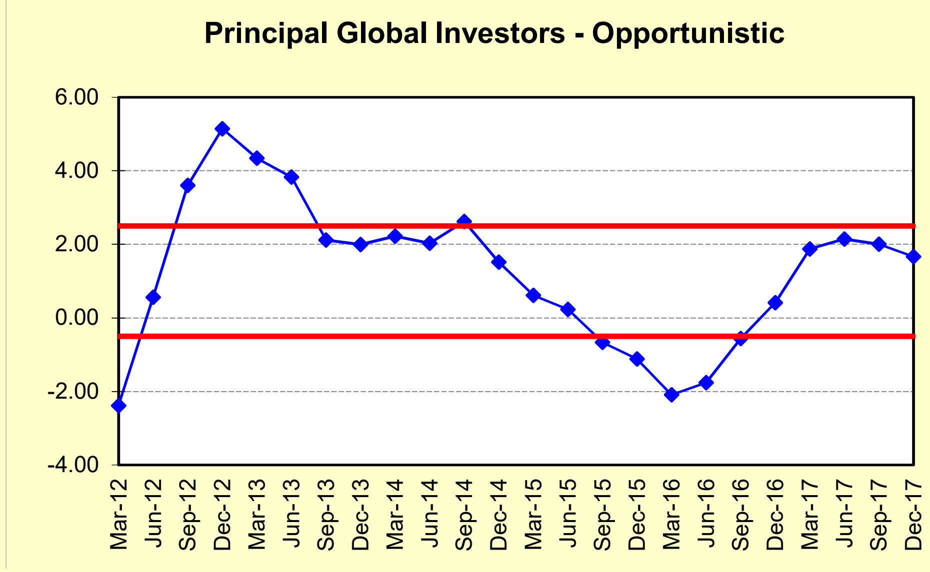
ONE-YEAR ROLLING EXCESS RETURNS

for the quarter ended December 31, 2017







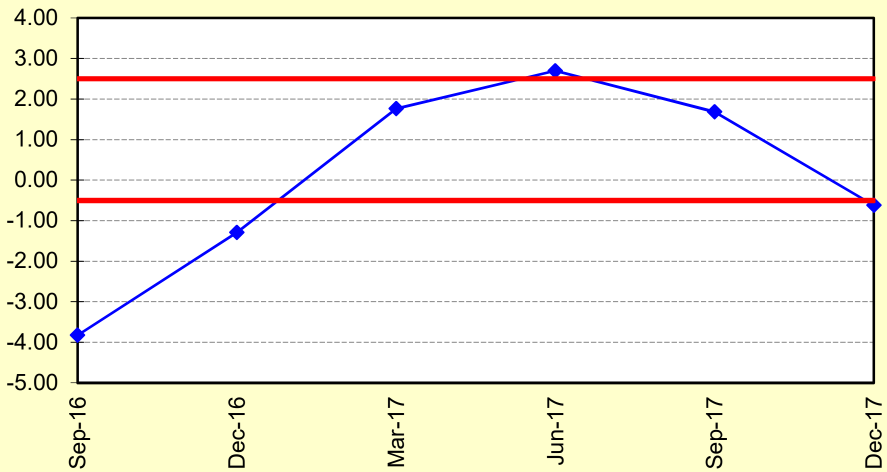


FIXED INCOME - OPPORTUNISTIC

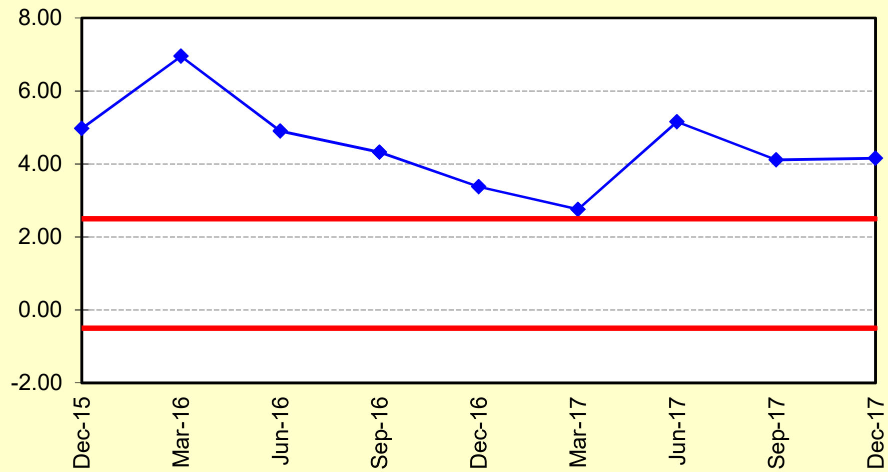
ONE-YEAR ROLLING EXCESS RETURNS

for the quarter ended December 31, 2017

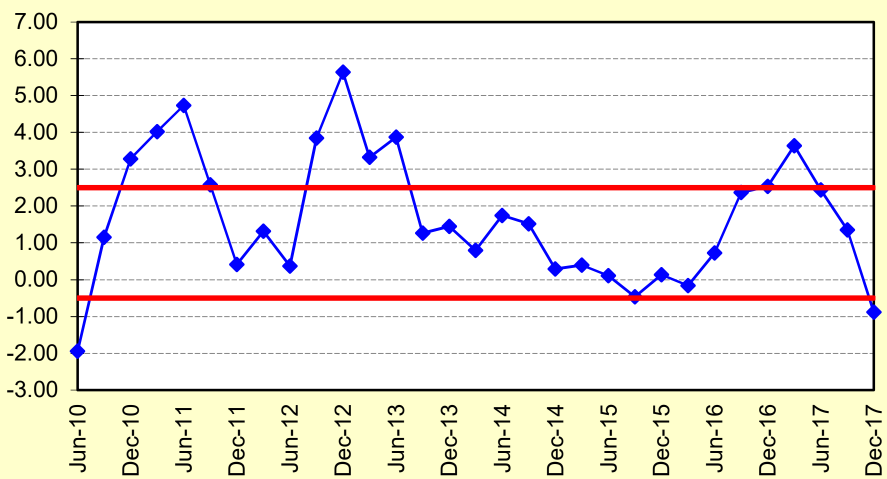
TCW



Tennenbaum



Western - Opportunistic

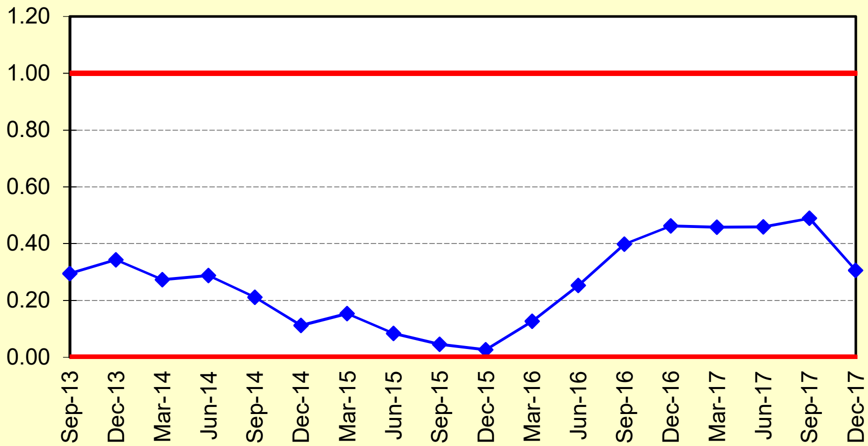


FIXED INCOME - CASH

ONE-YEAR ROLLING EXCESS RETURNS

for the quarter ended December 31, 2017

J.P. Morgan Asset Management

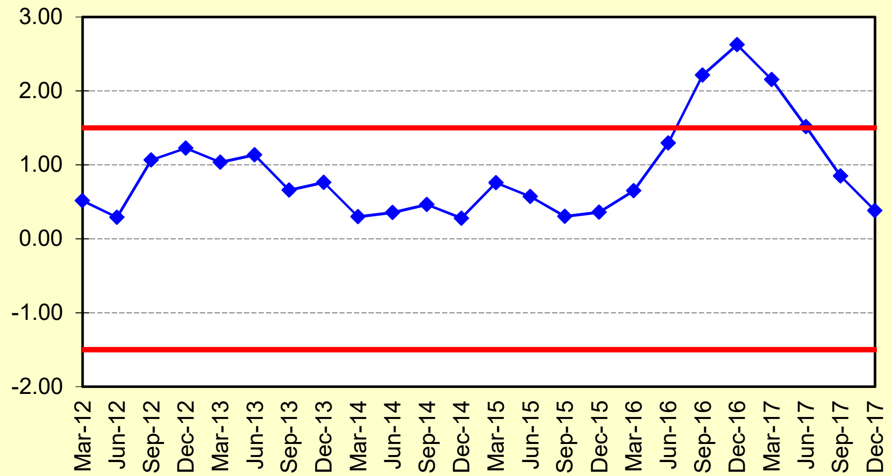


COMMODITIES

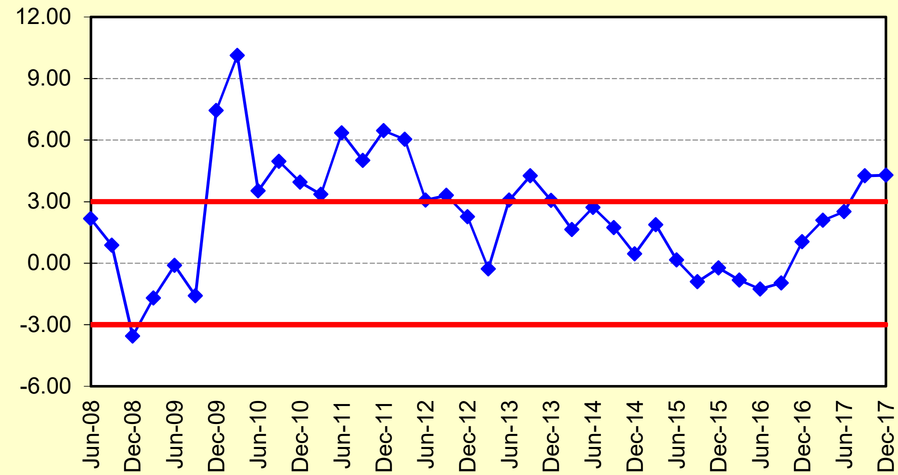
ONE-YEAR ROLLING EXCESS RETURNS

for the quarter ended December 31, 2017

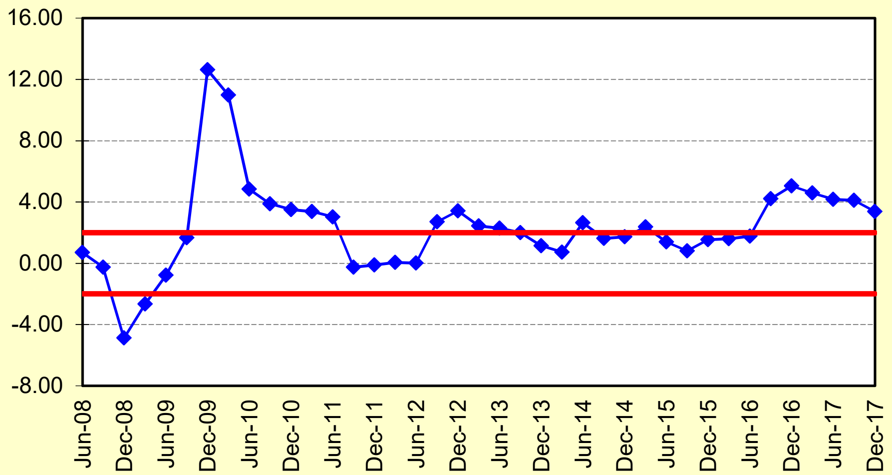
Credit Suisse



Neuberger Berman/Gresham



PIMCO



ESTIMATED FEES[1]

EQUITIES

for the quarter ended December 31, 2017

U.S. EQUITY	Avg. Market Value (Millions)	Fees	Annualized Effective Rate
Active			
Cramer Rosenthal McGlynn	$271.2	$352,472	52.0 bps
Eagle Asset Mgmt.	$343.3	$454,151	52.9 bps
Frontier Capital Mgmt.	$688.2	$1,290,376	75.0 bps
INTECH	$852.5	$479,462	22.5 bps
JANA Partners[2]	$102.8	$299,295	100.0 bps
Twin Capital Mgmt.	$521.7	$195,647	15.0 bps
Westwood Mgmt. Corp.	$257.9	$391,146	60.7 bps
Subtotal:	**$3,038**	**$3,462,549**	**45.6 bps**
Passive			
BTC Russell 1000 Index	$9,570.3	$236,864	1.0 bps
BTC Russell 2000 Index	$100.8	$2,494	1.0 bps
BTC Russell 3000 Index	$592.5	$14,663	1.0 bps
Subtotal:	**$10,263**	**$254,021**	**1.0 bps**
Total U.S. Equity:	**$13,301.1**	**$3,716,571**	**11.2 bps**

1 Estimations may not match net-of-fee returns on "Annualized Total Returns" pages; reflects investment management fee only.

2 Fees are based on committed capital of $120 million.

ESTIMATED FEES[1]

EQUITIES

for the quarter ended December 31, 2017

NON-U.S. EQUITY	**Avg. Market Value (Millions)**	**Fees**	**Annualized Effective Rate**
Active			
Acadian Asset Mgmt.	$882.9	$822,560	37.3 bps
Acadian Emrg. Markets	$409.2	$485,881	47.5 bps
AQR Capital Mgmt.	$264.3	$451,550	68.3 bps
BTC Europe Alpha Tilts	$1,012.2	$1,024,652	40.5 bps
Capital Guardian	$357.3	$318,190	35.6 bps
Cevian Capital	$297.6	$1,156,795	155.5 bps
GAM International Mgmt.	$855.1	$898,926	42.1 bps
Genesis Investment Mgmt.	$694.1	$1,238,844	71.4 bps
Lazard Asset Mgmt.	$365.1	$682,756	74.8 bps
Symphony Financial	$129.6	$239,047	73.8 bps
Subtotal:	**$5,268**	**$7,319,200**	**55.6 bps**
Passive			
BTC Canada Index IMI	$791.8	$29,692	1.5 bps
BTC EAFE Index IMI	$5,270.3	$197,637	1.5 bps
BTC EAFE Small Cap Index	$205.0	$20,496	4.0 bps
BTC Emerging Markets Index	$1,362.1	$306,481	9.0 bps
BTC Emrg. Mkt. Small Cap Index	$144.3	$72,130	20.0 bps
BTC Europe Index	$379.7	$9,397	1.0 bps
Subtotal:	**$8,153**	**$635,834**	**3.1 bps**
Total Non-U.S. Equity:	**$13,420.6**	**$7,955,034**	**23.7 bps**
Currency Hedge			
50% Developed Mkt. Currency Hedge	$10,178.2	$381,683	1.5 bps

[1] Estimations may not match net-of-fee returns on "Annualized Total Returns" pages; reflects investment management fee only.

ESTIMATED FEES[1]

FIXED INCOME

for the quarter ended December 31, 2017

FIXED INCOME	Avg. Market Value (Millions)	Fees	Annualized Effective Rate
Core			
BTC US Debt Index	$1,523.9	$37,718	1.0 bps
BTC Intermediate Credit Index	$239.7	$5,933	1.0 bps
BlackRock	$716.3	$285,330	15.9 bps
Dodge & Cox	$1,292.5	$317,872	9.8 bps
Pugh Capital Mgmt.	$136.9	$63,843	18.7 bps
Wells Capital Mgmt.	$1,356.5	$382,063	11.3 bps
Subtotal:	**$5,266**	**$1,092,757**	**8.3 bps**
Core Plus			
Dolan McEniry Capital Mgmt.	$346.9	$223,050	25.7 bps
LM Capital Group	$454.9	$192,475	16.9 bps
Loomis Sayles	$1,079.1	$346,654	12.8 bps
PIMCO	$1,056.5	$549,911	20.8 bps
Western Asset Mgmt.	$1,147.9	$368,485	12.8 bps
Subtotal:	**$4,085**	**$1,680,576**	**16.5 bps**
High Yield			
Oaktree Capital Mgmt.	$409.4	$394,033	38.5 bps
PENN Capital Mgmt.	$108.8	$122,377	45.0 bps
Subtotal:	**$518**	**$516,410**	**39.9 bps**
Opportunistic			
Aberdeen	$206.3	$208,013	40.3 bps
Ashmore	$208.1	$352,028	67.6 bps
Bain Capital	$301.1	$489,257	65.0 bps
Beach Point Capital	$381.7	$1,224,898	128.4 bps
Brigade Capital Mgmt.	$485.1	$909,579	75.0 bps
Crescent Capital Group	$271.1	$376,352	55.5 bps
Doubleline Capital	$265.7	$502,326	75.6 bps
Principal Global Investors	$269.2	$93,249	13.9 bps
TCW	$265.8	$394,798	59.4 bps
Tennenbaum Capital Partners	$247.9	$552,725	89.2 bps
Western Asset Mgmt.	$303.0	$37,876	5.0 bps
Subtotal:	**$3,205**	**$5,141,099**	**64.2 bps**
Total Fixed Income:	**$13,074.4**	**$8,430,843**	**25.8 bps**
Cash			
J.P. Morgan Asset Mgmt.	$1,586.5	$198,316	5.0 bps

[1] Estimations may not match net-of-fee returns on "Annualized Total Returns" pages; reflects investment management fee only.

ESTIMATED FEES[1]

COMMODITIES

for the quarter ended December 31, 2017

COMMODITIES	Avg. Market Value (Millions)	Fees	Annualized Effective Rate
Credit Suisse	$433.3	$282,488	26.1 bps
Neuberger Berman/Gresham	$436.4	$407,569	37.4 bps
PIMCO	$436.3	$460,087	42.2 bps
Total Commodities:	**$1,306**	**$1,150,144**	**35.2 bps**

[1] Estimations may not match net-of-fee returns on "Annualized Total Returns" pages; reflects investment management fee only.

ALLOCATION RANGES

STRATEGIC vs. ACTUAL

for the quarter ended December 31, 2017

U.S. EQUITY:

Mandate	Strategic Allocation Range	Actual Allocation
Passive	35-75%	76.9%
Low Risk	0-25%	10.5%
Moderate/High Risk	10-30%	12.5%

U.S. Equity Managers:

Passive – BTC Russell 1000, BTC Russell 2000, BTC Russell 3000.
Low Risk – INTECH, Twin Capital.
Moderate/High Risk – Cramer Rosenthal McGlynn, Eagle, Frontier, JANA Partners, Westwood.

NON-U.S. EQUITY:

Mandate	Strategic Allocation Range	Actual Allocation
Passive Non-U.S.	40-70%	59.5%
Active Non-U.S.	0-40%	9.6%
Active Regional	0-20%	17.6%
Active Emerging Markets	10-30%	13.3%

Non-U.S. Equity Managers:

Passive – BTC Canada IMI, BTC EAFE IMI, BTC Emerging Markets, BTC EAFE - Euro Cons, BTC EAFE Small Cap, BTC Emrg Mkt Small Cap.
Non-U.S. Developed – Acadian, Capital Guardian.
Regional Developed – BTC Europe Tilts, Cevian Capital, Global Asset Management, Symphony Financial.
Emerging Markets – Acadian Emerging, AQR, Genesis, Lazard.

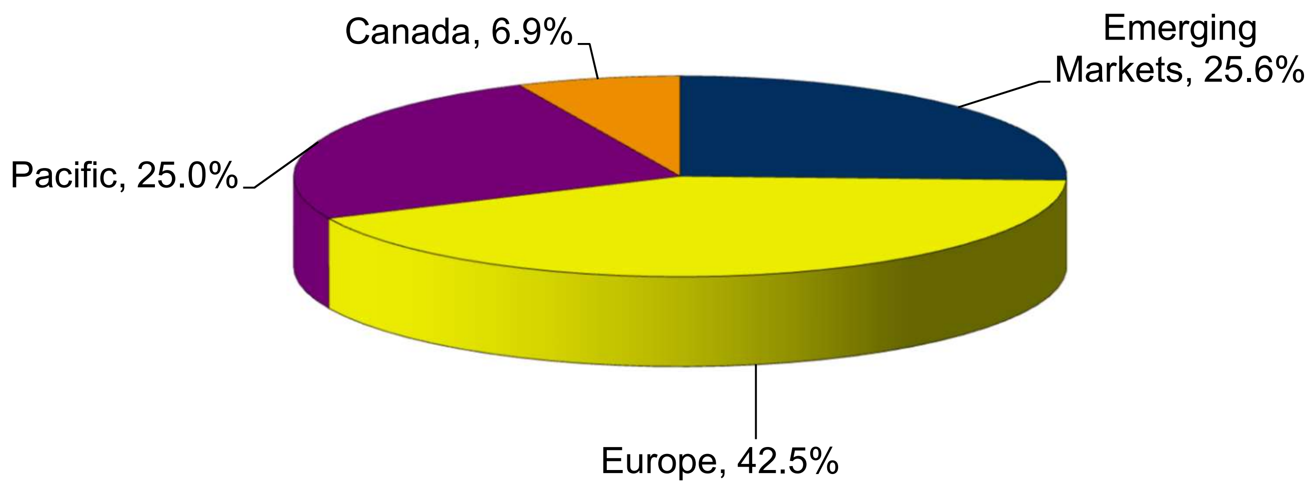
	Market Value (In Millions)	% of Total Market Value
50% Passive Currency Hedge Overlay	$ 4,923	49.6%
Total Non-US Developed Markets	**$ 9,919**	

ALLOCATION RANGES

STRATEGIC vs. ACTUAL (Cont'd)

for the quarter ended December 31, 2017

	Non-U.S. Composite	ACWI X U.S. IMI Net	Difference
Emerging Markets	25.6%	24.4%	1.2%
Europe	42.5%	43.5%	-1.1%
Pacific	25.0%	25.5%	-0.4%
Canada	6.9%	6.6%	0.3%
	100.0%	**100.0%**	**0.0%**



ALLOCATION RANGES

STRATEGIC vs. ACTUAL

for the quarter ended December 31, 2017

FIXED INCOME STRUCTURE:

Strategy	Strategic Allocation Range	Actual Allocation	Strategic Target
Core[1]	25-45%	42.3%	35%
Core Plus	25-45%	30.1%	35%
High Yield	0-10%	3.8%	5%
Opportunistic	15-35%	23.7%	25%

CASH:

Strategy	Strategic Allocation Range	Actual Allocation	Strategic Target
Cash	0-4%	2.0%	2%

COMMODITIES STRUCTURE:

Strategy	Strategic Allocation Range	Actual Allocation	Strategic Target
Commodities	0-4.8%	2.5%	2.8%

[1] Includes Member Home Loan Program (MHLP).

