ATTACHMENT 1

REAL ESTATE INVESTMENT PLAN
FISCAL YEAR 2013-2014

INTRODUCTION

This Investment Plan (the Plan) sets forth the planned and expected real estate investment activity for the fiscal year 2013-2014. The Plan reflects (i.) the capital anticipated by the 2013-2014 operating plans for existing real estate holdings, (ii.) expected draws from commingled fund managers, and (iii.) investments to be made from current and proposed allocations to separate account managers. Several new investment opportunities, which would be subject to subsequent approval by the Board, are also included. Each of these components is separately discussed within this Plan.

SECTION I

REVIEW OF CURRENT AND PROJECTED PORTFOLIO STATUS AND RISK PROFILE

LACERA's real estate investment portfolio has a gross market value of $7.0 billion as of December 31, 2012. The portfolio is leveraged with $3.0 billion of third-party debt, resulting in net equity of $4.0 billion, or 9.3% of the total Fund assets. This is slightly below the asset allocation target of 10% but remains within the Investment Policy range of 7% to 15%.

EXHIBIT 1 illustrates that the portfolio of investments has an estimated value as of March 31, 2013 and is allocated 69% to core investments and 31% to non-core investments (24% to value-add and 7% to high return).[1] If the anticipated investment activity shown in **EXHIBIT 1** occurs, the allocation to the core portion of the portfolio will increase to 70% and the non-core sectors would decrease to 30%. Value-add and high return investments are classified as non-core until construction, renovation or releasing is completed, at which time they would be sold or transitioned to core for long-term hold.

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[1] Estimated value based upon December 31, 2012 reported valuations plus activity through March 31, 2013.

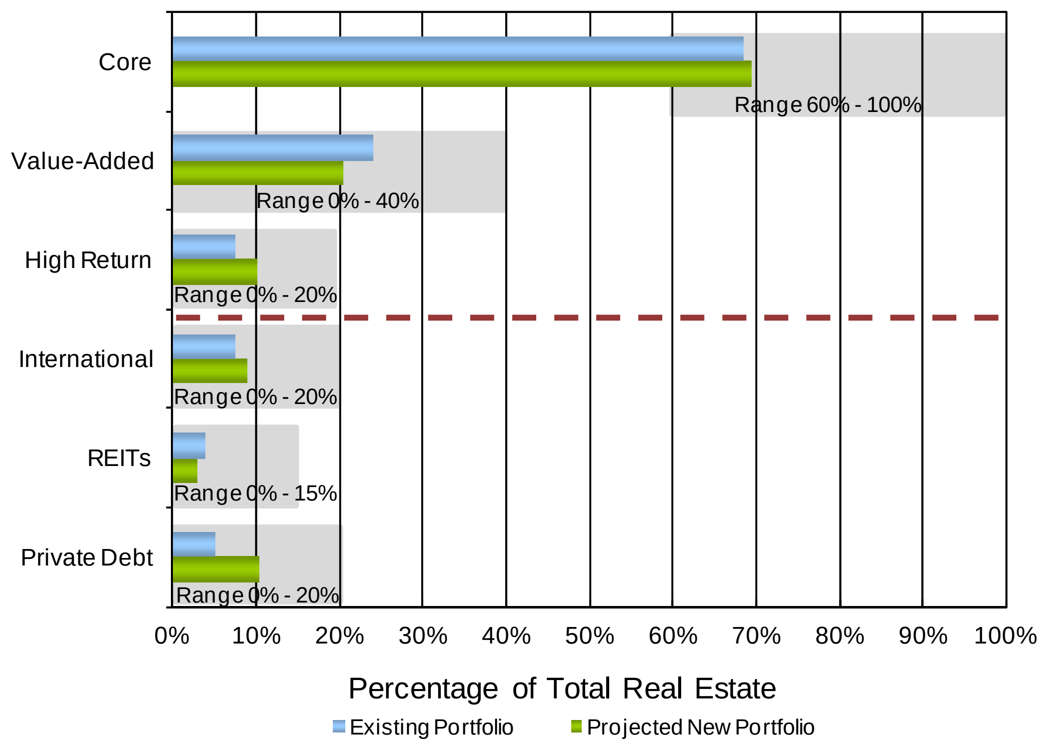
EXHIBIT 1
Anticipated Investment Activity for Fiscal Year 2013-2014
(in millions)

