



LOS ANGELES FIRE & POLICE PENSION SYSTEM

III. BOARD INVESTMENT POLICIES

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LOS ANGELES FIRE & POLICE PENSION SYSTEM

III. BOARD INVESTMENT POLICIES

Policy Review Due Dates

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Section 1.0	-	Investment Guidelines Policy.....	10/2016
Section 2.0	-	Private Equity Investments Policy.....	09/2016
Section 3.0	-	Real Estate Policy.....	09/2016
Section 4.0	-	Commodities - Energy Policy.....	09/2016
Section 5.0	-	Emerging Managers Policy.....	09/2016
Section 6.0	-	Risk Management Policy	09/2016
Section 7.0	-	Proxy Voting Policy	09/2016
Section 8.0	-	Manager Selection and Retention Policy	02/2017
Section 9.0	-	Marketing Cessation Policy	02/2016
Section 10.0	-	Securities Litigation Policy	09/2016
Section 11.0	-	Sudan Policy	09/2016
Section 12.0	-	Duties of Responsible Parties	09/2016
Section 13.0	-	Addressing Social, Political, and Human Rights Issues	09/2016
Section 14.0	-	Iran Policy	09/2016
Section 15.0	-	Firearms Investment Policy.....	09/2016

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Los Angeles Fire & Police Pension System

1.0 - INVESTMENT GUIDELINES POLICY

PURPOSE

- 1.1 This document provides a framework for the investment management of the assets of the Los Angeles Fire and Police Pension Plan (“LAFPP,” and hereafter known as the “System”, “Fund” or “Plan”). Its purpose is to assist the Board in effectively supervising and monitoring the investments of the System. Specifically, it will address:
- A. The general goals of the investment program;
 - B. The policies and procedures for the management of the investments;
 - C. Specific asset allocations, minimum diversification requirements, rebalancing procedures, and investment guidelines;
 - D. Performance objectives and criteria for investment performance evaluation; and
 - E. Responsible parties.

The System establishes this investment policy in accordance with Section 1106 of the Charter of the City of Los Angeles (“City Charter”) for the systematic administration of the Retirement Fund. Since its creation, the Board’s activities have been directed toward fulfilling the primary purpose of the System, as described in Section 1106:

“...to provide benefits to system participants and their beneficiaries and to assure prompt delivery of those benefits and related services; to minimize City contributions; and to defray the reasonable expenses of administering the system...The duty to system participants and their beneficiaries shall take precedence over any other duty.”

The System is an independent department of the City government and is governed by a nine member Board and administrative general manager. In the formation of this investment policy and goal statement, a primary consideration of the Board has been its awareness of the stated purpose of the System. The Board’s investment activities are designed and executed in a manner that will fulfill these goals.

This policy statement is designed to allow for sufficient flexibility in the management oversight process to capture investment opportunities as they may occur, while setting forth reasonable parameters to ensure that prudence and care is taken in the execution of the investment program.

Some investment areas are complex enough to have their own sub-policies. These include private equity, real estate, emerging managers, commodities, manager selection and retention, and proxy voting. These sub-policies are found according to their subject heading in the following sections of the Investment Policy.

INVESTMENT OBJECTIVES

- 1.2 The System's general investment goals are broad in nature. The following goals, consistent with the above described purpose, City Charter citations, and State Constitution are adopted:
- A. The overall goal of the System's investment assets is to provide plan participants with post-retirement benefits as set forth in the System documents. This will be accomplished through a carefully planned and executed investment program.
 - B. A secondary objective is to achieve an investment return that will allow the percentage of covered payroll the City must contribute to the System to be maintained or reduced, and will provide for an increased funding of the System's liabilities.
 - C. The System's assets will be managed in a manner that is cognizant of risk adjusted rates of return. While the System recognizes the importance of the preservation of capital, it also adheres to the principle that varying degrees of investment risk are generally rewarded with compensating returns. Some risks, such as normal market volatility are generally unavoidable. Other risks, such as investing in emerging markets are knowingly assumed and to a certain degree necessary to implement an Asset Allocation Plan that will meet target returns. Consequently, prudent risk-taking is warranted within the context of overall portfolio diversification. Controlling and eliminating unnecessary risks is important to the Plan. As a result, investment strategies are considered primarily in light of their impacts on total plan assets subject to the provisions set forth in Section 1106 of the City Charter with consideration of the Board's responsibility and authority as established by Article 16, Section 17 of the California State Constitution. Risk is further addressed in Section 6.0 – Risk Management Policy.
 - D. The System's investment program shall, at all times, comply with existing and future applicable city, state, and federal regulations.
 - E. All transactions undertaken will be for the sole benefit of the System's participants and beneficiaries and for the exclusive purpose of providing benefits to them and defraying reasonable administrative expenses associated with the System.
 - F. The System has a long-term investment horizon and uses an asset allocation, which encompasses a strategic, long-run perspective of capital markets. It is recognized that a strategic long-term asset allocation plan implemented in a consistent and disciplined manner will be the major determinant of the System's investment performance.
 - G. Investment actions are expected to comply with "prudent person" standards as described in City Charter Section 1106(c):
 - “...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.”¹

- H. The investment objective of the total Fund, over a full market cycle (usually 5 - 7 years), is to earn a return on investments matching or exceeding the required actuarial rate of return and investment performance above the median of a universe of public funds.

Active managers should provide value added net of fees. Active management returns should exceed the corresponding index net of fees by an amount commensurate with the risk incurred as well as the other standards set out in the Board’s Manager Selection and Retention Policy (Section 8.0).

Passive managers should produce index-like returns for index fees.

DIVERSIFICATION REQUIREMENTS

- 1.3 A maximum of 75% of the Fund’s assets may be invested in equity investments.

A minimum of 20% of the Fund’s assets shall be invested in fixed income assets.

A maximum of 20% of the Fund’s assets may be invested in real property or interests in real property.

No more than 3.5% of the Fund may be invested in the common stock of a single corporation or bonds of an entity not guaranteed by the United States Government.

No more than 5% of the outstanding shares of any corporation may be owned.

Initial funding allocated to an investment manager shall not exceed 20% of similar funds under management by the investment manager.

No investment management firm shall manage more than 20% of the total Fund assets except for passively managed index funds.

No more than 5% of the targeted real estate allocation may be invested in any one real property.

No more than 5% of the targeted real estate allocation may be invested in any one real estate investment pool.

MANAGER ACCOUNT RESTRICTIONS

- 1.4 Stock and bond managers shall have account specifications customized for the individual portfolio describing what is allowed and not allowed. These individual account specifications are created when a new manager is hired and modified when needed and take the form of a letter of agreement.

¹ ERISA 404(a)(1)(B)

BOARD MEMBER AND STAFF REFERRAL RESTRICTIONS FOR POTENTIAL NEW INVESTMENTS

- 1.5 Potential investments shall be referred to the specific Investment Consultant by Staff or the full Board solely in the interest of contributing to the deal flow seen by the consultant.
- A. A Board member initiates a referral by providing Staff with information about the proposed investment and how the investment was brought to the Board member's attention.
 - B. Staff shall provide this same information for prospective investments referred by Staff.
 - C. Staff shall then place the referral information (who is referring it, the nature of the investment and how it came to their attention) on the next Board agenda as a consent item for referral by the full Board to the Investment Consultant.
 - D. The Investment Consultant shall be advised that the decision as to whether a prospective investment referred either by Staff or the full Board would be a suitable investment for the Fund is to be evaluated solely upon the merits of the investment and its fit within the portfolio. No written analysis of the Investment Consultant's evaluation shall be required unless specifically requested by the full Board at the time the referral is made. In each case the Investment Consultant's evaluation of the potential investment, whether the evaluation is a formal written analysis or a verbal report, will be forwarded by Staff to the Board as a "Communications to the Board" item at the next Board meeting following the receipt of the evaluation.
 - E. Staff will make additions or modifications to contracts to carry out the referral and disclosure policies.

ASSET ALLOCATION PLAN

- 1.6 An Asset Allocation Plan shall be adopted and implemented by the Board which provides adequate diversification and gives the expectation of the highest rate of return commensurate with an acceptable level of risk, or volatility.

Conformance with the asset allocation shall be reviewed quarterly. Funds shall be rebalanced among asset classes when they are outside their target ranges or when they exceed the allocation target. The Asset Allocation Plan shall be reviewed at least every five years. The current Asset Allocation Plan is attached as Appendix 1 to this Investment Guidelines Policy.

The Asset Allocation Plan shall include, or be based on:

- A. An analysis of the actuarial liabilities of the System;
- B. A review of all viable asset classes; and,
- C. The expected rate of return, correlation, and standard deviation of all investment asset classes included.

REBALANCING POLICY

- 1.7 As markets move over time, the actual asset mix of the System's portfolio may diverge from the target allocations established by the Board through the asset allocation process. If fund assets are allowed to deviate too far from the target allocations there is a risk that the portfolio will fail to meet the management objectives set by the Board. On the other hand, the Board is aware that continual rebalancing of the portfolio to the asset allocation targets may result in significant transaction costs and that the Rebalancing Policy is not intended to be used for tactical asset allocation. Cognizant of these risks, the Board directs Staff to rebalance the System's portfolio in accordance with the following guidelines and procedures:
- A. With respect to each major asset class and to the investment structure within each asset class for which the Board has set a target allocation, the Board, in consultation with its Staff and its investment consultant, will establish rebalancing range limitations. Generally, the Board will require tighter ranges for the asset class groups (e.g., total equity and total fixed income) than for the investment structure within each asset class.
 - B. Staff will monitor the portfolio's actual asset allocation relative to the target allocations. If the actual allocations fall within the defined ranges, no rebalancing will be required. If the actual allocations fall outside the predetermined range, Staff will implement a rebalancing back to the mid-point between the end of the range that was exceeded and the target allocation.
 - C. In rebalancing, Staff should prioritize implementation procedures as follows:
 - 1. Investing net contributions into asset classes that are below their range limitations;
 - 2. Drawing cash flows out of the portfolio (for benefit payments and expenses) from asset classes that are above their range limitations (using interest payments, rental revenues and dividends); and
 - 3. Selling overweighted assets and/or buying underweighted assets.
 - D. Whenever rebalancing is required within an asset class that has multiple managers under a single mandate, any reallocation of assets should be done on an equal-weighted basis, or according to the management structure of the asset class. However, if one or more of the managers is on watch list notice pursuant to the Manager Selection and Retention Policy, Staff may use their discretion to adjust the rebalancing weights.
 - E. When circumstances arise in which it is impractical to rebalance, asset classes may be deliberately left outside of their ranges for a period of time. Such circumstances may include, but are not limited to, situations when it is known that there are potential asset shifts pending in the portfolio over the next 12 months, such as a hiring/termination of a manager(s), an asset allocation review of the entire portfolio, or a structural review of a given asset

class. Illiquid asset classes such as private equity and real estate may be underweight but unable to absorb the full amount of cash needed to bring the portfolio into the asset allocation range for longer periods of time. Conversely, a liquid asset class may remain overweight while holding the cash that the illiquid asset class cannot absorb immediately.