Glossary

A

Alpha: Alpha is an estimate of the contribution to investment performance attributable to the manager's selection of securities. It is calculated by subtracting the manager's return from the benchmark return.

Annual Return: The total return of a security over a specified period, expressed as an annual rate of interest.

Annualized: A figure (as in a percentage) calculated by a formula to find the "average" performance per year for a period greater than one year.

B

Barbell Strategy: Fixed income portfolio structuring technique using a mix of short and long-term securities to achieve a targeted average maturity or duration.

BBG BC (Bloomberg Barclays) U.S. Universal Index: The Barclays U.S. Universal Index represents the union of the U.S. Aggregate Index, U.S. Corporate High-Yield, Investment Grade 144A Index, Eurodollar Index, U.S. Emerging Markets Index, and the non-ERISA eligible portion of the CMBS Index.

Basis Points (bps): One one-hundredth of one percent. One hundred basis points equal one percent.

Bear Market: A market characterized by a trend of falling prices.

Bearish: Pessimistic about the market; anticipating a decline in prices

Beta: A measure of the volatility of a stock relative to the overall market. A beta of less than one indicates lower risk than the market; a beta of more than one indicates higher risk than the market.

Brigade Custom Index: 50% Barclays U.S. Corporate High Yield Ba/B & 50% Credit Suisse Leveraged Loan Index.

Bull Market: A market characterized by a trend of rising prices.

Bullet: Fixed Income portfolio structuring technique focusing on a particular maturity or duration.

Bullish: Optimistic about the market; anticipating a rise in prices.

C

Capital Structure: The division of a company's capitalization among bonds, debentures, preferred and common stock, earned surplus and retained income.

Carried Interest: Share of profits or common stock ownership (beyond pro-rata investment) granted to a venture fund or promoter for its/his role in originating and structuring an investment. The general partner's carried interest is his share of the partnership profits.

Carrying Value: A venture capital limited partnership must list on its balance sheet a value for every investment it holds. These valuations are called the carrying values.

Cash-On-Cash Return: The return to limited partners. Cash inflows are the capital calls of the partnership. Cash outflows are all distributions to limited partners. Note that stock distributions are considered cash for this calculation.

Citigroup 6-month T-Bill: The Citigroup 6-Month T-Bill Index is a market value-weighted index of public obligations of the U.S. Treasury with maturities of six month.

Committed Capital: When a venture capital limited partnership is formed, each limited partner agrees to contribute a certain amount of capital to the partnership. Once the agreement is signed, the dollar amount is said to be capital committed to the partnership.

Common Stock: Ordinary capital stock (representing ownership) in a company. Common stock does not enjoy the special privileges of preferred stock, but has voting rights.

Convertible Bond: A bond which, at the option of the holder, is convertible into other types of securities.

Convexity: A measure of how the duration of a bond portfolio changes with interest rate movements. Higher convexity means that if interest rates rise, bond prices fall by relatively small amounts and when interest rates fall, bond prices rise by higher relative amounts. Therefore, for either direction of interest rate movements, the greater the convexity the more beneficial the impact on bond prices.

Coupon Income (Average Coupon): The annual coupon payments of a bond divided by the par value.

Current Yield: The annual coupon payments of a bond divided by the market price.

Current Ratio: The ratio of current assets over current liabilities. A measure of a company's ability to pay its bills.

Custom MSCI ACWI IMI N 50%H: 7/31/10 – Present MSCI ACWI X U.S. IMI (Net) with 50% hedged Developed Markets; 8/31/08 – 7/31/10 MSCI ACWI X U.S. IMI (Net); Inception – 8/31/08 MSCI ACWI X U.S. (Net), except the ten-year return (Gross).

D

50% Developed Market Currency Hedge Index: A custom index based on a MSCI FX Hedged Index return.

Deflation: A progressive reduction in the price level, which would make real interest rates greater than nominal rates.

Discount Rate: The interest rate used in present value calculations to "discount" or convert future cash flows into terms of present dollars.

Dividend: A cash or other distribution to preferred or common stockholders.

Bloomberg Commodity Index Total Return: The Bloomberg Commodity Index Total Return is composed of futures contracts on physical commodities.

Dolan McEniry Custom Index: Barclays Credit Intermediate (65%) and Barclays Mortgage Backed (25%) and Barclays High Yield Ba/B (10%).

Duration: A measure of the price sensitivity of a bond portfolio to changes in interest rates. It is calculated as the weighted average time to receive a bond's coupon and principal payments. The closer the coupon and principal payments, the shorter the duration. The more distant the coupon and principal payments, the longer the duration. Portfolios with longer maturity bonds will normally have longer duration and will, therefore, have greater price sensitivities to changes in interest rates.

E

EAFE Custom Index: Inception - 6/30/06 MSCI EAFE (Net); 6/30/06 - Present MSCI EAFE + Canada (Net).

Earnings per Share: Latest reported earnings for the last 12-month period divided by the current number of shares of common stock outstanding.

Earnings Yield: The percentage found by dividing the earnings per share by the market price of a stock.

Equity: Ownership or proprietary rights and interests in a company. Synonymous with common stock.

EBITDA: Earnings before Interest, Taxes, Depreciation and Amortization.

Enterprise Value: Enterprise value represents the Equity + Debt value of the company.

F

Federal Funds Rate: The interest rate at which federal funds are traded. It is monitored by the Fed in the process of regulating the growth of bank reserves and money supply in the execution of its monetary policy. As such, it is closely watched by market participants.

Fiscal Policy: Federal Government policies affecting government spending, taxation, and deficits (or surpluses), viewed from a macroeconomics standpoint.

Fixed Income Custom Index: Inception-3/31/09: A combination of the Barclays US Aggregate Bond Index and the Barclays US High Yield Ba/B Index. The weights have varied over time, but as of 9/30/06, the mix was 93% Aggregate and 7% high yield. 3/31/09-Present : 100% Barclays U.S. Universal.

Fully-Diluted Ownership: Proportionate ownership assuming the exercise of all common stock options, warrants, and the conversion of any convertible securities.

Futures Contract: Agreement to buy or sell a specific amount of a commodity or financial instrument at a particular price and a stipulated future date.

H

Hedging: The temporary purchase or sale of a contract calling for future delivery of a specific security at an agreed upon price to offset a present or anticipated position in the cash market.

Hedge Fund Custom Index: The Citigroup 3-Month U.S. T-Bill Index plus 500 bps.

High Yield Bond: A bond with a low investment quality and credit worthiness, usually with a rating of BB or less.

I

Immunization: A process for designing fixed income portfolios to obtain a target rate of return over a specified time period, within a narrow range, despite market conditions.

Index: A statistical yardstick composed of a basket of securities with a set of characteristics. An example of this would include the "S&P 500" which is an index of 500 stocks.

Inflation: A general rise in prices, usually measured by changes in prices of major indices, such as the Consumer Price Index. An increase in a particular price may or may not be inflationary, depending on how it affects other prices and on how promptly it brings to market additional supplies of a product.

Inflation Index Bond: Fixed income securities whose principal value is periodically adjusted according to the rate of inflation. The interest rate on these bonds is fixed at issuance, but over the life of the bond this interest is paid on an increasing principal value, which has been adjusted for inflation.

Information Ratio: The information ratio is the excess return (alpha) per unit of active risk (tracking error). It is measured by dividing alpha by the tracking error.

Interest-Rate Risk: When interest rates rise, the market value of fixed-income securities (such as bonds) declines. Similarly, when interest rates decline, the market value of fixed-income securities increases.

Internal Rate of Return: The Internal rate of return is a total rate of return that gives full weight to the size and time of cash flows over the period measured and fully reflects unrealized gains and losses in addition to realized gains and losses, interest and dividend income.

J

J-Curve: Most venture partnerships go through their first few years with write-offs/write-downs exceeding write-ups, after which value increases rapidly as successful companies emerge. The plot of partnership values versus time, therefore, resembles a “J”.

L

Laddering: A fixed income portfolio strategy in which assets are distributed evenly over a range of maturities.

LBO (Leveraged Buyout): The purchase of a business using the debt capacity of the business to borrow funds (sometimes by issuing notes to the seller) to finance the purchase.

Limited Partner: The main investment subscribers to a Limited Partnership Fund. They have limited liability and no executive or management control of the Partnership. As defined by the IRS code, any investor in a venture capital limited partnership.

LM Custom Index: Barclays Aggregate (90%) and JP Morgan EMBI + (10%).

M

Market Capitalization: The market value of all outstanding shares of common stock of a company. Derived by multiplying the number of shares outstanding at month-end by the month-end closing price of the security.

Maturity: The date on which a loan, bond, mortgage or other debt security becomes due and is to be paid off.

Mezzanine Stage: The last private round of financing before an anticipated public offering. Implies substantial revenues and usually the expectation of imminent profitability.

Modern Portfolio Theory: The theoretical framework for designing investment portfolios based upon the risk and reward characteristics of the entire portfolio. The major tenet of the theory holds that reward is directly related to risk, which can be divided into two basic parts: 1) systematic risk (portfolios' behavior as a function of the market's behavior), and 2) unsystematic risk (portfolios' behavior attributable to selection of individual securities). Because un-systematic risk can be largely eliminated through diversification, the portfolio will be subject principally to systematic risk.

Mortgage-Backed Securities: Bonds which are a general obligation of the issuing institution but are collateralized by a pool of mortgages.

MSCI Canada IMI Custom Index (Net): Inception – 8/31/08 MSCI Canada (Net); 8/31/08 - Present MSCI Canada IMI (Net).

MSCI EMF IMI Custom Index: Inception – 12/31/00 MSCI EMF (Gross); 12/31/00 – 8/31/08 MSCI EMF (Net); 8/31/08 – Present MSCI EMF IMI (Net).

MSCI EAFE IMI Custom Index (Net): Inception – 8/31/08 MSCI EAFE (Net); 8/31/08 - Present MSCI EAFE IMI (Net).

O

Opportunistic Custom Index: 50% Barclays U.S. Corporate High Yield Index & 50% Credit Suisse Leveraged Loan Index.

Opportunistic EMD Custom Index: 50% EMBI Global Diversified + 25% GBI-EM GD + 25% CEMBI BD.

P

Private Equity Target: Rolling ten-year return of the Russell 3000 Index plus 500 bps.

Payout Ratio: A measurement of the percent of a firm's earnings that is paid out to Shareholders in dividends. Calculated by dividing most recently reported fiscal year-end dividends per share by most recently reported annual primary earnings per share.

Preferred Stock: Securities or shares representing an ownership interest in a business, but which have "preference" over common shares, in regards to dividends and distribution of assets in the event of liquidation.

Present Value: The discounted value of a series of future cash flows so as to account for the time value of money. Alternatively, the value of a future series of cash flows stated in terms of current dollars.

Price/Book Ratio: Calculated by dividing the current month-end stock price by the book value per share.

Price/Earnings Ratio: A popular measure of relative stock value and investor expectations of future earnings growth. Calculated by dividing the current month-end stock price by the latest 12-months reported earnings per share.

R

Real Estate Target: 7/1/13-Present: Open End Diversified Core Equity (ODCE) Index + 40 basis points. Inception-6/30/13: NCREIF Property Index (NPI) minus 25 basis points.

Recession: A decline in total physical output that lasts six consecutive months or more. A growth recession is marked by a six-month or longer slowdown (but no decline) in the growth rate.

Reflation: A fiscal or monetary policy that is designed to expand a country's output and curb the effects of deflation. Reflation is usually accomplished by increasing the money supply or by reducing taxes.

Return Correlation: The relationship between the returns on investments. A negative return correlation between two investments means that most of the time when investment A has a positive return, investment B will have a negative return.

Return on Equity: A measurement of return on stockholders' investment. Calculated by dividing the most recently reported fiscal year-end Net Income by the most recently reported fiscal year-end Common Equity (Common Stock outstanding + Capital Surplus + Retained Earnings).

Risk-vs.-Return: Risk measures the probability of financial loss. Investors often compare risk, as measured by standard deviation of returns, to historical or expected return when making investment decisions. Typically, investors demand higher returns for investments they consider more risky.

ROI: Return on investment. For limited partnership investments the IRR serves as the measure of return on investment.

Rule 144: An SEC rule permitting the sale of restricted investment letter stock by affiliated persons in small amounts without first registering the stock with the SEC. It is designed to prohibit the creation of public markets in securities of issuers for which adequate current information is not available to the public. (The rule permits the public sale in ordinary trading transactions of limited amounts of securities owned by persons controlling, controlled by, or under common control with the issuer and by persons who have acquired restricted securities of the issuer).

Russell 3000 Index: The Russell 3000 Index measures the performance of the largest 3000 U.S. companies representing approximately 98% of the investable U.S. equity market.

S

Secular Trend: A long-term movement in the price of a security or of interest rates, either upward or downward, which is not related to seasonal or technical factors.

Securitized Custom Index: Barclays Securitized Index + 400 bps.

Stages of Venture Capital Investing: _Seed Capital_: Financing provided to enable an entrepreneur to establish a business plan and undertake market research etc., to the point where they can seek first round financing to establish a business.
First Round and Early Stage: Financing a company that will have a net cash outflow, maybe with only a prototype product. It will still need to establish prices, employ staff and develop the product with often little or no sales.
Middle Stage or 'Market Entry: Financing a growing company whose income may still be below expenses but sales will be generating revenue. Equity finance will normally be required to enlarge the working capital base and to extend marketing activity.
Late Stage or _Development Capital_: Equity capital required for major growth, acquisition, product development, etc.
Mezzanine and Bridge: Financing the equity capital required by rapidly expanding companies who hold off from a public offering until the public marketplace is prime.

Standard Deviation: Statistical measure of the degree to which an individual value in a probability distribution tends to vary from the mean of the distribution. In portfolio theory, the past performance of securities is used to determine the range of possible future performances and a probability is attached to each performance. The standard deviation of performance can then be calculated for each security and for the portfolio as a whole. The greater the degree of dispersion, the greater the risk.

T

Time-Weighted Rate of Return: The "time-weighted" rate of return is the investment performance (return), measured from beginning market value, of a unit of assets held continuously for the entire time period measured. This rate provides a standard for comparing the performance of different funds in which the size and timing of contributions and payouts could vary considerably. Consequently, the time-weighted rate of return is a mathematical measure that eliminates the effects of fund cash flows.

TIPS: Inflation-indexed securities issued by the U.S. Treasury Department (commonly known as Treasury Inflation-Protection Securities). TIPS have been issued in the U.S. since January 1997. These securities adjust both their principal and coupon payments upward with any rise in inflation. Like all Treasuries, they enjoy the full guarantee of the U.S. government.

Total Fund Policy Benchmark: Uses the fund's Board approved target asset allocations.

Total Return: The aggregate increase or decrease in the value of the portfolio resulting from the net appreciation or depreciation of the principal of the fund, plus or minus the net income or loss experienced by the fund during the period.

Tracking Error: Tracking error is the volatility of a manager's excess return. It is measured by subtracting the benchmark return from the manager's return and calculating the standard deviation.

Treasury Bill: A non-interest bearing obligation, fully guaranteed by the U.S. Government, payable to the bearer. Bills are sold on a discount basis so that the income is the difference between the purchase price and the face value.

Treasury Bond: A coupon security of the U.S. Treasury which may be issued with any maturity but generally carries a maturity of more than 10 years.

Treasury Note: A coupon security issued by the U.S. Treasury with a maturity of not less than one year not more than 10 years.

V

Vintage Year: The Vintage Year benchmark approach assumes that there is a definite and unique life cycle to a group of venture capital funds formed in the same year. Venture Economics has maintained that a fund can be compared fairly on an interim basis only to other funds in its vintage year. A fund's vintage year is defined as the year of first investment or capital call. In some cases funds that were formed in the last three months of the year but did not have a capital call until the next year or those funds that made their first investment more than six months after the closing are categorized by the date of their first investment.

W

Warrant: An option to purchase stock in a corporation, typically over a specified period of time and under preset conditions.

Western Opportunistic Custom: 60% BofA Merill Lynch US Floating Rate Home Equity Loan ABS Index & 40% Barclays US Credit 1-3 Credit Index.

Y

Years to Maturity: Market value weighted average time to stated maturity for all securities held in the portfolio.

Yield: The rate of annual income return on an investment expressed as a percentage. Income yield is obtained by dividing the current dollar income by the current market price of the security.

Yield Curve: A graphic depiction of interest rates across all maturities, 0-30 years. The shape of the curve is largely influenced by the Federal Reserve Policy.

Yield to Maturity: The return a bond earns on the price at which it was purchased if it were held to maturity. It assumes that coupon payments can be reinvested at the yield to maturity.

Yield to Worst: The yield resulting from the most adverse set of circumstances from the investor's point of view; the lowest of all possible yields.

SOURCE: www.nasdaq.com & www.pimco.com

Last updated: 1/25/18

Total Plan Analytics Board Report

Prepared for LACERA

31 December 2017

STATE STREET Global Exchange

Total Plan Asset Allocation & Analytics

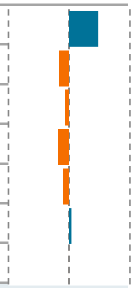
LACERA

31-Dec-2017

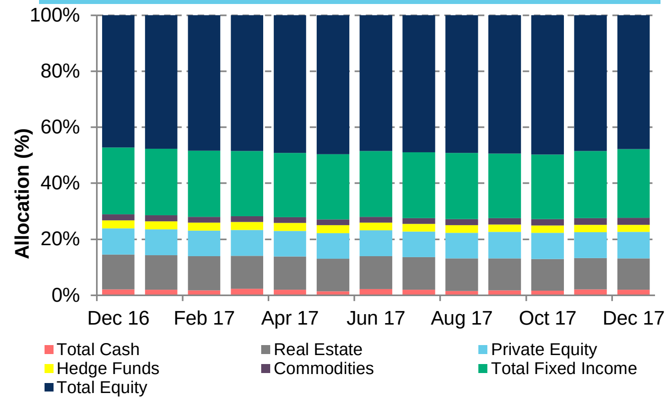
Reporting Currency: USD

Total Plan Allocation vs Policy Benchmark

	Market Value (Millions)	Allocation (%)	Policy Benchmark (%)	Benchmark	Relative (%)
Total Equity	26,611	47.8%	45.4%	Equity Composite	2.4%
Total Fixed Income	13,679	24.6%	25.4%	Barclays US Universal	-0.8%
Commodities	1,401	2.5%	2.8%	Bloomberg Commodity Index	-0.3%
Hedge Funds (Proxy)	1,386	2.5%	3.4%	Hedge Fund Composite	-0.9%
Private Equity (Proxy)	5,271	9.5%	10.0%	Private Equity Composite	-0.5%
Real Estate (Proxy)	6,233	11.2%	11.0%	Real Estate Composite	0.2%
Total Cash	1,097	2.0%	2.0%	Citigroup 6M Treas. Bill	-0.0%
TOTAL	**55,678**	**100.0%**	**100.0%**		**0.0%**

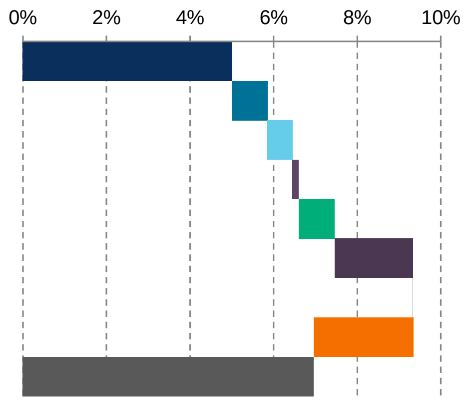


Total Plan Allocation Trend

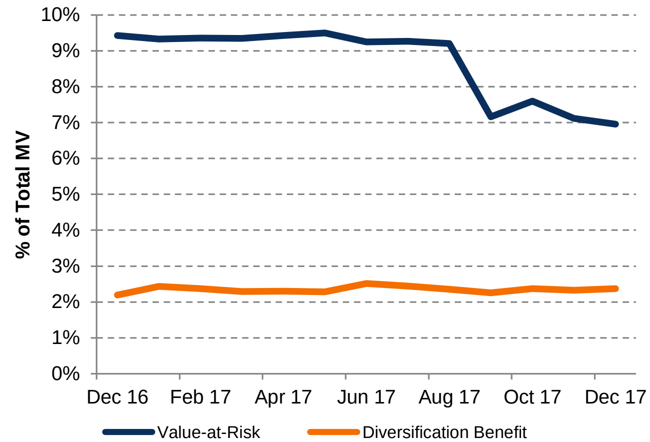


Total Plan Risk & Diversification

	Allocation (%)	Monthly Value-at-Risk[1] (% of Total MV)	Annual Value-at-Risk[1]
Total Equity	47.8%	2.8%	5.0%
Total Fixed Income	24.6%	0.3%	0.8%
Commodities	2.5%	0.2%	0.6%
Hedge Funds (Proxy)	2.5%	0.0%	0.1%
Private Equity (Proxy)	9.5%	0.3%	0.9%
Real Estate (Proxy)	11.2%	0.6%	1.9%
Total Cash	2.0%	0.0%	0.0%
Diversification Benefit[2]	-	-0.7%	-2.4%
TOTAL	**100.0%**	**3.5%**	**7.0%**



Total Plan Risk & Diversification Trend



1: Value-at-Risk is calculated using historic Value-at-Risk at 95th percentile, 1 month horizon (or annualized) and expressed as a percentage of the total plan assets.

2: Diversification benefit is calculated as the sum of the standalone Value-at Risk at 95th percentile for each asset class less the total plan Value-at Risk, 1 month horizon, annualized.

