

NOTICE OF MEETING AND AGENDA

SPECIAL MEETING OF THE REAL ESTATE COMMITTEE

OF THE BOARD OF INVESTMENTS\*

LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION

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

\*8:00 A.M., WEDNESDAY, FEBRUARY 14, 2018

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

I. CALL TO ORDER

II. APPROVAL OF THE MINUTES

- A. Approval of the Minutes of the Special Meeting of September 11, 2017.

III. PUBLIC COMMENT

IV. CONSENT ITEMS

- A. None.

V. NON – CONSENT

- A. None.

VI. REPORT

- A. Performance Attribution Discussion  
Jennifer Young Stevens, Principal, The Townsend Group  
Robert Miranda, Vice President, The Townsend Group  
Ryan Skubic, Associate, The Townsend Group  
(Presentation dated 1Q 2018)

## VII. REPORT ON STAFF ACTION ITEMS

## VIII. GOOD OF THE ORDER (For Information Purposes Only)

## IX. ADJOURNMENT

\*The Board of Investments has adopted a policy permitting any member of the Board to attend a standing committee meeting open to the public. Members of the Board of Investments who are not members of the Committee may attend and participate in a meeting of a Committee but may not vote on any matter discussed at the meeting. The only action the Committee may take at the meeting is approval of a recommendation to take further action at a subsequent meeting of the Board.

The Chair of the Board of Investments may appoint alternate voting members if absences result in less than 3 voting members.

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

*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*

MINUTES OF THE SPECIAL MEETING OF THE REAL ESTATE  
COMMITTEE OF THE BOARD OF INVESTMENTS\*  
LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION

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

MONDAY, SEPTEMBER 11, 2017

PRESENT: Michael Schneider, Chair

Ron Okum, Vice Chair

Herman Santos

Wayne Moore

ABSENT: Diane Sandoval

STAFF, ADVISORS, PARTICIPANTS

Jonathan Gabel, Chief Investment Officer

John McClelland, Principal Investment Officer – Real Estate

Meketa Investment Group

Stephen McCourt, Managing Principal

Tim Filla, Vice President

Mary Ludgin, Managing Director Research, Heitman

The Townsend Group

Micolyn Magee, Principal

Robert Miranda, Vice President

Ryan Skubic, Associate

I. CALL TO ORDER

The Meeting was called to order by Chair Schneider at 2:15 a.m., in the Board Room of Gateway Plaza.

II. APPROVAL OF MINUTES

A. Approval of the Minutes of the Special Meeting of May 10, 2017.

Mr. Santos made a motion, seconded by Mr. Moore, to approve the minutes of the special meeting of

May 10, 2017. The motion carried by unanimous vote.

III. PUBLIC COMMENT

There were no requests from the public to speak.

IV. CONSENT ITEMS

There were no Items.

V. NON-CONSENT AGENDA

A. None.

VI. REPORT

A. Retail Real Estate Review, Mary Ludgin, Managing Director Research, Heitman (Presentation dated September 11, 2017).

Ms. Ludgin provided a presentation and answered questions from the Committee.

B. Performance Attribution Analysis and Lessons Learned

The Townsend Group  
Micolyn Magee, Principal  
Robert Miranda, Vice President  
Ryan Skubic, Associate

The Townsend Group provided the report and answered questions from the Committee.

VII. REPORT OF STAFF ACTION ITEMS

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

There were no comments.

IX. ADJOURNMENT

There being no further business to come before the Board, the meeting was adjourned at 3:35 p.m.

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

January 29, 2018

TO: Real Estate Committee  
Michael S. Schneider, Chair  
Ronald Okum, Vice Chair  
Wayne Moore  
David Green  
Herman Santos  
Shawn R. Kehoe, Alternate

FROM: John McClelland   
Principal Investment Officer-Real Estate

FOR: February 14, 2018 Real Estate Committee Meeting

SUBJECT: **PERFORMANCE ATTRIBUTION ANALYSIS**

Pursuant to the priorities identified by the Real Estate Committee (the Committee) for 2017, LACERA directed the real estate consultant, The Townsend Group (Townsend or the Consultant), to complete an attribution analysis of real estate performance (Part 1) which was presented to the Committee in December 2017.

As discussed at the December 2017 Committee meeting, Townsend has completed an additional attribution analysis (Part 2) to review each of the separate account managers' contribution to performance by both property type and risk profile.

The Consultant's report is attached herewith (**ATTACHMENT**). The analysis addresses LACERA Separate Account Portfolio Key Findings, Performance Attribution by Separate Account Manager and a conclusion and future considerations for the real estate program.

Numerous observations are advanced in the report which merit further consideration. Although no specific recommendations are being made at this time, staff anticipates addressing the Consultant's observations in upcoming investment plans and with the Real Estate Committee in the near future.

Jennifer Stevens, Principal; Robert Miranda, Vice President; and Ryan Skubic, Associate of The Townsend Group will be presenting at the February 2018 Board of Investments meeting to discuss the results of their analysis.

Attachment

Noted and Reviewed:



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Jonathan Grabel  
Chief Investment Officer

ATTACHMENT



# Los Angeles County Employees' Retirement Association

Portfolio Attribution Discussion – Part 2



1Q 2018

# Introduction



# Introduction: LACERA Real Estate Attribution Project

## Attribution Analysis – Part 1

*Presented to the Real Estate Committee on September 11, 2017*

This presentation provided LACERA with an assessment of its existing positions and how they've performed over time.

- Examine LACERA past performance:
  - By Property Type
  - By Geography
  - By Vehicle Type
- Highlight future considerations to be addressed by appropriate parties (Staff, Managers and Consultant).

## Attribution Analysis – Part 2

Assess Individually Managed Account (“IMA”) performance by manager and highlight future LACERA program considerations.

- Assess Manager Performance <sup>1</sup>:
  - Core IMA Manager Performance compared to Benchmarks
  - Value IMA Manager Performance compared to Benchmarks
  - High Return IMA Manager Performance compared to Benchmarks
- Portfolio Attribution by Manager:
  - History of each IMA mandate
  - Performance by IMA mandates
  - Asset by Asset Performance

1. LACERA IMA Managers are aware of LACERA Benchmarks.



# Executive Summary



# LACERA Real Estate Portfolio Objectives

## Role of Real Estate – LACERA OPP

Real estate investments such as debt, public equities and non-traditional property types or strategies may be used on a limited basis in order to enhance returns and/or defensively position the program against market cycle shifts.

“The role of real estate is primarily to enhance the diversification of the total Fund Portfolio, due to the historically low or negative correlation between real estate and other financial asset classes; and provide competitive risk adjusted returns relative to other asset classes. Real estate may also serve as a hedge against inflation when market conditions allow such a hedge (primarily in supply/demand balanced market cycles in times of greater than expected inflation).” (LACERA OPP)

## Investment Philosophy – LACERA OPP

Income, competitive returns and diversification.

“Investment decisions regarding the real estate portfolio should be primarily guided by the following objectives: (i) **maximizing long term total cash returns**; (ii) achieving a **total return competitive with other asset classes**; and (iii) maintain a **broad diversification of assets. Controlling risk in the real estate portfolio is equally important as seeking higher returns.** LACERA should adhere to prudent risk management policies that will seek to manage risk through control over investment process and investment vehicles and insure prudent diversification of assets and investment managers.” (LACERA OPP)

## Condensed LACERA Real Estate Program History

LACERA has a history of investing in both Individually Managed Accounts (“IMAs”) and commingled funds.

- Began investing in commingled funds in 1985.
- Limited universe of open-end commingled funds in 1980’s.
- Major market correction in 1990’s turned Institutional Investors towards IMAs.
- LACERA launches first Core IMA program in 1991.
- Today, the LACERA Portfolio is valued at approximately \$6 billion, consisting of 75% Core and 25% Non-Core investments. Commingled funds and IMAs co-exist in the Portfolio.

# LACERA Real Estate Portfolio Objectives

## Investment Universe

Like the LACERA Portfolio, the investment universe has evolved over time.

- The universe of investment opportunities has evolved over the last 30 years.
- Today, there are 37 Core, Value and Specialty Open-End Commingled Funds (“OECFs”) available for investment.
- Though lacking control, the OECFs often offer diversification, exposure to dominant assets and an element of liquidity.
- The Non-Core Closed-End Fund Universe has also evolved and contains between 400 and 500 available investable vehicles globally at any given time.

## Benchmarking Disclaimer

There are key differences between the benchmarks referenced throughout this report and the LACERA Portfolio.

- The LACERA Portfolio contains leverage and reports both gross and net returns.
- The NPI is a de-levered Core property level index that reports gross returns. The index is comprised exclusively of operating Apartment, Hotel, Industrial, Office and Retail properties.
- The NFI-ODCE is a levered Core fund level index that reports both gross and net returns. According to NCREIF, the term Diversified Core Equity style typically reflects lower risk investment strategies utilizing low leverage and generally represented by equity ownership positions in stable US operating properties.
- The NPI allowed for attribution by property type and geographic location at the time of publication.

# Key Findings

## SUMMARY

- Despite generating positive income returns, LACERA's IMA Portfolio lags the Benchmark with respect to appreciation and total return.
- Greater diversification could be achieved by including a mix of commingled funds and IMAs.
  - 102 properties are currently housed in the IMA Portfolio (as of 2Q17).
- Vintage is a key factor in determining performance of Non-Core IMAs.
- Setting performance targets may help to hold IMA managers accountable in the future.

## CORE IMA KEY FINDINGS

- The LACERA Core Separate Account program has met the three primary objectives of the LACERA OPP:
  - Generates strong income returns,
  - Achieves a total net return that is competitive with other asset classes (8.14% since inception),
  - Provides a level of diversification to the Plan.

## VALUE IMA KEY FINDINGS

- As a whole, Value Separate Accounts have not performed well.
- The LACERA Value Separate Account program has consistently lagged its benchmark to-date:
  - Significant J-curve effect may be dragging near-term performance losses which have yet to materialize into stabilized performance.
  - It's worth noting that the Value Separate Account Composite lags the LACERA actuarial target for the Plan (6.47% since inception).

## HIGH RETURN IMA KEY FINDINGS

- The LACERA High Return Separate Account program has achieved strong performance post Global Financial Crisis.
- Over the fifteen and since inception time intervals, the program incurred losses (-3.46% since inception).



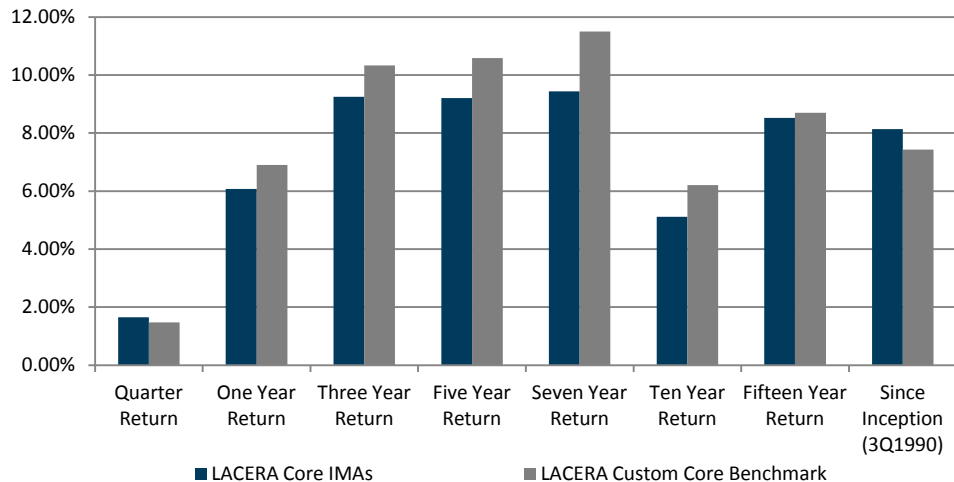
# LACERA Separate Account Portfolio Key Findings



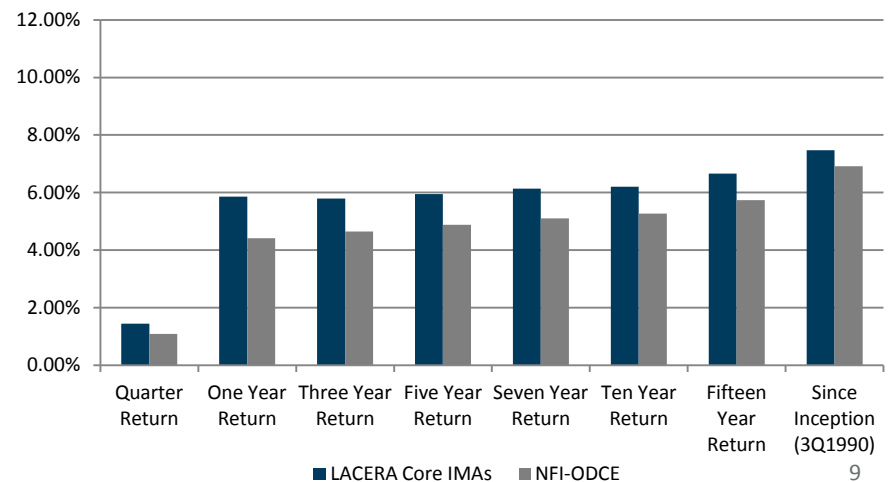
# Summary of Performance: Core IMA Composite v. Benchmarks

- LACERA’s Core Separate Accounts have outperformed the LACERA Custom Core Benchmark since inception and over the most recent quarter, but have underperformed across all other time periods.
- LACERA’s Core Income Returns have significantly outperformed the NFI-ODCE over all time periods.
- The following managers currently manage Core assets on behalf of LACERA:
  - Barings Debt (Since 2011), Capri Capital (Since 2011), Cityview (Since 2014), Clarion (Since 2014), Heitman (Since 2014), Invesco (Since 1994), Quadrant (Since 2011), RREEF (Since 1991), Stockbridge (Since 2014), TA Associates (Since 1992).
- The following additional managers have managed Core assets on behalf of LACERA in the past:
  - AMB (1997 - 1998), Barings Equity (2007-2015), Henderson (2000 - 2006), Lend Lease (1997 - 2003).

**LACERA Core Separate Account vs. Custom Core Benchmark - Total Net Returns**



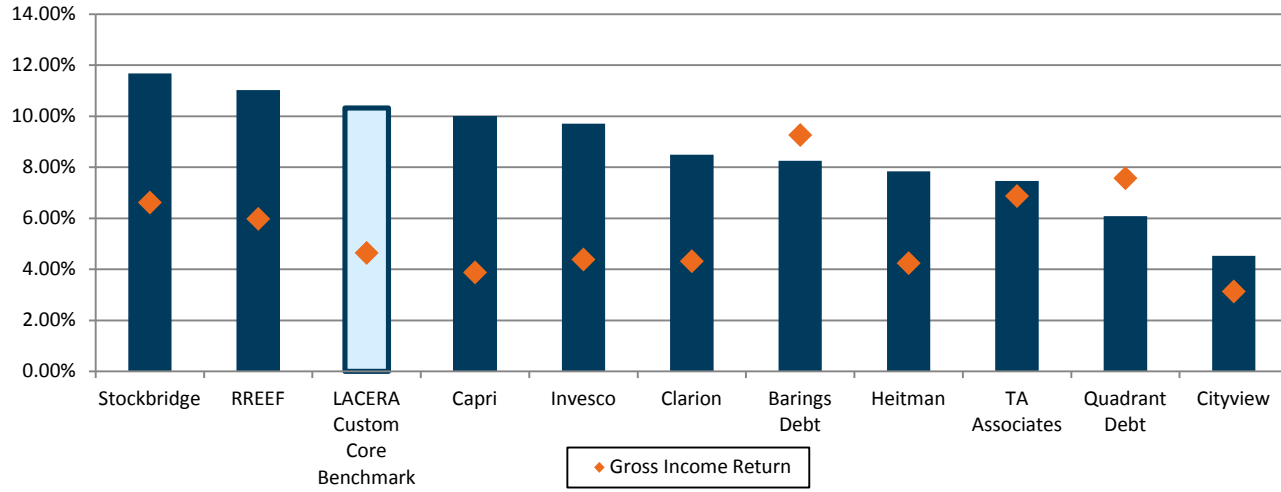
**LACERA Core Separate Account vs. Custom Core Benchmark - Income Returns**



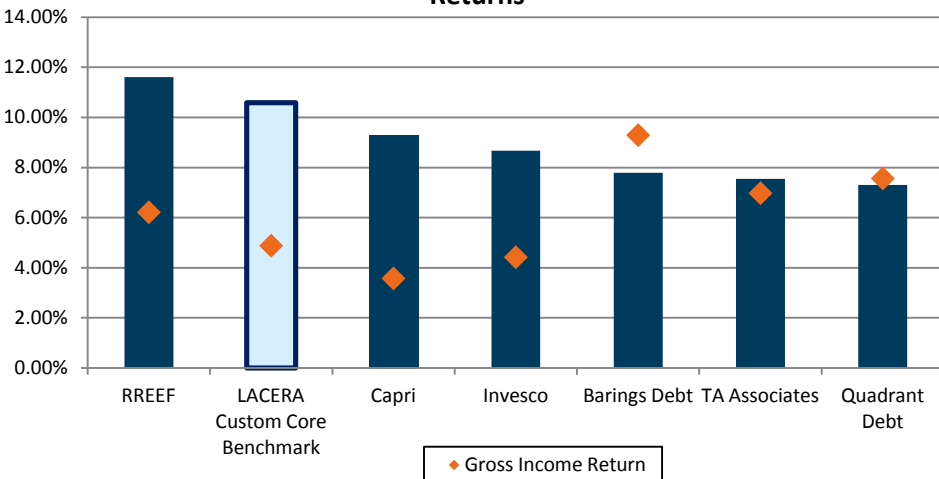
# Summary of Performance: Core IMA Managers v. Benchmarks

- Over the past ten years, RREEF is the only Core Separate Account that has consistently outperformed the Custom Core Benchmark.
- Stockbridge has outperformed since added as a LACERA Core Separate Account manager in 2014.
- On an income basis, RREEF, Barings Debt, TA Associates and Quadrant have consistently outperformed.