- F. Staff will report all rebalancing activities to the Board on a quarterly basis at a minimum. In circumstances where it is impractical to rebalance the portfolio for any market or portfolio-specific reason, Staff shall assess the rebalancing options, notify the Board of the out of balance situation, and report its recommendations to the Board. Staff shall seek approval from the Board to implement rebalancing according to Staff's recommended rebalancing plan in situations that involve leaving the portfolio, or some portion of the portfolio out of balance for an extended period of time.

EQUITIES

- 1.8 The performance objective for the total domestic equity portfolio is to exceed the total return of the Russell 3000 Index. This and other objectives below are to be measured over a full market cycle.

The Large Capitalization stock class benchmark is the S&P 500 Index.

The Small Capitalization stock class benchmark is the Russell 2000 Index.

Small capitalization U.S. stock managers, other than fund of fund managers, may not buy any stock with a market capitalization exceeding \$4.0 billion.

The performance objective for the total international equity portfolio is to exceed the total return of the Morgan Stanley Capital International All Country World Index ex U.S. (MSCI ACWI ex U.S.). This and other objectives below are to be measured over a full market cycle.

The Developed International stock class benchmark is the Morgan Stanley Capital International All Country World Index ex U.S., including Canada.

The Emerging International stock class benchmark is the Morgan Stanley Capital International Emerging Markets Free Index.

PRIVATE EQUITY

- 1.9 Private Equity investments may include, but are not limited to, Venture Capital, Buyouts and Special Situations. The purpose of this asset class is to provide increased investment returns for the System.

A separate Private Equity Investments Policy (Section 2.0) includes: objectives of private equity investments; use of private equity managers; and the criteria for approving private equity investments.

FIXED INCOME

- 1.10 The performance objective for the total fixed income portfolio is to exceed the total return of the Barclays US Universal Bond Index. This and other objectives below are to be measured over a full market cycle.

The Domestic Core fixed income class benchmark is the Barclays U.S. Aggregate Index.

The Opportunistic fixed income class benchmark is the Barclays U.S. Aggregate Index plus 0.50%.

The Long Duration fixed income class benchmark is the Barclays U.S. Government/Credit Long Index.

The High Yield fixed income class benchmark is the Bank of America Merrill Lynch US High Yield Master II Constrained Index.

The Treasury Inflation Protected Securities (TIPS) fixed income class benchmark is the Barclays U.S. Government Inflation-Linked Bond Index.

The Unconstrained fixed income class benchmark is the Bank of America Merrill Lynch USD LIBOR 3 Month Constant Maturity Index plus 3.00%.

CASH (SHORT TERM FIXED INCOME)

- 1.11 The primary concern in investing the cash portfolio is safety of principal. Liquidity comes second and yield comes last. Investments shall carry long term debt ratings of at least A and short term ratings no lower than A-1, P-1.

REAL ESTATE

- 1.12 Real Estate investments may include but are not limited to individually managed accounts, commingled real estate funds, and Real Estate Investment Trusts (REIT). The purpose of this asset class is to enhance the risk/return characteristics of the System's investments.

A separate Real Estate Investments Policy (Section 3.0) includes: objectives of real property investments; maximum amounts or percentages that may be invested in individual properties or types of properties; requirements for diversification and criteria for selecting advisers and appraisers.

SECURITIES LENDING

- 1.13 Securities lending is the lending of equity and fixed income securities held in the Fund to qualified borrowers who provide collateral in exchange for temporary use of the securities. Incremental income is generated through fees or the investment of the collateral during the time of the loan.

Securities lending income is only a secondary consideration to the operation of a

securities portfolio. If it interferes with the portfolio management or the risks versus the return for a specific portfolio are uncertain, the securities will not be loaned out. All loaned securities must be collateralized and marked to market daily. Non-U.S. securities shall be collateralized at 105 percent of current market value. Domestic securities must be collateralized at 102 percent of current market value.

PERFORMANCE MONITORING

- 1.14 Investment performance shall be reviewed and evaluated quarterly with the assistance of an outside performance measurement firm.

A time-weighted method of performance measurement will be used for stock and bond accounts. An internal rate of return calculation will be used for appropriate asset classes such as private equity and some real estate accounts.

Comparisons will be made of:

- A. The total Fund against the target allocation return, other pension funds and the actuarial rate of return.
- B. The total equity, fixed income, real estate, private equity and commodities portfolios against the Russell 3000 Index, Barclays U.S. Universal Index, the Real Estate Custom Index, the Consumer Price Index plus 15%, the S&P 500 Index plus 4%, and the Commodities Custom Index, respectively.
- C. Individual investment managers against their stated objectives and, if applicable, against managers of a like style.
- D. Risk-adjusted returns using standard industry adopted statistical measures not limited to Sharpe ratio, information ratio, and tracking error.

See Section 8.0 – Manager Selection and Retention for more detailed procedures for evaluating individual investment managers.

TRADING

- 1.15 All trading is to be done on a best execution basis.

Domestic stock trades will be done at 5 cents per share, or less.

Investment managers shall use a variety of, and subject to best execution, Los Angeles based brokers when feasible.

The Board encourages the use of minority, woman, or disabled veteran owned brokers by the Board's managers for the Fund's actively managed domestic and international exchange traded stock transactions subject to best execution. However, the Board does not encourage step out type transactions.

Board policy is to employ commission recapture and not soft dollars.

PROXY VOTING

- 1.16 Proxies shall be voted in accordance with guidelines adopted by the Board of Fire and Police Pension Commissioners.

See Section 7.0 – Proxy Voting Policy for more detailed voting guidelines on specific proxy issues.

HISTORY

1.17 Adopted: Circa 1980

Amended:

02/11/1982	04/08/1993	04/20/2006	06/18/09
03/08/1984	05/20/1993	05/03/2007	08/20/09
04/27/1989	12/09/1993	05/17/2007	09/18/14
05/11/1989	06/15/1995	08/02/2007	10/16/14
04/19/1990	01/20/2000	02/21/2008	
08/01/1991	01/08/2004	03/20/2008	
11/21/1991	01/19/2006	05/01/2008	
12/17/1992	02/02/2006	09/18/2008	

REVIEW

1.18 The Investment Guidelines Policy and its subsequent sub-policies shall be reviewed by the Board annually. (Amended 10/16/14)

APPENDIX 1 - ASSET ALLOCATION 2013 WITH SUB CLASSES

Asset Class	Target Allocation	Lower Range	Upper Range	Range (%)
Dom. Large Cap Equity	23.00%	20.24%	25.76%	12.00%
Small Cap. Equity	6.00%	4.71%	7.29%	21.50%
Int'l Dev't Equity	16.00%	13.60%	18.40%	15.00%
Int'l Emerg. Mkts	5.00%	3.60%	6.40%	28.00%
Core Bonds	14.00%	13.16%	14.84%	6.00%
TIPS	5.00%	4.69%	5.31%	6.25%
High Yield Bonds	3.00%	2.58%	3.42%	14.00%
Unconstrained Fixed Income	2.00%	1.80%	2.20%	10.00%
Real Estate	7.00%	6.02%	7.98%	14.00%
REITS	3.00%	2.51%	3.50%	16.50%
Commodities-Energy	5.00%	3.80%	6.20%	24.00%
Private Equity	10.00%	7.50%	12.50%	25.00%
Cash*	1.00%	1.00%	4.00%	300.00%
TOTAL	100%			

*Cash range adjusted for liquidity needs and frictional cash rather than standard deviation of asset class.

NOTES

Board approved on October 17, 2013.

Ranges set by Staff and RVK, Inc. and approved by the Board on October 17, 2013.

Equal allocations to Growth and Value in large and small cap stocks (8/2/07).

Cash upper range to 4% per the 3/19/2009 Board meeting.

Los Angeles Fire & Police Pension System

2.0 - PRIVATE EQUITY INVESTMENTS POLICY

INTRODUCTION

2.1 The Board has a ten-percent (10%) allocation to Private Equity. Private Equity Investments are understood to mean non-traditional, often private, usually illiquid investments, both domestic and international. They may include, but are not limited to the following:

- Venture Capital – early, middle, late stage
- Buyouts
- Special Situations

INVESTMENT OBJECTIVES

2.2 This asset class offers high returns and diversification to the System's overall investment program. Diversification results from the relatively low correlation between returns of this class and other System assets. Similar risk reduction through diversification, however, is achievable through investments in safer, more liquid securities, so that investments in Private Equity should be driven by good prospects for high returns.

For asset modeling purposes, Private Equity Investments as a class were projected to produce over a long period of time (ten years) four full percentage points per year more than public equities. Since risk is high for any individual investment within this class, it is anticipated that the projected return for each individual investment should be even higher, in order for the program overall to achieve the targeted return for this asset class.