Total Plan Analytics, Volatility & Tracking Error

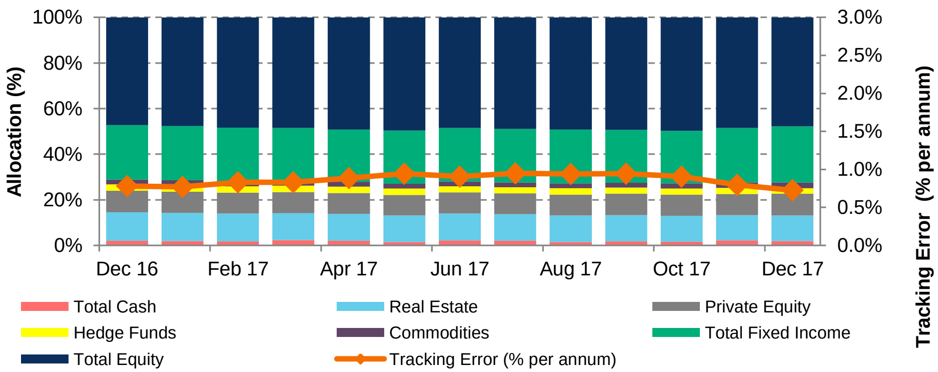
LACERA

31-Dec-2017
Reporting Currency: USD

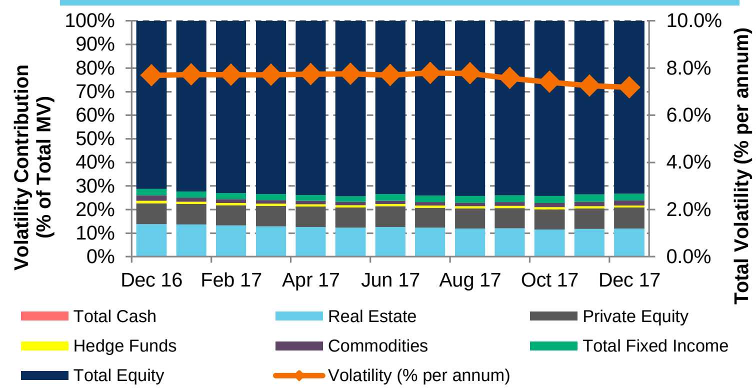
Total Plan Analytics

	Benchmark	Market Value (Millions)	Allocation (%)	Volatility[1] (% per annum)	Value-at-Risk[5] (% of Total MV)	Tracking Error Contribution[2] (% of Total MV)
Total Equity	Equity Composite	26,611	47.8%	11.25%	5.0%	0.55%
Total Fixed Income	Barclays US Universal	13,679	24.6%	2.41%	0.8%	0.21%
Commodities	Bloomberg Commodity Index	1,401	2.5%	13.00%	0.6%	0.00%
Hedge Funds (Proxy)	Hedge Fund Composite	1,386	2.5%	3.25%	0.1%	-0.02%
Private Equity (Proxy)	Private Equity Composite	5,271	9.5%	6.89%	0.9%	-0.02%
Real Estate (Proxy)	Real Estate Composite	6,233	11.2%	11.25%	1.9%	0.00%
Total Cash	Citigroup 6M Treas. Bill	1,097	2.0%	0.08%	0.0%	0.00%
TOTAL		**55,678**	**100.0%**	**7.18%**	**7.0%**	**1.08%**
	Weighted Average Benchmark[4]			*6.40%*	*5.64%*	
Benchmark	**Policy Benchmark**			**6.89%**	**6.5%**	**0.73%**
				Aggregate Benchmark Structural Risk[3]		**-0.35%**

Total Plan Allocation & Tracking Error Trend



Total Plan Volatility & Contribution to Volatility Trend



1: Volatility at the asset class level is calculated using parametric Value-at-Risk at 84th percentile, annualized and expressed as a percentage of the market value of each asset class.
2: Tracking Error is calculated using relative parametric Value-at-Risk at 84th percentile (assets less benchmark), annualized and expressed as a percentage of the total plan assets.
3: Aggregate Benchmark Structural Risk = [Tracking Error of the Total Plan to the policy benchmark] - [Tracking Error of the Total Plan to the weighted average of asset class benchmarks]
4: Weighted average benchmark is the market value weighted average of the asset class benchmarks.
5: Value-at-Risk is calculated using historic Value-at-Risk at 95th percentile, 1 month horizon, annualized, and expressed as a percentage of the total plan assets.

Total Plan Stress Testing

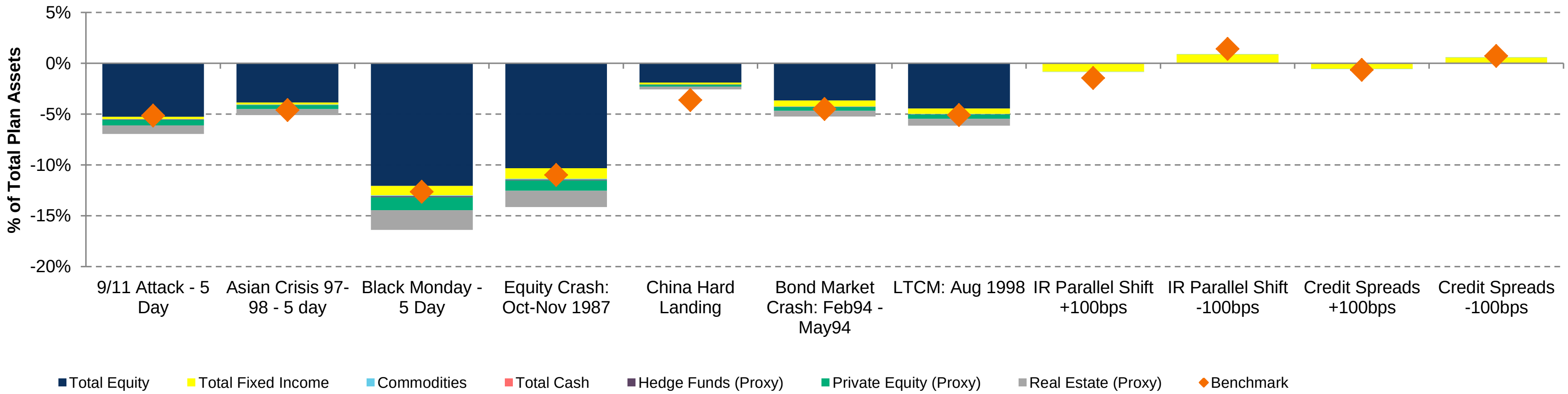
LACERA

31-Dec-2017
Reporting Currency: USD

Stress Test - % of Total Plan Assets

	Allocation (%)	9/11 Attack - 5 Day	Asian Crisis 97-98 - 5 day	Black Monday - 5 Day	Equity Crash: Oct-Nov 1987	China Hard Landing	Bond Market Crash: Feb94 - May94	LTCM: Aug 1998	IR Parallel Shift +100bps	IR Parallel Shift -100bps	Credit Spreads +100bps	Credit Spreads -100bps
Total Equity	47.8%	-5.3%	-3.9%	-12.1%	-10.3%	-1.9%	-3.7%	-4.4%	0.0%	-0.0%	-0.0%	0.0%
Total Fixed Income	24.6%	-0.2%	-0.2%	-0.9%	-1.1%	-0.2%	-0.6%	-0.5%	-0.8%	0.9%	-0.5%	0.6%
Commodities	2.5%	-0.0%	-0.0%	-0.1%	-0.1%	-0.0%	-0.0%	-0.0%	-0.0%	0.0%	-0.0%	0.0%
Hedge Funds (Proxy)	2.5%	-0.0%	-0.0%	-0.1%	-0.1%	-0.0%	-0.0%	-0.0%	0.0%	0.0%	0.0%	0.0%
Private Equity (Proxy)	9.5%	-0.5%	-0.4%	-1.3%	-1.0%	-0.2%	-0.4%	-0.4%	0.0%	0.0%	0.0%	0.0%
Real Estate (Proxy)	11.2%	-0.8%	-0.6%	-1.9%	-1.6%	-0.3%	-0.6%	-0.7%	0.0%	0.0%	0.0%	0.0%
Total Cash	2.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
TOTAL		**-6.9%**	**-5.1%**	**-16.4%**	**-14.1%**	**-2.6%**	**-5.2%**	**-6.1%**	**-0.8%**	**0.9%**	**-0.6%**	**0.6%**
Benchmark		-5.1%	-4.6%	-12.6%	-11.0%	-3.6%	-4.5%	-5.1%	-1.4%	1.4%	-0.6%	0.7%

Stress Test Chart



Public Market (Equities & Fixed Income) Analytics By Top 10 Country & Sector

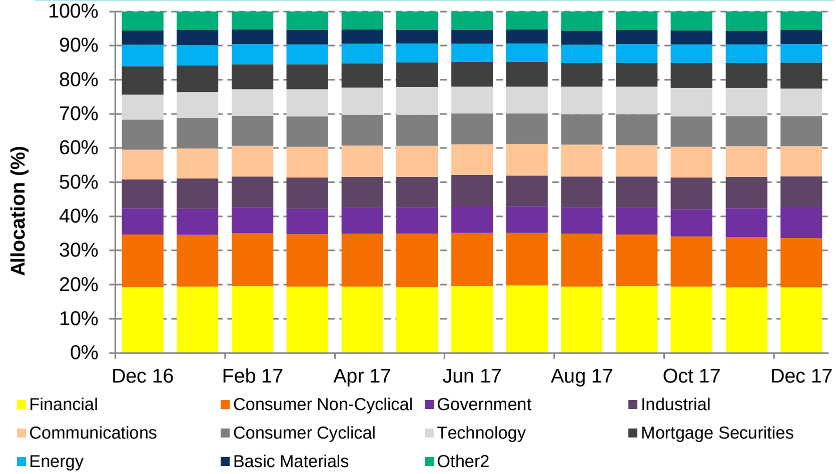
LACERA

31-Dec-2017
Reporting Currency: USD

Top 10 Sector Analysis

	Market Value (Millions)	Allocation (%)	Volatility[1] (% per annum)
Financial	7,524	19.2%	10.58%
Consumer Non-Cyclical	5,662	14.5%	8.47%
Government	3,540	9.0%	4.50%
Industrial	3,534	9.0%	10.94%
Communications	3,448	8.8%	9.72%
Consumer Cyclical	3,437	8.8%	9.45%
Technology	3,145	8.0%	13.48%
Mortgage Securities	2,981	7.6%	1.83%
Energy	2,136	5.5%	15.23%
Basic Materials	1,616	4.1%	17.94%
Other[2]	2,111	5.4%	-
TOTAL	**39,134**	**100.0%**	**7.78%**

Top 10 Sector Market Value Trend



Top 10 Country Analysis - Public Market Equities

	Market Value (Millions)	Allocation (%)	Volatility[1] (% per annum)
United States	12,975	49.9%	11.18%
Japan	2,104	8.1%	11.80%
United Kingdom	1,624	6.2%	13.56%
Canada	951	3.7%	17.09%
Germany	757	2.9%	14.11%
Switzerland	755	2.9%	11.40%
France	749	2.9%	14.47%
China	656	2.5%	22.87%
Australia	535	2.1%	16.45%
Korea	478	1.8%	18.80%
Other[2]	4,424	17.0%	-
TOTAL	**26,008**	**100.0%**	**11.44%**

Top 10 Country Analysis - Public Market Fixed Income

	Market Value (Millions)	Allocation (%)	Volatility[1] (% per annum)
United States	11,588	88.3%	2.35%
United Kingdom	199	1.5%	2.74%
Netherlands	163	1.2%	5.05%
Canada	151	1.2%	3.56%
Mexico	136	1.0%	9.27%
Luxembourg	96	0.7%	3.06%
Japan	77	0.6%	3.74%
France	71	0.5%	2.78%
Cayman Islands	60	0.5%	1.89%
Ireland	48	0.4%	2.55%
Other[2]	536	4.1%	-
TOTAL	**13,126**	**100.0%**	**2.37%**

1: Volatility at the asset class level is calculated using parametric Value-at-Risk at 84th percentile, annualized and expressed as a percentage of the market value of each asset category.

2: Other category contains remaining categories if displaying top 10, excluding securities that cannot be modeled.

Glossary

Appendix - Glossary

LACERA

31-Dec-2017
Reporting Currency: USD

Terms and Definitions

Analytics

Value-at-Risk 95%	Value-at-risk quantifies the potential loss in a portfolio at a certain level of confidence. Value-at-Risk 95th percentile means there is a 5% chance of losing more than X%. Alternatively, it can be expressed as there is a 1 in 20 chance of losing more than X% in the next month (or year if it is an annual measure).
Volatility	Volatility is another measure quantifying the potential variability in a portfolio's asset value. Volatility means there is a 1 in 3 chance the portfolio will change in value by +/- X% in 1 year. Alternatively, it can be expressed that 1 year in 3 years, the portfolio will change in value by +/- X% per annum.
Tracking Error	An ex-ante (forward looking, or before the event) measure of how closely a portfolio follows the index to which it is compared. It measures the standard deviation of the difference between the portfolio and benchmark scenario returns.
Aggregate Benchmark Structural Risk	Aggregate Benchmark Structural Risk = [Tracking Error of the Total Plan to the policy benchmark] - [Tracking Error of the Total Plan to the weighted average of asset class benchmarks]. This can equally be applied to strategy level benchmarks, compared to the aggregate of the underlying managers' benchmarks.
Diversification Benefit	Diversification benefit is calculated as the sum of the standalone Value-at Risk at 95th percentile for each asset class/strategy less the total plan Value-at Risk, 1 month horizon, annualized. This measures the reduction of risk due to the benefits of diversification.
Duration	The sensitivity of a bond's price to changes in the interest rate usually measured in years. The higher the duration, the more sensitive the portfolio is to changes in interest rates.
Expected Yield	This measures the projected annual yield on the portfolio adjusting for option-adjusted probabilities.
Beta	Beta estimates the risk of the portfolio to a single market risk factor, i.e. systematic risk.

Stress Tests

9/11 Attack - 5 Day	Historic stress scenario observed from 9/17/2001 to 9/21/2001 where the US faced an act of terrorism. Trading was suspended on the NYSE and only resumed on 9/17/2001. The US stock market (S&P 500) declined 12%.
Asian Crisis 97-98 - 5 day	Historic stress scenario observed from 10/21/1997 to 10/27/1997 where the Bank of Thailand abandons the Baht's peg to the Dollar and the currency fell 18%. US equity markets fell 7% on the realization that the crisis was no longer localized. Asian currencies were the hardest struck, such as the South Korean Won fell 47.5% and Indonesian Rupiah fell 56%.
Black Monday - 5 Day	Historic stress scenario observed from 10/13/1987 to 10/19/1987 where the US stock market (DJIA) declined 31% with the world market following the decline.
Equity Crash: Oct-Nov 1987	Historic stress scenario observed from 10/5/1987 to 11/02/1987 where the world equity markets feared another Great Depression.
China Hard Landing	This is a macro-economic stress test, developed by State Street Global Exchange's^{SM} research team. The stress test aims to estimate the potential impact, if China's economy and economic growth were to experience a "hard landing".
Bond Market Crash: Feb94 - May94	Historic stress scenario observed from 2/1/1994 to 9/15/1994 where the FED raised rates by approx. 250 basis points (against market expectations). 1994 became the year of the worst bond market loss in history. The Fed hiked interest rates in 1994 also precipitated a year-long correction in the stock market.
LTCM: Aug 1998	Historic stress scenario observed from 08/03/1998 to 08/31/1998 where LTCM's failure triggered a wide spread concern of potential catastrophic losses throughout the financial system.
IR Parallel Shift +100bps	All interest rate curves are shifted up 100bps, and the portfolio is revalued to assess the impact in dollar terms.
IR Parallel Shift -100bps	All interest rate curves are shifted down 100bps, and the portfolio is revalued to assess the impact in dollar terms.
Credit Spreads +100bps	All credit spread curves are shifted up 100bps, and the portfolio is revalued to assess the impact in dollar terms.
Credit Spreads -100bps	All credit spread curves are shifted down 100bps, and the portfolio is revalued to assess the impact in dollar terms.
FX +5%	All exchange rate curves are shifted up 5%, and the portfolio is revalued to assess the impact in dollar terms.
FX -5%	All exchange rate curves are shifted down 5%, and the portfolio is revalued to assess the impact in dollar terms.

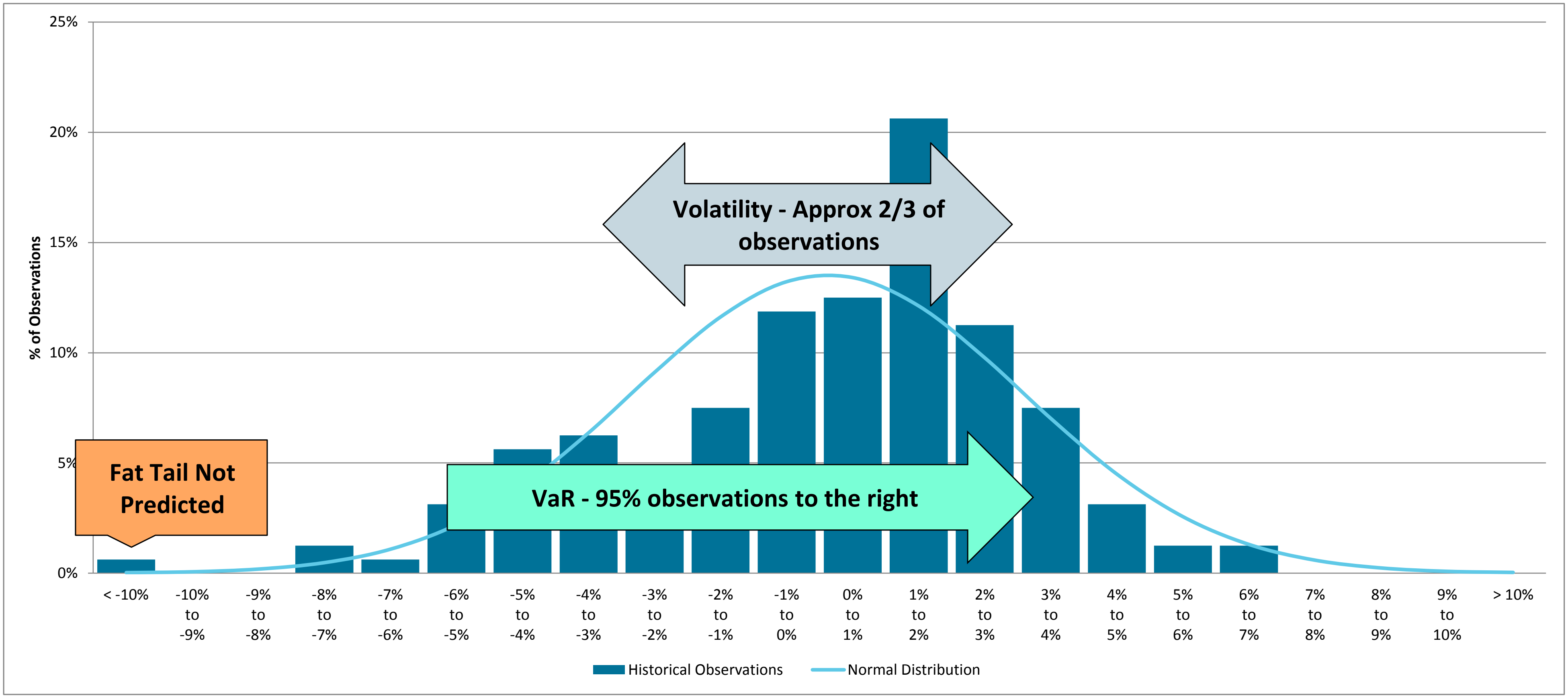
Appendix - Glossary

LACERA

31-Dec-2017
Reporting Currency: USD

VaR and Volatility

Example Illustration of VaR and Volatility
VaR = 5.6%
Volatility = 2.9%
Mean = 0.1%



Detailed Analytics Board Report

Prepared for LACERA

31 December 2017

Total Fixed Income

Fixed Income Analytics, Volatility & Tracking Error by Manager Category

LACERA

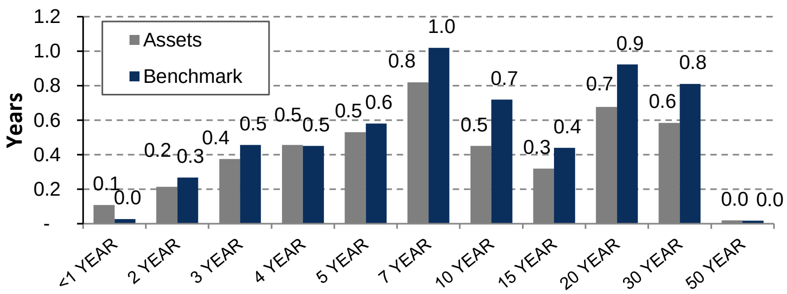
31-Dec-2017

Reporting Currency: USD

Fixed Income Analytics

	Benchmark	Market Value (Millions)	Allocation (%)	Duration (Years)	Expected Yield (% per annum)	Credit Spread (OAS) (%)	Volatility[1] (% per annum)	Value-at-Risk[5] (% of Total MV)	Tracking Error[2] (% per annum)
Core Managers		5,761	42.1%	5.39	2.89%	0.42%	2.84%	5.26%	0.34%
	Barclays US Aggregate			*5.91*	*2.95%*	*0.24%*	*3.15%*	*5.98%*	
Core Plus Managers		4,130	30.2%	5.24	2.84%	1.00%	3.08%	4.38%	1.30%
	Barclays US Aggregate			*5.91*	*2.95%*	*0.24%*	*3.15%*	*5.98%*	
High Yield Managers		524	3.8%	3.58	5.42%	2.69%	3.81%	6.24%	0.96%
	Barclays US High Yield Ba to B			*4.19*	*5.38%*	*2.61%*	*4.22%*	*7.02%*	
Opportunistic Managers		3,264	23.9%	1.83	4.28%	3.33%	2.93%	3.72%	1.53%
	Barclays US High Yield Ba to B			*4.19*	*5.38%*	*2.61%*	*4.22%*	*7.02%*	
TOTAL		**13,679**	**100.0%**	**4.43**	**3.30%**	**1.30%**	**2.41%**	**3.43%**	**0.42%**
	Weighted Average Benchmark[4]			*5.43*	*3.62%*	*0.90%*	*2.69%*	*4.29%*	
Benchmark	**Barclays US Universal**			**5.76**	**3.20%**	**0.57%**	**2.99%**	**5.06%**	**1.12%**
								Aggregate Benchmark Structural Risk[3]	**0.70%**

Fixed Income Contribution to Duration By Period



Fixed Income Correlations

	Core Managers	Core Plus Managers	High Yield Managers	Opportunistic Managers	TOTAL
Core Managers	1.00	0.92	0.17	0.04	0.87
Core Plus Managers	0.92	1.00	0.50	0.39	0.99
High Yield Managers	0.17	0.50	1.00	0.94	0.61
Opportunistic Managers	0.04	0.39	0.94	1.00	0.52
TOTAL	0.87	0.99	0.61	0.52	1.00

1: Volatility at the asset class level is calculated using parametric Value-at-Risk at 84th percentile, annualized and expressed as a percentage of the market value of each fixed income strategy.
2: Tracking Error is calculated using relative parametric Value-at-Risk at 84th percentile (assets less benchmark), annualized and expressed as a percentage of either the market value of each fixed income strategy or total fixed income assets.
3: Aggregate Benchmark Structural Risk = [Tracking Error of Total Fixed Income to the Barclays US Universal] - [Tracking Error of Total Fixed Income to the weighted average of manager category benchmarks]
4: Weighted average benchmark is the market value weighted average of the manager category benchmarks.
5: Value-at-Risk is calculated using historic Value-at-Risk at 95th percentile, 1 month horizon, annualized, and expressed as a percentage of the total fixed income assets.