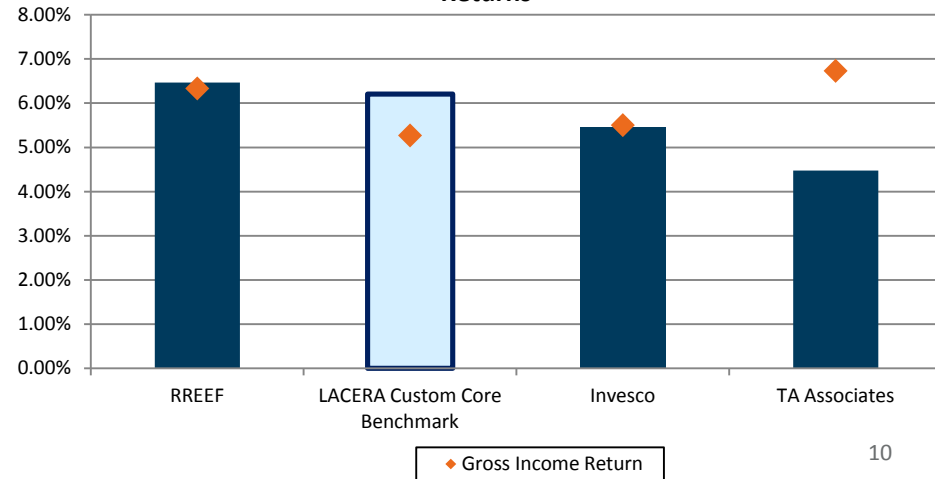
LACERA Core IMA Returns vs. Benchmark - Three Year Net Returns



LACERA Core IMA Returns vs. Benchmark - Five Year Net Returns



LACERA Core IMA Returns vs. Benchmark - Ten Year Net Returns

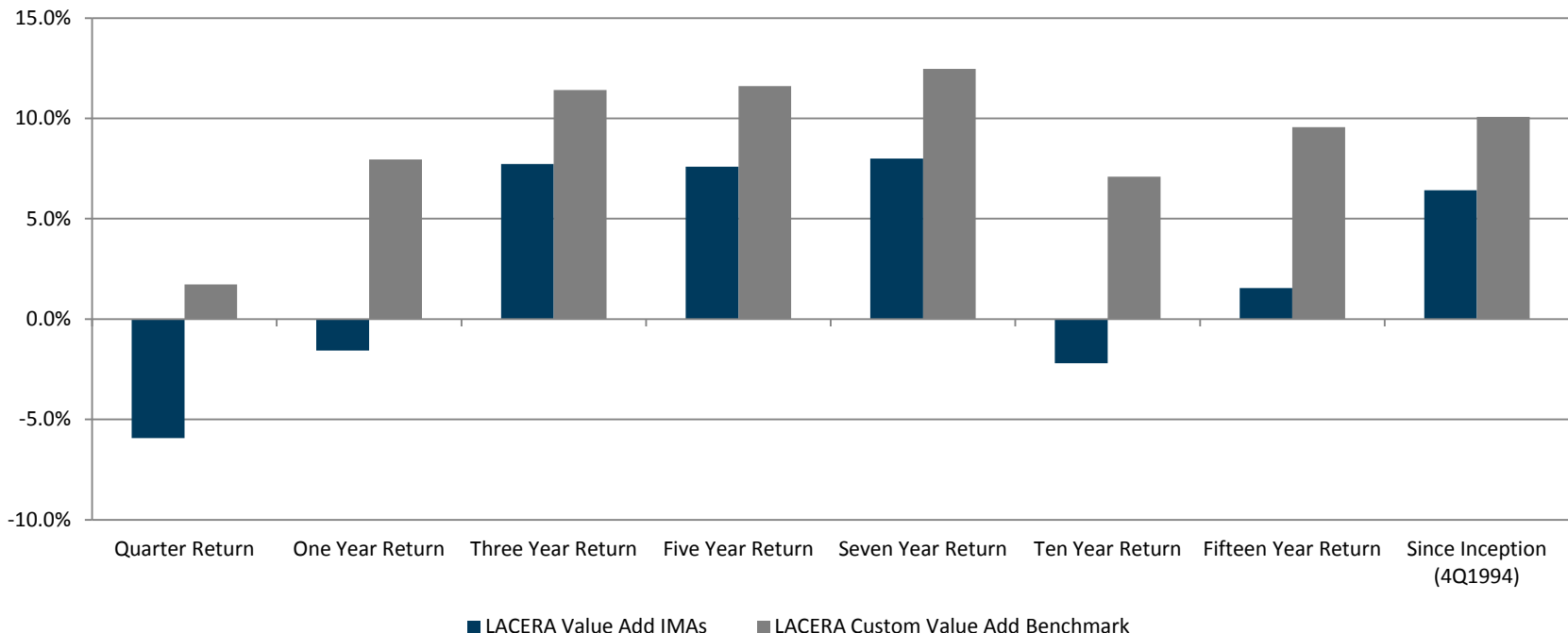


Note: Barings Equity was not included in this analysis due to the final three core assets having been sold in 2015

## Summary of Performance: Value IMA Composite v. Benchmarks

- LACERA's Value Add Separate Accounts have consistently underperformed the LACERA Custom Value Add Benchmark on a total net basis since inception.
- The following managers currently manage Value Add assets on behalf of LACERA:
  - Barings Equity (Since 2004), Heitman (Since 2014), Invesco (Since 1998), Stockbridge (Since 2014), Vanbarton (Since 2003).
- The following additional managers have managed Value Add assets on behalf of LACERA in the past:
  - Capri (2003 – 2011), LaSalle (2003 – 2003), Lend Lease (1998 – 2003), Lowe (1994 – 1998), RREEF (2001 – 2014), TA Associates (2005 – 2014).

LACERA Value Add Separate Account vs. Custom Value Add Benchmark - Total Net Returns

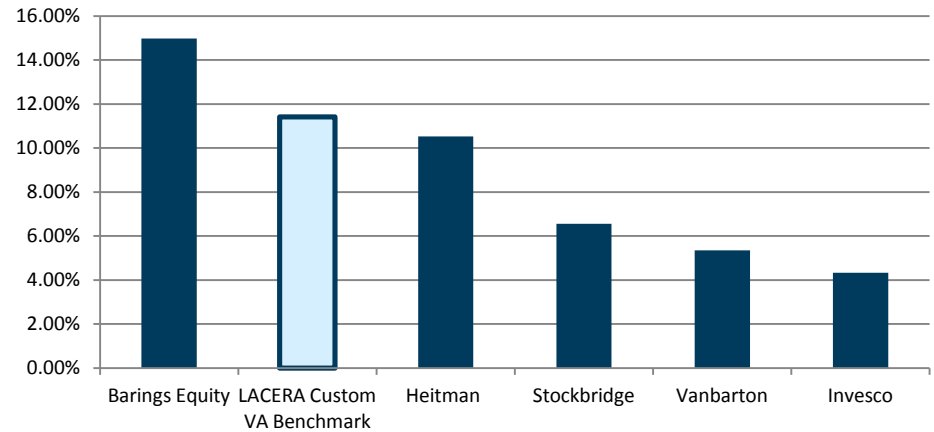




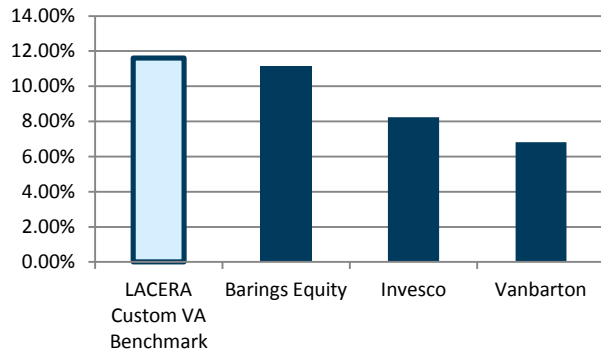
# Summary of Performance: Value IMA Managers v. Benchmarks

- Over the three-year period ending June 30, 2017, Barings is the only manager outperforming the LACERA Custom Value Add Benchmark. However, the Barings Value Add portfolio consists of only one remaining asset, which has a since inception net return of 0.66%.
- Over the long-term, only Invesco outperformed the LACERA Custom Value Add Benchmark.
- Of the liquidated Value Add Separate Accounts, historic performance underperformed the Custom Value Add Benchmark over their respective since inception periods.

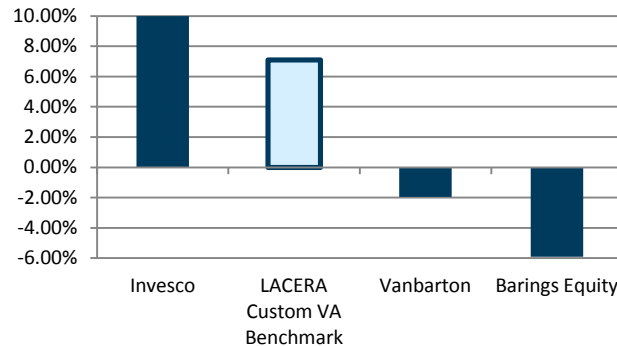
**LACERA Value Add IMA Returns vs. Benchmark - Three Year Net Returns**



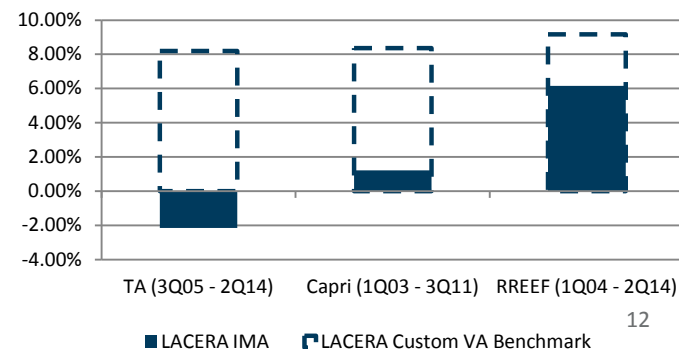
**LACERA Value Add IMA Returns vs. Benchmark - Five Year Net Returns**



**LACERA Value Add IMA Returns vs. Benchmark - Ten Year Net Returns**



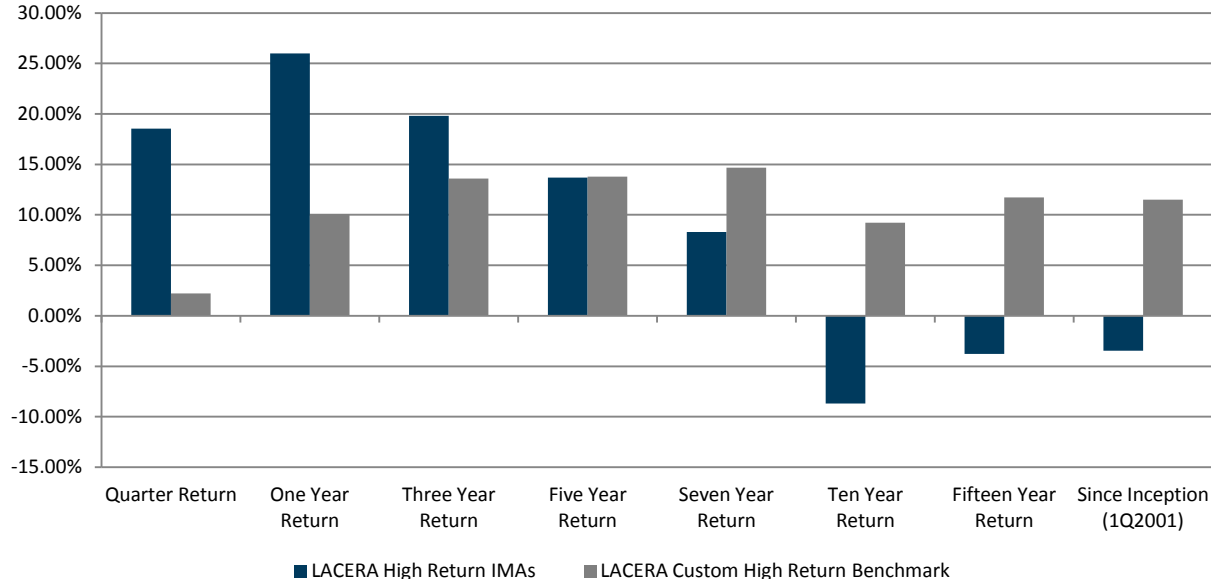
**Liquidated LACERA Value Add IMAs - Since Inception Net Returns vs. Benchmark**



## Summary of Performance: High Return IMA Composite\* v. Benchmarks

- LACERA's High Return Separate Accounts have outperformed the LACERA Custom High Return Benchmark on a total net basis over the Quarter, one-year and three-year periods ending 6/30/17. However, LACERA High Return Separate Accounts have underperformed over the long-term and since inception.
- Recent performance has been skewed by an exceptional quarterly return of 18.5% in 2Q17, mostly driven by a valuation increase of one asset (Clarion's The Brickyard).
- The following managers currently manage High Return assets on behalf of LACERA:
  - Capri Capital (Since 2006), Clarion (Since 2016), Invesco (Since 2002), RREEF (Since 2001), Stockbridge (Since 2014).
- Barings Equity has also managed High Return assets for LACERA in the past (2007-2016).

**LACERA High Return Separate Account vs. Custom High Return Benchmark  
- Total Net Returns**

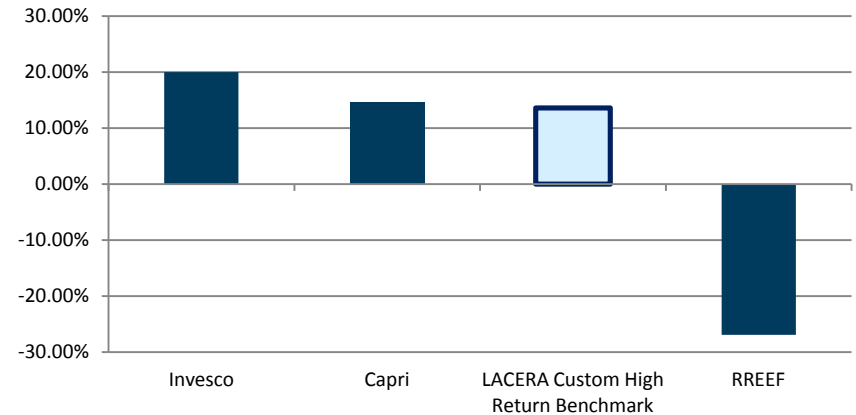


\* The High Return IMA Composite excludes the Single Family Housing Program

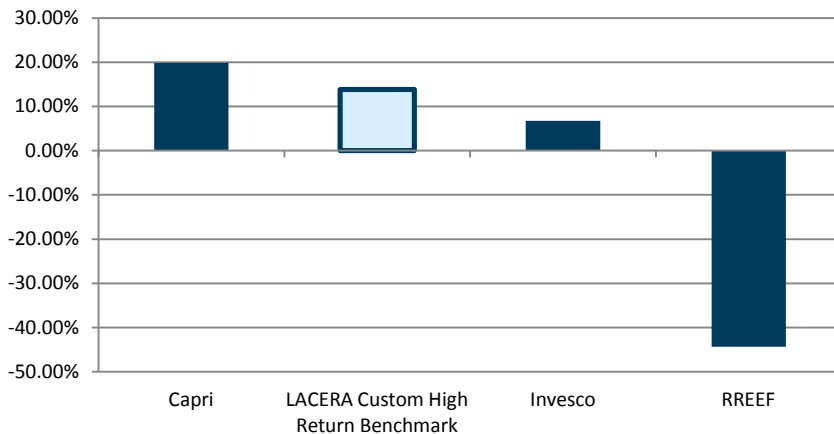
# Summary of Performance: High Return IMA Managers v. Benchmarks

- Over the three-year period ending June 30, 2017, Invesco and Capri outperformed the LACERA Custom High Return Benchmark.
- Over the long-term, no manager outperformed the LACERA Custom High Return Benchmark.
- Barings Equity (not displayed) sold its last High Return asset during the first quarter of 2016, but had outperformed the Benchmark over the medium-term and underperformed over the long-term at that time.