Diversification within the Private Equity Investment class is a primary risk control strategy and also a means of exposing assets to a large universe of high potential return private businesses. Investments will include all stages of venture capital, buyouts, and such other special debt and equity vehicles as meet the return objectives. In addition, diversification across vintage years is important to attain proper diversification of the private equity portfolio. Consequently, the private equity program will attempt to make commitments to each subset of the private equity asset class, including all stages of venture capital, buyout and special situation, each year. Diversification within the class, however, shall never supersede the return objective as a basis for approving any particular investment.

Due to their diversification features, investment partnerships will be the primary investment structure.

USE OF PRIVATE EQUITY MANAGERS

2.3 Managers may be hired by the Board to assist in the management of the Private Equity Program. Depending upon the needs of the Board, Managers may be responsible for assessing deal flow, reviewing prospective investments, and

performing complete due diligence on potential investments. In addition, Managers may negotiate terms with the Funds, prepare contracts and subscription documents, monitor capital call and distribution requests, sit on Fund Advisory Boards, and perform such other tasks as the Manager's expertise and the needs of the Board may warrant. Managers serve as fiduciaries to the Board, and may be hired in a discretionary or non-discretionary capacity.

Managers may receive information about prospective investments from Board members or staff, and each Manager shall designate a contact person within the firm to receive and coordinate all such information. The General Manager shall designate a staff person to coordinate such communications between the Managers and Board or staff members. Prospective investments referred by a Board or staff member shall not influence the Manager's evaluation of the prospective investment. Such referrals and information will be given solely in the interest of contributing to the deal flow seen by the Manager, and supplementing the information the Manager gathers.

In managing the portfolio the manager will consider sustainability as an investment factor in the investment analysis.

PRIVATE EQUITY APPROVAL PROCESS

2.4 The Private Equity Manager will evaluate and perform the due diligence for funds to be considered for investment by the Board. The Private Equity Manager will submit a fund description and evaluation to Staff for consideration.

A. Discretionary

To qualify for a discretionary investment LAFPP's allocation to the fund must not be greater than \$25 million and Staff must agree that it is a suitable investment for the Plan. (Appendix 1) If the investment is more than \$25 million or if Staff opposes the investment, the Private Equity Manager can, at its discretion, choose to have the Board consider the investment at a regularly scheduled meeting.

Discretionary Managers will provide the Board with a descriptive report of each investment made for the Board's account.

B. Non-Discretionary

Non-Discretionary Managers will present to the Board for its approval each fund being proposed for investment.

Private Equity Specialized Manager selection criteria are found in Section 5.10.

GUIDELINES

2.5 The allocation to Private Equity Investments is 10 percent (10%). There shall be a 1.5x over allocation factor assigned to take into consideration the average funding time and maturing of investments in this asset class versus the expected growth of the total fund.

The following limits and ranges shall apply to the program:

- A. Maximum investment per partnership: \$50 million.
- B. Allocation to Private Equity investment subsets: 20-40% Venture Capital, 20-40% Buyout, and 20-40% Special Situations. Maximum allocation to any subset shall not exceed 50%.

PROGRAM MONITORING EVALUATION

- 2.6 Managers shall report in writing at least quarterly on the portfolio as a whole and on each individual investment for the portfolio, return and portfolio structure shall be emphasized. For each investment, the carrying value, income, description of activity, and evaluation of current status compared to original intent and objectives would be appropriate. At least once a year, Managers shall make a complete performance and portfolio report to the Board in person. In addition, Managers may be asked to provide/present other reports when and as requested by the Board.

HISTORY

- 2.7 Adopted: May 3, 2001; Revised: 06/05/03, 08/21/03, 03/02/06, 02/01/07, 11/05/09, 07/21/11 and 09/18/14.

APPENDIX 1 - LAFPP PRIVATE EQUITY DISCRETION IN A BOX

	Role of Board	Role of Staff	Role of Private Equity Manager
Strategy/Policy	<ul style="list-style-type: none"> • Approve asset class funding level. • Annually review, provide input, and adopt investment policies, procedures, guidelines, allocation targets, ranges, and other assumptions. 	<ul style="list-style-type: none"> • Develop policies, procedures, guidelines, allocation targets, ranges, assumptions for recommendation to the Board. 	<ul style="list-style-type: none"> • With Staff and the General Consultant, develop policies, procedures, guidelines, allocation targets, ranges, assumptions for recommendation to the Board.
Investment Selection	<ul style="list-style-type: none"> • Interview and approve investments in new management groups of amounts greater than \$25 million prior to investment. • Interview and approve investments in follow-on partnerships of amounts greater than \$25 million prior to investment. 	<ul style="list-style-type: none"> • In conjunction with the Private Equity Manager, invest up to \$25 million for new partnerships, and up to \$25 million for follow-on funds without Board approval. If Staff opposes, refer to Board for decision. • In conjunction with the Private Equity Manager, make recommendations to Board for approval for investments over \$25 million in new partnerships, or over \$25 million in follow-on funds. • Execute agreements. 	<ul style="list-style-type: none"> • Conduct extensive analysis and due diligence on investments. • Recommend for Board approval investments over \$25 million for new managers, or over \$25 million in follow-on funds. • With Staff concurrence, approve investment of up to \$25 million for new partnerships, and up to \$25 million in follow-on funds. • Provide investment analysis report for each new investment. • Communicate with Staff regarding investment opportunities being considered for extensive analysis and due diligence. • Negotiate legal documents.
Investment Monitoring	<ul style="list-style-type: none"> • Review semi-annual, and other periodic monitoring reports. 	<ul style="list-style-type: none"> • Review quarterly, annual and other periodic monitoring reports prepared by the Private Equity Manager. • Periodically conduct meetings with Private Equity Manager. • Fund capital calls and distributions. • Review the Private Equity Manager's recommendations on amendments. • Execute amendments to agreements. 	<ul style="list-style-type: none"> • Maintain regular contact with existing managers in the portfolio to ascertain significant events within the portfolio. • Recommend amendments to staff for approval. • Provide quarterly, annual, and other periodic monitoring reports.

Los Angeles Fire & Police Pension System

3.0 - REAL ESTATE POLICY

INTRODUCTION

- 3.1 LAFPP has determined that, over the long-term, inclusion of real estate investments will enhance the overall diversification and risk/return characteristics of the System's portfolio investment.

This document establishes the specific objectives, policies and procedures involved in the implementation and oversight of the System's real estate program. The objectives define the specific risk tolerance and return expectations for the program. The policies provide specifications for acceptable investment styles and management of the various risks associated with the asset class. The procedures provide guidelines for the implementation and oversight of said policies.

INVESTMENT OBJECTIVES

- 3.2 A. Asset Allocation

LAFPP has approved a long-term asset allocation target of ten percent (10%) for investment in real estate investments. The allowable variation range is plus or minus one and one tenth percent (1.1%) of the System's total assets.

- B. Return Objectives

The Board has determined that the objective of the System's real estate portfolio will be to enhance the diversification of the LAFPP Total Plan while achieving a long term risk-adjusted return that is consistent with the General Consultant's expected return: 7.0% net for Core real estate, 10.0% net for Non-Core and 7.0% net for REITs. Active management, value creation strategies and the prudent use of third party debt are approved methods for generating the expected excess return above core real estate. The Board has approved the following benchmarks for the Real Estate Portfolio:

Style	Benchmarks
Public Real Estate	50% Dow Jones US Real Estate Securities Index (Gross) and 50% FTSE EPRA/NAREIT Developed Index (Gross)
Private Real Estate	NFI-ODCE + 50 bps (Net)
LAFPP Total Portfolio	LAFPP Benchmark, weighted 30% Public and 70% Private

LAFPP will seek to meet or exceed the Total Portfolio return target on a net of fee basis over rolling five year time periods and may use shorter term measurements (typically most recent quarter and the trailing one-year, three-year, and five-year periods) to gauge progress relative to that goal. Other fund indices maintained by NCREIF will be used to provide additional perspective

on performance and / or to facilitate attribution analysis. Shorter term performance and risk assessment will utilize a risk adjusted benchmark using return expectations by style in a customized, weighted benchmark to reflect the actual composition of the portfolio and the expected return of same.

INVESTMENT POLICIES

3.3 A. Portfolio Composition

The System divides the range of available real estate investment strategies ('styles') into four primary categories: (1) Core, (2) Value Add, (3) Opportunistic and (4) Public Securities. The style groups are defined by their respective market risk/return characteristics:

Core Characteristics

- Operating and substantially leased properties;
- Property types include office, apartment, retail, industrial, hotels and other (self-storage, senior and student housing);
- Total return is primarily attributable to income;
- Conservative leverage (0% - 40%, measured on a loan-to-value (LTV) basis).

Value Add Characteristics

- Properties requiring lease-up, rehabilitation, repositioning, expansion or those acquired through forward purchase commitments;
- Property types include office, apartment, retail, industrial, hotels and other (self-storage, senior and student housing);
- Total return is attributable to a balance between income and appreciation;
- Moderate leverage is typically utilized (30% - 60%, measured on a LTV basis).

Opportunistic Characteristics

- Properties or real estate companies offering recapitalization, turnaround, development, market arbitrage opportunities;
- No property types are excluded, and properties may include business operations (e.g. hotels, congregate care) as well as office, apartment, retail, industrial;
- Total return is primarily attributable to appreciation and generally recognized upon sale of the asset;
- Moderate to high leverage is typically utilized (50% - 80%, measured on a LTV basis).

Public Securities Characteristics

- Shares of publicly traded securities offered by companies operating real estate assets as a primary source of corporate revenue.

	Target Allocation	Tactical Range
Public Real Estate	30%	25% - 35%
Private Real Estate	70%	65% - 100%

LAFPP Private Real Estate Portfolio		
	Target Allocation	Tactical Range
Core	60%	50% to 70%
Non-Core	40%	30% to 50%
<i>Value Added</i>	20%	0% to 50%
<i>Opportunistic</i>	20%	0% to 50%

B. Risk Management

The primary risks associated with equity real estate investments are investment manager risk, property market risk, asset and portfolio management risk, loss of principal and liquidity risks. The System will mitigate risk in a prudent manner. The following policies have been established to manage the risks involved in investing in real estate equity.