Total Equity

Total Equity Analytics, Volatility & Tracking Error by Manager Category

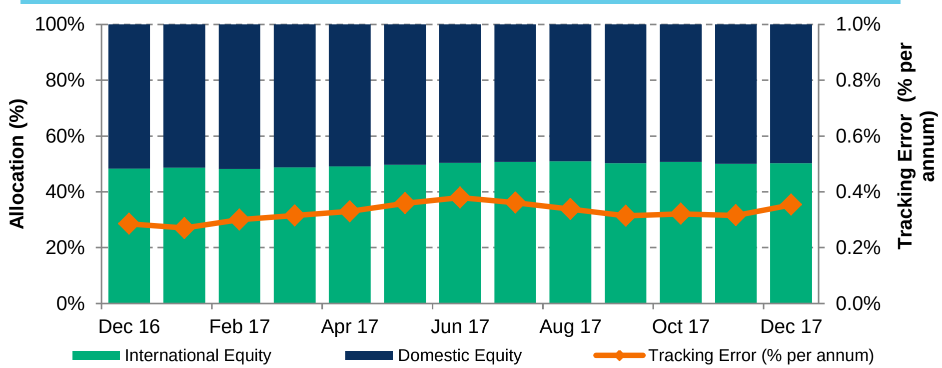
LACERA

31-Dec-2017
Reporting Currency: USD

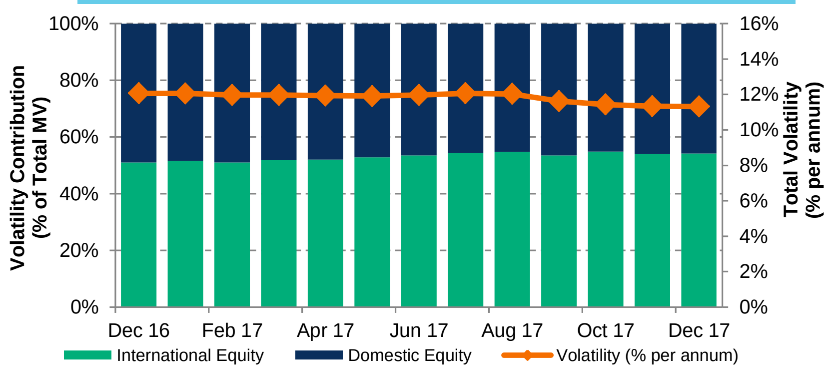
Total Equity Analytics excluding Currency Hedge

	Benchmark	Market Value (Millions)	Allocation (%)	Beta[4] S&P 500	Beta[4] Russell 3000	Beta[4] MSCI ACWIxUS	Volatility[1] (% per annum)	Value-at-Risk[5] (% of Total MV)	Tracking Error[2] (% per annum)
Domestic Equity	Russell 3000	**13,242**	**49.8%**	**1.06**	**1.04**	**0.72**	**11.05%**	**19.29%**	**0.43%**
Moderate/High Risk		1,675	6.3%	1.22	1.24	0.83	14.33%	21.04%	
Passive		10,178	38.2%	1.05	1.02	0.70	10.81%	18.82%	
Total Low Risk		1,389	5.2%	1.00	0.97	0.68	10.44%	18.11%	
International Equity	MSCI ACWI IMI exUS	**13,372**	**50.2%**	**1.01**	**0.97**	**1.03**	**12.71%**	**21.12%**	**0.50%**
Passive		7,962	29.9%	0.99	0.96	1.01	12.56%	20.45%	
Total Active Emerging Markets		1,780	6.7%	1.13	1.07	1.20	16.42%	25.93%	
Total Active Non-U.S.		1,281	4.8%	0.97	0.94	0.97	12.27%	19.18%	
Total Active Regional		2,349	8.8%	0.98	0.95	0.96	12.18%	22.76%	
TOTAL[3]		**26,614**	**100.0%**	**1.04**	**1.00**	**0.87**	**11.32%**	**20.12%**	**0.35%**

Total Equity Allocation & Tracking Error Trend



Total Equity Volatility & Contribution to Volatility Trend



1: Volatility at the asset class level is calculated using parametric Value-at-Risk at 84th percentile, annualized and expressed as a percentage of the market value of each equity strategy.
2: Tracking Error is calculated using relative parametric Value-at-Risk at 84th percentile (assets less benchmark), annualized and expressed as a percentage of either the market value of each equity strategy or total equity assets.
3: Total equity Tracking Error is calculated using the market value weighted average of the Domestic Equity and International Equity benchmarks.
4: Ex-ante beta from truView®
5: Value-at-Risk is calculated using historic Value-at-Risk at 95th percentile, 1 month horizon, annualized, and expressed as a percentage of the total equity assets.

Total Equity Analytics, Volatility & Tracking Error by Manager Category

LACERA

31-Dec-2017
Reporting Currency: USD

Domestic Equity Analytics

	Benchmark	Market Value (Millions)	Allocation (%)	Beta[4] S&P 500	Beta[4] Russell 3000	Beta[4] MSCI ACWIxUS	Volatility[1] (% per annum)	Value-at-Risk[5] (% of Total MV)	Tracking Error[2] (% per annum)
Moderate/High Risk	Weighted Average Manager Benchmarks	1,675	12.6%	1.22	1.24	0.83	14.33%	21.04%	2.30%
Passive	Weighted Average Manager Benchmarks	10,178	76.9%	1.05	1.02	0.70	10.81%	18.82%	0.09%
Total Low Risk	Weighted Average Manager Benchmarks	1,389	10.5%	1.00	0.97	0.68	10.44%	18.11%	1.73%
TOTAL	**Weighted Average Manager Benchmarks**	**13,242**	**100.0%**	**1.06**	**1.04**	**0.72**	**11.05%**	**19.29%**	**0.36%**
Benchmark	**Russell 3000**			**1.07**	**-**	**0.71**	**11.07%**	**19.65%**	**0.43%**
								Aggregate Benchmark Structural Risk [3]	**0.07%**

International Equity Analytics excluding Currency Hedge

	Benchmark	Market Value (Millions)	Allocation (%)	Beta[4] S&P 500	Beta[4] Russell 3000	Beta[4] MSCI ACWIxUS	Volatility[1] (% per annum)	Value-at-Risk[5] (% of Total MV)	Tracking Error[2] (% per annum)
Total Active Emerging Markets	Weighted Average Manager Benchmarks	1,780	13.3%	1.13	1.07	1.20	16.42%	25.93%	2.16%
Total Active Non-U.S.	Weighted Average Manager Benchmarks	1,281	9.6%	0.97	0.94	0.97	12.27%	19.18%	2.75%
Total Active Regional	Weighted Average Manager Benchmarks	2,349	17.6%	0.98	0.95	0.96	12.18%	22.76%	1.85%
Passive	Weighted Average Manager Benchmarks	7,962	59.5%	0.99	0.96	1.01	12.56%	20.45%	0.09%
TOTAL	**Weighted Average Manager Benchmarks**	**13,372**	**100.0%**	**1.01**	**0.97**	**1.03**	**12.71%**	**21.12%**	**0.48%**
Benchmark	**MSCI ACWI ex US IMI**			**1.01**	**0.97**	**-**	**12.78%**	**21.05%**	**0.50%**
								Aggregate Benchmark Structural Risk [3]	**0.02%**

1: Volatility at the asset class level is calculated using parametric Value-at-Risk at 84th percentile, annualized and expressed as a percentage of the market value of each domestic/international equity strategy.
2: Tracking Error is calculated using relative parametric Value-at-Risk at 84th percentile (assets less benchmark), annualized and expressed as a percentage of either the market value of each domestic/international equity strategy or total domestic/international equity assets.
benchmarks]
4: Ex-ante beta from truView®
5: Value-at-Risk is calculated using historic Value-at-Risk at 95th percentile, 1 month horizon, annualized, and expressed as a percentage of the total domestic/international equity assets.

Commodities

Commodity Analytics, Volatility & Tracking Error

LACERA

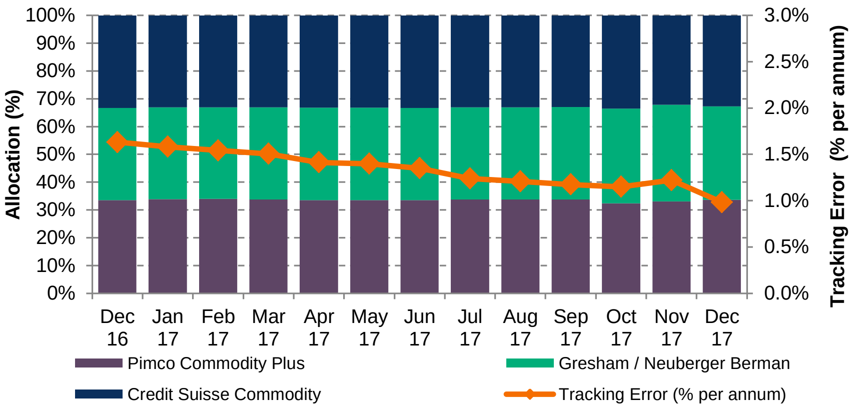
31-Dec-2017

Reporting Currency: USD

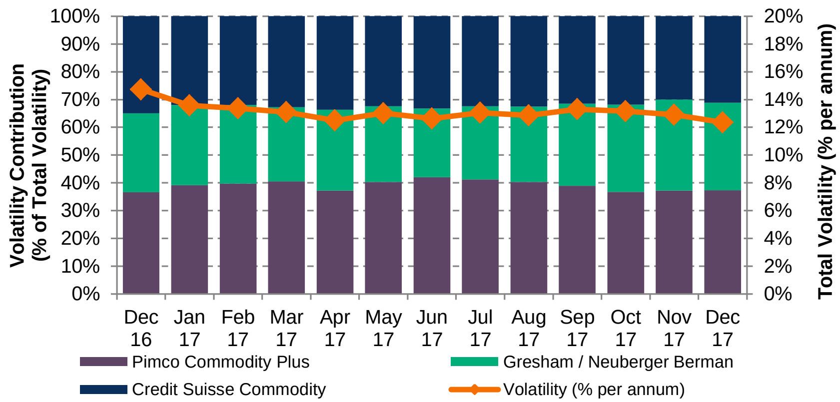
Commodity Analysis

	Market Value (Millions)	Allocation (%)	Net[1]	Beta BCOM	Volatility[2] (% per annum)	Value-at-Risk[3] (% of Total MV)	Tracking Error[4] (% per annum)
Credit Suisse Commodity	459	32.8%	99.4%	0.94	11.80%	21.06%	1.03%
Gresham / Neuberger Berman	471	33.6%	100.1%	1.07	13.71%	22.90%	2.66%
Pimco Commodity Plus	471	33.6%	100.7%	0.96	11.89%	25.03%	2.42%
TOTAL	**1,401**	**100.0%**	**100.1%**	**0.99**	**12.35%**	**22.75%**	**0.98%**
Benchmark			*100.0%*		*12.53%*	*21.68%*	

Commodity Allocation & Tracking Error Trend



Commodity Volatility & Contribution to Volatility Trend



1: Net exposure excludes basis swaps which generally have no net exposure to the underlying commodities

2: Volatility at the asset class level is calculated using parametric Value-at-Risk at 84th percentile, annualized and expressed as a percentage of the market value of each manager or total commodity assets.

3: Value-at-Risk is calculated using historical Value-at-Risk at 95th percentile, 1 month horizonn annualized and expressed as a percentage of the total plan assets

4: Tracking Error is calculated using relative parametric Value-at-Risk at 84th percentile (assets less benchmark), annualized and expressed as a percentage of either the market value of each manager or total commodity assets.

Private Equity, Real Estate & Hedge Funds

Private Equity Analytics & Volatility by Strategy

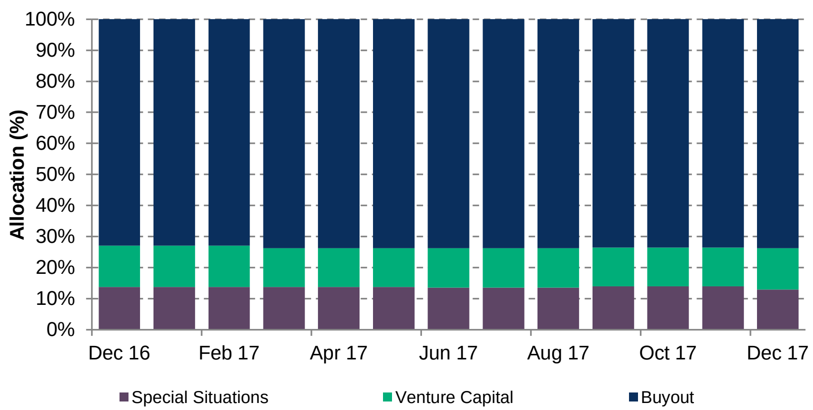
LACERA

31-Dec-2017
Reporting Currency: USD

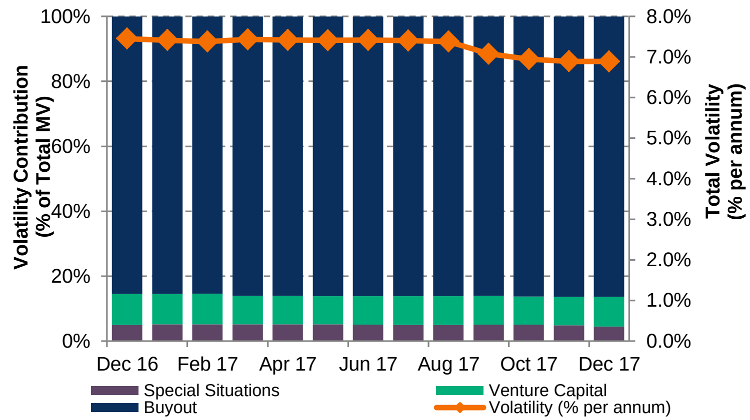
Private Equity Analytics

	Market Value (Millions)	Allocation (%)	Beta[2] S&P 500	Beta[2] Russell 3000	Beta[2] MSCI ACWIxUS	Volatility[1] (% per annum)
Buyout	3,889	73.8%	0.74	0.63	0.72	8.08%
Special Situations	685	13.0%	0.18	0.18	0.19	3.98%
Venture Capital	697	13.2%	0.49	0.33	0.48	5.08%
TOTAL	**5,271**	**100.0%**	**0.64**	**0.53**	**0.62**	**6.89%**

Private Equity Allocation Trend



Private Equity Volatility & Contribution to Volatility Trend



1: Volatility at the asset class level is calculated using parametric Value-at-Risk at 84th percentile, annualized and expressed as a percentage of the market value of each private equity strategy.
2: Ex-ante beta from truView®

Real Estate Analytics & Volatility

LACERA

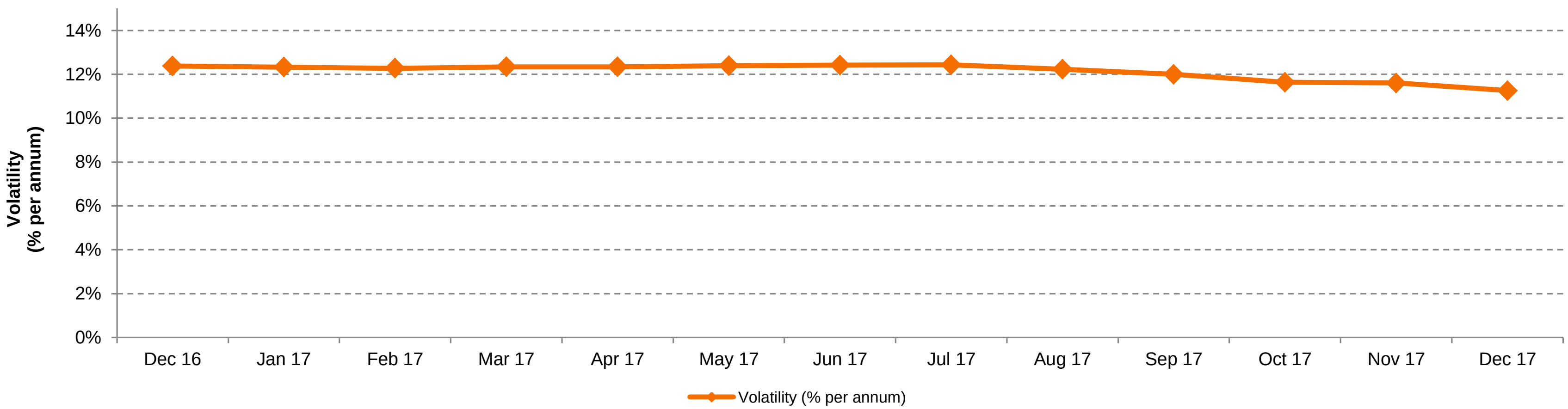
31-Dec-2017

Reporting Currency: USD

Real Estate Analytics

	Market Value (Millions)	Beta[2] S&P 500	Beta[2] Russell 3000	Beta[2] MSCI ACWIxUS	Volatility[1] (% per annum)
TOTAL	6,233	0.61	0.45	0.58	11.25%

Real Estate Volatility Trend



1: Volatility at the asset class level is calculated using parametric Value-at-Risk at 84th percentile, annualized and expressed as a percentage of the market value of the real estate allocation.

2: Ex-ante beta from truView®

Hedge Funds Analytics & Volatility by Strategy

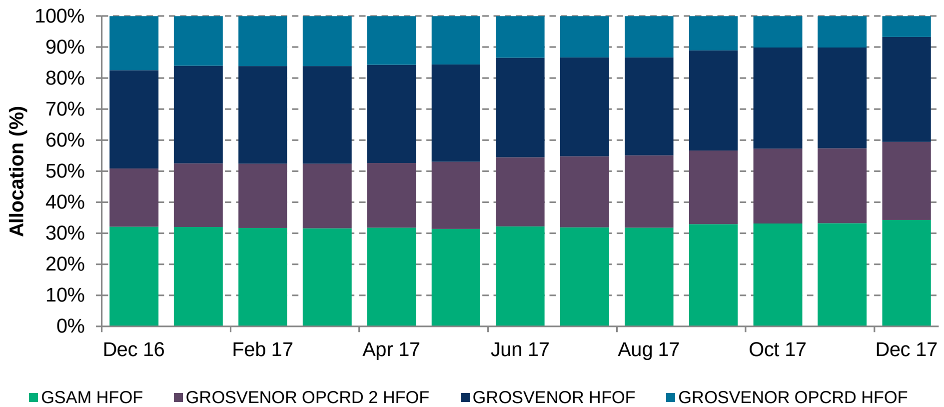
LACERA

31-Dec-2017
Reporting Currency: USD

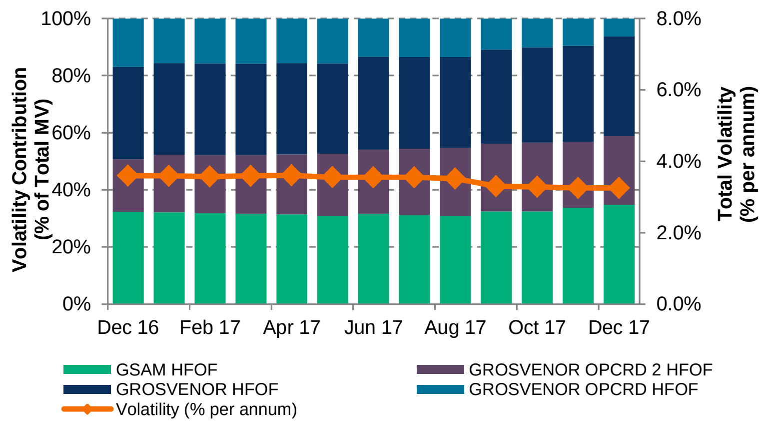
Hedge Funds Analytics

	Market Value (Millions)	Allocation (%)	Beta[2] MSCI ACWI	Beta[2] Barclays US High Yield Ba to B	Beta[2] BCOM	Volatility[1] (% per annum)
GROSVENOR HFOF	469	33.8%	0.26	0.46	0.10	3.37%
GROSVENOR OPCRD 2 HFOF	349	25.2%	0.20	0.49	0.14	3.40%
GROSVENOR OPCRD HFOF	93	6.7%	0.20	0.49	0.13	3.38%
GSAM HFOF	475	34.3%	0.26	0.41	0.07	3.49%
TOTAL	**1,386**	**100.0%**	**0.24**	**0.46**	**0.10**	**3.25%**

Hedge Fund Allocation Trend



Hedge Fund Volatility & Contribution to Volatility Trend



1: Volatility at the asset class level is calculated using parametric Value-at-Risk at 84th percentile, annualized and expressed as a percentage of the market value of each hedge fund.
2: Ex-ante beta from truView®