	Risk Sectors			
	Core	**Value Add**	**High Return**	**Total**
Beginning of Year (Value as of 3/31/13) *	**$2,716**	**$950**	**$299**	**$3,965**
% of Total Real Estate	68.5%	24.0%	7.5%	100.0%
Real Estate as % of LACERA Assets				9.3%
Total Anticipated Investment Activity	$868	$240	$283	$1,391
Sales Proceeds	($207)	($197)	($90)	($494)
Net Change During Year	$661	$42	$194	$897
End of Year Projection (6/30/14)	$3,377	$992	$493	$4,862
% of Total Real Estate	69.5%	20.4%	10.1%	100%
Real Estate as % of LACERA Assets				**10.9%**

***Market values as of 12/31/12, plus subsequent activity through 3/31/13**

EXHIBIT 2 illustrates that the portfolio is expected to remain in compliance with LACERA's Real Estate Objectives, Policies & Procedures, which calls for a minimum of 60% of the portfolio to be invested in lower risk, core investments. Core exposure is expected to increase as a result of planned activity. Portfolio exposure to international real estate, REITS and private debt is also expected to remain within Board-approved ranges.

EXHIBIT 2
Real Estate Investment by Risk Sector & Other Limits
(Market value as of 12/31/12, plus subsequent activity through 3/31/13)

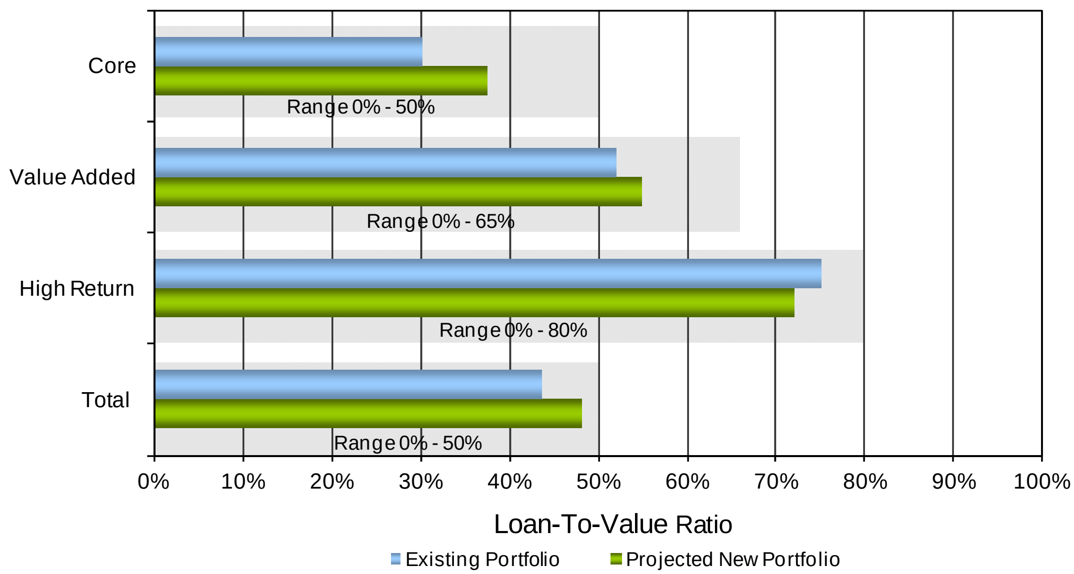


SECTION II

PORTFOLIO LEVERAGE

EXHIBIT 3 illustrates the Fund's leverage ratios for the various risk sectors. The amount of existing leverage on the portfolio totals $3 billion, indicating a total loan-to-value of 44%. This includes the contingent liability created by the Fund's guaranty of debt relating to the single-family homebuilding program.