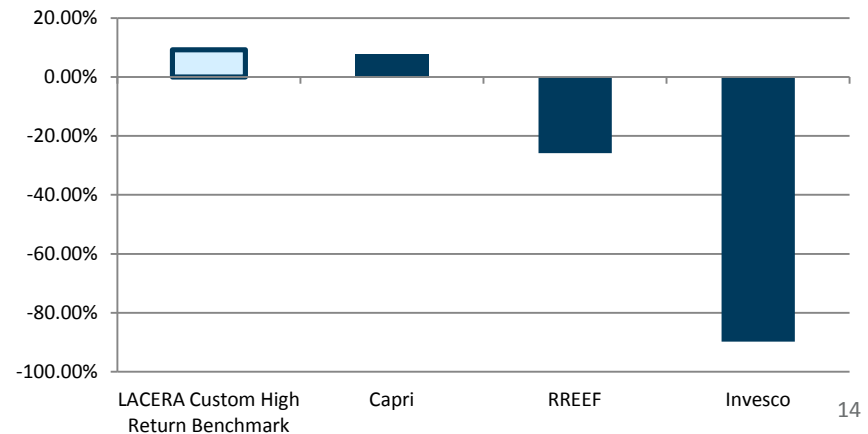
**LACERA High Return IMA Returns vs. Benchmark - Three Year Net Returns**



**LACERA High Return IMA Returns vs. Benchmark - Five Year Net Returns**



**LACERA High Return IMA Returns vs. Benchmark - Ten Year Net Returns**



# Performance Attribution by Separate Account Manager



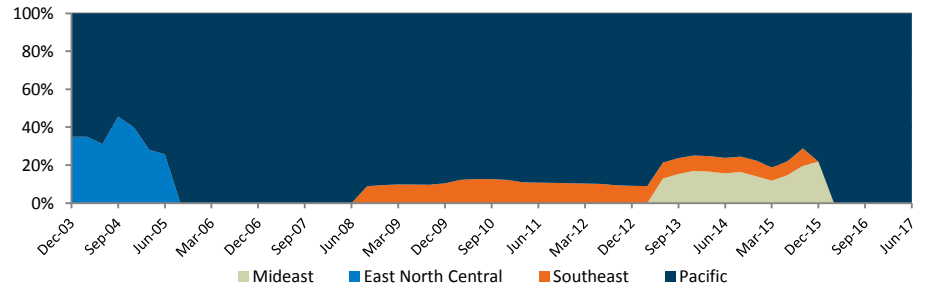
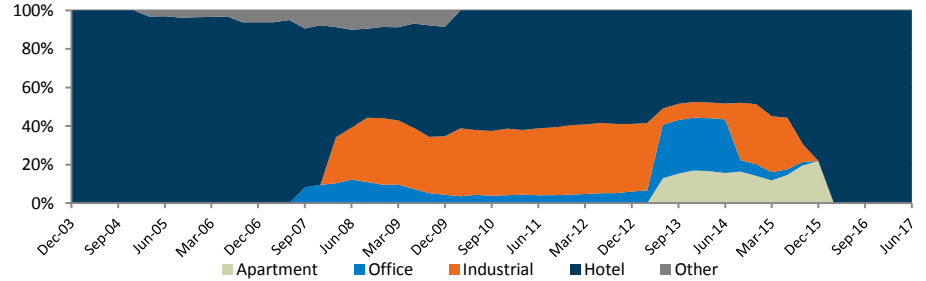
# Performance Attribution: Barings Equity

## Key Values

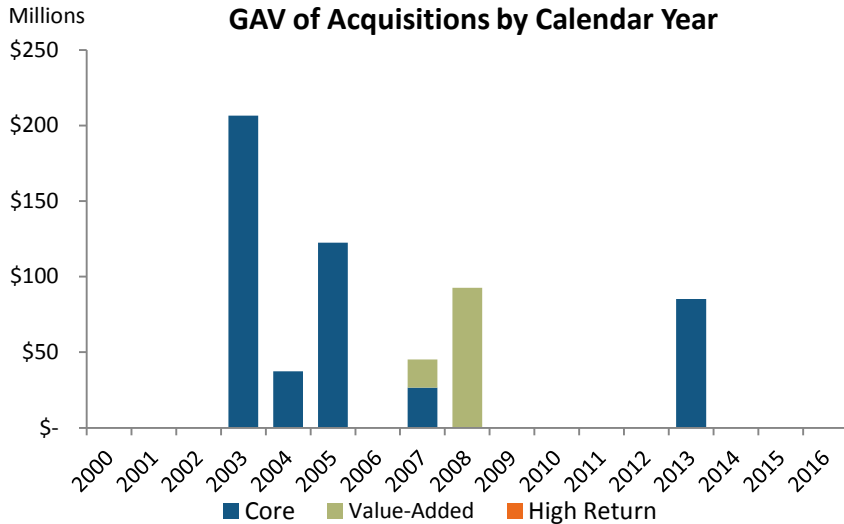
Market Value as of 6/30/17	\$207,190,178
Number of Properties as of June 30, 2017:	0
Account LTV (%)	0.0%

## Background

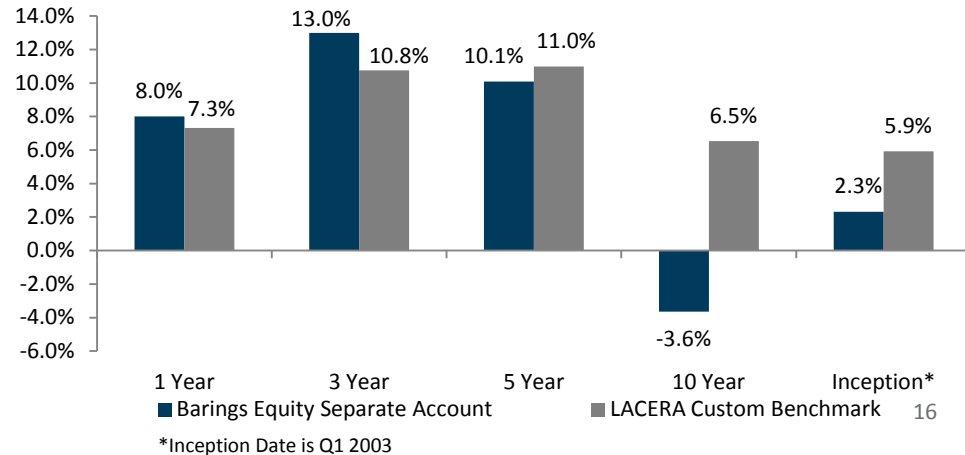
Relationship Inception:	4Q 2003
Capital Funded Since Inception:	\$733,182,036
Number of Properties acquired since inception:	10
Capital Returned Since Inception:	\$618,405,180
Number of Properties sold since inception	10
<u>Since Inception IRR:</u>	<u>3.2%</u>
Core Strategy:	-2.9%
Value Strategy:	5.4%
High Return Strategy:	4.7%



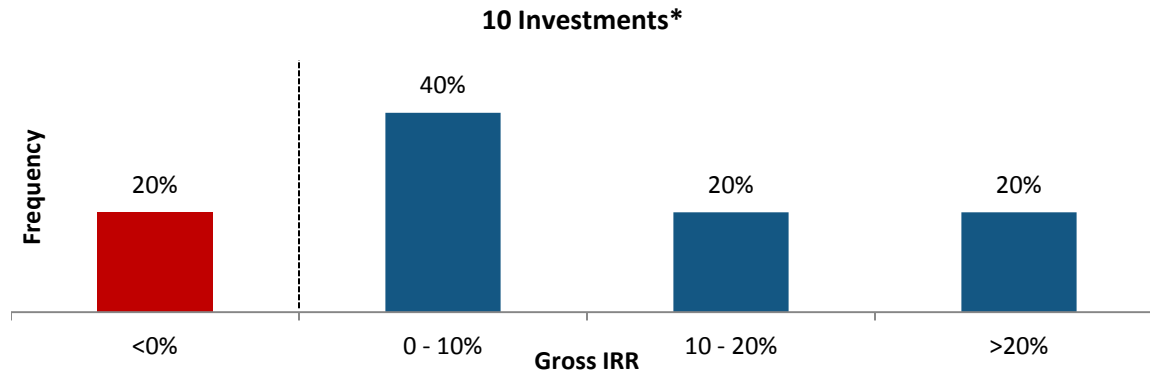
## GAV of Acquisitions by Calendar Year



## Time-weighted Net Returns

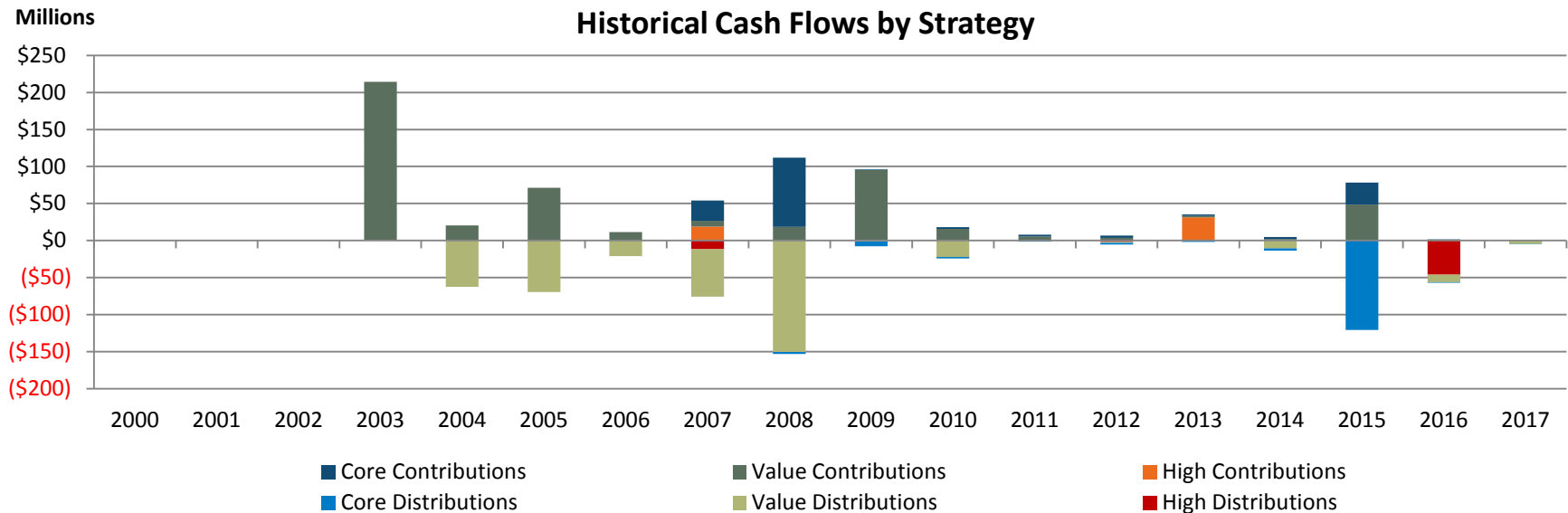


# Performance Attribution: Barings Equity



Underperforming Investments:

The Lakes at West Covina, -26.3% IRR (Peak Market Value: \$30.9million). Core asset sold in 2015.  
 Ocean Ranch, -24.1% IRR (Peak Market Value: \$21.2 million). High Return asset sold in 2010.



\* Number of Investments may not equal the number of properties listed on the previous page. If a property was moved between risk categories, this will count as two separate investments with individual IRRs.

# Performance Attribution: Barings Debt

## Key Values

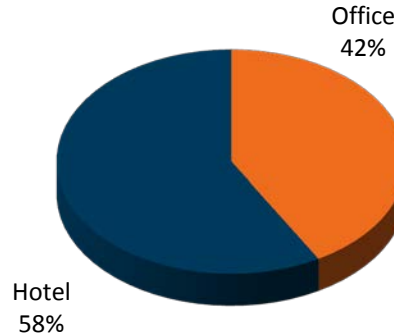
Market Value as of 6/30/17	\$370,857,081
Number of Properties as of June 30, 2017:	9
Account LTV (%)	54.0%

## Background

Relationship Inception:	2Q 2011
Capital Funded Since Inception:	\$920,420,642
Number of Properties acquired since inception:	16
Capital Returned Since Inception:	\$652,925,483
Number of Properties sold since inception	7
<u>Since Inception IRR:</u>	<u>8.5%</u>
Core Strategy:	n/a
Value Strategy:	n/a
High Return Strategy:	n/a

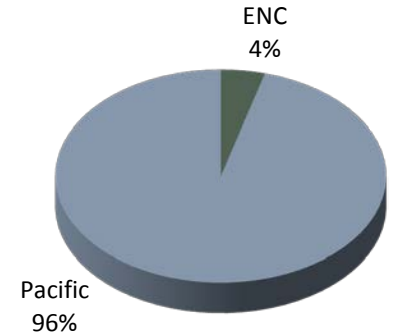
## Property Type Diversification

As of 6/30/17

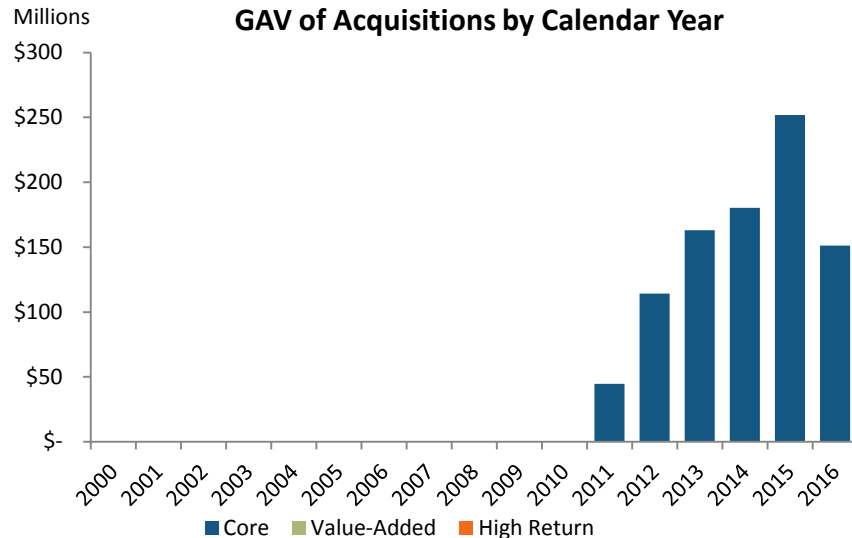


## Geographic Diversification

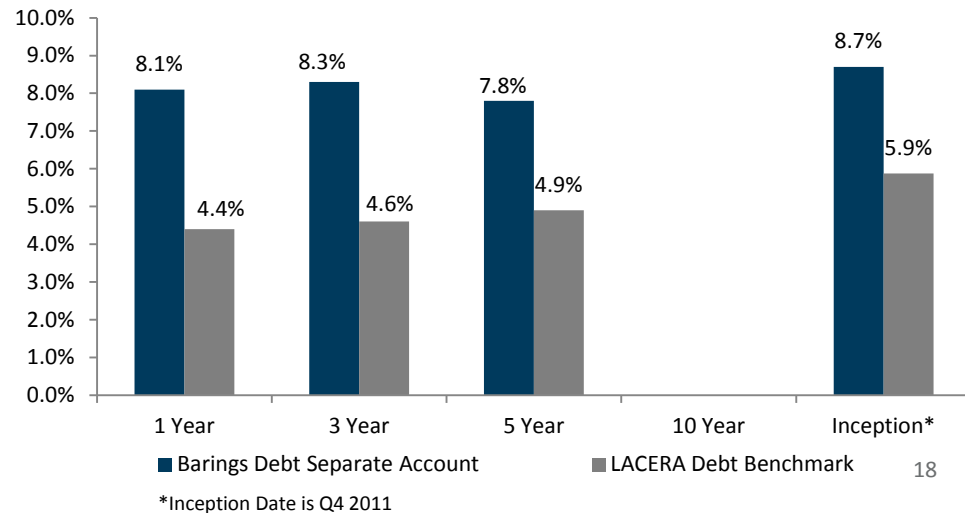
As of 6/30/17



## GAV of Acquisitions by Calendar Year



## Time-weighted Net Returns





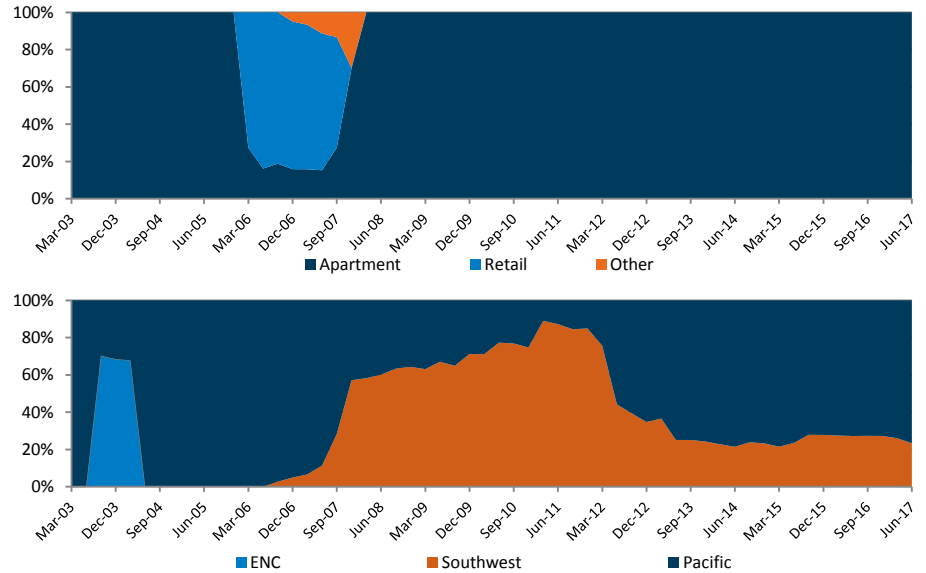
# Performance Attribution: Capri Capital