Glossary

Appendix - Glossary

LACERA

31-Dec-2017
Reporting Currency: USD

Terms and Definitions

Analytics

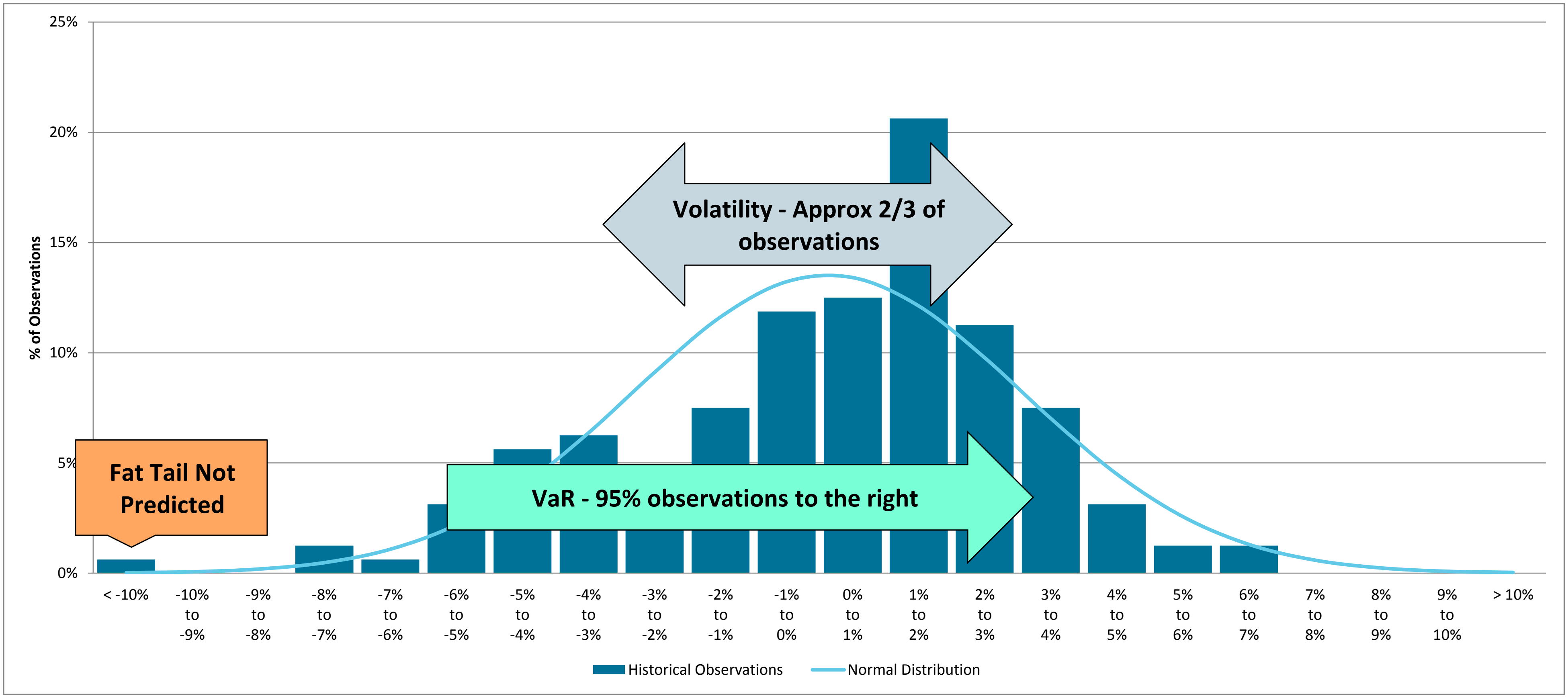
Value-at-Risk 95%	Value-at-risk quantifies the potential loss in a portfolio at a certain level of confidence. Value-at-Risk 95th percentile means there is a 5% chance of losing more than X%. Alternatively, it can be expressed as there is a 1 in 20 chance of losing more than X% in the next month (or year if it is an annual measure).
Volatility	Volatility is another measure quantifying the potential variability in a portfolio's asset value. Volatility means there is a 1 in 3 chance the portfolio will change in value by +/- X% in 1 year. Alternatively, it can be expressed that 1 year in 3 years, the portfolio will change in value by +/- X% per annum.
Tracking Error	An ex-ante (forward looking, or before the event) measure of how closely a portfolio follows the index to which it is compared. It measures the standard deviation of the difference between the portfolio and benchmark scenario returns.
Aggregate Benchmark Structural Risk	Aggregate Benchmark Structural Risk = [Tracking Error of the Total Plan to the policy benchmark] - [Tracking Error of the Total Plan to the weighted average of asset class benchmarks]. This can equally be applied to strategy level benchmarks, compared to the aggregate of the underlying managers' benchmarks.
Diversification Benefit	Diversification benefit is calculated as the sum of the standalone Value-at Risk at 95th percentile for each asset class/strategy less the total plan Value-at Risk, 1 month horizon, annualized. This measures the reduction of risk due to the benefits of diversification.
Duration	The sensitivity of a bond's price to changes in the interest rate usually measured in years. The higher the duration, the more sensitive the portfolio is to changes in interest rates.
Expected Yield	This measures the projected annual yield on the portfolio adjusting for option-adjusted probabilities.
Beta	Beta estimates the risk of the portfolio to a single market risk factor, i.e. systematic risk.

Stress Tests

9/11 Attack - 5 Day	Historic stress scenario observed from 9/17/2001 to 9/21/2001 where the US faced an act of terrorism. Trading was suspended on the NYSE and only resumed on 9/17/2001. The US stock market (S&P 500) declined 12%.
Asian Crisis 97-98 - 5 day	Historic stress scenario observed from 10/21/1997 to 10/27/1997 where the Bank of Thailand abandons the Baht's peg to the Dollar and the currency fell 18%. US equity markets fell 7% on the realization that the crisis was no longer localized. Asian currencies were the hardest struck, such as the South Korean Won fell 47.5% and Indonesian Rupiah fell 56%.
Black Monday - 5 Day	Historic stress scenario observed from 10/13/1987 to 10/19/1987 where the US stock market (DJIA) declined 31% with the world market following the decline.
Equity Crash: Oct-Nov 1987	Historic stress scenario observed from 10/5/1987 to 11/02/1987 where the world equity markets feared another Great Depression.
China Hard Landing	This is a macro-economic stress test, developed by State Street Global Exchange's^{SM} research team. The stress test aims to estimate the potential impact, if China's economy and economic growth were to experience a "hard landing".
Bond Market Crash: Feb94 - May94	Historic stress scenario observed from 2/1/1994 to 9/15/1994 where the FED raised rates by approx. 250 basis points (against market expectations). 1994 became the year of the worst bond market loss in history. The Fed hiked interest rates in 1994 also precipitated a year-long correction in the stock market.
LTCM: Aug 1998	Historic stress scenario observed from 08/03/1998 to 08/31/1998 where LTCM's failure triggered a wide spread concern of potential catastrophic losses throughout the financial system.
IR Parallel Shift +100bps	All interest rate curves are shifted up 100bps, and the portfolio is revalued to assess the impact in dollar terms.
IR Parallel Shift -100bps	All interest rate curves are shifted down 100bps, and the portfolio is revalued to assess the impact in dollar terms.
Credit Spreads +100bps	All credit spread curves are shifted up 100bps, and the portfolio is revalued to assess the impact in dollar terms.
Credit Spreads -100bps	All credit spread curves are shifted down 100bps, and the portfolio is revalued to assess the impact in dollar terms.
FX +5%	All exchange rate curves are shifted up 5%, and the portfolio is revalued to assess the impact in dollar terms.
FX -5%	All exchange rate curves are shifted down 5%, and the portfolio is revalued to assess the impact in dollar terms.

VaR and Volatility

Example Illustration of VaR and Volatility
VaR = 5.6%
Volatility = 2.9%
Mean = 0.1%



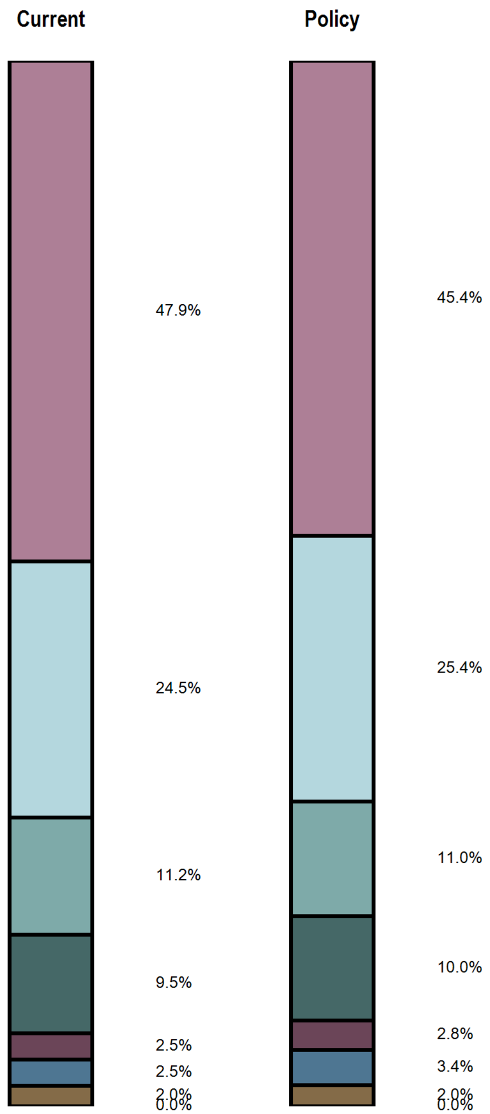
FUND EVALUATION REPORT

Los Angeles County Employees Retirement Association

December 31, 2017

Los Angeles County Employees Retirement Association

As of December 31, 2017



Allocation vs. Target

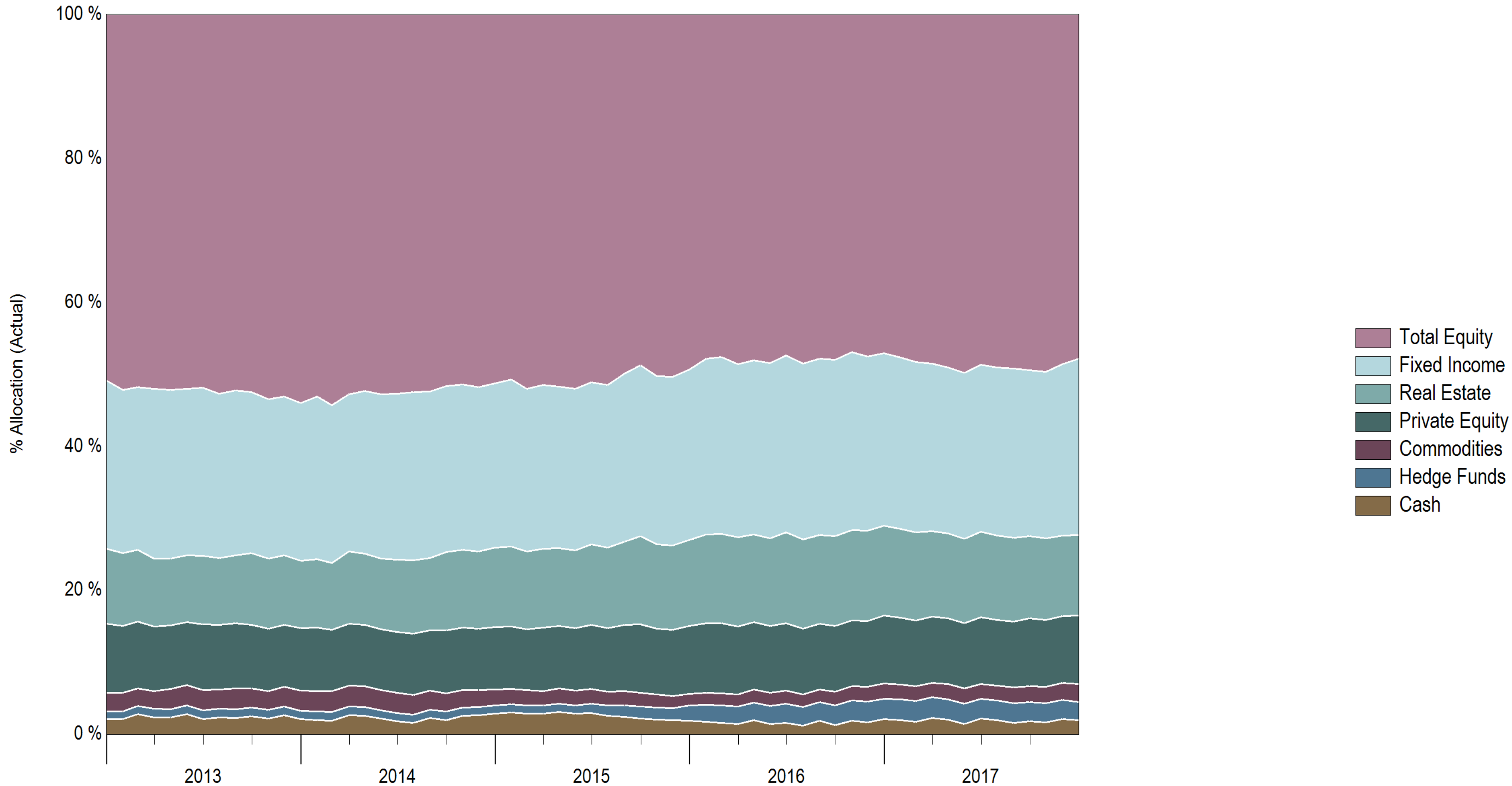
	Current Balance	Current Allocation	Policy	Difference	Policy Range	Within IPS Range?
Total Equity	**$26,609,879,542**	**47.9%**	**45.4%**	**2.5%**	**35.4% - 55.4%**	**Yes**
U.S. Equity	$13,239,212,151	23.8%	23.5%	0.3%	--	-
Non-U.S. Equity	$13,370,667,392	24.0%	21.9%	2.1%	--	-
Fixed Income[1]	**$13,617,302,958**	**24.5%**	**25.4%**	**-0.9%**	**22.4% - 28.4%**	**Yes**
Fixed Income	$13,617,302,958	24.5%	25.4%	-0.9%	22.4% - 28.4%	Yes
Real Estate[2]	**$6,233,446,456**	**11.2%**	**11.0%**	**0.2%**	**8.0% - 16.0%**	**Yes**
Real Estate	$6,233,446,456	11.2%	11.0%	0.2%	8.0% - 16.0%	Yes
Private Equity[2]	**$5,270,716,218**	**9.5%**	**10.0%**	**-0.5%**	**7.0% - 14.0%**	**Yes**
Private Equity	$5,270,716,218	9.5%	10.0%	-0.5%	7.0% - 14.0%	Yes
Commodities	**$1,400,538,498**	**2.5%**	**2.8%**	**-0.3%**	**0.0% - 4.8%**	**Yes**
Commodities	$1,400,538,498	2.5%	2.8%	-0.3%	0.0% - 4.8%	Yes
Hedge Funds[3]	**$1,386,095,161**	**2.5%**	**3.4%**	**-0.9%**	**0.4% - 5.4%**	**Yes**
Hedge Funds	$1,386,095,161	2.5%	3.4%	-0.9%	0.4% - 5.4%	Yes
Cash	**$1,089,482,339**	**2.0%**	**2.0%**	**0.0%**	**0.0% - 4.0%**	**Yes**
Cash	$1,089,482,339	2.0%	2.0%	0.0%	0.0% - 4.0%	Yes
Other Opportunities	**--**	**--**	**0.0%**	**0.0%**	**0.0% - 5.0%**	**Yes**
Total	**$55,607,461,171**	**100.0%**	**100.0%**			

1 The performance and market values of two opportunistic managers are reported with a one-month lag.
2 Portfolio and benchmark are reported with a one-quarter lag. Preliminary returns.
3 Portfolio and benchmark are reported with a one-month lag.

Total Fund

As of December 31, 2017

Asset Allocation History
5 Years Ending December 31, 2017



Sources of Fund Growth

Quarter ending December 31, 2017

Manager Name	Beginning Market Value ($000's)	Net Cash Flow ($000's)	Investment Fees & Expenses[1]($000's)	Net Investment Change ($000's)	Ending Market Value ($000's)	Quarter Return[2] (%)
U.S. Equity	**13,252,015**	**-795,377**	**3,802**	**782,574**	**13,239,212**	**6.0**
BTC Russell 1000	9,677,000	-800,000	242	606,967	9,483,967	6.6
BTC Russell 2000	98,145	-	2	3,328	101,472	3.4
BTC Russell 3000	557,101	-	1	35,358	592,458	6.3
Intech	816,029	-	483	41,691	857,720	5.1
Twin Capital	496,667	-	194	35,039	531,706	7.1
Cramer Rosenthal McGlynn	258,786	-	351	14,853	273,639	5.7
Eagle Asset Management	334,516	-	458	8,611	343,127	2.6
Frontier Capital Management	666,541	-	1,295	25,433	691,974	3.8
Jana Partners	98,255	4,778	352	2,878	105,911	2.8
Westwood Management	249,151	-	392	8,348	257,499	3.4
Non-U.S. Equity	**13,344,686**	**-643,005**	**8,550**	**668,986**	**13,370,667**	**5.1**
BTC Canada IMI	780,852	-	29	33,889	814,741	4.3
BTC EAFE IMI	5,487,851	-700,000	205	222,914	5,010,765	4.5
BTC EAFE Small Cap	197,546	-	19	12,108	209,654	6.1
BTC Emerging Markets	1,298,976	-	459	95,913	1,394,889	7.4
BTC Emerging Markets Small Cap	136,177	-	71	12,340	148,517	9.1
BTC Europe Index	375,392	-	10	8,387	383,779	2.2
Acadian Developed Markets	849,227	-	826	47,918	897,145	5.6
Capital Guardian	367,381	-	324	16,279	383,660	4.4
BTC Euro Tilts	993,728	-	1,023	27,406	1,021,134	2.8
Cevian Capital	292,158	-	1,218	11,716	303,874	4.0
GAM Pacific Basin	829,856	-	898	63,900	893,756	7.7
Symphony Financial Partners	123,409	239	239	6,439	130,087	5.2
Acadian Emerging Markets	397,203	-	473	25,975	423,178	6.5
AQR Emerging Markets	257,156	-	452	12,265	269,421	4.8
Genesis	666,652	-	1,239	49,089	715,740	7.4
Lazard Emerging Markets	348,488	-	684	24,018	372,505	6.9
BTC Passive Currency Hedge	-59,033	59,996	381	-3,215	-2,252	-.0

[1] Represents investment manager fees and expenses as calculated by State Street.
[2] Returns are shown net of fees.

Sources of Fund Growth

Quarter ending December 31, 2017

Manager Name	Beginning Market Value ($000's)	Net Cash Flow ($000's)	Investment Fees & Expenses[1] ($000's)	Net Investment Change ($000's)	Ending Market Value ($000's)	Quarter Return[2] (%)
Fixed Income	**12,414,950**	**1,133,035**	**9,399**	**69,319**	**13,617,303**	**.5**
BTC Aggregate Index	872,014	1,100,000	28	6,151	1,978,165	.4
BTC Intermediate Credit	239,576	-	6	291	239,867	.1
Blackrock	716,681	-	285	2,566	719,247	.4
Dodge & Cox	1,292,283	-	314	5,249	1,297,532	.4
Pugh Capital Management	111,681	25,000	61	665	137,346	.5
Wells Capital Management	1,354,998	-	382	4,971	1,359,969	.4
Dolan McEniry Capital Management	346,480	-	224	846	347,326	.2
LM Capital Group	454,563	-	186	1,711	456,274	.4
Loomis, Sayles & Co.	1,077,562	-	348	8,043	1,085,605	.7
PIMCO	1,051,928	-	505	8,634	1,060,562	.8
Western Asset Management	1,147,341	-	369	5,610	1,152,951	.5
Oaktree Capital Management	422,324	-14,400	364	1,019	408,943	.2
PENN Capital Management	108,406	-	124	382	108,788	.4
Aberdeen Asset Management	205,699	-	208	2,155	207,854	1.0
Ashmore Investment Management	208,039	-	700	2,128	210,167	1.0
Bain Capital	299,077	-	477	2,005	301,081	.7
Beach Point Capital	379,909	210	1,897	2,224	382,344	.6
Brigade Capital Management	484,830	-2	881	1,886	486,714	.4
Crescent Capital Group	270,181	-	392	852	271,033	.3
Doubleline Capital	265,199	-	522	1,250	266,448	.5
Principal Opportunistic	268,844	-	94	372	269,215	.1
TCW	268,165	-	400	2,013	270,179	.8
Tennenbaum Capital	232,845	24,822	571	4,597	262,264	1.9
Western Opportunistic	301,695	-	38	1,847	303,542	.6
Member Home Loan Program Mirror (MHLP)	34,629	-2,596	23	1,854	33,888	5.6

[1] Represents investment manager fees and expenses as calculated by State Street.
[2] Returns are shown net of fees.

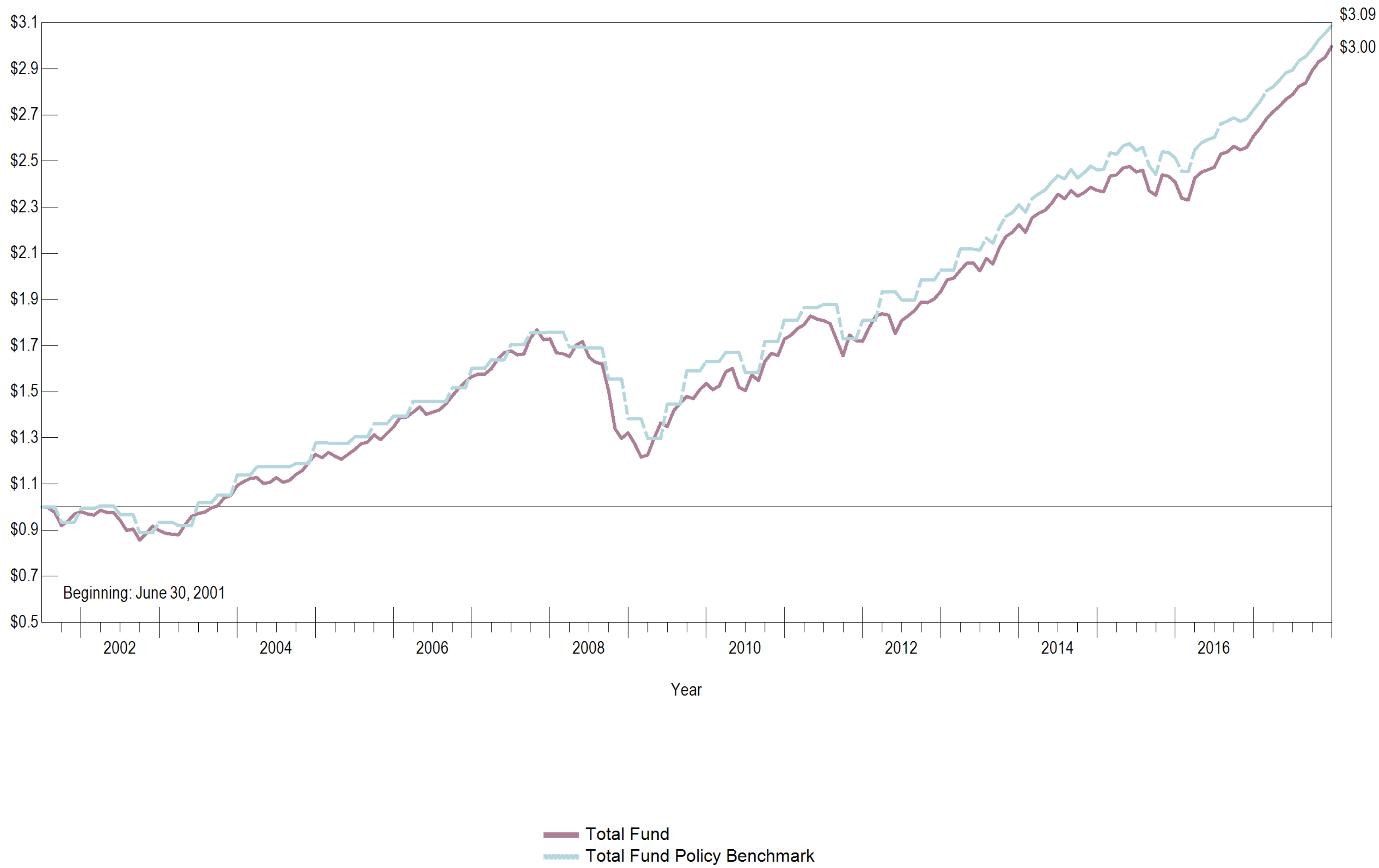
Sources of Fund Growth

Quarter ending December 31, 2017

Manager Name	Beginning Market Value ($000's)	Net Cash Flow ($000's)	Investment Fees & Expenses[1] ($000's)	Net Investment Change ($000's)	Ending Market Value ($000's)	Quarter Return[2] (%)
Real Estate	**6,152,555**	**-36,851**	**9,525**	**117,742**	**6,233,446**	**1.9**
Private Equity	**5,085,733**	**-33,755**	**-**	**218,738**	**5,270,716**	**4.3**
Commodities	**1,180,895**	**150,000**	**1,120**	**69,643**	**1,400,538**	**5.6**
Credit Suisse	388,892	50,000	276	19,522	458,414	4.5
Neuberger Berman/Gresham	394,634	50,000	411	26,838	471,472	6.4
PIMCO Commodities	397,369	50,000	433	23,283	470,652	5.5
Total Hedge Funds	**1,432,939**	**-67,343**	**493**	**20,500**	**1,386,095**	**1.4**
Grovsenor OPCRD 2 HFOF	340,456	-	-	8,973	349,430	2.6
GSAM HFOF	471,891	-43	493	3,001	474,848	.6
Grosvenor HFOF	462,313	-	-	6,628	468,941	1.4
Grosvenor OPCRD HFOF	158,278	-67,300	-	1,898	92,877	1.5
Cash	**968,813**	**117,918**	**772**	**2,752**	**1,089,482**	**.2**
Cash	983,813	102,918	772	2,752	1,089,482	.2
GSAM HFOF Uninvested Mirror	-15,000	15,000	-	-	-	-
Total Fund	**53,832,586**	**-175,379**	**33,660**	**1,950,254**	**55,607,461**	**3.6**

[1] Represents investment manager fees and expenses as calculated by State Street.
[2] Returns are shown net of fees.