EXHIBIT 3
Leverage Summary



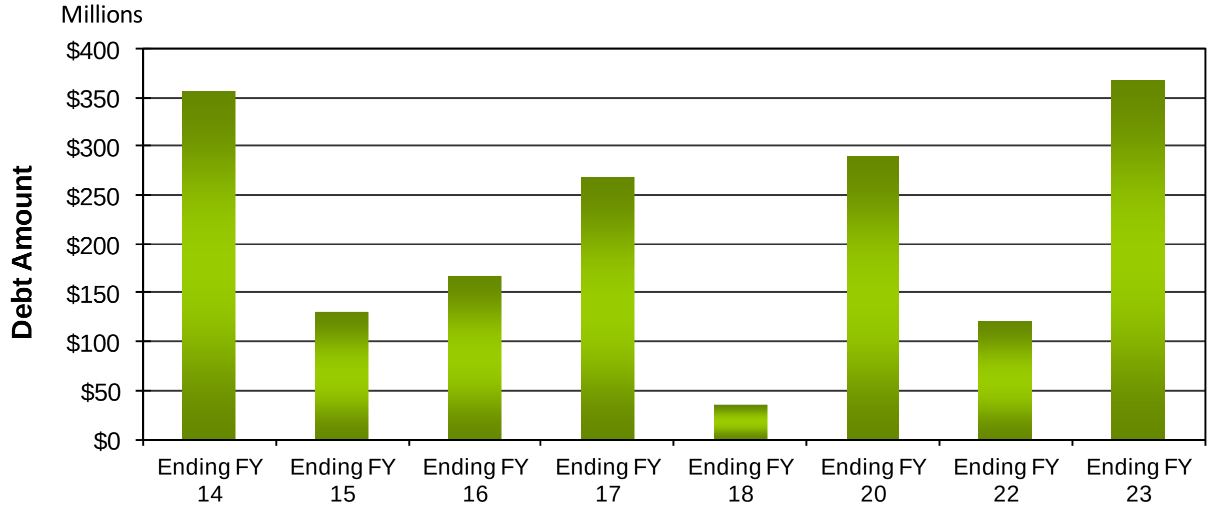
As a result of anticipated investment activity during the fiscal year 2013-2014, the total leverage amount is expected to increase to 48%. The increased use of leverage is primarily attributed to: (1) the increased use of third-party debt on the new acquisitions; (2) the assumption that 50% leverage is employed on the debt investment program; and (3) potential commingled fund investments that would utilize leverage. All leverage activity is in compliance with LACERA's Real Estate Objectives, Policies & Procedures.

EXHIBIT 4 illustrates that a significant amount ($356 million) of outstanding debt matures during the fiscal year ending 2014. This is primarily attributable to debt from three investments: the single family homebuilding program and construction loans for apartment and office developments. The leverage used in the housing program will be evaluated during the year and a recommendation to refinance, pay down or pay off the debt will be presented to the Board for consideration.[2] The debt associated with the apartment and office developments will likely be refinanced with a longer term loan approximately three months prior to maturity.

Most loans are expected to be refinanced as they mature, as long as debt at moderate levels, for seasoned, operating properties remains generally available at attractive interest rates. Note that any new debt secured by the core portfolio will have staggered maturity terms so as to mitigate refinance risk in the future. Staff and the managers will continue to closely monitor the leverage for all assets on a case-by-case basis.

[2] This is discussed further in Section V below.

EXHIBIT 4
Separate Accounts Loan Maturity
(Assuming extensions in progress are executed)



SECTION III

SUMMARY OF PROPOSED INVESTMENTS

The anticipated and proposed investment activity has numerous components. These include completing existing funding obligations, realizing sales proceeds from manager-directed dispositions as well as **new acquisitions and commingled fund commitments**. Key components of the proposed plan which would be approved if this Plan is adopted are:

- Reset the amount of capital available for investment by the incumbent separate account equity managers to **$300 million**.[3]

- Increase the capital available to Cornerstone for investment in debt by **$100 million**

Other components of the plan would be completed only upon receiving separate approval from the Board (such as for a new commingled fund commitment) or via delegated authority to Staff (such as a co-investment in an amount less than $50 million).

[3]Note that the three new separate account equity managers are receiving individual allocations of capital and will not have access to this capital.