## Key Values

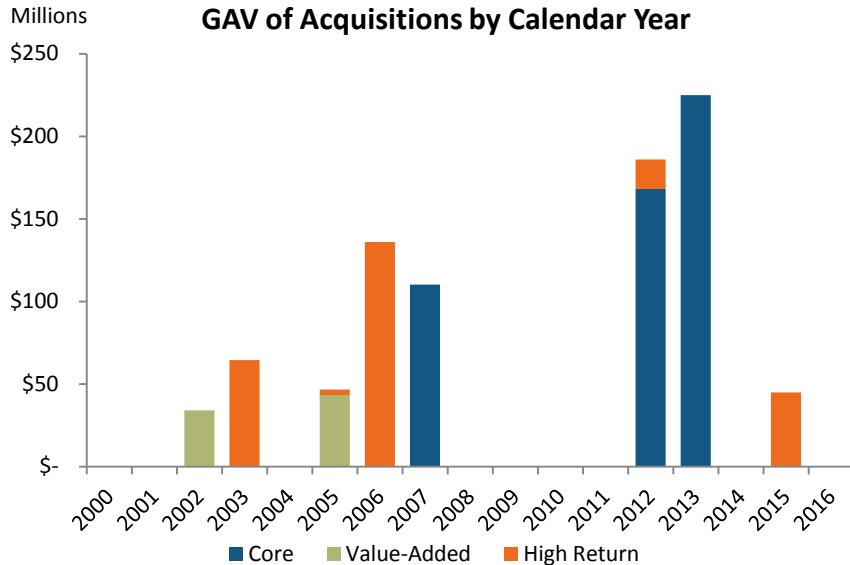
Market Value as of 6/30/17	\$440,140,404
Number of Properties as of June 30, 2017:	5
Account LTV (%)	40.9%

## Background

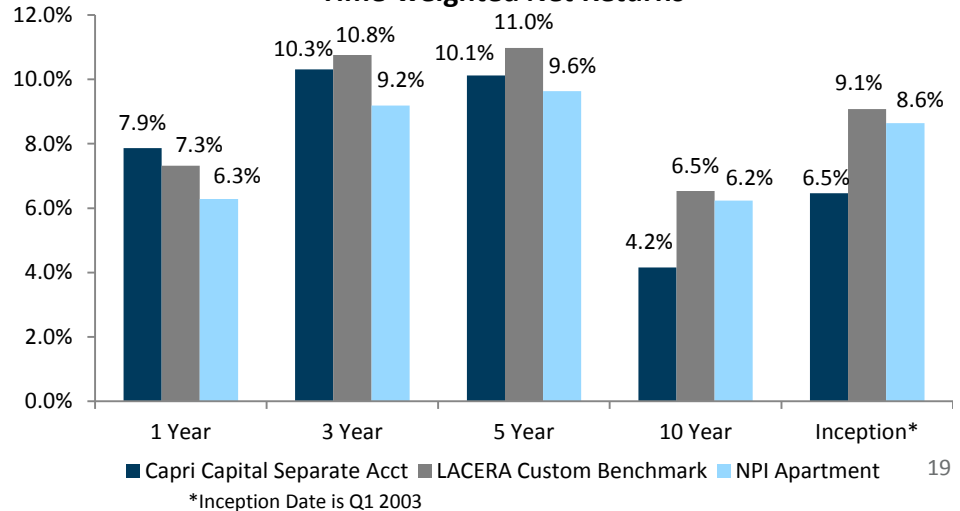
Relationship Inception:	4Q 2002
Capital Funded Since Inception:	\$664,494,856
Number of Properties acquired since inception:	13
Capital Returned Since Inception:	\$412,837,066
Number of Properties sold since inception	8
<u>Since Inception IRR:</u>	<u>7.5%</u>
Core Strategy:	9.4%
Value Strategy:	-1.1%
High Return Strategy:	9.5%



## GAV of Acquisitions by Calendar Year

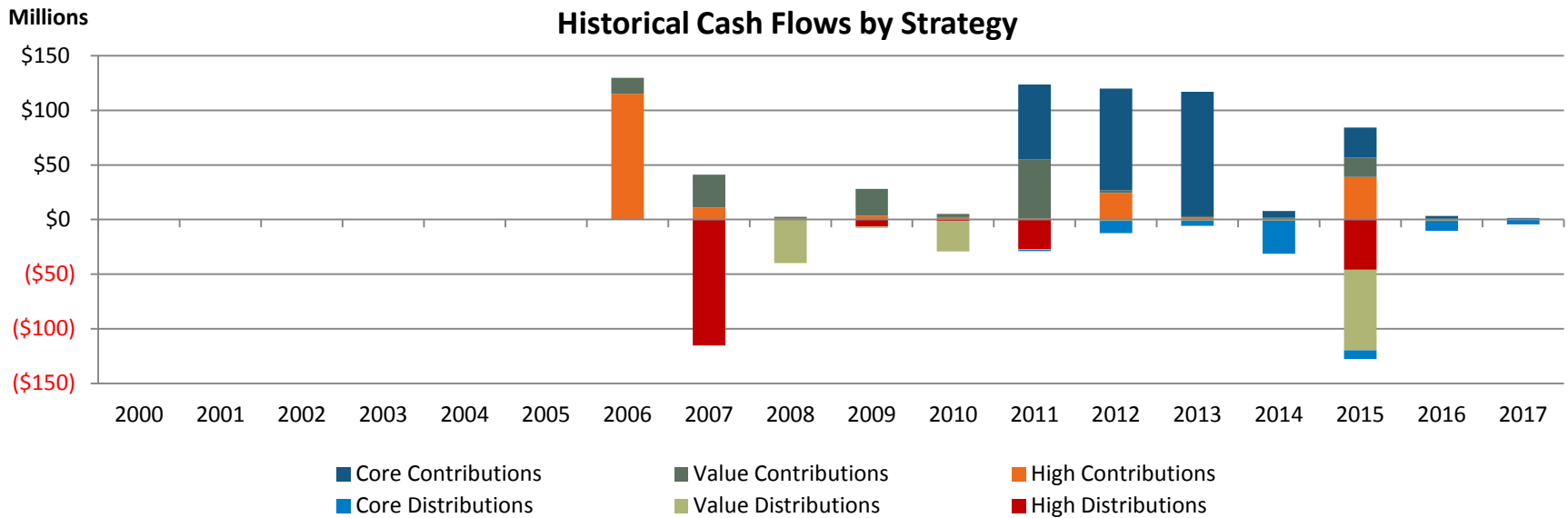
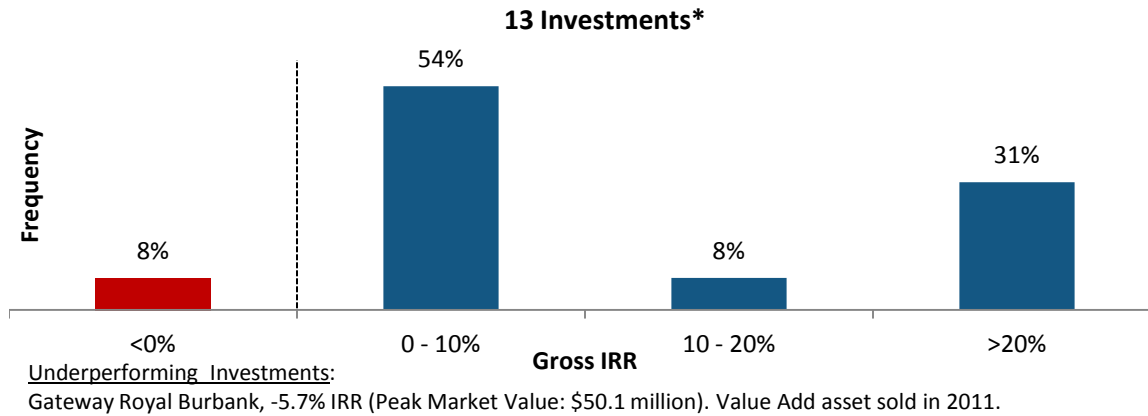


## Time-weighted Net Returns





# Performance Attribution: Capri Capital



\* Number of Investments may not equal the number of properties listed on the previous page. If a property was moved between risk categories, this will count as two separate investments with individual IRRs.

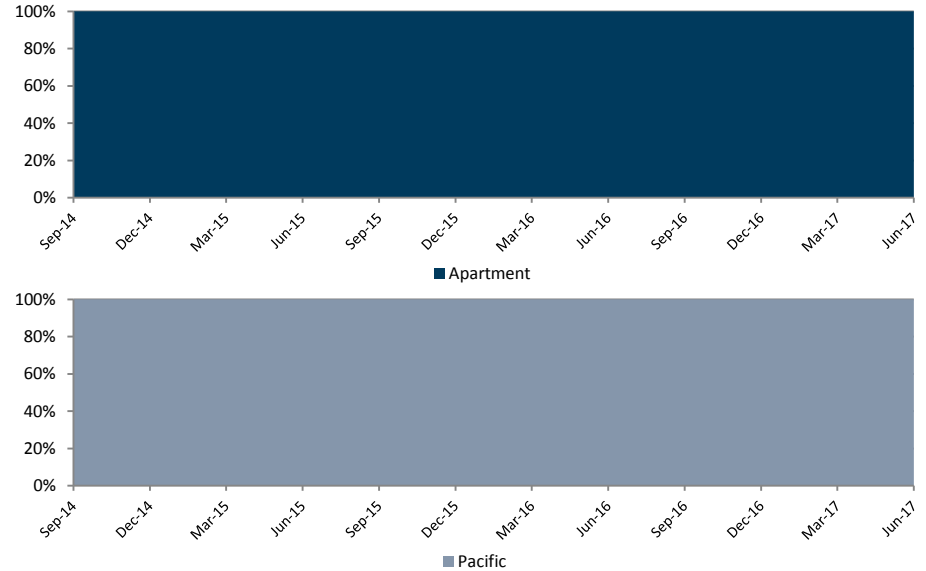
# Performance Attribution: CityView

## Key Values

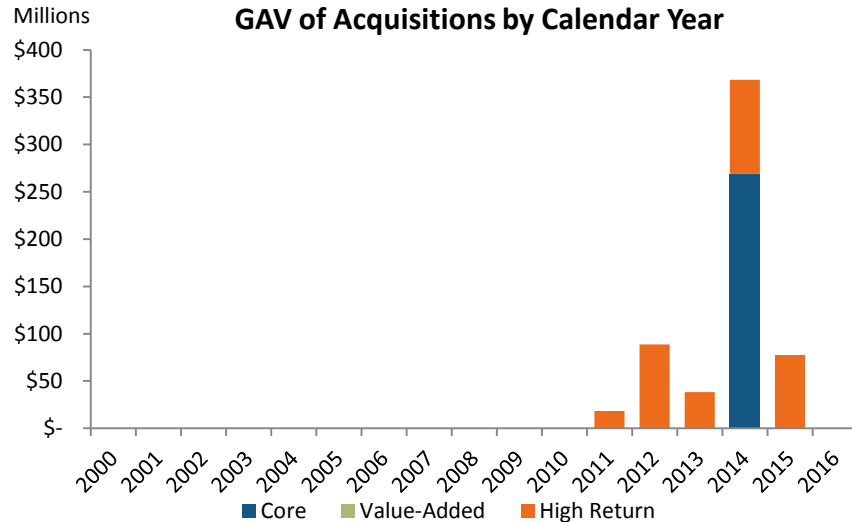
Market Value as of 6/30/17	\$446,586,385
Number of Properties as of June 30, 2017:	14
Account LTV (%)	49.0%

## Background

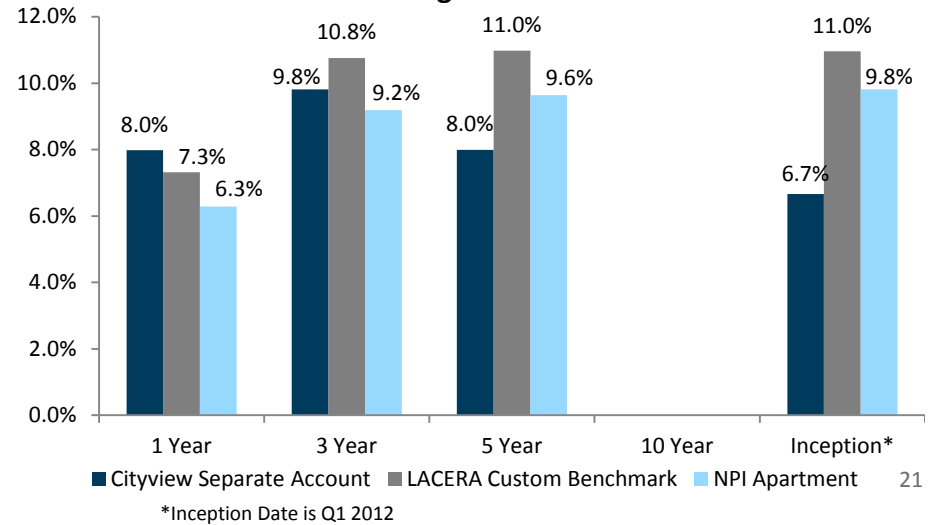
Relationship Inception:	2Q 2014
Capital Funded Since Inception:	\$532,893,932
Number of Properties acquired since inception:	14
Capital Returned Since Inception:	\$194,919,159
Number of Properties sold since inception	0
<u>Since Inception IRR:</u>	<u>10.7%</u>
Core Strategy:	4.7%
Value Strategy:	n/a
High Return Strategy*:	14.4%