1) *Investment Structures*

The System recognizes that, regardless of investment structure, real estate is an illiquid asset class. Structures that maximize investor control are preferred, particularly in Core investments (Individually Managed Accounts and Open-End Commingled Funds). The System also recognizes that the Value Add and Opportunistic styles require the assumption of additional risks including diminished investor control.

The Core investment style is considered to be less risky (thereby providing lower returns) than Value Add and Opportunistic investments. The lower risk assigned to Core investments is due to three primary characteristics: (1) the level and predictability of the income generated, (2) the higher proportion of the total return attributable to income and (3) the limited use of debt usually associated with these styles.

The Value Add and Opportunistic investment styles seek to provide higher returns with higher risk than the Core component of the portfolio. Value Add investments are those capable of exhibiting Core characteristics but need an additional level of active management in order to regain or realize their Core position. Opportunistic investments seek to capitalize on market inefficiencies and opportunities (e.g. capital voids, market recovery, development, distressed sellers, financial engineering) and debt to provide excess returns. Because of the degree of reliance on active management necessary to capitalize on such market inefficiencies, investments will be accessed through structures that allow a high degree of manager discretion.

The System will utilize the following investment structures:

- a) Individually Managed Accounts (“IMA”)

For the Core component, the System may purchase assets on a wholly owned basis through Individually Managed Account structures. The System may consider joint venture or co-investment ownership, as an equal or greater partner, within IMA structures.

b) Commingled Funds

For Core and Value Add strategies, the System will also consider Open-End Commingled Funds (OECFs). OECFs are an infinite life pool of assets diversified by geography and property type. OECFs are complementary to smaller IMAs as they provide access to larger, Core, “trophy” properties that a smaller IMA would not be able to purchase. There are also OECFs that target various levels of value add risk and provide similar diversification and risk/return benefits.

For Value Add and Opportunistic strategies, the System will purchase assets through the ownership of units or shares of Closed-End Commingled Funds. Closed-End Commingled Funds differ from OECFs in that they are finite life vehicles. Any legally permissible vehicle will be allowed including, but not limited to, joint ventures, limited partnerships, real estate investment trusts (private) and limited liability corporations.

2) *Defined Roles for Participants*

The real estate program shall be planned, implemented, and monitored through the coordinated efforts of the Board, Staff, Real Estate Consultant (“Consultant”) and Investment Managers (“Manager” or “Managers”). The major responsibilities of each participant are outlined in Appendix 1.

3) *Diversification*

The System will seek to diversify its Real Estate Portfolio by manager; property type; property location; investment style; and, within the Opportunistic Portfolio, by investment strategy. Investment property types must be consistent with the groups as follows:

- Core includes office, retail, apartments, industrial, hotel and limited non-traditional property types (including self-storage, senior and student housing).
- Value Add and Opportunistic have no restrictions on property type.

It is expected that at various points in time, the portfolio may be more heavily exposed to a single property type or location by virtue of opportunities available in the market. Exposure to any single property type (i.e. office, retail, apartment, industrial or other) or geographic region

in excess of forty percent (40%) of the total Real Estate Portfolio must be reviewed as an exception by the Board.

International investments will be limited to no more than thirty percent (30%) of the total targeted Private Real Estate Portfolio and may include private and public investments in the Core and Non-Core style groups.

Individually Managed Accounts

The System's IMA management agreements, individually or as a group, will provide for diversification by property type, economic sector and location in order to minimize any such concentration which might, in turn, impact the stability of rental income over market cycles.

Commingled Funds

Diversification by Strategy and Manager will be used to minimize sponsor or strategy concentration, which might, in turn, impact the performance of the Value Add and Opportunistic allocation and/or the total portfolio. The Commingled Funds will provide reporting which will allow the System to monitor its geographic and property type diversification.

4) *Leverage*

The use of leverage is a prudent tool for enhancing returns and diversifying equity investments. As such, the System has approved leverage limits in order to maximize returns to the total portfolio. The availability and cost of leverage will be factors considered in determining its use. At no time shall the origination of leverage exceed the established limits on a loan-to-value basis. In the event that a leverage constraint is breached due to a contraction in market values, the System's Staff and Consultant will notify the Board and make a recommendation for action or exception.

a. Core

For the Core Portfolio, the Retirement System has established a forty percent (40%) leverage limit. For any single Core asset, third-party debt will be limited to fifty percent (50%) of the market value of the asset, must provide sufficient net operating income ("NOI") for one hundred percent debt-service coverage and must be non-recourse. Property specific debt will be monitored through the Manager Investment Plans and Preliminary Investment Packages. In all cases, leverage shall provide a return premium over the unleveraged IRR equal to three basis points (3 bps) of return for each one percent (1%) of leverage.

b. Non-Core

The System has determined that leverage on these Non-Core investments should be determined based on strategy and opportunity. Such investments will be made through Commingled

Funds and will therefore have a specified leverage target or maximum stated in the offering documents. Debt levels and structures will be evaluated when reviewing a specific offering.

c. Total Portfolio

The System will also monitor leverage at the Total Portfolio level. In the event that the Total Portfolio leverage exceeds 60%, on a loan-to-value basis, both Staff and Consultant will evaluate going forward investment opportunities so as to reduce Portfolio leverage. This will act as a 'governor' and not a constraint at the Total Portfolio level.

5) *Investment Size*

There is a \$60 million maximum investment size for Core investments and a \$50 million maximum investment size for Non-Core investments. Moreover, at no time shall the net investment value of a single property within an IMA account exceed five percent (5%) or a Commingled Fund exceed ten percent (10%) of the net investment value of the total targeted real estate portfolio. In addition, the capital allocated to any single Commingled Fund shall not exceed a pro rata position of twenty percent (20%) of the total equity raised by the final close of the investment vehicle.

6) *Valuations*

All investments in an IMA vehicle will be independently valued not less than every three years by a qualified expert (certified MAI), performed on a rotational basis within the Total IMA Portfolio. Exceptions will be granted by Staff during times when a property or market specific event may have a considerable impact on property value. During interim periods, valuations will be performed by the Investment Manager responsible for management of each investment. Such interim valuations may be used for performance measurement purposes.

Investments held in Commingled Funds will be valued using the valuation methodology approved with the selection of the particular investment.

C. Discretionary Authority

The Policies and Procedures described herein are structured to control investment risk as well as to enhance the System's ability to execute transactions.

1) *Individually Managed Accounts*

The IMA Manager selection process, more fully described in Section 3.4.A.1 of this document, is structured to ensure prudent Manager selection in order to allow Manager(s) to assume an appropriate level of discretion, balanced by controls established and monitored by the Board,

Staff and Consultant. Preference will be given to those IMA vehicles allowing greater investor control.

2) *Commingled Funds*

CFs are structured to give the highest level of discretion to the Manager. The limited investor control of management decisions inherent in CF investments is appropriate given the flexibility required to achieve higher expected returns. Nonetheless, preference will be given to those CF vehicles extending greater investor control. Investments made in CFs are monitored for compliance with vehicle documents through quarterly performance measurement procedures.

3) *Retention Policies*

IMA real estate investment advisors operate under three-year contracts with the Board. Real estate advisors are evaluated on a three-year cycle in tandem with the contract cycle. Advisors that have not met or exceeded the NCREIF Property Index by the premiums associated with the style of investment (see Section 3.3A of this document) in any year will be placed on watch. Advisors performance is then reviewed each year for the next two years. If the advisor's performance from the beginning of the watch period through the succeeding two years is less than the expected return, the advisor's contract will be terminated and the advisor will be replaced.

Notwithstanding the above, the Board maintains the right to terminate a manager at any time they deem such action to be in the best interest of the System.

INVESTMENT PROCEDURES

3.4 The Annual Investment Plan identifies the investment needs of the portfolio and establishes the parameters for the selection of appropriate investments. The particular needs for each Annual Investment Plan will be established in light of the structure, objectives and performance of the existing portfolio as well as current market opportunities. All Annual Investment Plans will be consistent with the policies detailed in Section 3.3A-C.

A. Individually Managed Accounts

The following procedures will be utilized for selection of IMA Managers, as well as for investment and the subsequent control and monitoring of IMA allocations.

1) *Manager Selection Process*

- a. Board, assisted by Consultant, shall establish qualification criteria consistent with the purpose of the search.
- b. Consultant shall screen its database to identify Manager candidates exhibiting qualities consistent with the qualification criteria. Board

may identify additional candidates.

- c. Board, assisted by Consultant, shall establish evaluation areas, desired levels of competency and respective weightings for evaluation factors.
- d. A Request for Information (RFI) shall be forwarded to qualified Manager candidates identified by Consultant and Board.
- e. Staff and Consultant shall review and evaluate RFI responses, identify material issues related to each candidate, including proposed fee structures, and compile numerical rankings for each respondent for each objective evaluation factor.
- f. Staff and Consultant, shall prepare a report to the Board that reviews the findings of interviews/on-sites.
- g. Staff, with the assistance of Consultant, shall coordinate final presentations which will be held at a noticed meeting.
- h. The Board shall select a Manager based on review and evaluation of information presented in the steps listed above.
- i. Staff and Consultant will negotiate and close manager agreements, including final fee structures.

2) *Investment*

a. Manager Investment Plan

Each IMA Manager shall prepare a Manager Investment Plan, which sets forth the investment criteria for said Manager's allocation including the reinvestment of proceeds from sales or refinancings. The investment criteria shall be consistent with the Strategic Plan and Implementation Plan as prepared by the Consultant and Staff and approved by the Board. Plans will also set forth the IMA Manager's evaluation of current market opportunities and include a summary of the Annual Disposition Review (see Section 3.4.A.3c of this document) of each asset in the context of the market evaluation.

b. Review and Approval Process

The Board will review and approve all purchases, sales or exchanges of real property. The IMA manager will notify Staff and Consultant of a property proposed for acquisition by the System. The formal approval process is attached as Appendix 2 to this document.

c. Funding Procedures

The Manager shall provide the Staff and Consultant with a critical dates list with respect to an acquisition, including document execution and funding and closing dates, updating the list as

necessary.