GROWTH OF A DOLLAR



Asset Class Performance Summary (Gross)

	Market Value ($)	% of Portfolio	QTD (%)	Fiscal YTD (%)	1 Yr (%)	3 Yrs (%)	5 Yrs (%)	10 Yrs (%)
Total Fund	**55,607,461,171**	**100.0**	**3.7**	**7.6**	**15.2**	**8.3**	**9.4**	**5.9**
Total Fund Policy Benchmark			*3.4*	*6.7*	*13.4*	*7.8*	*8.8*	*5.8*
U.S. Equity	**13,239,212,151**	**23.8**	**6.1**	**10.9**	**21.1**	**11.0**	**15.6**	**8.6**
Russell 3000			*6.3*	*11.2*	*21.1*	*11.1*	*15.6*	*8.6*
Non-U.S. Equity	**13,370,667,392**	**24.0**	**5.2**	**11.3**	**25.6**	**9.7**	**9.4**	**3.3**
Custom MSCI ACWI IMI Net 50% Hedge			*5.2*	*11.0*	*24.6*	*9.0*	*8.8*	*2.8*
Fixed Income[1]	**13,617,302,958**	**24.5**	**0.6**	**2.0**	**5.5**	**4.0**	**3.5**	**5.5**
FI Custom Index			*0.4*	*1.4*	*4.1*	*2.8*	*2.5*	*4.4*
BBgBarc US Universal TR			*0.4*	*1.4*	*4.1*	*2.8*	*2.5*	*4.3*
Real Estate[2]	**6,233,446,456**	**11.2**	**2.1**	**4.2**	**7.9**	**10.7**	**10.4**	**3.7**
Real Estate Target			*1.7*	*3.3*	*7.1*	*10.3*	*10.9*	*6.3*
Private Equity[2]	**5,270,716,218**	**9.5**	**4.3**	**10.4**	**17.6**	**12.0**	**14.8**	**11.1**
Private Equity Target			*3.1*	*6.2*	*12.8*	*13.0*	*13.2*	*10.4*
Commodities	**1,400,538,498**	**2.5**	**5.6**	**9.4**	**4.4**	**-3.1**	**-6.7**	**-5.0**
Bloomberg Commodity Index TR USD			*4.7*	*7.3*	*1.7*	*-5.0*	*-8.5*	*-6.8*
Total Hedge Funds[3]	**1,386,095,161**	**2.5**	**1.5**	**3.0**	**5.9**	**2.6**	**5.3**	**--**
Hedge Fund Custom Index			*1.5*	*3.0*	*5.8*	*5.4*	*5.2*	*--*
Cash	**1,089,482,339**	**2.0**	**0.2**	**0.6**	**1.2**	**0.8**	**0.6**	**0.8**
Citi 6 Month T-Bill			*0.3*	*0.6*	*0.9*	*0.5*	*0.3*	*0.5*

See Glossary for all Custom index definitions. Yearly returns are annualized.

1 The performance and market values of two opportunistic managers are reported with a one-month lag.

2 Portfolio and benchmark are reported with a one-quarter lag. Preliminary returns.

3 Portfolio and benchmark are reported with a one-month lag.

Total Fund

As of December 31, 2017

Trailing Performance

	Market Value ($)	% of Portfolio	QTD (%)	Fiscal YTD (%)	1 Yr (%)	3 Yrs (%)	5 Yrs (%)	10 Yrs (%)
Total Fund (Net)	**55,607,461,171**	**100.0**	**3.6**	**7.5**	**14.9**	**8.1**	**9.1**	**5.7**
Total Fund (Gross)			**3.7**	**7.6**	**15.2**	**8.3**	**9.4**	**5.9**
Total Fund Policy Benchmark			*3.4*	*6.7*	*13.4*	*7.8*	*8.8*	*5.8*
Excess Return (vs. Net)			0.2	0.8	1.5	0.3	0.3	-0.1
U.S. Equity (Net)	**13,239,212,151**	**23.8**	**6.0**	**10.8**	**20.9**	**10.9**	**15.4**	**8.5**
U.S. Equity (Gross)			**6.1**	**10.9**	**21.1**	**11.0**	**15.6**	**8.6**
Russell 3000			*6.3*	*11.2*	*21.1*	*11.1*	*15.6*	*8.6*
Excess Return (vs. Net)			-0.3	-0.4	-0.2	-0.2	-0.2	-0.1
DE Transition Account (Net)								
DE Transition Account (Gross)								
Passive (Net)	**10,177,897,608**	**18.3**						
Passive (Gross)								
BTC Russell 1000 (Net)	9,483,966,830	17.1	6.6	11.4	21.7	11.3	15.7	8.6
BTC Russell 1000 (Gross)			6.6	11.4	21.7	11.3	15.7	8.6
Russell 1000			*6.6*	*11.4*	*21.7*	*11.2*	*15.7*	*8.6*
Excess Return (vs. Net)			0.0	0.0	0.0	0.1	0.0	0.0
BTC Russell 2000 (Net)	101,472,458	0.2	3.4	9.3	14.9	10.2	14.4	9.0
BTC Russell 2000 (Gross)			3.4	9.3	14.9	10.2	14.4	9.0
Russell 2000			*3.3*	*9.2*	*14.6*	*10.0*	*14.1*	*8.7*
Excess Return (vs. Net)			0.1	0.1	0.3	0.2	0.3	0.3
BTC Russell 3000 (Net)	592,458,320	1.1	6.3	--	--	--	--	--
BTC Russell 3000 (Gross)			6.3	--	--	--	--	--
Russell 3000			*6.3*	--	--	--	--	--
Excess Return (vs. Net)			0.0					

See Glossary for all Custom index definitions.

Total Fund

As of December 31, 2017

	Market Value ($)	% of Portfolio	QTD (%)	Fiscal YTD (%)	1 Yr (%)	3 Yrs (%)	5 Yrs (%)	10 Yrs (%)
Low Risk (Net)	**1,389,426,018**	**2.5**						
Low Risk (Gross)								
Intech (Net)	857,719,828	1.5	5.1	11.0	23.5	11.0	15.8	8.6
Intech (Gross)			5.2	11.1	23.8	11.3	16.1	8.9
S&P 500			6.6	11.4	21.8	11.4	15.8	8.5
Excess Return (vs. Net)			-1.5	-0.4	1.7	-0.4	0.0	0.1
Twin Capital (Net)	531,706,190	1.0	7.1	12.0	21.0	11.4	15.9	8.7
Twin Capital (Gross)			7.1	12.1	21.2	11.6	16.1	8.8
S&P 500			6.6	11.4	21.8	11.4	15.8	8.5
Excess Return (vs. Net)			0.5	0.6	-0.8	0.0	0.1	0.2
Moderate / High Risk (Net)	**1,671,888,524**	**3.0**						
Moderate / High Risk (Gross)								
Cramer Rosenthal McGlynn (Net)	273,638,903	0.5	5.7	9.8	15.0	7.8	11.9	--
Cramer Rosenthal McGlynn (Gross)			5.9	10.1	15.6	8.4	12.5	--
Russell 2500			5.2	10.2	16.8	10.1	14.3	--
Excess Return (vs. Net)			0.5	-0.4	-1.8	-2.3	-2.4	
Eagle Asset Management (Net)	343,127,391	0.6	2.6	8.4	15.0	11.8	15.0	9.0
Eagle Asset Management (Gross)			2.7	8.7	15.6	12.4	15.6	9.6
Russell 2500			5.2	10.2	16.8	10.1	14.3	9.2
Excess Return (vs. Net)			-2.6	-1.8	-1.8	1.7	0.7	-0.2
Frontier Capital Management (Net)	691,974,370	1.2	3.8	8.9	18.7	10.2	15.8	9.7
Frontier Capital Management (Gross)			4.0	9.4	19.6	11.0	16.7	10.5
Russell 2500			5.2	10.2	16.8	10.1	14.3	9.2
Excess Return (vs. Net)			-1.4	-1.3	1.9	0.1	1.5	0.5

See Glossary for all Custom index definitions.

	Market Value ($)	% of Portfolio	QTD (%)	Fiscal YTD (%)	1 Yr (%)	3 Yrs (%)	5 Yrs (%)	10 Yrs (%)
Jana Partners (Net)	105,910,749	0.2	2.8	-2.6	19.2	--	--	--
Jana Partners (Gross)			3.1	-0.8	24.3	--	--	--
S&P 500			6.6	11.4	21.8	--	--	--
Excess Return (vs. Net)			-3.8	-14.0	-2.6			
Westwood Management (Net)	257,498,779	0.5	3.4	7.4	10.5	6.2	11.1	--
Westwood Management (Gross)			3.5	7.7	11.2	6.8	11.8	--
Russell 2500			5.2	10.2	16.8	10.1	14.3	--
Excess Return (vs. Net)			-1.8	-2.8	-6.3	-3.9	-3.2	
Non-U.S. Equity (Net)	**13,370,667,392**	**24.0**	**5.1**	**11.2**	**25.3**	**9.5**	**9.2**	**3.1**
Non-U.S. Equity (Gross)			**5.2**	**11.3**	**25.6**	**9.7**	**9.4**	**3.3**
Custom MSCI ACWI IMI Net 50% Hedge			5.2	11.0	24.6	9.0	8.8	2.8
Excess Return (vs. Net)			-0.1	0.2	0.7	0.5	0.4	0.3
Passive (Net)	**7,962,344,176**	**14.3**						
Passive (Gross)								
BTC Canada IMI (Net)[1]	814,740,887	1.5	4.3	12.4	16.4	3.7	3.5	2.0
BTC Canada IMI (Gross)			4.3	12.4	16.5	3.7	3.5	2.0
MSCI Canada IMI Custom Index			4.1	12.0	15.6	3.0	2.7	1.3
Excess Return (vs. Net)			0.2	0.4	0.8	0.7	0.8	0.7
BTC EAFE IMI (Net)[1]	5,010,764,612	9.0	4.5	10.6	26.6	9.1	8.9	2.8
BTC EAFE IMI (Gross)			4.5	10.6	26.7	9.1	8.9	2.8
MSCI EAFE IMI Custom Index			4.5	10.5	26.2	8.6	8.5	2.4
Excess Return (vs. Net)			0.0	0.1	0.4	0.5	0.4	0.4

[1] BTC EAFE & Canada Funds from 11/1999 - 8/2008: and BTC EAFE & Canada IMI Funds from 8/2008 - Present.
See Glossary for all Custom index definitions.

	Market Value ($)	% of Portfolio	QTD (%)	Fiscal YTD (%)	1 Yr (%)	3 Yrs (%)	5 Yrs (%)	10 Yrs (%)
BTC EAFE Small Cap (Net)	209,653,736	0.4	6.1	14.1	33.5	--	--	--
BTC EAFE Small Cap (Gross)			6.1	14.1	33.6	--	--	--
MSCI EAFE Small Cap			6.1	14.0	33.0	--	--	--
Excess Return (vs. Net)			0.0	0.1	0.5			
BTC Emerging Markets (Net)	1,394,888,851	2.5	7.4	15.8	37.1	8.9	4.1	1.4
BTC Emerging Markets (Gross)			7.4	15.9	37.2	9.0	4.3	1.6
MSCI Emerging Markets			7.4	15.9	37.3	9.1	4.3	1.7
Excess Return (vs. Net)			0.0	-0.1	-0.2	-0.2	-0.2	-0.3
BTC Emerging Markets Small Cap (Net)	148,517,053	0.3	9.1	15.1	33.8	8.2	5.2	--
BTC Emerging Markets Small Cap (Gross)			9.1	15.3	34.0	8.4	5.4	--
MSCI Emerging Markets Small Cap			9.2	15.4	33.8	8.4	5.4	--
Excess Return (vs. Net)			-0.1	-0.3	0.0	-0.2	-0.2	
BTC Europe Index (Net)	383,779,036	0.7	2.2	8.9	26.1	7.2	7.9	1.9
BTC Europe Index (Gross)			2.2	8.9	26.1	7.2	7.9	1.9
MSCI Europe			2.2	8.8	25.5	6.7	7.4	1.3
Excess Return (vs. Net)			0.0	0.1	0.6	0.5	0.5	0.6
Non-US Developed (Net)	**1,280,804,592**	**2.3**						
Non-US Developed (Gross)								
Acadian Developed Markets (Net)	897,144,695	1.6	5.6	13.3	34.7	13.4	12.3	3.3
Acadian Developed Markets (Gross)			5.7	13.6	35.2	13.9	12.7	3.7
EAFE Custom Benchmark			4.2	10.1	24.2	7.4	7.5	1.9
Excess Return (vs. Net)			1.4	3.2	10.5	6.0	4.8	1.4
Capital Guardian (Net)	383,659,898	0.7	4.4	11.8	31.8	9.2	8.7	2.8
Capital Guardian (Gross)			4.5	12.0	32.3	9.6	9.1	3.2
EAFE Custom Benchmark			4.2	10.1	24.2	7.4	7.5	1.9
Excess Return (vs. Net)			0.2	1.7	7.6	1.8	1.2	0.9

See Glossary for all Custom index definitions.

	Market Value ($)	% of Portfolio	QTD (%)	Fiscal YTD (%)	1 Yr (%)	3 Yrs (%)	5 Yrs (%)	10 Yrs (%)
Regional Developed (Net)	**2,348,850,862**	**4.2**						
Regional Developed (Gross)								
BTC Euro Tilts (Net)	1,021,134,365	1.8	2.8	9.8	28.1	9.3	9.9	2.9
BTC Euro Tilts (Gross)			2.9	10.0	28.6	9.7	10.4	3.3
MSCI Europe			2.2	8.8	25.5	6.7	7.4	1.3
Excess Return (vs. Net)			0.6	1.0	2.6	2.6	2.5	1.6
Cevian Capital (Net)	303,873,961	0.5	4.0	4.0	15.0	--	--	--
Cevian Capital (Gross)			4.4	4.8	17.0	--	--	--
MSCI Europe			2.2	8.8	25.5	--	--	--
Excess Return (vs. Net)			1.8	-4.8	-10.5			
GAM Pacific Basin (Net)	893,755,736	1.6	7.7	14.0	25.8	9.7	7.5	4.3
GAM Pacific Basin (Gross)			7.8	14.2	26.3	10.2	8.0	4.8
MSCI Pacific			8.0	12.2	24.6	10.2	9.0	3.3
Excess Return (vs. Net)			-0.3	1.8	1.2	-0.5	-1.5	1.0
Symphony Financial Partners (Net)	130,086,800	0.2	5.2	10.8	16.4	--	--	--
Symphony Financial Partners (Gross)			5.4	11.2	17.3	--	--	--
MSCI Japan Small Cap NR USD			8.7	15.5	31.3	--	--	--
Excess Return (vs. Net)			-3.5	-4.7	-14.9			
Emerging Markets (Net)	**1,780,845,200**	**3.2**						
Emerging Markets (Gross)								
Acadian Emerging Markets (Net)	423,178,352	0.8	6.5	14.8	38.2	8.7	5.1	--
Acadian Emerging Markets (Gross)			6.7	15.1	38.8	9.2	5.6	--
MSCI Emerging Markets			7.4	15.9	37.3	9.1	4.3	--
Excess Return (vs. Net)			-0.9	-1.1	0.9	-0.4	0.8	

See Glossary for all Custom index definitions.

	Market Value ($)	% of Portfolio	QTD (%)	Fiscal YTD (%)	1 Yr (%)	3 Yrs (%)	5 Yrs (%)	10 Yrs (%)
AQR Emerging Markets (Net)	269,421,305	0.5	4.8	13.0	35.7	8.6	--	--
AQR Emerging Markets (Gross)			4.9	13.4	36.7	9.4	--	--
MSCI Emerging Markets			*7.4*	*15.9*	*37.3*	*9.1*	--	--
Excess Return (vs. Net)			-2.6	-2.9	-1.6	-0.5		
Genesis (Net)	715,740,434	1.3	7.4	15.4	34.2	8.3	4.8	4.5
Genesis (Gross)			7.6	15.8	35.1	9.1	5.6	5.3
MSCI EM IMI Custom Index			*7.7*	*15.8*	*36.8*	*9.0*	*4.5*	*1.9*
Excess Return (vs. Net)			-0.3	-0.4	-2.6	-0.7	0.3	2.6
Lazard Emerging Markets (Net)	372,505,109	0.7	6.9	15.2	37.3	8.0	--	--
Lazard Emerging Markets (Gross)			7.1	15.6	38.4	8.8	--	--
MSCI Emerging Markets			*7.4*	*15.9*	*37.3*	*9.1*	--	--
Excess Return (vs. Net)			-0.5	-0.7	0.0	-1.1		
Passive Hedge (Net)	**-2,251,911**	**0.0**						
Passive Hedge (Gross)								
BTC Passive Currency Hedge (Net)	-2,251,911	0.0	0.0	-0.9	-3.3	0.6	1.7	--
BTC Passive Currency Hedge (Gross)			0.0	-0.9	-3.3	0.6	1.7	--
50% FX Hedge Index			*-0.1*	*-1.0*	*-3.3*	*0.6*	*1.7*	--
Excess Return (vs. Net)			0.1	0.1	0.0	0.0	0.0	
Fixed Income (Net)[1]	**13,617,302,958**	**24.5**	**0.5**	**1.8**	**5.2**	**3.7**	**3.2**	**5.3**
Fixed Income (Gross)			**0.6**	**2.0**	**5.5**	**4.0**	**3.5**	**5.5**
FI Custom Index			*0.4*	*1.4*	*4.1*	*2.8*	*2.5*	*4.4*
Excess Return (vs. Net)			0.1	0.4	1.1	0.9	0.7	0.9
BBgBarc US Universal TR			*0.4*	*1.4*	*4.1*	*2.8*	*2.5*	*4.3*

[1] Does not include cash. The performance and market values of two opportunistic managers are reported with a one-month lag.
See Glossary for all Custom index definitions.

	Market Value ($)	% of Portfolio	QTD (%)	Fiscal YTD (%)	1 Yr (%)	3 Yrs (%)	5 Yrs (%)	10 Yrs (%)
Core (Net)	**5,732,125,802**	**10.3**						
Core (Gross)								
BTC Aggregate Index (Net)	1,978,164,574	3.6	0.4	1.3	3.7	2.3	2.2	4.1
BTC Aggregate Index (Gross)			0.4	1.3	3.7	2.3	2.2	4.1
BBgBarc US Aggregate TR			0.4	1.2	3.5	2.2	2.1	4.0
Excess Return (vs. Net)			0.0	0.1	0.2	0.1	0.1	0.1
BTC Intermediate Credit (Net)	239,867,015	0.4	0.1	1.1	3.7	2.8	2.5	--
BTC Intermediate Credit (Gross)			0.1	1.1	3.7	2.8	2.5	--
BBgBarc US Credit Int TR			0.1	1.1	3.7	2.7	2.4	--
Excess Return (vs. Net)			0.0	0.0	0.0	0.1	0.1	
Blackrock (Net)	719,247,348	1.3	0.4	1.2	3.7	2.5	2.3	4.2
Blackrock (Gross)			0.4	1.3	3.9	2.7	2.5	4.4
BBgBarc US Aggregate TR			0.4	1.2	3.5	2.2	2.1	4.0
Excess Return (vs. Net)			0.0	0.0	0.2	0.3	0.2	0.2
Dodge & Cox (Net)	1,297,531,948	2.3	0.4	1.7	4.4	3.4	3.4	5.5
Dodge & Cox (Gross)			0.4	1.7	4.5	3.5	3.5	5.6
BBgBarc US Aggregate TR			0.4	1.2	3.5	2.2	2.1	4.0
Excess Return (vs. Net)			0.0	0.5	0.9	1.2	1.3	1.5
Pugh Capital Management (Net)	137,345,625	0.2	0.5	1.4	3.8	2.3	2.2	4.5
Pugh Capital Management (Gross)			0.6	1.5	4.0	2.5	2.4	4.8
BBgBarc US Aggregate TR			0.4	1.2	3.5	2.2	2.1	4.0
Excess Return (vs. Net)			0.1	0.2	0.3	0.1	0.1	0.5

See Glossary for all Custom index definitions.