## GAV of Acquisitions by Calendar Year

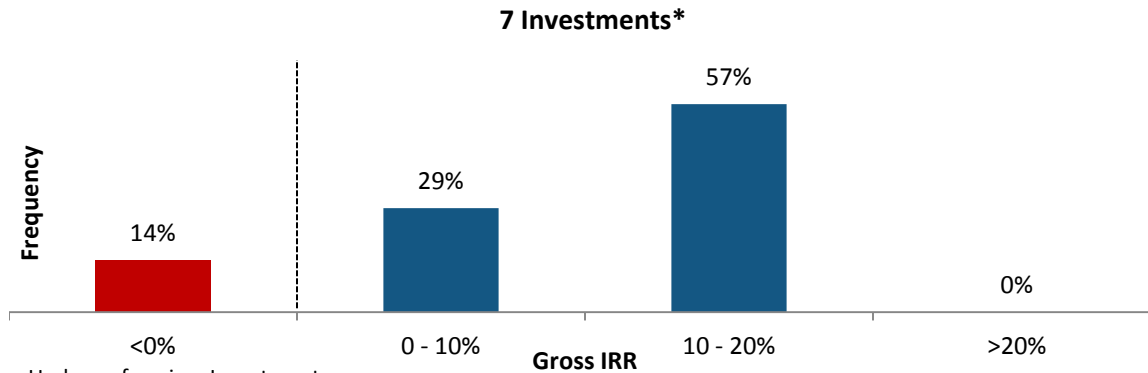


## Time-weighted Net Returns



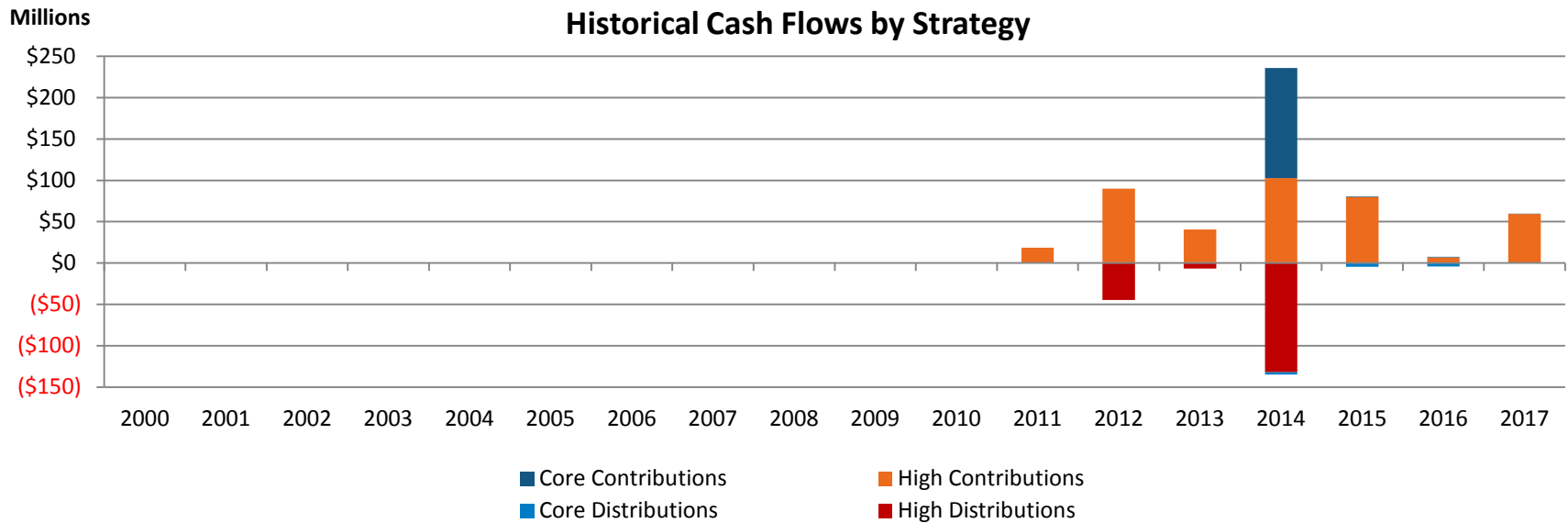
\*CityView High Return Strategy is a composite consisting of the following High Return fund-of-one vehicles: CityView Bay Area, CityView Bay Area Fund II, CityView Southern California Fund, CityView Western Fund

# Performance Attribution: CityView



Underperforming Investments:

CityView Western Fund I, -83.8% IRR (Peak Market Value: \$20.0 million). High Return vehicle currently experiencing J-curve.



\* Fund-of-one vehicles are counted as one investment, even if several properties are held. The three individual properties included in this chart are ArcLight, Berkeley Center and Potrero Launch.

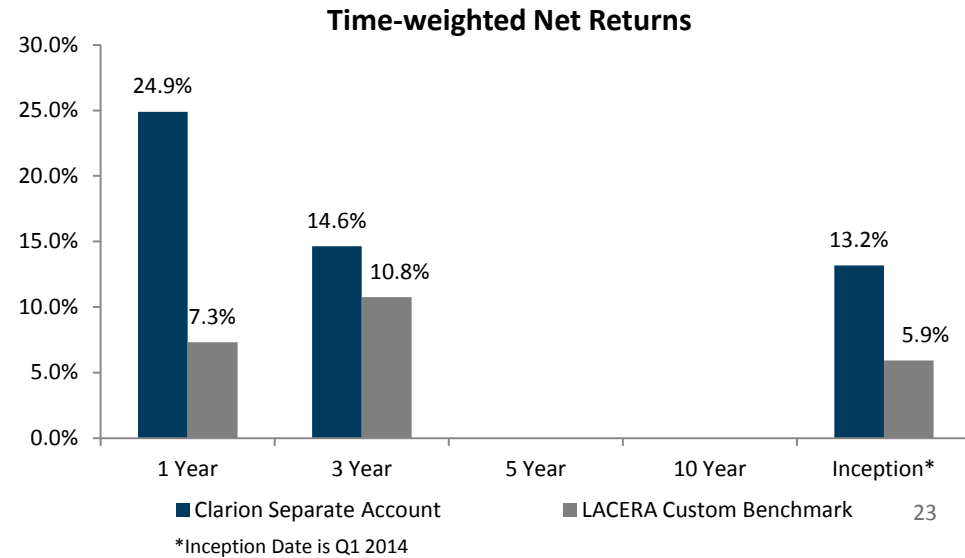
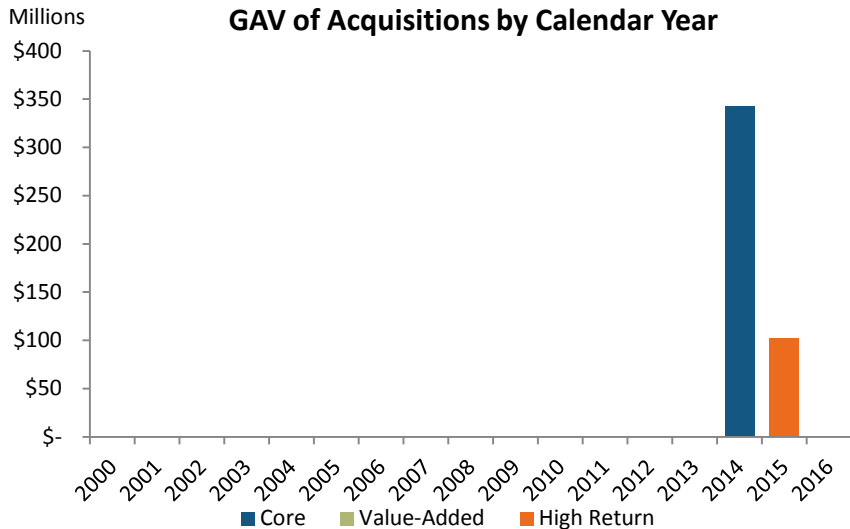
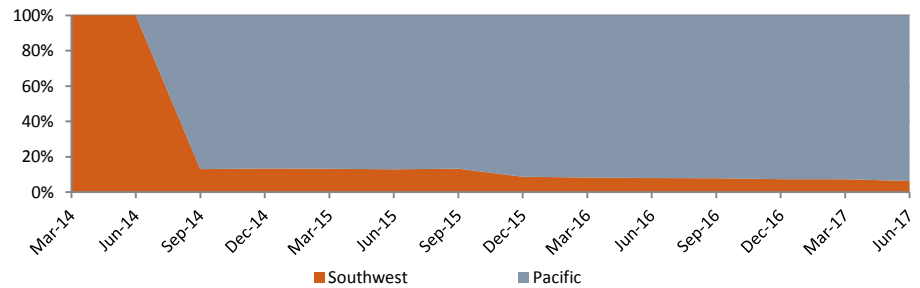
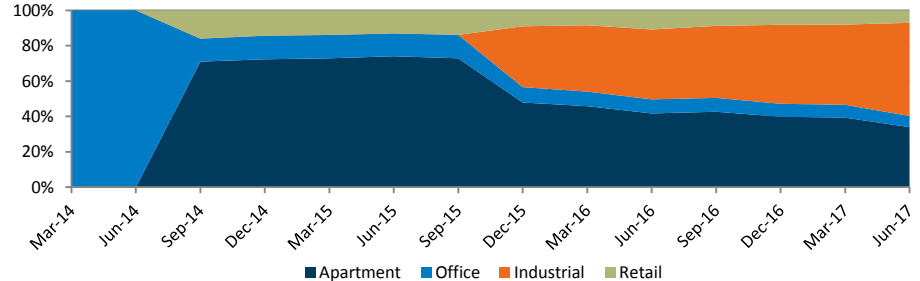
# Performance Attribution: Clarion

## Key Values

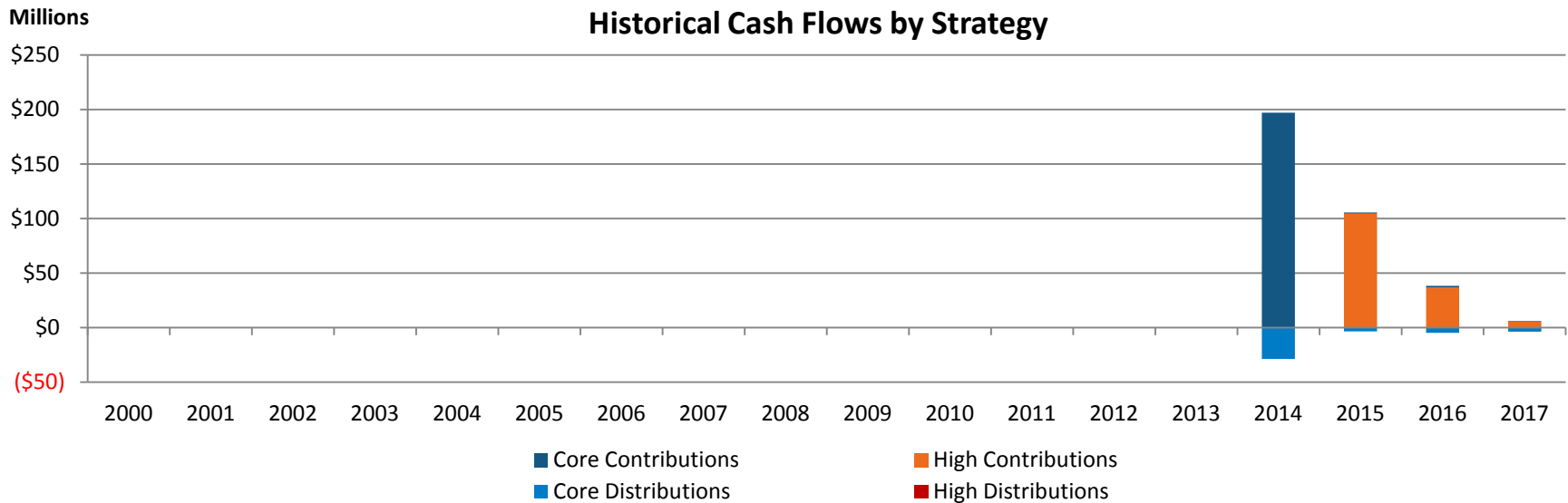
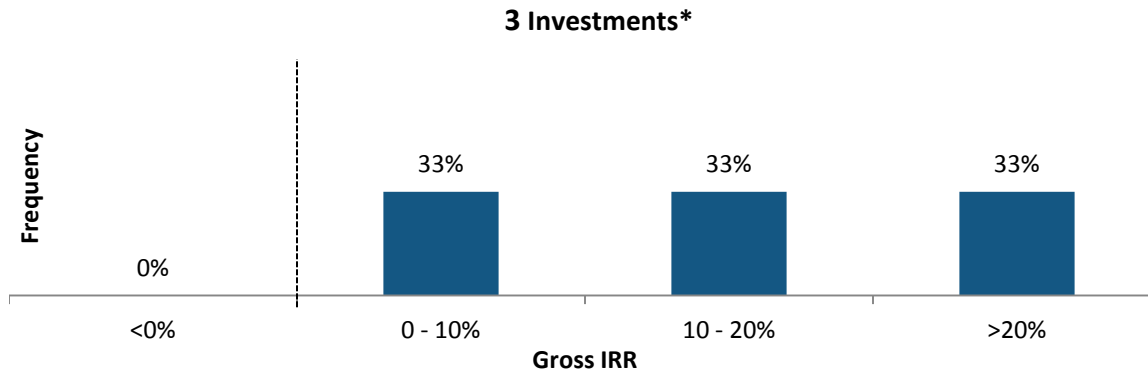
Market Value as of 6/30/17	\$430,659,907
Number of Properties as of June 30, 2017:	3
Account LTV (%)	28.3%

## Background

Relationship Inception:	3Q 2013
Capital Funded Since Inception:	\$346,875,374
Number of Properties acquired since inception:	3
Capital Returned Since Inception:	\$40,824,096
Number of Properties sold since inception	0
Since Inception IRR:	15.4%
Core Strategy:	8.4%
Value Strategy:	n/a
High Return Strategy:	35.4%



# Performance Attribution: Clarion



\* Number of Investments may not equal the number of properties listed on the previous page. If a property was moved between risk categories, this will count as two separate investments with individual IRRs.

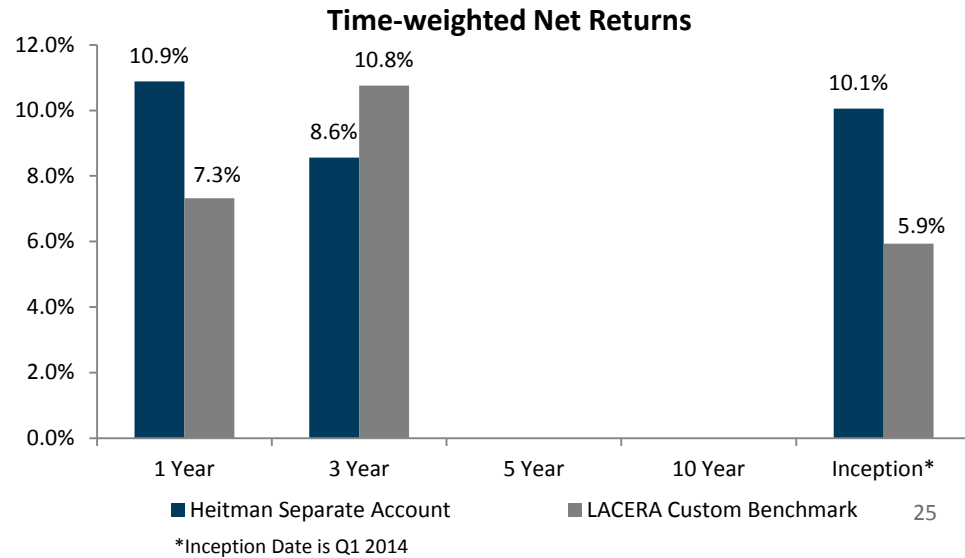
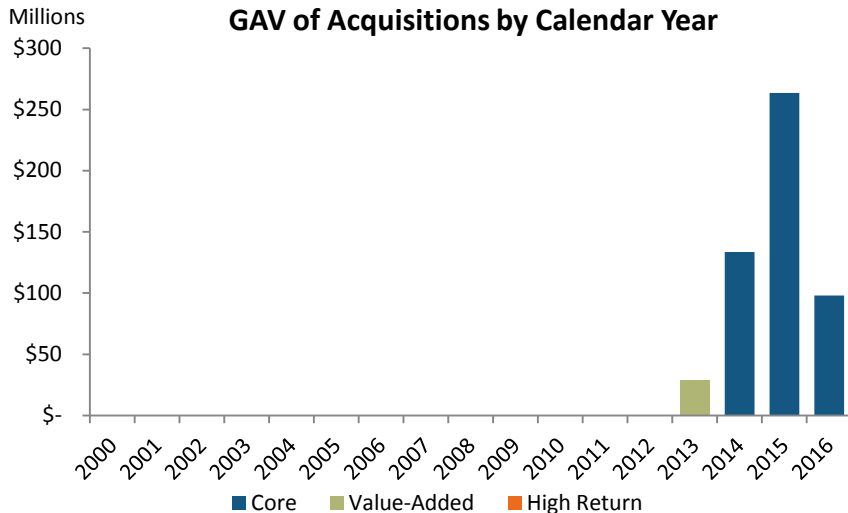
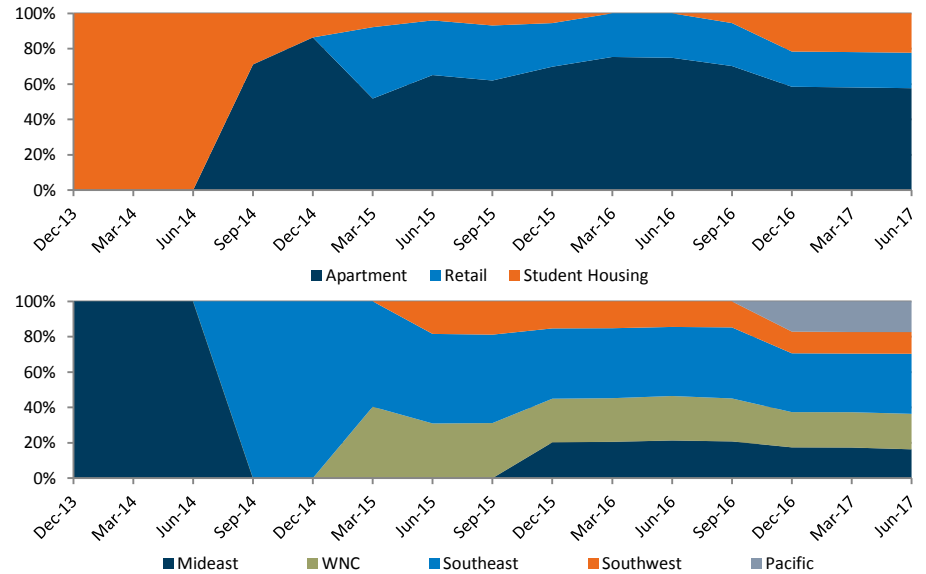
# Performance Attribution: Heitman