3) *Control and Monitoring*

a. Budget and Management Plan

Within 45 days after the end of the calendar year each IMA Manager shall submit a Budget and Management Plan for the upcoming year for each direct investment and the aggregate IMA portfolio. The Budget and Management Plan must include a narrative strategy and an estimated income and cash flow statement for the ensuing year. The statement will include gross revenues, expenses, percentage rent, additional interest, property management fees, net operating income, tenant improvements, leasing commissions, capital expenditures, cash flow before and after debt service and asset management, incentive and other fees along with quarterly or monthly distribution projections.

Staff and Consultant will meet with the Manager personnel directly responsible for portfolio and asset management for a review and evaluation of the reasonableness of the submitted Budget and Management Plan.

During the ensuing year, the Manager shall notify the Retirement System in writing within a reasonable time of the occurrence of any significant event relating to an investment, which was not projected in the submitted Budget and Management Plan.

b. Annual Disposition Review

IMA Managers shall provide an annual disposition analysis of each asset under management. The disposition analysis shall include hold/sell scenarios over long and short-term periods and incorporate an opportunity cost analysis. The analysis will also provide an evaluation of the asset in light of original investment objectives, the asset's compliance with the current Strategic Plan, Investment Plan and Manager Investment Plan and the reasonableness of the current valuation given market conditions for divestment.

The Annual Disposition Review shall be included in the Budget and Management Plan and the Manager Investment Plan.

B. *Commingled Funds*

The following procedures will be utilized in the selection, closing and monitoring of specific CF investments.

1) *CF Selection Process*

- a. Consultant reviews current offerings and Board requests using criteria established in the approved Strategic and Annual Investment Plans.

- b. Consultant and Staff concur on recommendations to go to the Board.
- c. Consultant and Staff present recommendations to the Board for approval.

2) *CF Screening Standards*

- a. CF vehicles will be used to provide either 1) unique or opportunistic strategies which are not readily available through separate accounts, or 2) exposure to property categories not adequately represented in the portfolio.
- b. Funds with competitive terms/structure on overall basis including fees, expenses, governance provisions, lockup periods, reasonableness of fund-raising goals in relation to existing assets and capacity.
- c. Funds/managers with favorable track records evaluated in context of property type(s) invested in and risks taken (leverage, leasing, development, redevelopment, etc.). No investment in a first-time Fund unless the fund sponsor has experience investing institutional capital as a fiduciary and can show full cycle returns (e.g. buy, hold and sell) using the same strategy.
- d. Funds with favorable management factors, including experience of personnel, length of time key players have worked together, incentive-oriented compensation structure for decision-makers, etc.
- e. Funds with manager interests aligned with investors -- either by co-investment or performance-oriented fees or both.

3) *CF Control and Monitoring*

CF investments will be monitored quarterly by Staff, with Consultant's assistance, to evaluate investment performance and to ensure compliance with vehicle documents.

C. Performance Measurement Report

On a quarterly basis, the Consultant will prepare a comprehensive reporting and evaluation system addressing each investment and/or asset, IMA, and Manager. The evaluation system shall provide such information as may be required by the Retirement System to understand and administer its investments and Managers.

The content of the report shall include attributes for the assets individually (under IMAs), the investment managers and the total portfolio including: income, appreciation, gross and net returns, cash-flow, internal rate of return, diversification, comparisons to relevant industry performance indices and information reporting standards, and Strategic Plan and Investment Plan compliance. Each investment will be reviewed for significant events and

projected performance and an opinion provided with respect to Manager performance. Budget and Management Plan variances, as reported by IMA Managers, will also be provided.

The Consultant shall prepare and forward to the Retirement System a Performance Measurement Report within ninety (90) days following the last day of each quarter given receipt of full and complete manager reporting.

HISTORY

- 4.5 Adopted: November 17, 2005; Revised: 07/20/06, 09/07/06, 01/18/07, 02/01/07, 05/03/07, 04/17/08, 07/10/08, 06/18/09, 08/20/09 and 09/18/14.

APPENDIX 1 - DEFINED ROLES FOR PARTICIPANTS

Duties of the LAFPP Board

- Establishes the role of the real estate investment program in light of the total portfolio objectives.
- Approves the allocation to real estate and approves any adjustments to the allocation which may from time to time be necessary.
- Approves the Strategic Plan (Objectives, Policies and Procedures) and the Investment Plan for the real estate program.
- Reviews the real estate portfolio on a semi-annual basis to evaluate the investment performance and to ensure compliance with policy guidelines and approved Investment Plans.
- Reviews and approves Requests for Information as developed by Staff and Consultant to be used in Individually Managed Account (“IMA”) manager selection.
- Reviews recommendations for selection of Managers, Investment Partners or Ventures, and Commingled Fund Sponsors and approves firms for selection.
- Reviews recommendations for removal of Managers and takes appropriate action.
- Reviews Staff and Consultant recommendations on asset purchase and sales and takes appropriate action.
- Reviews Staff and Consultant summary of and recommendations with regard to Manager Investment Plans and Budget and Management Plans.

Duties of the LAFPP Staff

- Reports to the Board on matters of policy.
- Oversees Consultant’s preparation of the Strategic Plan and Investment Plan.
- Participates with the Consultant in the Annual Real Estate Portfolio Review, including Budget and Management Plans and presents summary findings to the Board.
- Brings any non-conforming items or significant issues to the attention of the Board
- Documents and monitors funding procedures.
- Completes any other activity as directed by the Board.

Individually Managed Account (“IMA”) Duties:

- Conducts searches for professional services and investment managers and, with the assistance of the Consultant, recommends finalists to the Board for approval.
- Oversees preparation of annual Manager Investment Plans. Presents and recommends Manager Investment Plans to the Board for review.
- Reviews the Budget and Management Plans prepared by IMA Managers and presents summary findings to the Board.
- Reviews Preliminary Investment Packages and compliance analysis prepared by IMA Managers and submits the results to the Board.
- Reviews fees for compliance and insures that Incentive Fees are processed appropriately.
- Performs other duties required to execute the IMA Investment Procedures.
- Monitors the closing process, and with legal counsel, reviews and executes any required documentation for acquisitions, refinancings and other capital transactions between IMA Managers and the Retirement System.

Commingled Fund (“CF”) Duties

- With the assistance of the Consultant, conducts screening, review, and selection for recommendation of CF offerings.
- Oversees the commitment process, and with legal counsel, reviews and executes any required documentation.

Duties of the Consultant

- Reports directly to the Board, and Staff on matters of policy.
- Brings any non-conforming items or significant issues to the attention of the Staff and/or Board.
- Monitors the performance of the real estate portfolio and compliance with approved policy.
- Prepares the Strategic Plan and Real Estate Investment Plan and, in conjunction with Staff, presents the Plans to the Board for review.
- Prepares a quarterly Performance Measurement Report (PMR) to evaluate investment performance and to ensure compliance with policy guidelines and approved Investment Plans. Presents reports semi-annually.
- Assists Staff in the Annual Real Estate Portfolio Review.
- Provides Staff and/or Board with topical research and education on investment subjects that are relevant to LAFPP.

Individually Managed Account (“IMA”) Duties

- Assists Staff in conducting searches for investment managers and preparing recommendations for the Board.
- Oversees Manager preparation of annual Manager Investment Plans, and, in conjunction with Staff, presents Plan summaries to the Board.
- Reviews the Budget and Management Plans prepared by IMA Managers and, in conjunction with Staff, present summary findings to the Board.
- Reviews proposed acquisitions for pricing comparability with independent appraisal and provides final recommendation for approval/disapproval of each acquisition.
- Performs other duties required to execute the IMA Investment Procedures.

Commingled Fund Duties

- Conducts, or assists Staff in conducting analysis of Commingled Fund offerings in accordance with the Commingled Fund selection process.
- Provides written analysis of Commingled Funds as requested by Staff.

Duties of the Manager

- Provides performance measurement data in form and substance as requested by the System.

Individually Managed Account Managers:

- Acquires, manages and disposes of assets on behalf of the System.

- Adheres to the most recent version of the Real Estate Information Standards established jointly by the National Council of Real Estate Investment Fiduciaries (“NCREIF”), the Pension Real Estate Association (“PREA”) and the National Association of Real Estate Investment Managers (“NAREIM”) (“Information Standards”).
- Prepares Manager Investment Plans to be submitted to the Staff and Consultant.
- Prepares Preliminary Investment Packages to be submitted to the Staff and Consultant.
- Adheres to the Board approved acquisition procedures detailed in Exhibit A.
- Prepares Budget and Management Plans to be submitted to the Staff and Consultant.
- Meets with Staff and Consultant for the Annual Real Estate Portfolio Review.
- Provides Consultant, when requested, Annual Review information.
- Assists the Staff in preparing funding procedures.

Commingled Fund Managers:

- Adheres to reporting standards established by the CFA Institute and complies with generally accepted accounting principles (“GAAP”).
- Executes and performs its duties under the terms of the investment vehicle documents.
- Provides timely requests for capital contributions.
- Provides quarterly financial statements and annual audited reports.
- Conducts no less frequently than annually meetings with Staff and Consultant to discuss important developments regarding portfolio, investment and management issues.

Duties of Legal Counsel

- Legal counsel for the System as a representative of the Plan, will review upon request, all real estate related documents and/or provide advice for special investment situations as needed.

APPENDIX 2 - LAFPP APPROVAL PROCESS
(Separate Accounts Only)

Step 1

A preliminary Investment Recommendation from the investment advisor will be presented to the full Board, for review and approval, including a full description of property and market details, the investment advisor's best estimates of all numbers, a detailed description of all known environmental issues (if any), a detailed due diligence budget and a detailed summary of the pros/cons of the transaction.