SECTION IV

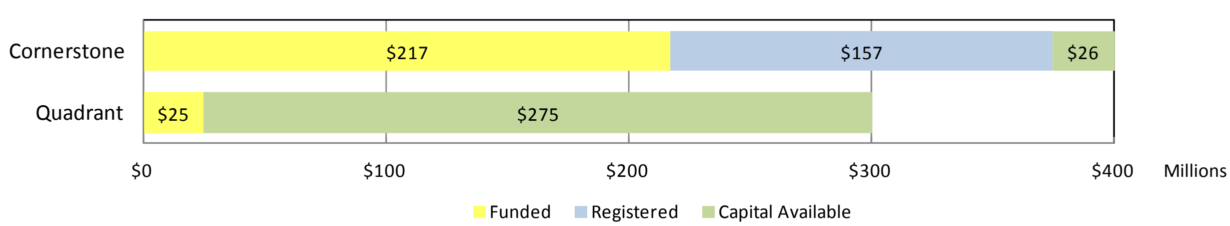
EXISTING CAPITAL COMMITMENTS

Separate Account Assets:
Separate account equity managers project that approximately **$30** million will be required for capital improvements such as leasing costs, roof replacements, tenant improvements, and various other shortfalls not covered by cash flow from the assets.

Commingled Funds:
LACERA has utilized commingled fund vehicles to access investments that are either not feasible or available on a separate account basis. Further, commingled funds have been used for international and hospitality investments largely because of the diversification benefits and limited liability the vehicles offer. There remain $405 million of outstanding commitments to commingled funds as of March 31, 2013. These funds are listed in **APPENDIX A**. Staff estimates that approximately $142 million of the remaining commitments will be drawn during the fiscal year ($75 million within the U.S. and $67 million internationally).

Commercial Real Estate Debt:
Managers of the Fund's commercial real estate debt investment program are actively searching for investments. **EXHIBIT 5** illustrates the amount of investment completed by each manager as of March 31, 2013.[4] Based on current and projected demand for new loans, the managers anticipate deploying $152 million of LACERA's allocation of $700 million during the fiscal year. Additional allocation recommendations for the separate account debt managers also appear in **Section V** below.[5]

EXHIBIT 5
Summary of Debt Investment Volume
(in millions)



Sales/ Loan Proceeds and Distributions:
Separate account equity and debt managers as well as the single-family homebuilding program are expected to sell assets that will generate an estimated **$477** million in proceeds to the Fund.[6] Existing commingled fund investments are expected to generate **$17** million of distributions during the fiscal year.

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[4] This exhibit includes investments registered as of May 31, 2013.
[5] Note that allocations to debt managers are done on a manager-by-manager basis while allocations to equity managers are made by risk sector.
[6] The annual hold-sell analysis resulted in 21 properties being identified by the managers as disposition candidates ($247 million of core, $150 million of value-add and $1.2 million of high return).

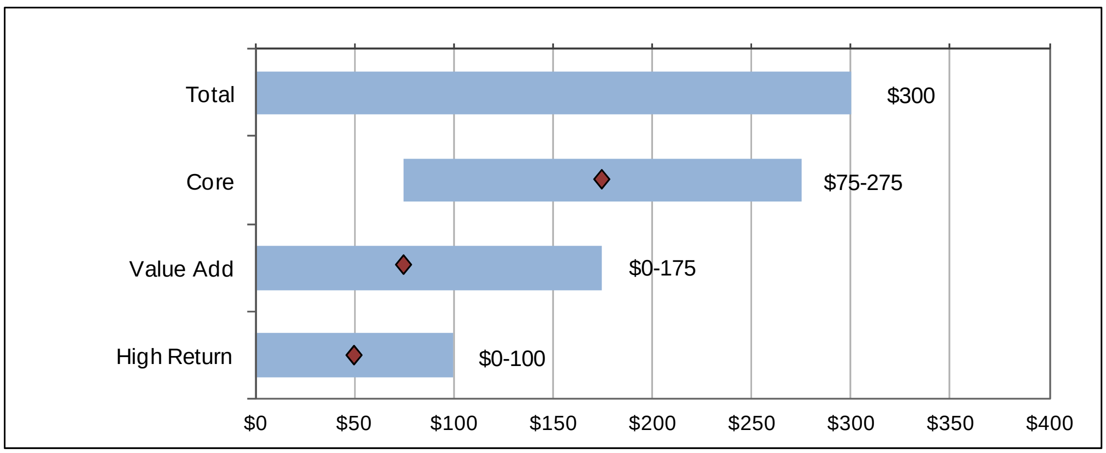
SECTION V

NEW CAPITAL INVESTMENTS

Separate Account Allocation-Equity Managers:

The Plan recommends **resetting** the amount of capital available for investment by existing separate account managers to $300 million as shown in **EXHIBIT 6**. The exhibit also illustrates the range and target proposed for each risk category. Staff will adjust the actual amounts made available for each category during the year based on market opportunities. No adjustment will be made outside the approved range (shown in EXHIBIT 3) without Board action.