## Key Values

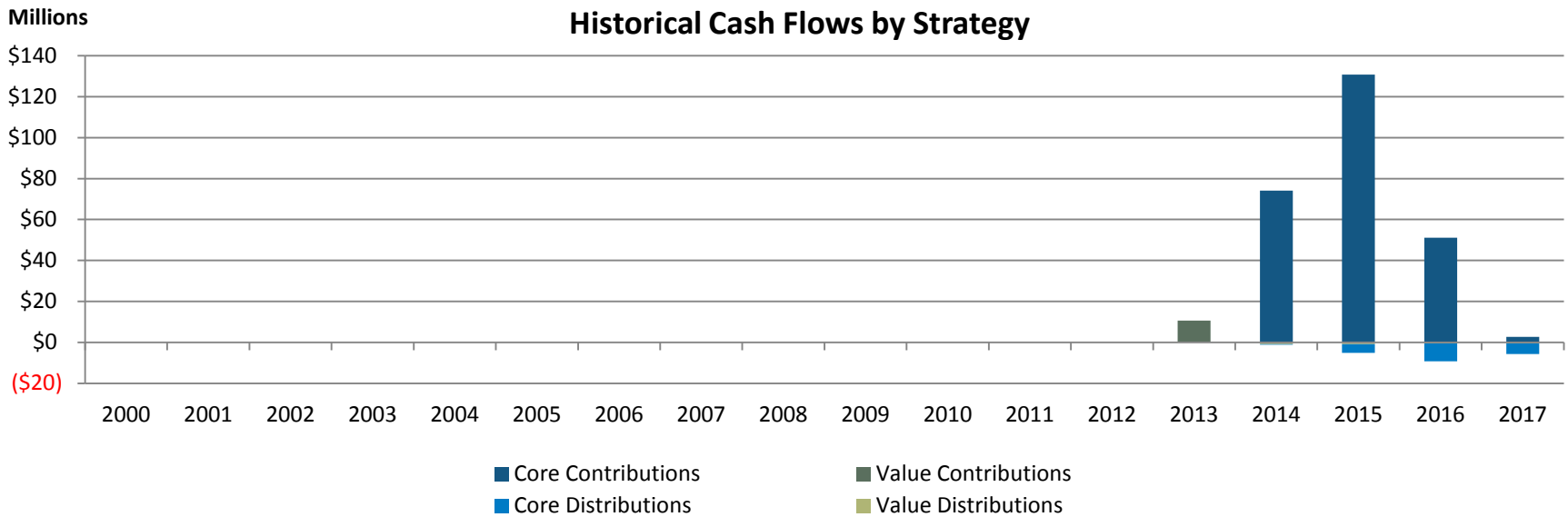
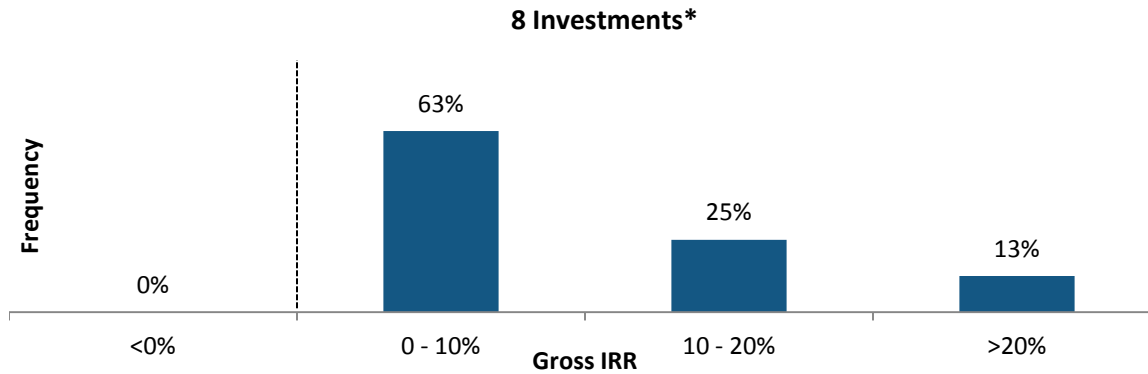
Market Value as of 6/30/17	\$292,832,097
Number of Properties as of June 30, 2017:	8
Account LTV (%)	48.1%

## Background

Relationship Inception:	1Q 2014
Capital Funded Since Inception:	\$269,650,348
Number of Properties acquired since inception:	8
Capital Returned Since Inception:	\$21,075,100
Number of Properties sold since inception	0
Since Inception IRR:	<u>8.2%</u>
Core Strategy:	8.0%
Value Strategy:	9.7%
High Return Strategy:	n/a



# Performance Attribution: Heitman



\* Number of Investments may not equal the number of properties listed on the previous page. If a property was moved between risk categories, this will count as two separate investments with individual IRRs.

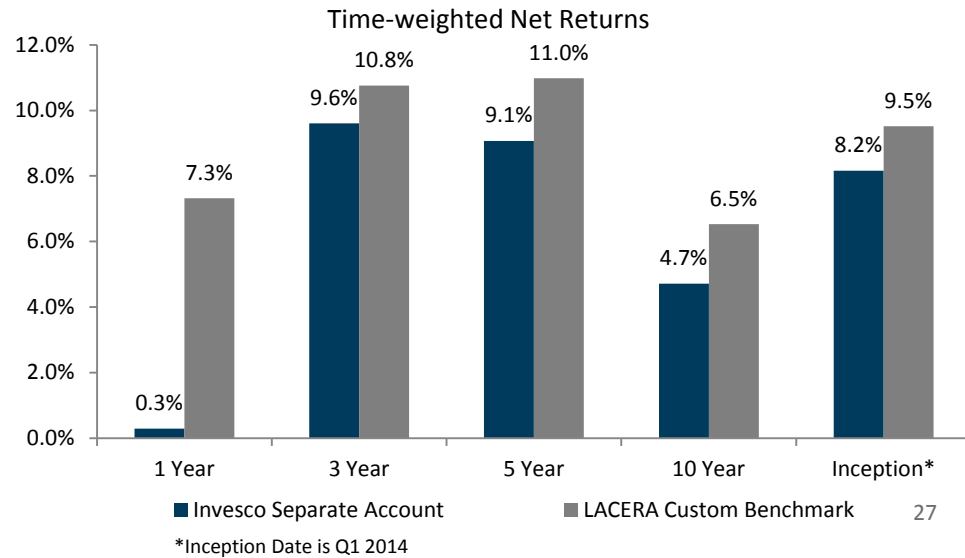
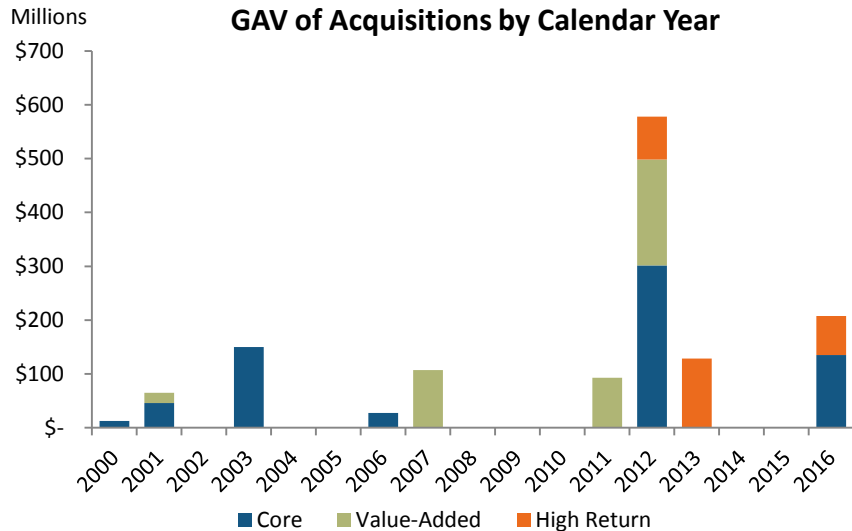
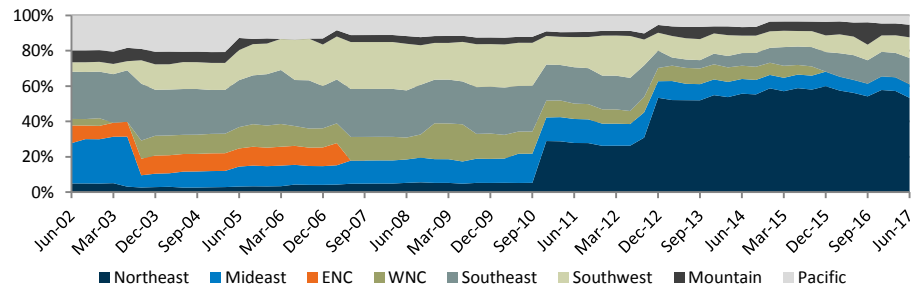
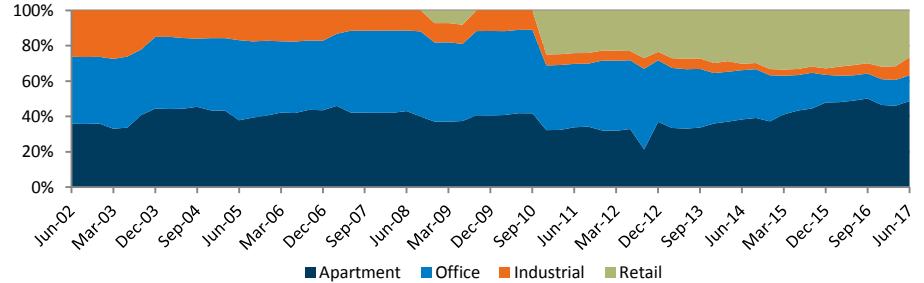
# Performance Attribution: Invesco

## Key Values

Market Value as of 6/30/17	\$924,631,929
Number of Properties as of June 30, 2017:	10
Account LTV (%)	36.7%

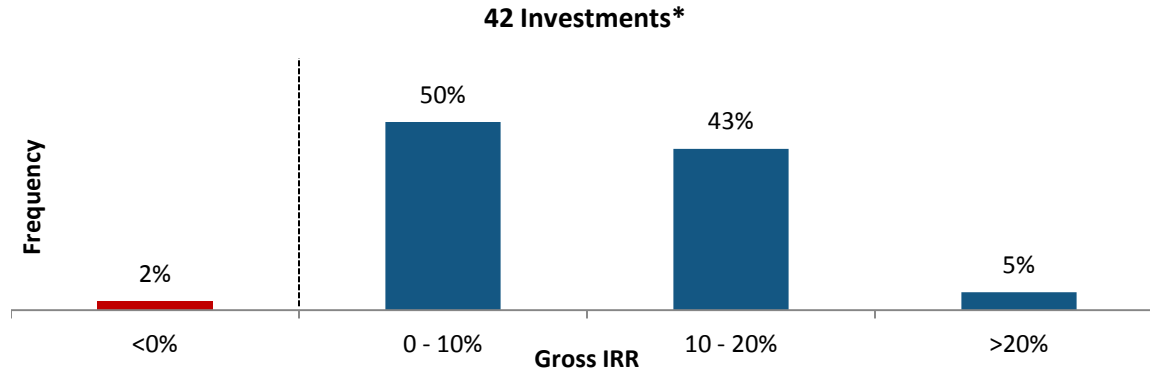
## Background

Relationship Inception:	2Q 1994
Capital Funded Since Inception:	\$2,118,863,168
Number of Properties acquired since inception:	39
Capital Returned Since Inception:	\$2,199,182,998
Number of Properties sold since inception	29
Since Inception IRR:	<u>8.5%</u>
Core Strategy:	8.7%
Value Strategy:	8.0%
High Return Strategy:	2.6%



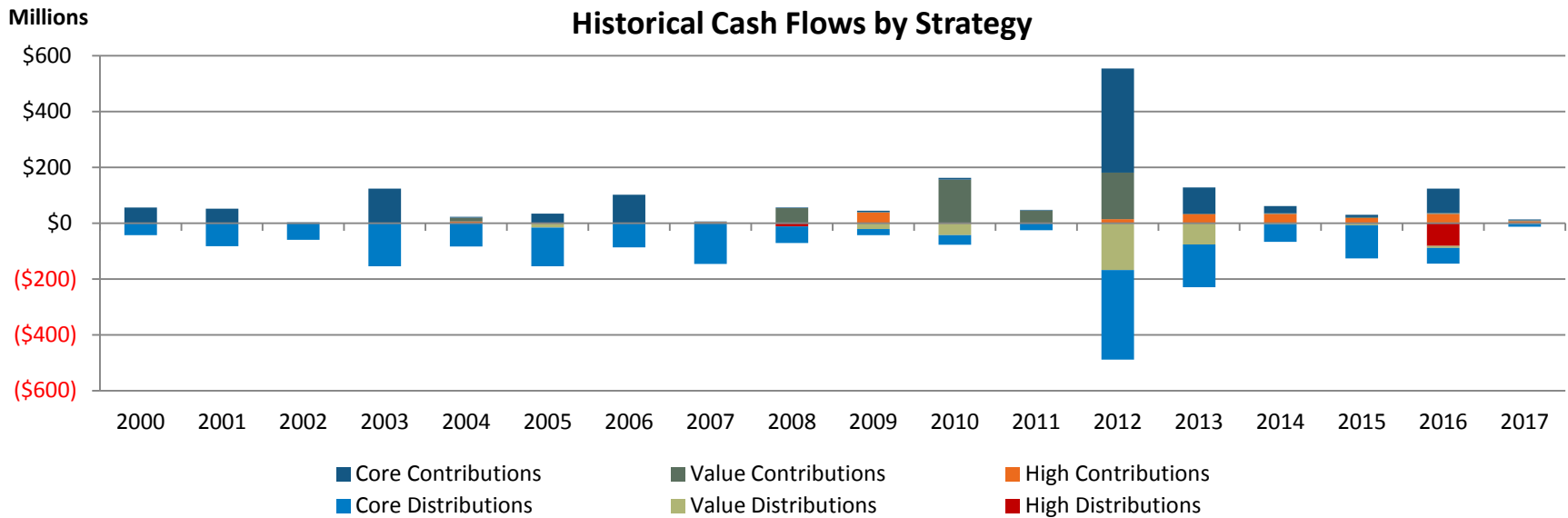


# Performance Attribution: Invesco



Underperforming Investments:

Park 20-360 (Development), -4.3% IRR (Peak Market Value: \$51.9 million). High Return asset currently experiencing J-curve.



\* Number of Investments may not equal the number of properties listed on the previous page. If a property was moved between risk categories, this will count as two separate investments with individual IRRs.