Step 2

The Board will review and approve or disapprove the transaction. Any approval of the transaction by the Board will be required to include the affirmative vote of at least one of the active Fire and Police representatives and will be subject to investment advisor's satisfaction of the following requirements (the "Closing Requirements"):

- A letter from the investment advisor to the CIO certifying that it has found nothing in the due diligence process which materially and adversely impacts its investment recommendation. If the investment advisor's due diligence discovers any new matters that would have a material and adverse effect on the property or the fund, then such new matters will be subject to review and approval by the Board.
- The letter shall include a copy of all third party reports.
- The letter shall include a representation by the investment advisor that there are no adverse environmental matters that were not previously disclosed to the Board, other than those described in the initial report that was presented to the Board for review and approval. If there are any new environmental matters that would have an adverse effect on the property or the fund, then such new matters will be subject to review and approval by the Board.
- The letter shall also include a representation by the investment advisor that to the investment advisor's best knowledge, the projected IRR of the property will equal or exceed 50 BP less than the projected IRR that was previously approved by the Board. If the projected IRR will not equal or exceed 50 BP less than the projected IRR that was previously approved by the Board, then such new projected IRR will be subject to review and approval by the Board.
- A letter from the Fund's real estate consultant to the CIO certifying that the appraised value of the property is not less than 95% of the final purchase price. If the appraisal does not equal or exceed 95% of the final purchase price, then the transaction will be subject to review and approval by the Board.
- A letter from the Fund's real estate consultant to the CIO with a positive written recommendation to proceed with the transaction. If the Fund's real estate

consultant does not recommend the transaction, then the transaction will be subject to review and approval by the Board.

- A letter from the CIO to the investment adviser (copy to the Board) stating that the requirements in Step 2 have been satisfied. If the CIO does not state in writing that the requirements in Step 2 have been satisfied, then the transaction will be subject to review and approval by the Board.

Step 3

If the Closing Requirements in Step 2 above are satisfied (and remain satisfied through the closing of the transaction), then the investment advisor can close the purchase without returning to the Board for a second approval.

If any of the Closing Requirements in Step 2 are not satisfied (or if any such Closing Requirements fail to remain satisfied through the closing of the transaction), then the investment advisor will be required to return to the Board for approval of a closing with respect to any unsatisfied Closing Requirement.

Los Angeles Fire & Police Pension System

4.0 - COMMODITIES – ENERGY POLICY

INTRODUCTION

4.1 The Board has a five-percent (5%) allocation to Commodities-Energy with an allowable range of $\pm 24\%$. Commodities-Energy Investments are understood to mean investing in fungible basic goods or resources used as an input in the production of other goods and services. They may include, but are not limited to the following:

- Energy
- Agriculture
- Metals
- Timber
- Water

INVESTMENT OBJECTIVES

4.2 The asset class offers diversification to the System's overall investment program through historically low correlation with stocks and bonds. In addition, Commodities-Energy has shown to act as inflation protection when supply and demand is strongly influenced by global growth patterns and consumption. The asset class has two components: public and private. The role of public commodities is to provide liquidity. The role of private commodities is to provide diversification and high returns. The System invests in both public commodities and private commodities to achieve an attractive return and to mitigate risk through diversification.

The System utilizes passive and active managers in public commodities investments, and active managers in private commodities investments. The benchmark for the passive public commodities investments is a Commodities Custom Index comprised of the S&P Global Natural Resources Index, the S&P Global Water Index, the S&P Master Limited Partnership Index, and the S&P Global Timber & Forestry Index, calculated proportionately to the weighted structure approved by the Board (Appendix 1). The benchmark for the active public commodities investments are the S&P Global Natural Resources Index and the Bloomberg Commodities Index, formerly Dow Jones-UBS Commodity Index. The benchmark for the private commodities investments are CPI plus 15% and the S&P 500 plus 4%.

COMMODITIES-ENERGY INVESTMENTS

4.3 The System has approved investing in a range of commodities-energy strategies. These include: 1) Public Equity, 2) Futures and Derivatives, and 3) Private Equity.

A. Public Equity strategy includes but is not limited to the purchase of stocks, Master Limited Partnerships (MLPs), Exchange Traded Funds (ETFs), and convertible and corporate bonds of commodity related public companies. The intent of employing this strategy is to gain relatively low-cost, liquid, secure and

transparent exposure to commodities-energy. The System shall use separately managed accounts to implement the Public Equity strategy.

- B. Futures and Derivatives strategy includes the purchase and sale of contracts such as futures, options and swaps that are linked to individual commodities or commodity indices. These instruments include built-in leverage if they are not fully collateralized, and thus expose the System to the risk of large swings in gains and losses. As such, the notional amount of all derivative contracts on an aggregate basis in each managed account shall not exceed 100 percent of its account value. This would ensure that any liabilities or losses would not exceed the total asset value of a managed account.
- C. Private Equity strategy includes entering into Limited Partnerships in commingled funds that focus on private firms involved in commodities-energy investments. See Section 2.0 – Private Equity Investments Policy for more detailed information.

The System utilizes all three strategies to create a diversified commodities-energy portfolio that will manage the risks involved in investing in commodities-energy.

PROGRAM MONITORING AND EVALUATION

- 4.4 The System's General Consultant and Private Equity Manager(s) shall report in writing at least quarterly on the portfolio as a whole and on each individual investments for the portfolio, return and portfolio structure. A time-weighted method of performance measurement will be used for the Public Equity and Futures and Derivatives strategies. An internal rate of return calculation will be used for the Private Equity strategy.

HISTORY

- 4.5 Adopted: September 18, 2014.

APPENDIX 1 - COMMODITIES-ENERGY ALLOCATION STRUCTURE

The Board approved the structure of the Commodities-Energy allocation on June 6, 2013

STRATEGY	Allocation
Public Equity <ul style="list-style-type: none"> • Passive (2/3) • Active (1/3) 	60%
Futures and Derivatives	20%
Private Equity	20%

The Board also approved the proportionate weight of the indices used in the Passive Public Equity Strategy.

PASSIVE PUBLIC EQUITY STRATEGY	Indices Allocation
S&P Global Natural Resource Index	60%
S&P Global Water Index	20%
S&P MLP Index	15%
S&P Global Timber and Forestry Index	5%

Los Angeles Fire & Police Pension System

5.0 - EMERGING MANAGERS POLICY

POLICY STATEMENT

- 5.1 It is the policy of the City of Los Angeles to utilize Minority and Women-Owned Business Enterprises and all other business enterprises in all aspects of contracting relating to procurement, construction and personal services (Executive Directives 1-B and 1-C). In addition, it has been the experience of the Board of Fire and Police Pension Commissioners that certain minimum requirements of size and experience as a firm have excluded investment managers whose past performance and style of management made them otherwise qualified to manage this Pension System's assets.

To further the City's policy, and to provide the Board with opportunities to contract with managers excluded from past searches, it shall be the policy of the Board of Fire and Police Pension Commissioners that emerging investment managers be provided equal opportunities to participate in investment manager contracts awarded by the Board of Fire and Police Pension Commissioners. This allows the Board to identify potentially talented investment management organizations in their early growth stage, and also recognizes that smaller firms may be more flexible and able to take advantage of opportunities to generate alpha because of their size. The provision of these opportunities is to be consistent with the fiduciary responsibilities of the Board. Staff will conduct outreach to identify sponsors of funds that are owned at the General Partner level by one or more minorities and/or women.
(Amended 04/18/13)

PUBLIC EQUITIES AND FIXED INCOME CRITERIA FOR PUBLIC SECURITIES EMERGING MANAGER SEARCHES

- 5.2 For all public security assets, emerging managers are defined as independent investment management firms that manage less than \$2 billion in firm-wide assets for any emerging manager retained directly by LAFPP. The LAFPP Board shall review the definition of emerging manager for each Emerging Manager search that is conducted.

Prior to a search in any part of its public equity or fixed income portfolio, the Board will determine whether it will conduct an emerging manager search in that same asset category. For each case, the Board shall determine whether it will implement the emerging manager search through manager of emerging managers funds, or directly.

Any search for an emerging manager will be conducted separately from other searches, including a search for a money manager of the same style to run assets of such an amount as to preclude emerging managers from participating in the search.

As a guide for any direct emerging manager searches by LAFPP, Staff and/or the General Investment Consultant is directed to use the minimum following qualifications in the preliminary screening. (Amended 04/18/13)

QUALIFICATIONS

- 5.3 A. One year of operation as an investment management firm as of the date of the search.
- B. The portfolio manager(s) assigned to the Pensions account must each have a minimum of five years of experience in investment management.
- C. As of the date of the search, the firm must have a minimum of \$30 million in institutional assets under management of which \$10 million must be in the proposed investment style.
- D. The firm must have at least one tax-exempt account under management.

The above qualifications and criteria shall remain in place until such time as they are revised by the Board. The Board may revise any of the above minimum qualification for any specific search if it is deemed appropriate for that specific search.

MONITORING AND CHANGE OF STATUS

- 5.4 Emerging Managers and Managers of Emerging Managers shall be subject to the standard Monitoring and Watch Status procedures of LAFPP. Staff will report to the Board annually regarding any change of status of emerging managers in the Program.

When an emerging manager is retained directly by LAFPP, Staff shall automatically notify the Board when that emerging manager's assets under management grow larger than the LAFPP Policy-defined maximum assets under management of \$2 billion.