EXHIBIT 6
Proposed Separate Account Capital-Equity
(in millions)



Notwithstanding the proposed allocation amount, Staff expects that only **$150 million** of this allocation will actually be invested (called/funded) in the upcoming fiscal year. The difference between the amounts allocated and funded reflects the fact that LACERA must make the capital available to the managers so they may submit bids for properties. However, not all of the bids will be successful.[7] Additionally, the allocation provides sufficient funds so that the Managers can take advantage of attractive opportunities should they be more successful than anticipated identifying investments.

Four of LACERA's six domestic separate account managers may be allowed to invest on LACERA's behalf. These include INVESCO, TA Realty, RREEF and Capri Capital.[8]

Staff notes that $600 million of manager-specific allocation approved in May 2013 is unrelated to (i.e. in addition to) the proposed risk category allocation discussed above. Staff anticipates that the three new managers, Clarion, Heitman and Stockbridge, will deploy approximately $300 million (of the $600 million) in fiscal year ending 2014.

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[7] Managers will frequently register a property with LACERA (at which time we reserve capital for the property), and then de-register the property 30-60 days later if they were not able to negotiate an acceptable deal or are not the successful bidder.

[8] Capri Capital will have very limited access to new capital as they are very near the limit on the amount of capital that can be invested by an emerging manager.

Separate Account Allocation-Debt Managers:

The Plan proposes an additional allocation to Cornerstone in order to allow them to take advantage of continued attractive lending opportunities as shown in **EXHIBIT 7**. This would bring the total allocation to real estate lending to $800 million. Staff expects that the entire **$100 million** will be invested in the upcoming fiscal year.

EXHIBIT 7
Separate Account Capital-Debt
(in millions)

Manager	Current Allocation	Proposed New Allocation	Total Allocation
Cornerstone	$400	**$100**	$500
Quadrant	$300	-	$300
Total	**$700**	**$100**	**$800**

Commingled Funds:

The Plan anticipates that up to $700 million in new commitments could be made in to-be-determined domestic and international commingled fund opportunities. Any new commingled fund investment would be the subject of a separate recommendation and approval by the Board.

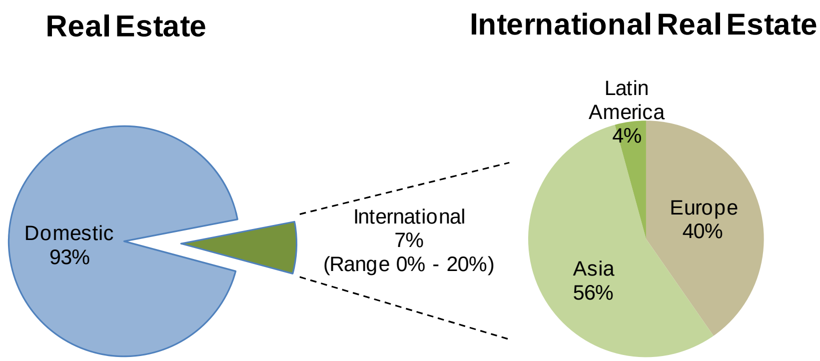
Domestic:

Attractive domestic commingled fund investments may be identified during the fiscal year. Staff is also reviewing opportunities in Student Housing, Senior Housing and Medical Office. Staff has "ear-marked" up to $350 million for such opportunities. Of this amount, **$75 million** is projected to be invested during the fiscal year.

International:

The International component of the Real Estate portfolio has a market value of $282 million (7% of the total real estate portfolio) as illustrated in **EXHIBIT 8**. There are twelve commingled funds (six targeting Europe, four targeting Asia and two that invest globally), and one separate account that invests in publicly traded securities ($147 million market value as of March 31, 2013).