# Performance Attribution: Quadrant Debt

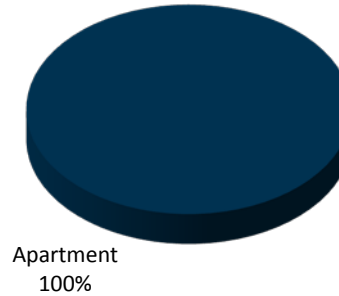
## Key Values

Market Value as of 6/30/17	\$26,390,463
Number of Properties as of June 30, 2017:	1
Account LTV (%)	0.0%

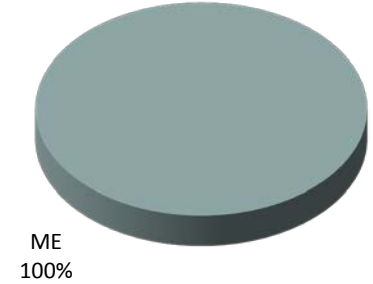
## Background

Relationship Inception:	3Q 2011
Capital Funded Since Inception:	\$56,686,858
Number of Properties acquired since inception:	4
Capital Returned Since Inception:	\$40,329,306
Number of Properties sold since inception	3
Since Inception IRR:	<u>7.4%</u>
Core Strategy:	n/a
Value Strategy:	n/a
High Return Strategy:	n/a

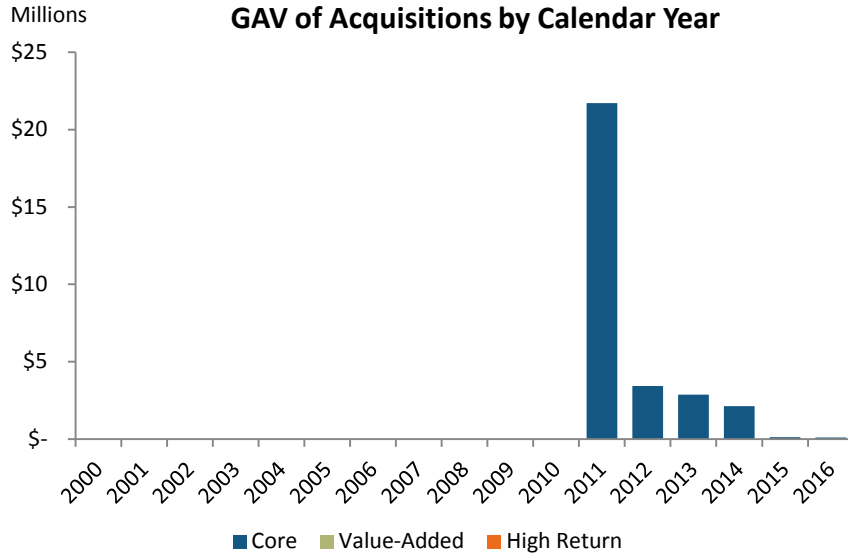
## Property Type Diversification



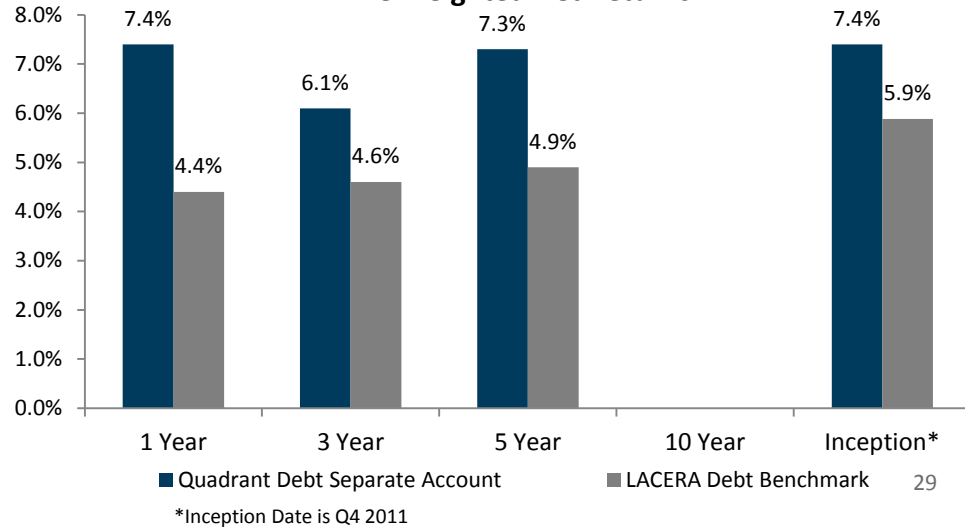
## Geographic Diversification



## GAV of Acquisitions by Calendar Year



## Time-weighted Net Returns



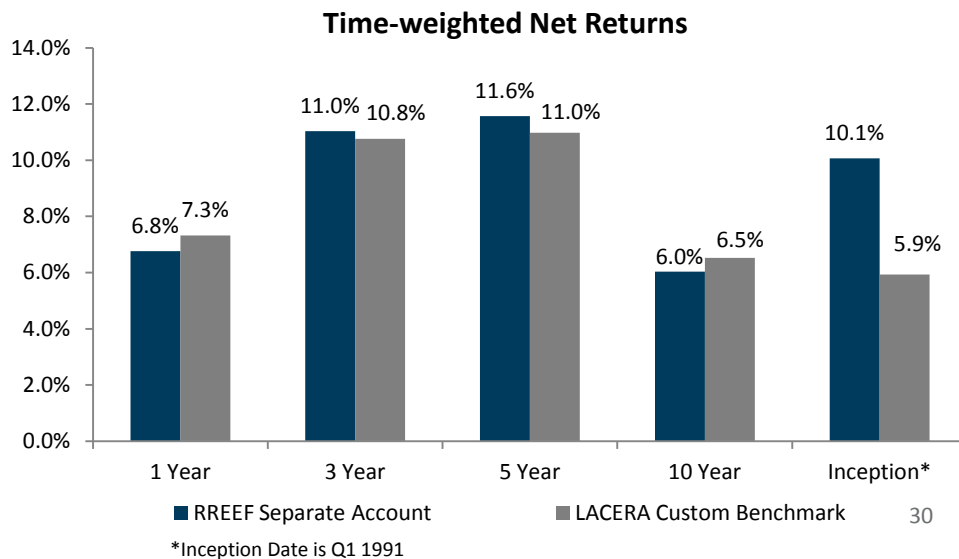
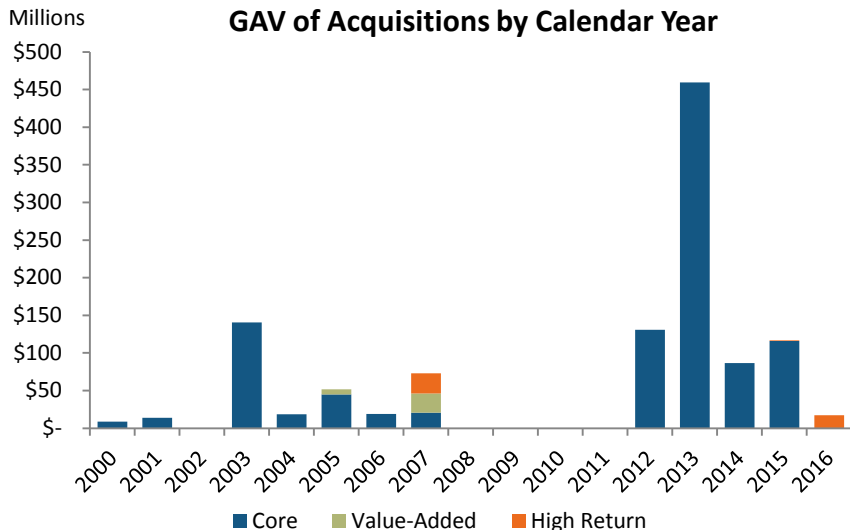
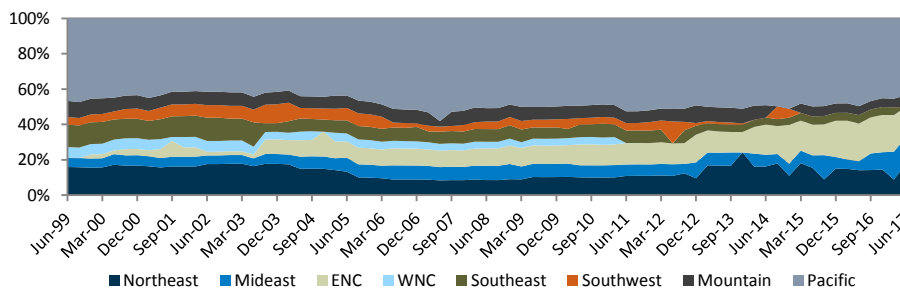
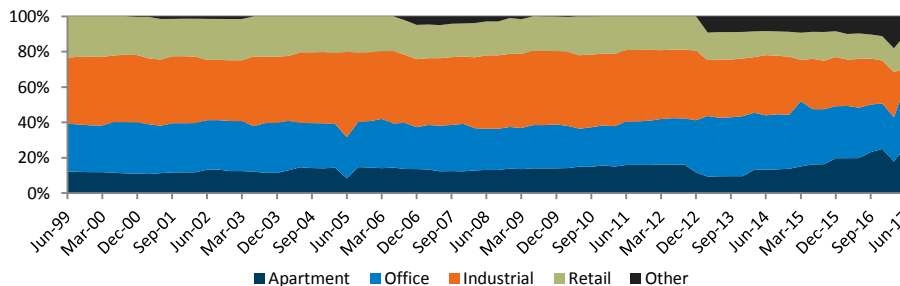
# Performance Attribution: RREEF

## Key Values

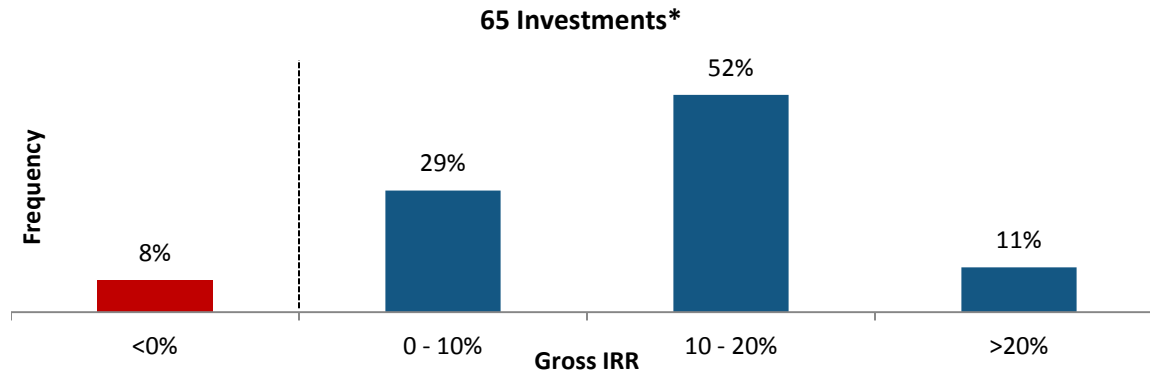
Market Value as of 6/30/17	\$944,518,262
Number of Properties as of June 30, 2017:	18
Account LTV (%)	30.8%

## Background

Relationship Inception:	4Q 2003
Capital Funded Since Inception	\$2,205,526,314
Number of Properties acquired since inception:	71
Capital Returned Since Inception:	\$3,078,797,874
Number of Properties sold since inception:	53
Since Inception IRR:	<u>10.2%</u>
Core Strategy:	10.6%
Value Strategy:	6.4%
High Return Strategy:	-7.9%

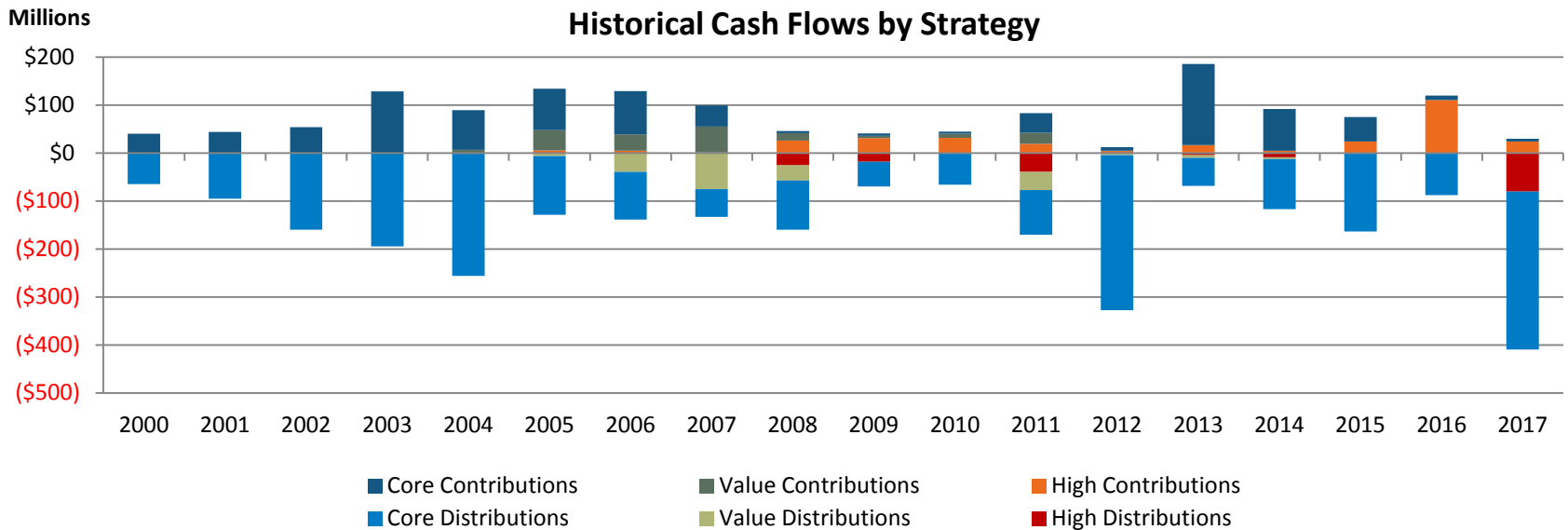


# Performance Attribution: RREEF



**Underperforming Investments:**

Centerview Marketplace, -8.1% IRR (Peak Market Value: \$8.5 million). Value Add asset sold in 2013.  
 Kendall Creek Apts, -3.7% IRR (Peak Market Value: \$17.3 million). Core Asset sold in 2011.  
 West Valley @ 212-Retail, -3.1% IRR (Peak Market Value: \$6.7 million). Value Add asset sold in 2014.  
 Woodcreek Plaza, -0.5% IRR (Peak Market Value: \$9.0 million). Core Asset sold in 2014.  
 Palomar Crest Corporate Center, -0.1 % IRR (Peak Market Value: \$20.9 million). Core Asset currently held in the IMA.



\* Number of Investments may not equal the number of properties listed on the previous page. If a property was moved between risk categories, this will count as two separate investments with individual IRRs.

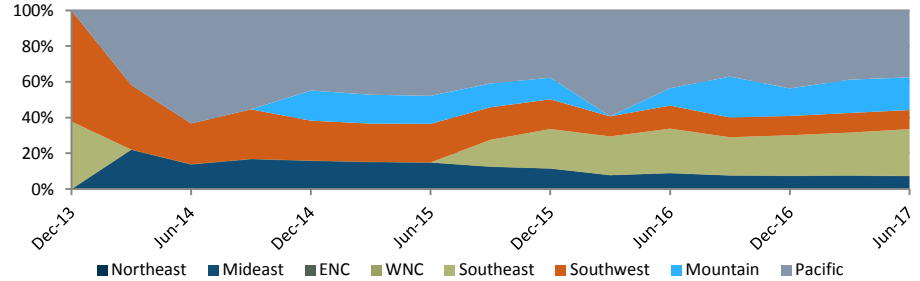
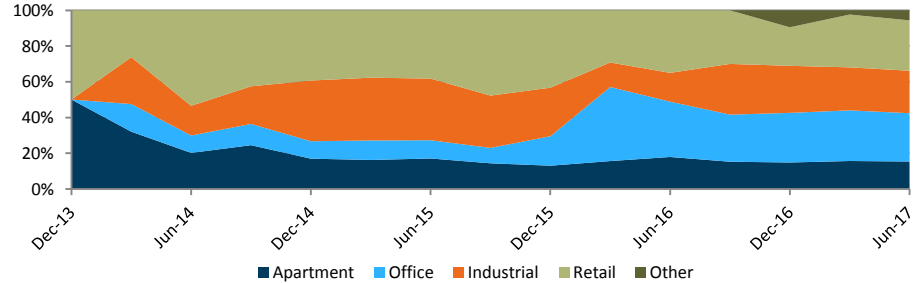
# Performance Attribution: Stockbridge

## Key Values

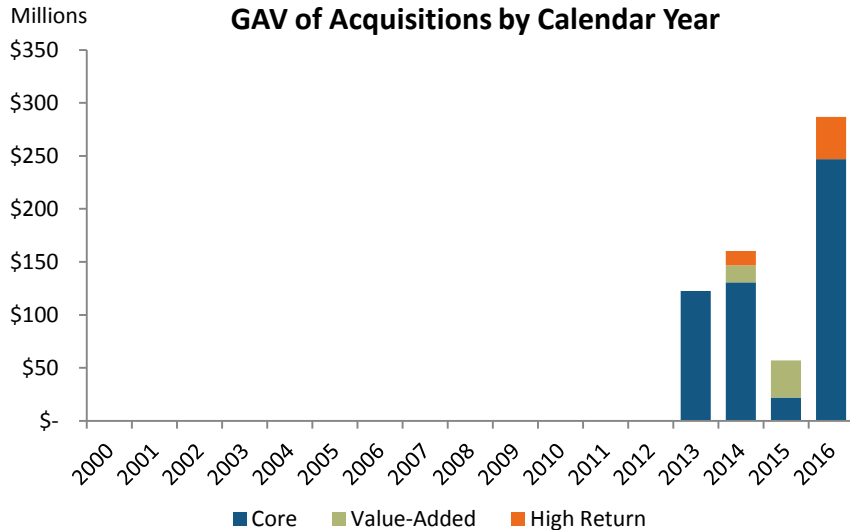
Market Value as of 6/30/17	\$426,748,598
Number of Properties as of June 30, 2017:	15
Account LTV (%)	38.0%