When an emerging manager is retained by LAFPP through manager of emerging managers, the manager shall automatically notify the LAFPP Board when an emerging manager exits the portfolio due to growth in the emerging manager's assets under management. (Amended 04/18/13)

MANAGER TERMINATION

- 5.5 For any emerging manager retained directly by LAFPP for the management of public securities, notwithstanding the provisions of Section 8.0 – Manager Selection and Retention, the Board delegates to Staff the authority to terminate the investment management contract. (Amended 04/17/14)

GRADUATION POLICY

- 5.6 LAFPP expects that successful emerging investment management firms will grow beyond the maximum \$2 billion in assets under management required to be categorized as an emerging investment manager. Opportunities for larger mandates may occur for emerging managers when, from time to time, LAFPP evaluates asset class structure or conducts manager replacement searches. Prior to LAFPP conducting an external search for an active manager, managers participating in

LAFPP's emerging manager program that meet the minimum investment criteria will be considered in the search. (Amended 04/18/13)

FUNDING

- 5.7 When an emerging manager is selected by the Board, the size of funding will be determined based on the needs of the Systems and the capacity and experience of the manager. In no case shall the Board's funding exceed fifty percent of the total assets managed in a similar product or style of portfolio by the manager, including the Board's allocation. (Funding language added 3/14/91).

As part of any Staff and or General Investment Consultant analysis and recommendations regarding the asset manager structure, Staff is directed to address the Department's Emerging Manager Policy.

NUMBER OF EMERGING MANAGERS

- 5.8 The number of emerging managers in each major asset class shall not exceed the number of non-emerging managers. (Amended 5/20/93)

REAL ESTATE

CRITERIA FOR REAL ESTATE EMERGING MANAGER SEARCHES

- 5.9 The Emerging Manager Real Estate firms shall be evaluated based on the following criteria:
- A. Emerging Managers will be defined as those with less than two (\$2) billion dollars in assets under management, fewer than five (5) years as an institutional manager and/or those offering an initial institutionally focused commingled fund vehicle.
 - B. The firm should currently manage no less than \$100 million in the selected strategy. In the absence of current assets under management, a realized track record reflecting implementation of the strategy to the same degree is acceptable. A preference for other public fund experience will be given.
 - C. The capital to be allocated may not exceed 35% of the firm's total assets under management after the allocation and no more than 20% of capital raised for a specific commingled vehicle.
 - D. No client can represent more than 50% of the management firm's total assets under management.
 - E. Any firm with less than a five year track record may utilize track records established at prior firms when performance can be clearly attributed to the emerging firm's key individuals and/or the specific team associated with the opportunity.

PRIVATE EQUITY SPECIALIZED MANAGERS
CRITERIA FOR SELECTION OF PRIVATE EQUITY SPECIALIZED MANAGERS

5.10 Barriers to entry for new firms launching established or new product strategies often provide opportunity to capitalize on niche management firms and/or strategies. Therefore, the Private Equity Specialized Manager program focuses on private equity commitments to funds with a focus on the following:

- A. First, second, or third-time institutional funds for a given sponsor.
- B. Funds with a stated target size of approximately \$500 million or less.
- C. Funds that target companies in underserved markets.
- D. Funds that have specialized strategies such as focusing on specific industries and investments in Los Angeles and California.

HISTORY

5.11 Consolidated Policy Adopted: April 18, 2013

Public Equities and Fixed Income Policy Adopted: February 21, 1991; Revised: 05/20/93, 03/19/97, 07/09/09, 04/17/14 and 09/18/14.

Real Estate Policy Adopted: August 3, 2006; Revised 04/17/08, 07/10/08 and 09/18/14.

Los Angeles Fire & Police Pension System

6.0 - RISK MANAGEMENT POLICY

INTRODUCTION

- 6.1 The Board recognizes that risk is inherent in any investment program. The prudent investor acknowledges the existence of risk and structures an investment program so as to identify, quantify and compensate for risk, while attempting to achieve an appropriate risk-adjusted rate of return.

Consequently the Board has determined to adopt and implement a Risk Management Policy. The purpose of this Policy is to provide guidelines for the management of investment risk of the Fund assets in support of the fiduciary obligations of the Board, consistent with the governing principles and other policies of the plan. Risk will be considered in every aspect of the investment program, beginning with the asset allocation process and continuing through the determination of the structure of asset classes, the selection and retention of investment managers and the measurement of investment performance.

RISK

- 6.2 Webster's defines risk as "possibility of loss or peril...the chance of loss..." For investment purposes, a useful definition for risk is the degree of possibility that the return on an investment over a particular time period will be something other than the expected return.

Risk comes from many sources. Market risk, interest rate risk, manager specific risk, counterparty risk, liquidity risk are but a few. The biggest risk facing the Board is that, over the long term, the investment program will not achieve the System's actuarially assumed rate of return. This would jeopardize the Plan's ability to provide retirement benefits to the System's members and their beneficiaries, and would increase, rather than minimize, the City's contributions.

RISK POLICY

- 6.3 In order to mitigate the effects of risk on the System's investment program, the Board has adopted the following policies:
- A. An asset allocation study will be conducted every three to five years. Analysis has repeatedly shown that 90% to 95% of investment returns are determined solely by asset allocation. The Board acknowledges the critical importance of asset allocation to the success of the investment program, and directs that the allocation will be reviewed no less frequently than annually.
 - B. The asset allocation study will utilize the concepts of Modern Portfolio Theory to identify an efficient portfolio given the Board's desired level of return and tolerance for risk, i.e., return, risk, correlations between asset classes, mean variance optimization and constraints to ensure prudent exposures to strategies and risk factors. The Board will expressly approve a level of risk

when approving the asset allocation, after due consideration of the potential impact on the System of the failure of the asset allocation to yield the expected return. The Board's tolerance for risk is dependent upon various factors and may change with circumstances, but is based on the knowledge that (1) the investment horizon of the Pension System is very long, (2) investment losses are inevitable but smaller losses are easier to recover from than larger losses, and (3) the Board's risk tolerance is not influenced by the actuarially assumed rate of return.

- C. The Board will evaluate risk when determining the structure of the asset allocation. The implementation of the asset allocation involves decisions such as active versus passive management of investments and the number of investment managers to use in a particular asset class. Passive management usually yields better risk adjusted returns than active management in the more efficient asset classes, while in the less efficient asset classes it is more likely that active managers will be able to deliver returns in excess of those achieved by passive managers. The use of multiple managers in an asset class requires evaluation of the resulting fee structure and the possibility of reduced diversification in overlapping portfolios, versus the increase in manager specific risk with fewer managers.
- D. The asset allocation will take into consideration the System's needs for liquidity. The amount, timing and frequency of the System's requirements for liquidity will be analyzed as part of the asset allocation process, with the understanding that some asset classes provide better liquidity than others, that market cycles can affect the availability of liquidity, and that System assets held as cash are not available for investment in higher-yielding asset classes.

HISTORY

6.4 Adopted: September 18, 2014

Los Angeles Fire & Police Pension System

7.0 - PROXY VOTING POLICY

PROXY ISSUES

The Board delegates to the General Manager the voting of normally routine proxy solicitation matters, such as election of directors and appointment of independent auditors. Exceptions shall be brought to the Board's attention at the General Manager's discretion.

The Board authorizes the General Manager to vote accordingly on the following proxy issues:

- 7.1 **Election of Directors** – Withhold votes from director nominees if 40% or more of the directors are (1) employees or (2) have financial ties to the company, if 33% or more serving on the nominating committee are employees or have ties, if any director nominee attends less than 75% of the board and committee meetings during the previous fiscal year, if the company does not have an independent chair or lead director, or from audit committee member nominees if non-audit services exceed 40% of fees. In a contested election, vote for all management nominees.
- 7.2 **Ratify Selection of Auditors** – Vote for unless the non-audit services exceed 40% of fees.
- 7.3 **Name Change** – Always vote for a management proposal to change the company name.
- 7.4 **Other Business** – Always vote for a management proposal to approve other business.
- 7.5 **Adjourn Meeting** – Always vote for a management proposal to adjourn the meeting.
- 7.6 **Technical Amendments** – Always vote for a management proposal to make technical amendments to the charter and/or bylaws.
- 7.7 **Financial Statements** – Always vote for a management proposal to approve financial statements.
- 7.8 **Increase Authorized Common Stock** – Vote against if the increase is not intended to effect a merger, stock split, or recapitalization.
- 7.9 **Decrease or Amend Authorized Common Stock** – Always vote for a management proposal to decrease or amend authorized common stock.
- 7.10 **Issuance or Exercise of Stock Warrants** – Always vote for a management proposal to approve the issuance or exercise of stock warrants.
- 7.11 **Authorize or Increase Preferred Stock** – Vote against if the board has unlimited rights to set the terms and conditions of the shares.

- 7.12 **Decrease or Amend Authorized or Cancel Series of Preferred Stock** – Always vote for a management proposal to decrease or amend authorized preferred stock or to cancel a class or series of preferred stock.
- 7.13 **Issuance or Conversion of Preferred Stock** – Vote against if the dilution represents more than 20% of the total voting power.
- 7.14 **Preemptive Rights** – Vote for a management proposal to create or restore preemptive rights, and vote against a management proposal to eliminate preemptive rights.
- 7.15 **Dual Class Stock** – Always vote for a management proposal to eliminate authorized dual or multiple classes of common stock. Always vote against a management proposal to amend authorized or to increase authorized shares of one or more multiple classes of dual or multiple class common stock.
- 7.16 **Share Repurchase** – Always vote for a management proposal to approve a stock repurchase program.
- 7.17 **Stock Splits** – Always vote for a management proposal to approve or reverse a stock split.
- 7.18 **Recapitalization & Restructuring** – Always vote for a management proposal to approve recapitalization or to restructure the company.
- 7.19 **Reincorporation** – Always vote for a management proposal to reincorporate in a different state.
- 7.20 **Spin-offs** – Always vote for a management proposal to spin off certain company operations or divisions.
- 7.21 **Sale of Assets** – Always vote for a management proposal to approve the sale of assets.
- 7.22 **Cumulative Voting** - Always vote for a management proposal to adopt cumulative voting and against a management proposal to eliminate cumulative voting.
- 7.23 **Director Liability Provisions** – Always vote for a management proposal to limit the liability of directors or to amend director liability provisions.
- 7.24 **Indemnification Provisions** - Always vote for a management proposal to indemnify directors or officers or to amend provisions concerning the indemnification of directors and officers.
- 7.25 **Board Size** – Vote for a management proposal to set the board size unless the board will consist of more than 12 directors or if there is a proposal to give the board the authority to set the size of the board as needed without shareholder approval.
- 7.26 **Filling Vacancies** - Always vote for a management proposal to allow the directors to fill vacancies on the board without shareholder approval.