EXHIBIT 8
International Exposure



Attractive new international investment opportunities appear to be available in all geographic regions. Thus, this Investment Plan anticipates increased commitments (up to **$350 million**) outside the United States. Staff intends to evaluate investment opportunities in Latin America during the fiscal year. Investment opportunities in Europe and Asia will also be considered.

For planning purposes, Staff has preliminarily targeted **$100 million** of new commitment activity to each of the European and Asian regions. We are also anticipating new commitments of **$150 million** to Latin America as illustrated in **EXHIBIT 9**. Notwithstanding these possible investments, only **$75 million** of this capital is projected to be called during the fiscal year since the majority of the investment activity would likely take place in the following year.

EXHIBIT 9
SUMMARY OF ANTICIPATED INTERNATIONAL ACTIVITY
($ in millions)

Global Region	Current Commitment	Anticipated New Commitments	Total Commitments
Asia	$200	$100	$300
Europe	$182	$100	$282
Global	$102	$0	$102
Latin America	$0	$150	$150
Global REITS	$100	$0	$100
Total	**$584**	**$350**	**$934**

<u>Co-Investments:</u>
The Plan anticipates that **$100 million** may be directed to new co-investments in to-be-determined opportunities. This amount is included so that LACERA's Staff is in a position to react promptly to attractive co-investment opportunities that arise during the fiscal year. The Co-Investment Policy included within LACERA's Real Estate Objectives, Policies & Procedures provides Staff with commitment authority for individual opportunities that do not exceed $50

million and are located within the United States.[9] Any individual co-investment that exceeds $50 million or is located outside of the United States would be the subject of a separate recommendation and approval by the Board. Staff would not commit to co-investments in an amount that exceeds this $100 million limit **in aggregate** without further authorization from the Board. **Fifty million** of co-investment is projected to be invested during the fiscal year.

Single-Family Homebuilding Program:

The Housing Program remains in liquidation. During the first three quarters of the fiscal year, lot holdings have been reduced by 25% from 3,736 to 2,808 and $38 million of net distributions have been made to LACERA during the first three quarters of the fiscal year. The liquidation efforts will continue in the 2013-2014 fiscal year.

The housing program continues to use the entire $300 million line of credit that is guaranteed by LACERA. The current interest rate on the line is 1.91%, which is significantly lower than the typical profit margin of 14% being realized from the build-out effort. Thus, using the line of credit is accretive to program returns. The Board has authorized the guaranty through October 2013. Staff will present a review of the loan guaranty and advance a recommendation regarding its continuance, replacement or cancellation early in the new fiscal year.

SECTION VI
SUMMARY OF ANTICIPATED INVESTMENT ACTIVITY

Projected activity from the various components of the Plan are summarized in **EXHIBIT 10**. Note that this summary illustrates projected deployment of capital, which is considerably less than the allocation of capital included in the Plan. As mentioned in **Section V** above, the "over-allocation" is required in order to permit managers to register opportunities, even though not all of the registered investments will be consummated. Additionally, commingled fund commitments are typically drawn down over several years.

[9] Staff authority in this context would require the approval of the Chief Investment Officer.

EXHIBIT 10
Projected Capital Activity

Investment Activity	$ in millions
Existing Capital Commitments	
Separate Account	$190
Commingled Funds - U.S.	$75
Commingled Funds - Int'l	$67
Debt Investments	$309
Sub-Total Existing Commitments	**$641**
Less	
Expected Sales	($477)
Commingled Funds Distributions	($17)
Sub-Total Sales/Distributions	**($494)**
Anticipated New Capital Invested	
Separate Account-Equity	$150
Separate Account-Debt	$100
Co-Investments	$50
Commingled Funds - Int'l	$75
Commingled Funds - U.S.	$75
3 New Separate Account-Equity	$300
Sub-Total New Capital	**$750**
Total Net Expected Investments/Allocation	**$897**

SECTION VII
OTHER ACTIVITY

Independent Fiduciaries Search:

Staff observes that co-investment opportunities presented by non-LACERA managers may best be underwritten and/or reviewed on LACERA's behalf by an independent fiduciary. Since such opportunities often require prompt response, Staff anticipates identifying a pool of independent fiduciaries that could be called upon to perform investment analysis on an as-needed basis. Staff anticipates advancing a search recommendation for such fiduciaries to the Board during the fiscal year.