## Background

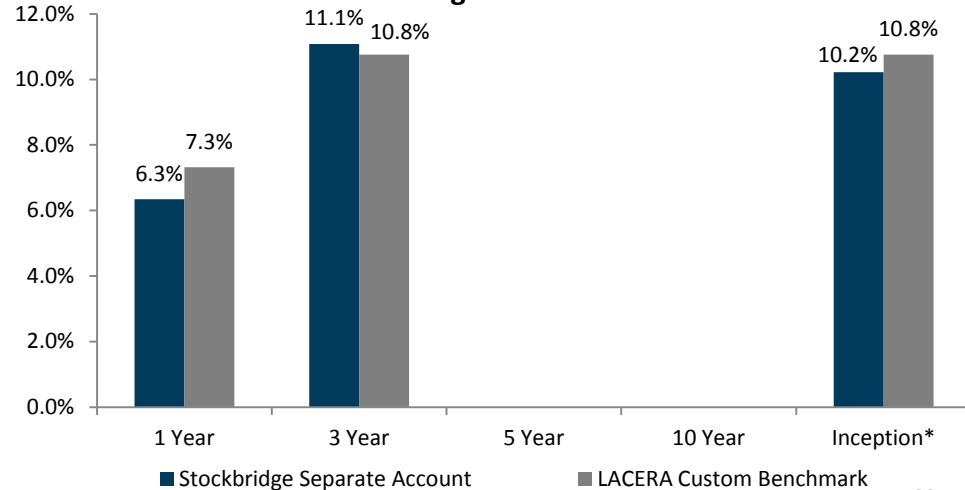
Relationship Inception:	4Q 2013
Capital Funded Since Inception:	\$636,290,440
Number of Properties acquired since inception:	16
Capital Returned Since Inception:	\$293,933,088
Number of Properties sold since inception	1
Since Inception IRR:	<u>9.8%</u>
Core Strategy:	10.2%
Value Strategy:	7.5%
High Return Strategy:	8.3%



## GAV of Acquisitions by Calendar Year

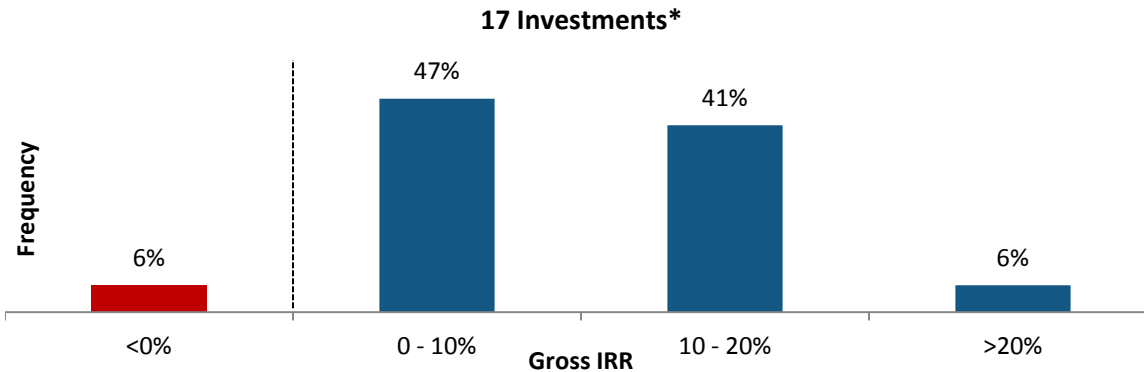


## Time-weighted Net Returns



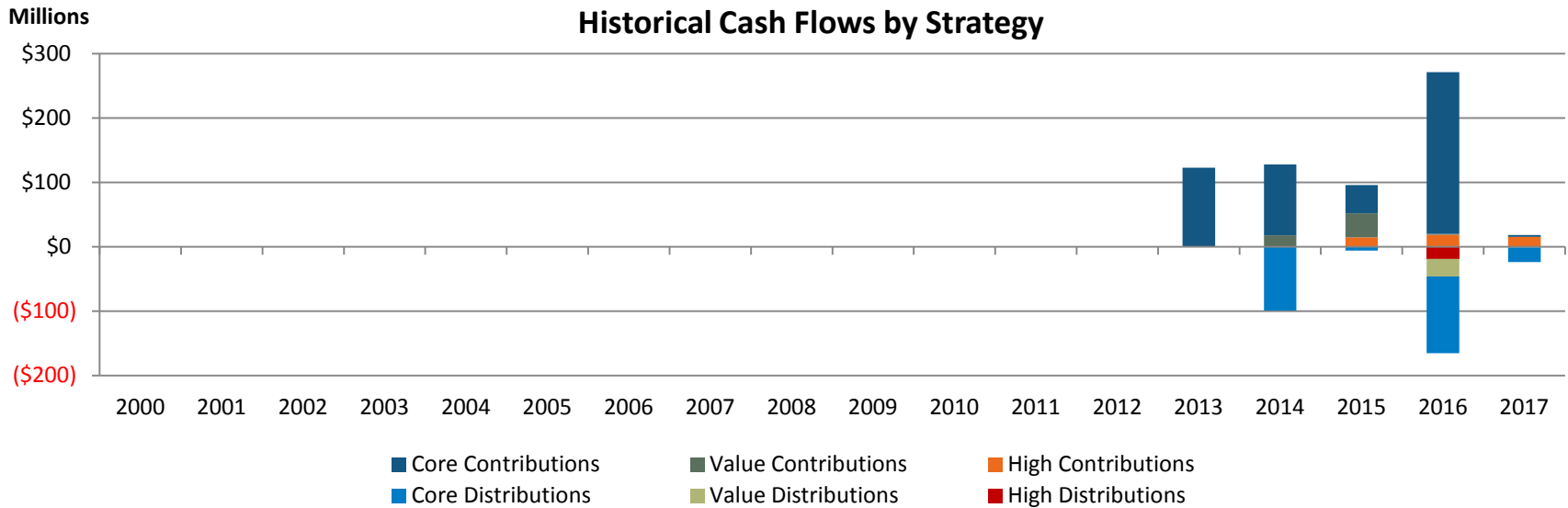
\*Inception Date is Q1 2014

# Performance Attribution: Stockbridge



Underperforming Investments:

Scripps Northridge (Core), -5.5% IRR (Peak Market Value: \$25.7 million). Core Asset currently held in the IMA.



\* Number of Investments may not equal the number of properties listed on the previous page. If a property was moved between risk categories, this will count as two separate investments with individual IRRs.

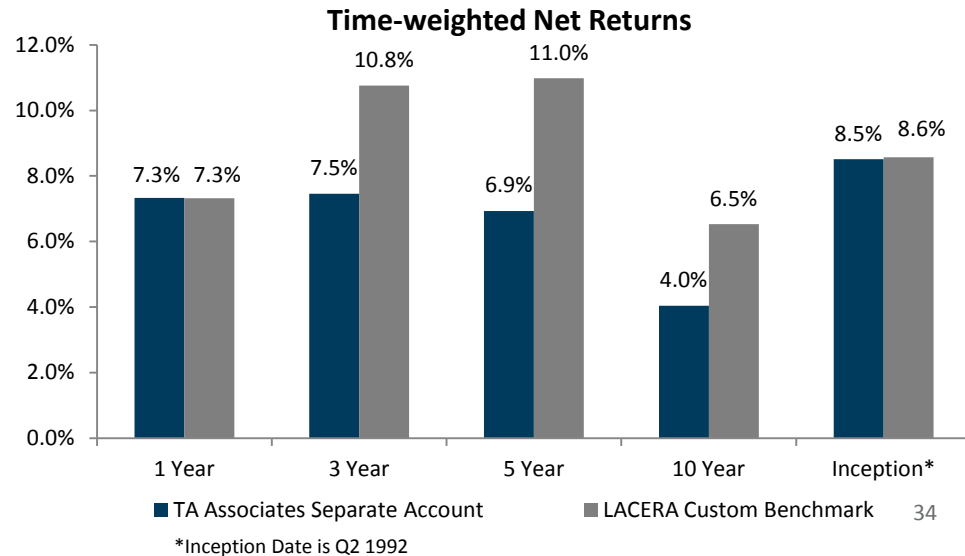
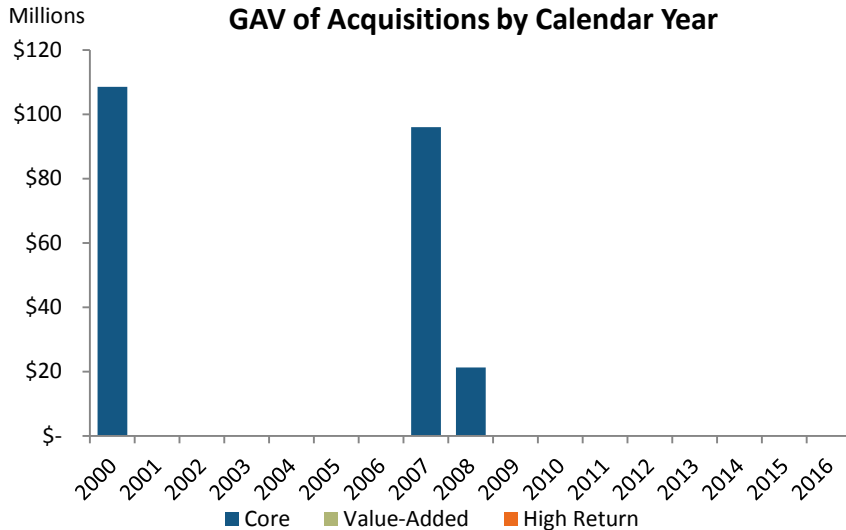
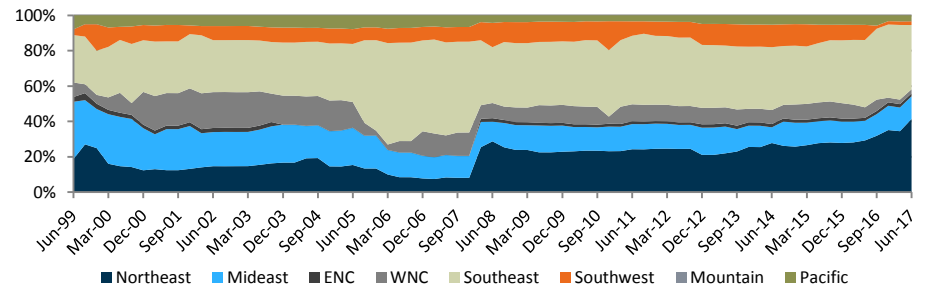
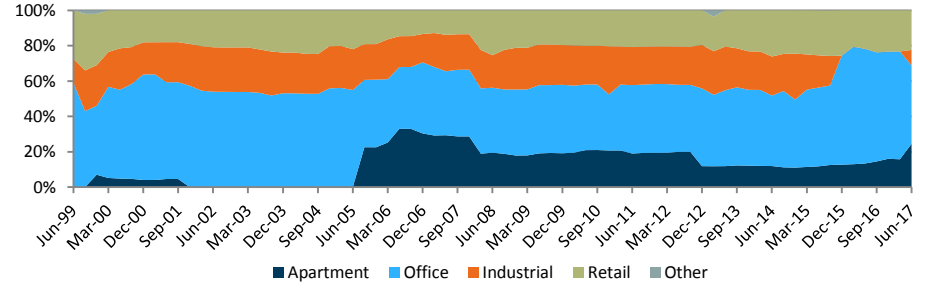
# Performance Attribution: TA Realty

## Key Values

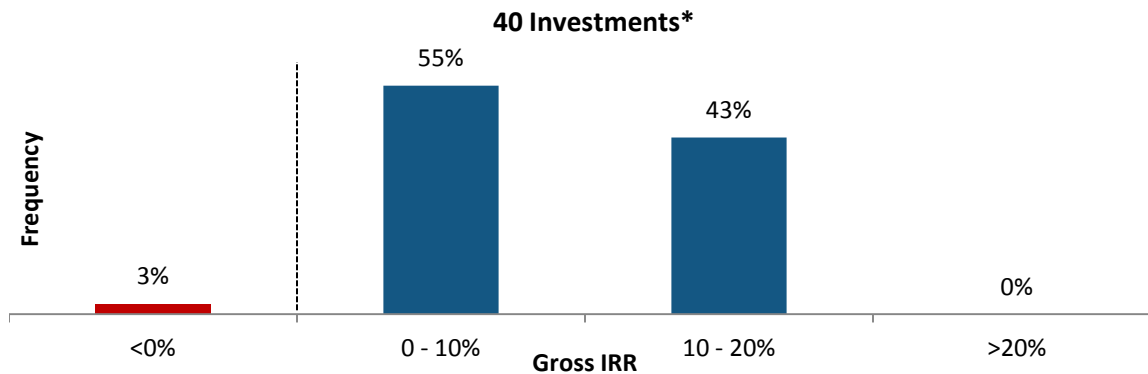
Market Value as of 6/30/17	\$831,453,202
Number of Properties as of June 30, 2017:	19
Account LTV (%)	26.1%

## Background

Relationship Inception:	2Q 1992
Capital Funded Since Inception:	\$2,113,284,459
Number of Properties acquired since inception:	40
Capital Returned Since Inception:	\$2,603,465,712
Number of Properties sold since inception	21
Since Inception IRR:	<u>8.5%</u>
Core Strategy:	8.8%
Value Strategy:	0.3%
High Return Strategy:	n/a

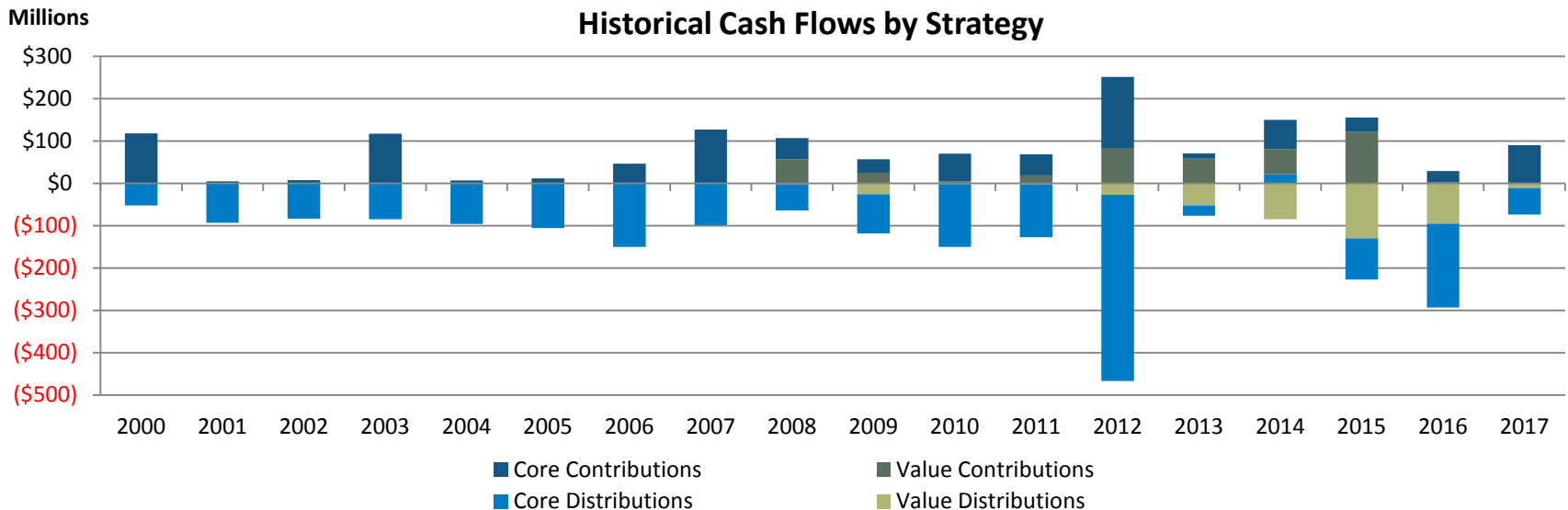


# Performance Attribution: TA Realty



Underperforming Investments:

Two Pershing Square, -1.8% IRR (Peak Market Value: \$71.7 million). Core Asset sold in 2016.



\* Number of Investments may not equal the number of properties listed on the previous page. If a property was moved between risk categories, this will count as two separate investments with individual IRRs.



# Conclusions and Future Considerations

## CONCLUSIONS

- The Core Separate Account program has been accretive to the Total Plan, and has advanced LACERA's objectives for real estate.
- The Value Separate Account program has lagged returns in the Core Separate Account program (to-date) while also incurring higher risk.
- The High Return Separate Account program has detracted from LACERA's Total Plan over the long-term, but near-term gains may offset losses over time.

## FUTURE CONSIDERATIONS

- Identify which specific managers have detracted from performance, and reevaluate the future of such relationships.
- Refocus specific managers on their strengths: strategy (core, value and/or high return), asset classes and geographies.
- Reconsider the pros/cons of ongoing separate account exposure, and whether reallocation to commingled funds could advance LACERA's objectives for certain strategies and points in the market cycle.

## NEXT STEPS

- LACERA Staff and Consultant will evaluate each Manager's performance and present recommendations based on findings at a future date

# Appendix



# Disclosures



# Disclosures

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