	Market Value ($)	% of Portfolio	QTD (%)	Fiscal YTD (%)	1 Yr (%)	3 Yrs (%)	5 Yrs (%)	10 Yrs (%)
Wells Capital Management (Net)	1,359,969,292	2.4	0.4	1.3	3.8	2.6	2.5	5.2
Wells Capital Management (Gross)			0.4	1.4	3.9	2.7	2.6	5.3
BBgBarc US Aggregate TR			0.4	1.2	3.5	2.2	2.1	4.0
Excess Return (vs. Net)			0.0	0.1	0.3	0.4	0.4	1.2
Core Plus (Net)	**4,102,718,315**	**7.4**						
Core Plus (Gross)								
Dolan McEniry Capital Management (Net)	347,326,295	0.6	0.2	1.5	5.2	4.2	4.1	6.3
Dolan McEniry Capital Management (Gross)			0.3	1.6	5.5	4.4	4.3	6.6
Dolan Custom Index			0.1	1.2	3.7	2.8	2.6	4.7
Excess Return (vs. Net)			0.1	0.3	1.5	1.4	1.5	1.6
LM Capital Group (Net)	456,274,328	0.8	0.4	1.6	4.6	2.8	2.2	4.6
LM Capital Group (Gross)			0.4	1.7	4.7	3.0	2.4	4.7
LM Custom Index			0.3	1.3	4.0	2.7	2.2	4.3
Excess Return (vs. Net)			0.1	0.3	0.6	0.1	0.0	0.3
Loomis, Sayles & Co. (Net)	1,085,604,987	2.0	0.7	2.1	5.5	3.0	3.1	5.1
Loomis, Sayles & Co. (Gross)			0.8	2.2	5.6	3.1	3.2	5.3
BBgBarc US Aggregate TR			0.4	1.2	3.5	2.2	2.1	4.0
Excess Return (vs. Net)			0.3	0.9	2.0	0.8	1.0	1.1
PIMCO (Net)	1,060,561,730	1.9	0.8	2.1	6.3	3.5	2.6	5.0
PIMCO (Gross)			0.9	2.2	6.6	3.8	2.8	5.2
BBgBarc US Aggregate TR			0.4	1.2	3.5	2.2	2.1	4.0
Excess Return (vs. Net)			0.4	0.9	2.8	1.3	0.5	1.0

See Glossary for all Custom index definitions.

	Market Value ($)	% of Portfolio	QTD (%)	Fiscal YTD (%)	1 Yr (%)	3 Yrs (%)	5 Yrs (%)	10 Yrs (%)
Western Asset Management (Net)	1,152,950,975	2.1	0.5	1.6	5.9	4.0	3.5	5.7
Western Asset Management (Gross)			0.5	1.6	6.0	4.1	3.6	5.8
BBgBarc US Aggregate TR			0.4	1.2	3.5	2.2	2.1	4.0
Excess Return (vs. Net)			0.1	0.4	2.4	1.8	1.4	1.7
High Yield (Net)	**517,730,251**	**0.9**						
High Yield (Gross)								
Oaktree Capital Management (Net)	408,942,604	0.7	0.2	1.9	5.7	5.1	4.7	6.9
Oaktree Capital Management (Gross)			0.3	2.1	6.1	5.6	5.2	7.4
BBgBarc High Yield BB/B			0.4	2.3	6.9	5.9	5.4	7.4
Excess Return (vs. Net)			-0.2	-0.4	-1.2	-0.8	-0.7	-0.5
PENN Capital Management (Net)	108,787,647	0.2	0.4	2.1	6.5	5.2	4.4	6.4
PENN Capital Management (Gross)			0.5	2.3	7.0	5.7	4.9	6.9
BBgBarc High Yield BB/B			0.4	2.3	6.9	5.9	5.4	7.4
Excess Return (vs. Net)			0.0	-0.2	-0.4	-0.7	-1.0	-1.0
Opportunistic (Net)	**3,230,841,012**	**5.8**						
Opportunistic (Gross)								
Aberdeen Asset Management (Net)	207,854,022	0.4	1.0	4.8	--	--	--	--
Aberdeen Asset Management (Gross)			1.1	5.0	--	--	--	--
Opportunistic EMD Custom			1.0	3.7	--	--	--	--
Excess Return (vs. Net)			0.0	1.1				
Ashmore Investment Management (Net)	210,167,242	0.4	1.0	5.2	--	--	--	--
Ashmore Investment Management (Gross)			1.4	5.5	--	--	--	--
Opportunistic EMD Custom			1.0	3.7	--	--	--	--
Excess Return (vs. Net)			0.0	1.5				

See Glossary for all Custom index definitions.

	Market Value ($)	% of Portfolio	QTD (%)	Fiscal YTD (%)	1 Yr (%)	3 Yrs (%)	5 Yrs (%)	10 Yrs (%)
Bain Capital (Net)	301,081,397	0.5	0.7	1.8	6.0	5.0	--	--
Bain Capital (Gross)			0.8	2.5	7.1	5.9	--	--
Opportunistic Custom Index			0.8	2.3	5.9	5.4	--	--
Excess Return (vs. Net)			-0.1	-0.5	0.1	-0.4		
Beach Point Capital (Net)[1]	382,343,628	0.7	0.6	2.5	7.3	8.0	--	--
Beach Point Capital (Gross)			1.1	3.5	9.3	10.0	--	--
Opportunistic Custom Index			0.8	2.3	5.9	5.4	--	--
Excess Return (vs. Net)			-0.2	0.2	1.4	2.6		
Brigade Capital Management (Net)	486,713,932	0.9	0.4	1.4	6.5	5.8	5.3	--
Brigade Capital Management (Gross)			0.6	1.8	7.3	6.7	6.2	--
Brigade Custom Index			0.8	2.3	5.6	5.2	4.9	--
Excess Return (vs. Net)			-0.4	-0.9	0.9	0.6	0.4	
Crescent Capital Group (Net)	271,033,071	0.5	0.3	2.1	6.0	4.9	--	--
Crescent Capital Group (Gross)			0.5	2.4	6.6	5.5	--	--
Opportunistic Custom Index			0.8	2.3	5.9	5.4	--	--
Excess Return (vs. Net)			-0.5	-0.2	0.1	-0.5		
Doubleline Capital (Net)	266,448,151	0.5	0.5	2.0	5.2	--	--	--
Doubleline Capital (Gross)			0.7	2.4	6.0	--	--	--
Securitized Custom Index			1.1	3.1	6.6	--	--	--
Excess Return (vs. Net)			-0.6	-1.1	-1.4			
Principal Opportunistic (Net)	269,215,026	0.5	0.1	1.9	6.1	3.9	3.9	--
Principal Opportunistic (Gross)			0.2	1.9	6.3	4.0	4.1	--
BBgBarc U.S. Universal Spread 1-10 Year			0.2	1.5	4.6	3.8	3.2	--
Excess Return (vs. Net)			-0.1	0.4	1.5	0.1	0.7	

See Glossary for all Custom index definitions.

[1] Represents the combined assets of three portfolios, two of which are reported with a one-month lag.

Total Fund

As of December 31, 2017

	Market Value ($)	% of Portfolio	QTD (%)	Fiscal YTD (%)	1 Yr (%)	3 Yrs (%)	5 Yrs (%)	10 Yrs (%)
TCW (Net)	270,178,623	0.5	0.8	1.9	5.4	--	--	--
TCW (Gross)			0.9	2.2	6.0	--	--	--
Securitized Custom Index			1.1	3.1	6.6	--	--	--
Excess Return (vs. Net)			-0.3	-1.2	-1.2			
Tennenbaum Capital (Net)[1]	262,263,799	0.5	1.9	2.9	8.2	7.2	--	--
Tennenbaum Capital (Gross)			2.1	3.4	9.2	8.2	--	--
Credit Suisse Leveraged Loan (1 month lagged)			1.2	1.8	5.0	4.0	--	--
Excess Return (vs. Net)			0.7	1.1	3.2	3.2		
Western Opportunistic (Net)	303,542,121	0.5	0.6	1.9	5.3	3.7	3.8	--
Western Opportunistic (Gross)			0.6	1.9	5.4	3.8	3.8	--
Western Opportunistic Custom Index			2.3	3.6	6.3	3.2	3.1	--
Excess Return (vs. Net)			-1.7	-1.7	-1.0	0.5	0.7	
Mortgage Program (Net)	**33,887,578**	**0.1**						
Mortgage Program (Gross)								
Member Home Loan Program Mirror (MHLP) (Net)	33,887,578	0.1	5.6	8.8	9.7	4.5	3.9	4.9
Member Home Loan Program Mirror (MHLP) (Gross)			5.6	9.0	10.1	4.8	4.1	5.1
Real Estate (Net)[2]	**6,233,446,456**	**11.2**	**1.9**	**3.8**	**7.2**	**9.9**	**9.4**	**3.0**
Real Estate (Gross)			**2.1**	**4.2**	**7.9**	**10.7**	**10.4**	**3.7**
Real Estate Target			1.7	3.3	7.1	10.3	10.9	6.3
Excess Return (vs. Net)			0.2	0.5	0.1	-0.4	-1.5	-3.3
Private Equity (Net)[2]	**5,270,716,218**	**9.5**	**4.3**	**10.4**	**17.6**	**12.0**	**14.8**	**11.1**
Private Equity (Gross)			**4.3**	**10.4**	**17.6**	**12.0**	**14.8**	**11.1**
Private Equity Target			3.1	6.2	12.8	13.0	13.2	10.4
Excess Return (vs. Net)			1.2	4.2	4.8	-1.0	1.6	0.7

See Glossary for all Custom index definitions. Yearly returns are annualized.

1 Portfolio and benchmark are reported with a one-month lag.

2 Portfolio and benchmark are reported with a one-quarter lag. Preliminary returns.

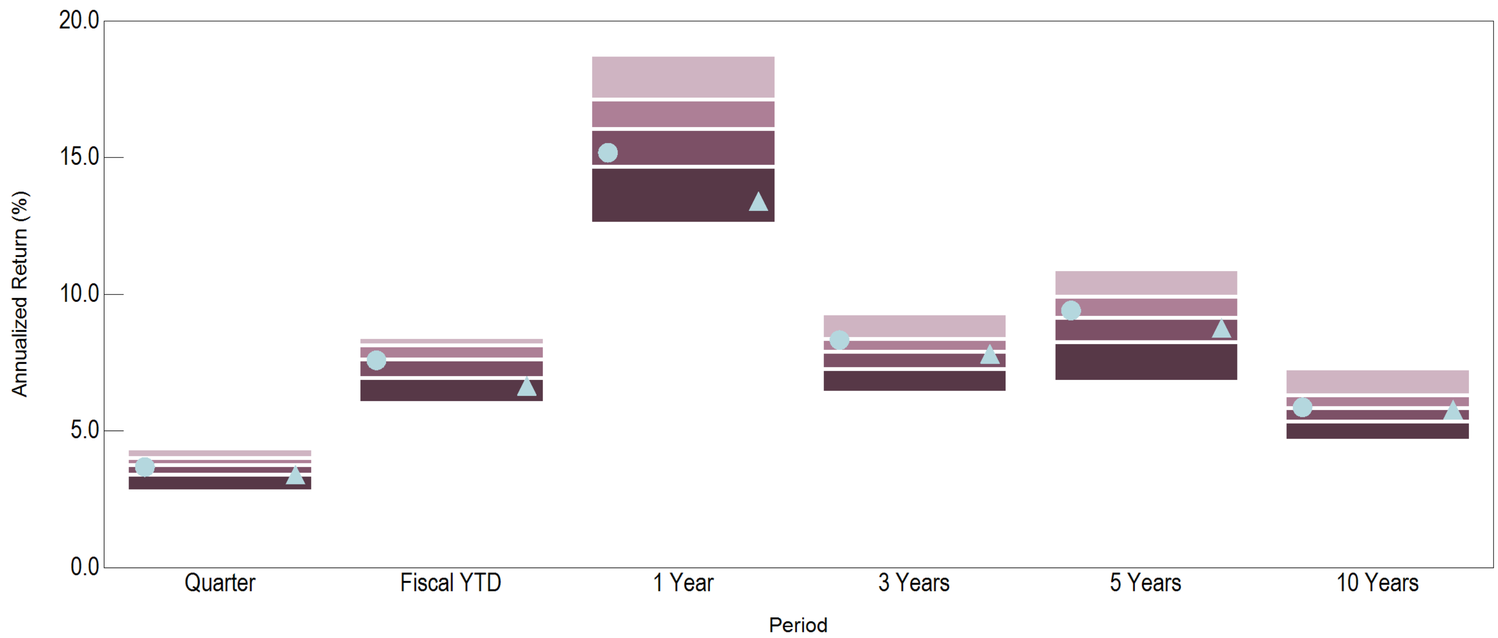
Total Fund

As of December 31, 2017

	Market Value ($)	% of Portfolio	QTD (%)	Fiscal YTD (%)	1 Yr (%)	3 Yrs (%)	5 Yrs (%)	10 Yrs (%)
Commodities (Net)	**1,400,538,498**	**2.5**	**5.6**	**9.2**	**4.1**	**-3.4**	**-7.1**	**-5.4**
Commodities (Gross)			**5.6**	**9.4**	**4.4**	**-3.1**	**-6.7**	**-5.0**
Bloomberg Commodity Index TR USD			*4.7*	*7.3*	*1.7*	*-5.0*	*-8.5*	*-6.8*
Excess Return (vs. Net)			0.9	1.9	2.4	1.6	1.4	1.4
Credit Suisse (Net)	458,414,418	0.8	4.5	7.1	1.8	-4.3	-7.9	--
Credit Suisse (Gross)			4.6	7.2	2.1	-4.0	-7.7	--
Bloomberg Commodity Index TR USD			*4.7*	*7.3*	*1.7*	*-5.0*	*-8.5*	--
Excess Return (vs. Net)			-0.2	-0.2	0.1	0.7	0.6	
Neuberger Berman/Gresham (Net)	471,471,659	0.8	6.4	10.9	5.6	-3.9	-7.2	-5.1
Neuberger Berman/Gresham (Gross)			6.5	11.1	6.0	-3.5	-6.9	-4.8
Bloomberg Commodity Index TR USD			*4.7*	*7.3*	*1.7*	*-5.0*	*-8.5*	*-6.8*
Excess Return (vs. Net)			1.7	3.6	3.9	1.1	1.3	1.7
PIMCO Commodities (Net)	470,652,421	0.8	5.5	9.5	4.7	-2.3	-6.5	-5.3
PIMCO Commodities (Gross)			5.6	9.7	5.1	-1.9	-6.0	-4.8
Bloomberg Commodity Index TR USD			*4.7*	*7.3*	*1.7*	*-5.0*	*-8.5*	*-6.8*
Excess Return (vs. Net)			0.8	2.2	3.0	2.7	2.0	1.5
Total Hedge Funds (Net)[1]	**1,386,095,161**	**2.5**	**1.4**	**2.9**	**5.8**	**2.5**	**5.2**	**--**
Total Hedge Funds (Gross)			**1.5**	**3.0**	**5.9**	**2.6**	**5.3**	**--**
Hedge Fund Custom Index			*1.5*	*3.0*	*5.8*	*5.4*	*5.2*	--
Excess Return (vs. Net)			-0.1	-0.1	0.0	-2.9	0.0	
Cash (Net)	**1,089,482,339**	**2.0**	**0.2**	**0.5**	**1.1**	**0.8**	**0.6**	**0.8**
Cash (Gross)			**0.2**	**0.6**	**1.2**	**0.8**	**0.6**	**0.8**
Citi 6 Month T-Bill			*0.3*	*0.6*	*0.9*	*0.5*	*0.3*	*0.5*
Excess Return (vs. Net)			-0.1	-0.1	0.2	0.3	0.3	0.3

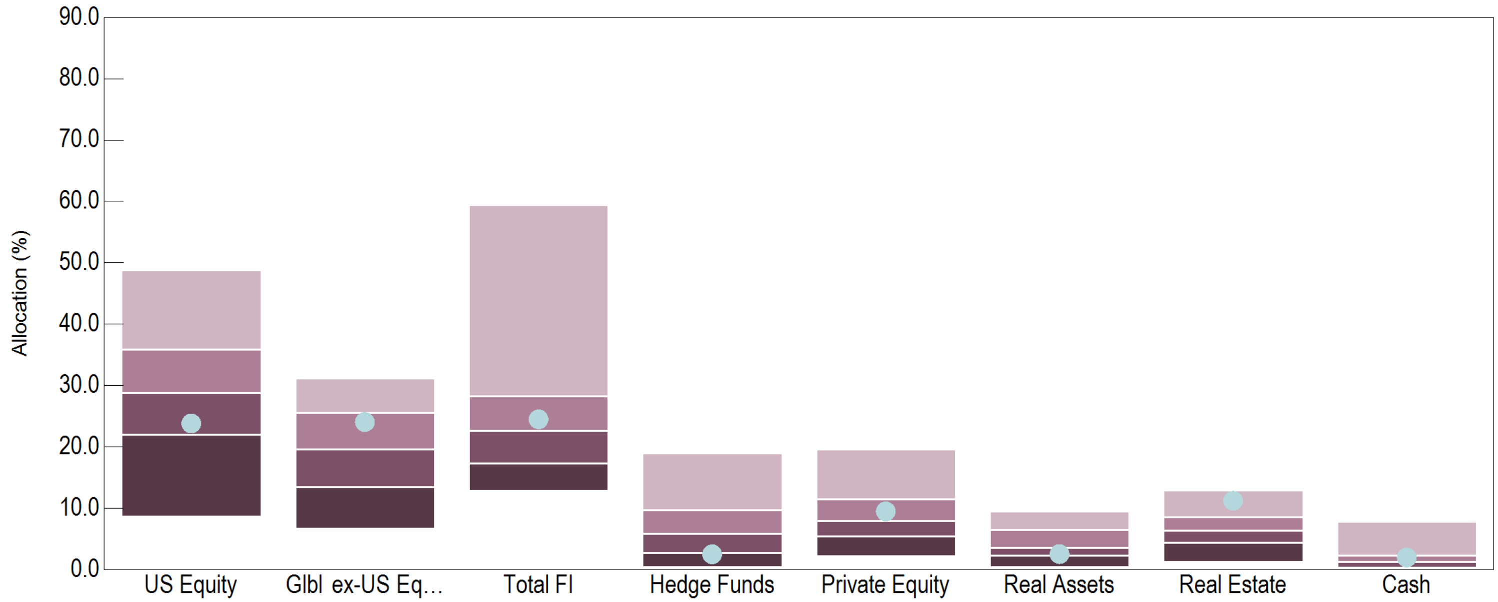
See Glossary for all Custom index definitions.
[1] Portfolio and benchmark are reported with a one-month lag.

InvestorForce Public DB > $1B Gross Return Comparison



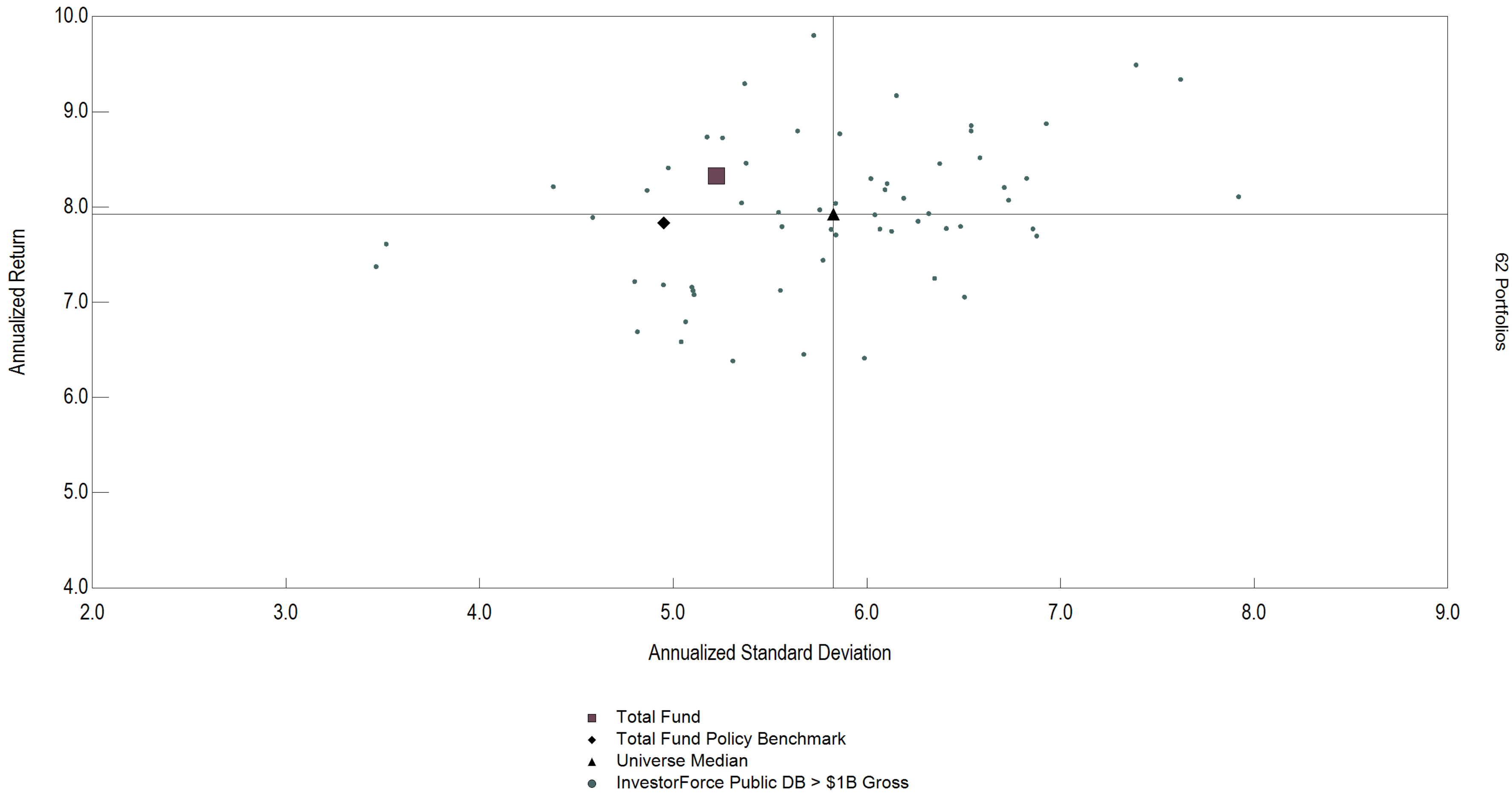
	Return (Rank)											
5th Percentile	4.3		8.4		18.8		9.3		10.9		7.3	
25th Percentile	4.0		8.1		17.1		8.4		9.9		6.3	
Median	3.8		7.6		16.1		7.9		9.2		5.8	
75th Percentile	3.4		6.9		14.7		7.3		8.3		5.4	
95th Percentile	2.8		6.0		12.6		6.4		6.8		4.6	
# of Portfolios	79		78		78		62		60		49	
● **Total Fund**	3.7	(58)	7.6	(52)	15.2	(67)	8.3	(26)	9.4	(41)	5.9	(49)
▲ **Total Fund Policy Benchmark**	3.4	(76)	6.7	(84)	13.4	(91)	7.8	(55)	8.8	(63)	5.8	(51)

Total Plan Allocation (Actual) vs. InvestorForce Public DB > $1B Gross
As of December 31, 2017

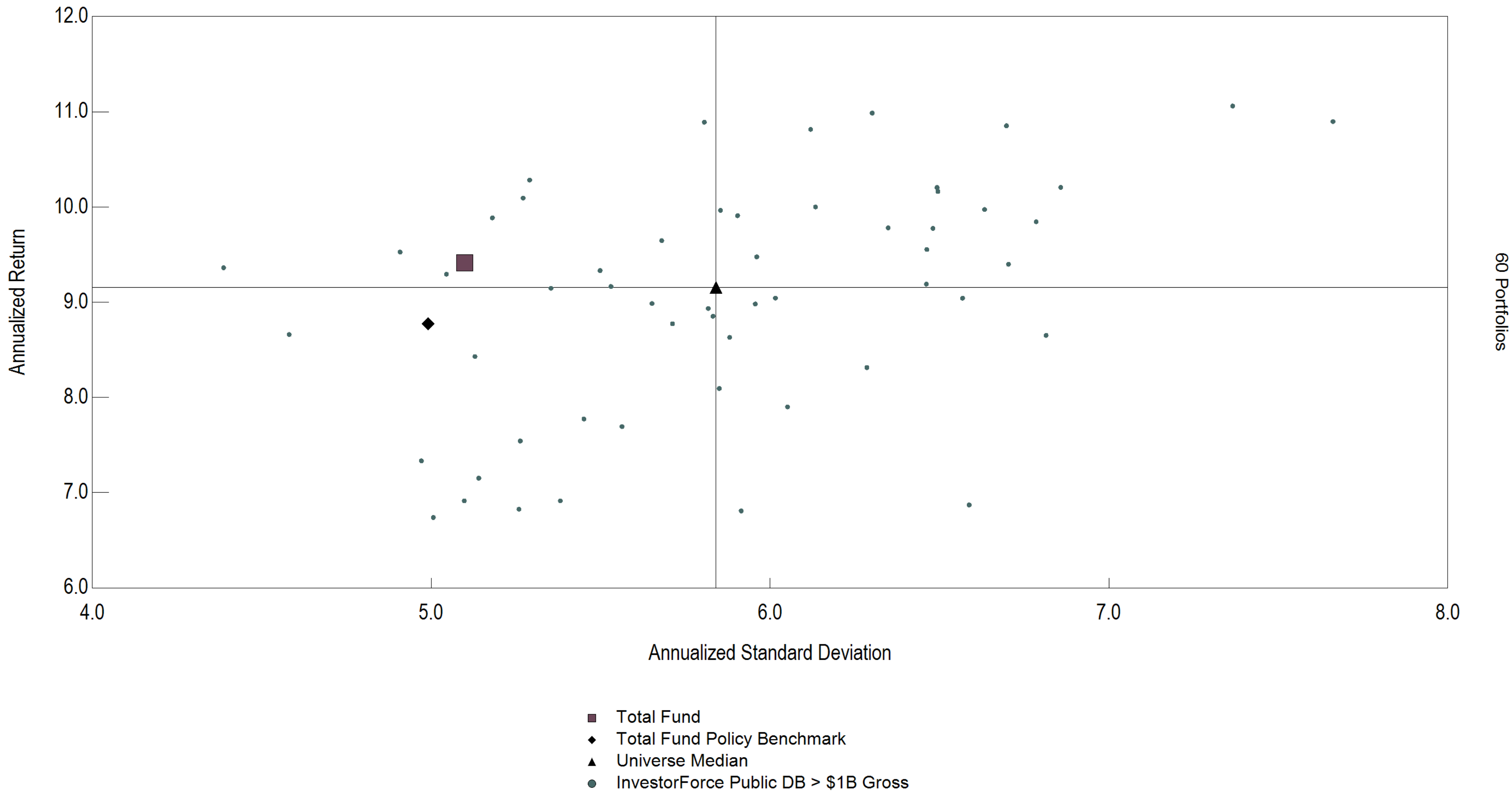


	Allocation (Rank)															
5th Percentile	48.8		31.1		59.4		19.0		19.5		9.5		12.9		7.8	
25th Percentile	36.0		25.6		28.3		9.8		11.5		6.5		8.7		2.4	
Median	28.9		19.7		22.7		5.9		8.0		3.7		6.4		1.3	
75th Percentile	22.1		13.6		17.4		2.8		5.6		2.4		4.5		0.4	
95th Percentile	8.8		6.8		12.9		0.5		2.2		0.5		1.3		0.0	
# of Portfolios	65		69		76		25		30		18		64		71	
Total Fund	23.8	(69)	24.0	(32)	24.5	(38)	2.5	(78)	9.5	(32)	2.5	(70)	11.2	(10)	2.0	(34)

Annualized Return vs. Annualized Standard Deviation
3 Years Ending December 31, 2017



Annualized Return vs. Annualized Standard Deviation
5 Years Ending December 31, 2017



Benchmark History

As of December 31, 2017

Total Fund		
10/1/2017	Present	23.5% Russell 3000 / 21.9% Custom MSCI ACWI IMI Net 50% Hedge / 25.4% BBgBarc US Universal TR / 10% Private Equity Target / 11% NCREIF ODCE +40 bps / 3.4% Hedge Fund Custom Index / 2.8% Bloomberg Commodity Index TR USD / 2% Citi 6 Month T-Bill
7/1/2017	9/30/2017	23.7% Russell 3000 / 21.7% Custom MSCI ACWI IMI Net 50% Hedge / 25.4% BBgBarc US Universal TR / 10% Private Equity Target / 11% NCREIF ODCE +40 bps / 3.4% Hedge Fund Custom Index / 2.8% Bloomberg Commodity Index TR USD / 2% Citi 6 Month T-Bill
4/1/2017	6/30/2017	24.1% Russell 3000 / 21.3% Custom MSCI ACWI IMI Net 50% Hedge / 25.4% BBgBarc US Universal TR / 10% Private Equity Target / 11% NCREIF ODCE +40 bps / 3.4% Hedge Fund Custom Index / 2.8% Bloomberg Commodity Index TR USD / 2% Citi 6 Month T-Bill
1/1/2017	3/31/2017	24.4% Russell 3000 / 21.0% Custom MSCI ACWI IMI Net 50% Hedge / 25.4% BBgBarc US Universal TR / 10% Private Equity Target / 11% NCREIF ODCE +40 bps / 3.4% Hedge Fund Custom Index / 2.8% Bloomberg Commodity Index TR USD / 2% Citi 6 Month T-Bill
10/1/2016	12/31/2016	23.8% Russell 3000 / 21.6% Custom MSCI ACWI IMI Net 50% Hedge / 25.4% BBgBarc US Universal TR / 10% Private Equity Target / 11% NCREIF ODCE +40 bps / 3.4% Hedge Fund Custom Index / 2.8% Bloomberg Commodity Index TR USD / 2% Citi 6 Month T-Bill
7/1/2016	9/30/2016	24.5% Russell 3000 / 21.4% Custom MSCI ACWI IMI Net 50% Hedge / 25.1% BBgBarc US Universal TR / 10% Private Equity Target / 11% NCREIF ODCE +40 bps / 3.2% Hedge Fund Custom Index / 2.8% Bloomberg Commodity Index TR USD / 2% Citi 6 Month T-Bill
10/1/2015	6/30/2016	3% Bloomberg Commodity Index TR USD / 25.5% Russell 3000 / 10% NCREIF ODCE +40 bps / 2% Citi 6 Month T-Bill / 22.5% BBgBarc US Universal TR / 11% Private Equity Target / 23% Custom MSCI ACWI IMI Net 50% Hedge / 3% 3-month U.S. T-Bill Index + 5% (1M-lag)
4/1/2015	9/30/2015	3% Bloomberg Commodity Index TR USD / 25% Russell 3000 / 10% NCREIF ODCE +40 bps / 2% Citi 6 Month T-Bill / 22.5% BBgBarc US Universal TR / 11% Private Equity Target / 23.5% Custom MSCI ACWI IMI Net 50% Hedge / 3% 3-month U.S. T-Bill Index + 5% (1M-lag)
1/1/2015	3/31/2015	3% Bloomberg Commodity Index TR USD / 25.5% Russell 3000 / 10% NCREIF ODCE +40 bps / 2% Citi 6 Month T-Bill / 22.5% BBgBarc US Universal TR / 11% Private Equity Target / 23% Custom MSCI ACWI IMI Net 50% Hedge / 3% 3-month U.S. T-Bill Index + 5% (1M-lag)
10/1/2014	12/31/2014	3% Bloomberg Commodity Index TR USD / 25% Russell 3000 / 10% NCREIF ODCE +40 bps / 2% Citi 6 Month T-Bill / 23% BBgBarc US Universal TR / 11% Private Equity Target / 24% Custom MSCI ACWI IMI Net 50% Hedge / 2% 3-month U.S. T-Bill Index + 5% (1M-lag)
1/1/2014	9/30/2014	3% Bloomberg Commodity Index TR USD / 24% Russell 3000 / 10% NCREIF ODCE +40 bps / 2% Citi 6 Month T-Bill / 23% BBgBarc US Universal TR / 11% Private Equity Target / 25% Custom MSCI ACWI IMI Net 50% Hedge / 2% 3-month U.S. T-Bill Index + 5% (1M-lag)
10/1/2013	12/31/2013	3% Bloomberg Commodity Index TR USD / 24% Russell 3000 / 10% NCREIF ODCE +40 bps / 2% Citi 6 Month T-Bill / 24% BBgBarc US Universal TR / 10% Private Equity Target / 26% Custom MSCI ACWI IMI Net 50% Hedge / 1% 3-month U.S. T-Bill Index + 5% (1M-lag)

4/1/2013	9/30/2013	3% Bloomberg Commodity Index TR USD / 24% Russell 3000 / 10% NCREIF Property Index - 25 bps / 2% Citi 6 Month T-Bill / 24% BBgBarc US Universal TR / 10% Private Equity Target / 26% Custom MSCI ACWI IMI Net 50% Hedge / 1% 3-month U.S. T-Bill Index + 5% (1M-lag)
1/1/2013	3/31/2013	3% Bloomberg Commodity Index TR USD / 23% Russell 3000 / 10% NCREIF Property Index - 25 bps / 2% Citi 6 Month T-Bill / 24% BBgBarc US Universal TR / 10% Private Equity Target / 27% Custom MSCI ACWI IMI Net 50% Hedge / 1% 3-month U.S. T-Bill Index + 5% (1M-lag)
10/1/2012	12/31/2012	3% Bloomberg Commodity Index TR USD / 24% Russell 3000 / 10% NCREIF Property Index - 25 bps / 2% Citi 6 Month T-Bill / 24% BBgBarc US Universal TR / 10% Private Equity Target / 26% Custom MSCI ACWI IMI Net 50% Hedge / 1% 3-month U.S. T-Bill Index + 5% (1M-lag)
1/1/2012	9/30/2012	3% Bloomberg Commodity Index TR USD / 24% Russell 3000 / 10% NCREIF Property Index - 25 bps / 2% Citi 6 Month T-Bill / 26% BBgBarc US Universal TR / 7% Private Equity Target / 27% Custom MSCI ACWI IMI Net 50% Hedge / 1% 3-month U.S. T-Bill Index + 5% (1M-lag)
10/1/2011	12/31/2011	3% Bloomberg Commodity Index TR USD / 23% Russell 3000 / 10% NCREIF Property Index - 25 bps / 2% Citi 6 Month T-Bill / 26% BBgBarc US Universal TR / 7% Private Equity Target / 28% Custom MSCI ACWI IMI Net 50% Hedge / 1% 3-month U.S. T-Bill Index + 5% (1M-lag)
4/1/2011	9/30/2011	3% Bloomberg Commodity Index TR USD / 23% Russell 3000 / 10% NCREIF Property Index - 25 bps / 2% Citi 6 Month T-Bill / 26% BBgBarc US Universal TR / 7% Private Equity Target / 29% Custom MSCI ACWI IMI Net 50% Hedge
1/1/2011	3/31/2011	3% Bloomberg Commodity Index TR USD / 22% Russell 3000 / 10% NCREIF Property Index - 25 bps / 2% Citi 6 Month T-Bill / 26% BBgBarc US Universal TR / 7% Private Equity Target / 30% Custom MSCI ACWI IMI Net 50% Hedge
10/1/2010	12/31/2010	3% Bloomberg Commodity Index TR USD / 23% Russell 3000 / 10% NCREIF Property Index - 25 bps / 2% Citi 6 Month T-Bill / 26% BBgBarc US Universal TR / 7% Private Equity Target / 29% Custom MSCI ACWI IMI Net 50% Hedge
7/1/2010	9/30/2010	3% Bloomberg Commodity Index TR USD / 26% Russell 3000 / 10% NCREIF Property Index - 25 bps / 2% Citi 6 Month T-Bill / 26% BBgBarc US Universal TR / 7% Private Equity Target / 26% Custom MSCI ACWI IMI Net 50% Hedge
4/1/2010	6/30/2010	3% Bloomberg Commodity Index TR USD / 26% Russell 3000 / 10% NCREIF Property Index - 25 bps / 2% Citi 6 Month T-Bill / 26% BBgBarc US Universal TR / 7% Private Equity Target / 26% MSCI ACWI ex USA IMI
1/1/2010	3/31/2010	3% Bloomberg Commodity Index TR USD / 29% Russell 3000 / 10% NCREIF Property Index - 25 bps / 2% Citi 6 Month T-Bill / 26% BBgBarc US Universal TR / 7% Private Equity Target / 23% MSCI ACWI ex USA IMI
4/1/2009	12/31/2009	2% Bloomberg Commodity Index TR USD / 30% Russell 3000 / 10% NCREIF Property Index - 25 bps / 2% Citi 6 Month T-Bill / 28% BBgBarc US Universal TR / 7% Private Equity Target / 21% MSCI ACWI ex USA IMI
10/1/2008	3/31/2009	2% Bloomberg Commodity Index TR USD / 30% Russell 3000 / 10% NCREIF Property Index - 25 bps / 2% Citi 6 Month T-Bill / 1.96% BBgBarc US High Yield BA/B TR / 26.04% BBgBarc US Aggregate TR / 7% Private Equity Target / 21% MSCI ACWI ex USA IMI

50% FX Hedge Index: Calculated by taking the MSCI World Ex.-U.S. IMI FX Hedged Index and applying a 50% factor.

Brigade Custom Index: Composed of 50% Barclays U.S. High Yield Ba/B and 50% Credit Suisse Leveraged Loan Indices.

Custom MSCI ACWI IMI Net 50% Hedged: Calculated by taking the MSCI ACWI IMI FX Hedged Index (net) and applying a 50% factor.

Dolan Custom Index: Composed of 65% Barclays Credit/Intermediate, 25% Barclays MBSI, and 10% Barclays U.S. High Yield Ba/B Indices.

EAFE Custom Index: Inception – 6/30/06 MSCI EAFE(Net); 6/30/06 – Present MSCI EAFE + Canada (Net).

FI Custom Index: Prior to 3/2009 the Index was composed of the Barclays U.S. Aggregate Bond Index and the Barclays U.S. High Yield Ba/B Index with weights that varied over time. From 3/2009 on the Index is composed of 100% of the Barclays U.S. Universal Index.

Hedge Fund Custom Index: Composed of the Citigroup 3-month U.S. T-bill + 500 bps.

LM Custom Index: Composed of 90% Barclays Aggregate and 10% JP Morgan EMBI Plus Indices.

MSCI Canada IMI Custom Index: Composed of the MSCI Canada Index (net) from 11/1999 through 8/2008 and the MSCI Canada IMI Index (net) thereafter.

MSCI EAFE IMI Custom Index: Composed of the MSIC EAFE Index (net) from 11/1999 through 8/2008 and the MSCI EAFE IMI Index (net) thereafter.

MSCI EM IMI Custom Index: Composed of the MSCI EM Index (gross) from inception to 12/2000; the MSCI EM Index (net) from 1/2000 through 8/2008; and the MSCI EM IMI Index (net) thereafter.

Opportunistic Custom Index: Composed of 50% Barclays U.S. High Yield Index and 50% Credit Suisse Leveraged Loan Index.

Opportunistic EMD Custom: Composed of 50% EMBI Global Diversified, 25% GBI-EM GD, and 25% CEMBI BD.

Private Equity Target: Composed of rolling ten-year return of the Russell 3000 Index + 500 bps.

Real Estate Target: Prior to 7/2013 the Real Estate Target was composed of the NCREIF Property Index - 25 bps. From 7/2013 on it is composed of the NCREIF ODCE Index + 40 bps.

Securitized Custom Index: Composed of Barclays Securitized Index + 400 bps.

Western Opportunistic Custom Index: Composed of 60% BofA Merrill Lynch US Floating Rate Home Equity Loan ABS Index and 40% Barclays U.S. Credit 1-3 Yr Index.

FOR INFORMATION ONLY

January 23, 2018

TO: Each Member,
Board of Investments

FROM: Beulah S. Auten, CPA, CGFM, CGMA
Chief Financial Officer

FOR: February 14, 2018 – Board of Investments Meeting

SUBJECT: **Semi-Annual Interest Crediting for Reserves as of December 31, 2017**

Pursuant to the County Employees Retirement Law Section 31591, regular interest shall be credited semi-annually on June 30 and December 31 to all contributions in the retirement fund, which have been on deposit six months immediately prior to such date at an interest rate of 2.5% per annum, until otherwise determined by your Board.

The semi-annual interest crediting rate applicable for December 31, 2017, was 3.625% (i.e., 7.25% annual rate). You may recall that in December 2016, your Board approved a reduction in the assumed actuarial earnings rate from 7.50% to 7.25%. The new rate was implemented with your Board's adoption of the June 30, 2016 actuarial valuation. To provide ample time for both the plan sponsor and LACERA to prepare for the rate change implementation, the new 7.25% rate became effective July 1, 2017, which was also when the corresponding employer and employee contribution rates as recommended in the June 30, 2016 valuation report, took effect. Going forward, this annual rate of 7.25% will remain in effect unless your Board adopts a different rate.

The Retirement Benefit Funding Policy stipulates that interest credits for Reserve accounts are allocated in the same priority order as the allocation of actuarial assets. Such interest credits are granted based on Realized Earnings for the period. The allocation of Realized Earnings is performed twice each year on June 30 and December 31.

As of December 31, 2017, there were sufficient Realized Earnings to meet the required interest credit rate of 3.625%, applied to Priorities 1 and 3, the Member Reserve and Employer Reserve. Inasmuch as there were no Advanced Employer Contributions and County Contribution Credit Reserve balances at July 1, 2017, the remaining Realized Earnings, were applied to Priority 5, Employer Reserve. The table below depicts the actual interest credit allocations for the six-month period ended December 31, 2017.

Priority Order	Reserve Account	Interest Credit Rate Applied
1	Member	3.625%
2	Advanced Employer Contributions	N/A
3	Employer	3.625%
4	County Contribution Credit	N/A
5	Employer	0.96%

REVIEWED AND APPROVED:

ROBERT R. HILL
Interim Chief Executive Officer

Interest Credit Rate Dec 2017 (unaudited)_final.doc
RH:BSA:tg

c: Board of Retirement, LACERA
Sachi A. Hamai, CEO, Los Angeles County

L//.CERA

FOR INFORMATION ONLY

February 5, 2018

TO: Each Member
Board of Investments

FROM: Steven P. Rice SPR
Chief Counsel

FOR: February 14, 2018 Board of Investments Meeting

SUBJECT: Monthly Status Report on Board of Investments Legal Projects

Attached is the monthly report on the status of Board-directed investment-related projects handled by the Legal Division as of February 2, 2018.

Attachment

c: Robert Hill
John Popowich
Bernie Buenaflor
Jon Grabel
Vache Mahseredjian
John McClelland
Christopher Wagner
Ted Wright
Jim Rice
Scott Zdrazil
Christine Roseland
John Harrington
Cheryl Lu
Barry Lew
Margo McCabe
Lisa Garcia

LACERA Legal Division
Board of Investments Projects
Monthly Status Report - Pending as of February 2, 2018

	Project/ Investment	Description	Amount	Board Approval Date	Completion Date	% Complete	Notes
EQUITIES/FIXED INCOME	BlackRock Trust Company	Conversion of Designated Public Equity and Fixed Income Commingled Trust Funds to Separate Accounts	$20,800,000,000.00	January 10, 2018	In Progress	25%	Legal review and negotiation of IMA in progress.
HEDGE FUNDS	AQR Liquid Enhanced Alternative Premia Fund, L.P.	Subscription	$200,000,000.00	December 13, 2017	In Progress	50%	Legal review and negotiations in progress.
	HBK Multi-Strategy Fund, L.P.	Subscription	$250,000,000.00	January 10, 2018	In Progress	25%	Outside counsel assigned and legal review in progress.
INTERNAL AUDIT	VAT IT Agreement	Tax Reclamation Audit	N/A	December 13, 2017	In Progress	75%	Legal negotiations in progress.
PRIVATE EQUITY	JP Morgan Investment	Private Equity Emerging	$300,000,000.00	December 13, 2017	In Progress	25%	Legal review in progress.
	Sinovation fund IV, L.P.	Subscription	$75,000,000.00	December 13, 2017	In Progress	25%	Outside counsel assigned and legal review in progress.
REAL ESTATE	AEW Value Investors III	Subscription	$50,000,000.00	December 13, 2017	In Progress	50%	Outside counsel assigned and legal negotiations in progress.

Documents not attached are exempt from disclosure under the California Public Records Act and other legal authority.

For further information, contact:
LACERA
Attention: Public Records Act Requests
300 N. Lake Ave., Suite 620
Pasadena, CA 91101