- 7.27 **Director Removal** – Always vote for a management proposal regarding the removal of directors.
- 7.28 **Non-Technical Charter Amendments** - Always vote for a management proposal to approve non-technical amendments to the company's certificate of incorporation.
- 7.29 **Non-Technical Bylaw Amendments** – Vote for a management proposal to approve non-technical amendments to the company's bylaws unless the amendment would have the effect of reducing shareholders' rights.
- 7.30 **Classified Board** - Always vote for a management proposal to repeal or amend a classified board and against a management proposal to adopt a classified board.
- 7.31 **Poison Pills** - Always vote for a management proposal to redeem a shareholder rights plan (poison pill), and against a management proposal to ratify or adopt a shareholder rights plan (poison pill).
- 7.32 **Special Meetings** - Always vote for a management proposal to restore shareholders' right to call a special meeting, and against a management proposal to limit or eliminate shareholders' right to call a special meeting.
- 7.33 **Written Consent** - Always vote for a management proposal to restore shareholders' right to act by written consent, and against a management proposal to limit or eliminate shareholders' right to act by written consent.
- 7.34 **Supermajority Requirement** - Always vote for a management proposal to eliminate a supermajority vote provision to approve merger or other business combinations, and against a management proposal to amend or establish a supermajority vote provision to approve merger or other business combinations.
- 7.35 **Supermajority Lock-In** - Always vote for a management proposal to eliminate supermajority vote requirements (lock-ins) to change certain bylaw or charter provisions, and against a management proposal to adopt or amend a supermajority lock-in if the changes would result in a complete lock-in on all of the charter and bylaw provisions.
- 7.36 **Non-Financial Effects of Merger** - Always vote against a management proposal to expand or clarify the authority of the board of directors to consider factors other than the interests of shareholders in assessing a takeover bid.
- 7.37 **Fair Price Provision** - Always vote for a management proposal to repeal a fair price provision, and against a management proposal to adopt or amend a fair price provision.
- 7.38 **Anti-Greenmail Provision** - Always vote for a management proposal to limit the payment of greenmail.
- 7.39 **Advance Notice Requirement** – Vote against a management proposal to adopt advance notice requirements if the provision requires advance notice of more than 60 days.

- 7.40 **State Takeover Law** – Always vote for a management proposal seeking to opt out of a state takeover statutory provision, and against a management proposal seeking to opt into a state takeover statutory provision.
- 7.41 **Stock Option Plans** – Vote for a management proposal to adopt, amend, or add shares to a stock option plan for employees except if:
1. The plan dilution is more than 25% of outstanding common stock.
 2. The minimum equity overhang of all plans is more than 25% of outstanding common stock.
 3. The plan permits pyramiding.
 4. The plan allows for the repricing or replacement of underwater options.
 5. The plan allows for non-qualified options to be priced at less than 90% of the fair market value on the grant date.
 6. The plan has a share replenishment feature (evergreen plan) – that is, it adds a specified number or percentage of outstanding shares for awards each year.
 7. The plan allows for multiple awards and does not set a limit on non-option awards.
 8. The plan permits time-lapsing restricted stock awards.
 9. The company's equity overhang exceeds the 75th percentile of its peer group.
 10. The plan contains change-in-control provisions.
 11. The plan administrator may provide loans to exercise awards.
 12. The plan administrator may accelerate the vesting of outstanding awards.
 13. The plan administrator may grant reloaded stock options.
 14. The company allowed the repricing or replacement of underwater options in past fiscal year.
 15. The options granted to the top 5 executives exceed 15% of options granted in the past fiscal year.
- 7.42 **Limit Annual Awards** – Always vote for a management proposal to limit per-employee annual option awards.
- 7.43 **Extend term of Stock Option Plan** – Always vote against a management proposal to extend the term of a stock option plan for employees.
- 7.44 **Director Stock Option Plan** - Vote for a management proposal to adopt or amend a stock option plan for non-employee directors except if:
1. The plan allows non-qualified options to be priced at less than 95% of the fair market value.
 2. The plan dilution is more than 5% of the outstanding common equity.
 3. The minimum potential dilution of all plans is more than 20% of the outstanding common equity.
 4. The plan or amendment authorizes 5 or more types of awards.
 5. The plan or amendment allows for non-formula discretionary awards.
 6. The amendment increases the size of the option awards.

Always vote against a management proposal to add shares to a stock option plan

for non-employee directors.

- 7.45 **Employee Stock Purchase Plan** - Vote for a management proposal to adopt, amend, or add shares to an employee stock purchase plan except if:
1. The plan, amendment, or additional shares allow employees to purchase stock at less than 85% of the fair market value.
 2. The plan or additional shares cause dilution of more than 25% of the outstanding common equity.
 3. The minimum potential dilution of all plans, including the proposal, is more than 25% of the outstanding common equity.
- 7.46 **Stock Award Plan** – Vote against a management proposal to adopt, amend, or add shares to a stock award plan for executives, unless the company beat the return of the S&P 500 and an appropriate peer group.
- 7.47 **Director Stock Award Plan** - Vote against a management proposal to adopt, amend, or add shares to a stock award plan for non-employee directors, unless the company beat the return of the S&P 500 and an appropriate peer group.
- 7.48 **Annual Bonus Plan** – Vote against a management proposal to approve an annual bonus plan unless the company beat the return of the S&P 500 and an appropriate peer group.
- 7.49 **Option/Stock Awards** - Vote against a management proposal to grant a one-time option/stock award unless the company beat the return of the S&P 500 and an appropriate peer group.
- 7.50 **Long Term Bonus Plan** - Vote against a management proposal to approve or amend a long-term bonus plan unless the company beat the return of the S&P 500 and an appropriate peer group.
- 7.51 **Employment Agreements** – Always vote for a management proposal to approve an employment agreement or contract.
- 7.52 **Deferred Compensation Plan Amendments** – Always vote for a management proposal to amend a deferred compensation plan.
- 7.53 **Exchange Underwater Options** – Always vote against a management proposal to exchange underwater options (options with a per-share exercise price that exceeds the underlying stock’s current market price).
- 7.54 **Amend Annual Bonus Plan** – Always vote for a management proposal to amend an annual bonus plan.
- 7.55 **Reapprove Option/Bonus Plan for OBRA** - Always vote for a management proposal to reapprove a stock option plan or bonus plan for purposes of OBRA.
- 7.56 **Executive Bonus Plans** – Vote for if the company’s stock performance in the last calendar year has exceeded the returns of both the Standard & Poor’s 500 Index and an appropriate peer group index.

SHAREHOLDER PROPOSALS

- 7.57 **Shareholder Approval of Auditors** – Always vote for a shareholder proposal calling for stockholder ratification of auditors.
- 7.58 **Auditors Must Attend Annual Meeting** - Always vote for a shareholder proposal calling for the auditors to attend the annual meeting.
- 7.59 **Limit Consulting by Auditors** - Always vote for a shareholder proposal calling for limiting consulting by auditors.
- 7.60 **Rotate Auditors** - Always vote for a shareholder proposal calling for the rotation of auditors.
- 7.61 **Restore Preemptive Rights** - Always vote for a shareholder proposal to restore preemptive rights.
- 7.62 **Study Sale or Spin-Off** - Always vote for a shareholder proposal asking the company to study sales, spin-offs or other strategic alternatives.
- 7.63 **Adopt Confidential Voting** - Always vote for a shareholder proposal asking the board to adopt confidential voting and independent tabulation of the proxy ballots.
- 7.64 **Counting Shareholder Votes** - Always vote for a shareholder proposal asking the company to refrain from counting abstentions and broker non-votes in vote tabulations.
- 7.65 **No Discretionary Voting** - Always vote for a shareholder proposal to eliminate the company's discretion to vote unmarked proxy ballots.
- 7.66 **Equal Access to the Proxy** - Always vote for a shareholder proposal to provide equal access to the proxy materials for shareholders.
- 7.67 **Improve Meeting Reports** – Always vote against a shareholder proposal to improve annual meeting reports.
- 7.68 **Change Annual Meeting Location** – Always vote against a shareholder proposal to change the annual meeting date.
- 7.69 **Board Inclusiveness** – Always abstain from voting for a shareholder proposal asking the board to include more women and minorities as directors.
- 7.70 **Increase Board Independence** - Always vote for a shareholder proposal seeking to increase board independence.
- 7.71 **Director Tenure/Retirement Age** – Always abstain from voting for a shareholder proposal seeking to limit the period of time a director can serve by establishing a retirement or tenure policy.
- 7.72 **Minimum Stock Ownership by Directors** – Vote for a shareholder proposal to require minimum stock ownership by directors unless the minimum level of ownership required is more than 500 shares.

- 7.73 **Allow Union/Employee Representatives on the Board** - Always vote against a shareholder proposal that seeks to provide for union or employee representatives on the board of directors.
- 7.74 **Directors' Role in Corporate Strategy** - Always vote for a shareholder proposal seeking to increase disclosure regarding the board's role in the development and monitoring of the company's long-term strategic plan.
- 7.75 **Increase Nominating Committee Independence** - Always vote for a shareholder proposal to increase the independence of the nominating committee.
- 7.76 **Create Nominating Committee** - Always vote for a shareholder proposal to create a nominating committee of the board.
- 7.77 **Create Shareholder Committee** – Always abstain from voting for a shareholder proposal urging the creation of a shareholder committee.
- 7.78 **Independent Board Chairman** - Always vote for a shareholder proposal asking that the chairman of the board of directors be chosen from among the ranks of the non-employee directors.
- 7.79 **Lead Director** - Always vote for a shareholder proposal asking that a lead director be chosen from among the ranks of non-employee directors.
- 7.80 **Adopt Cumulative Voting** - Always vote for a shareholder proposal calling for the adoption of cumulative voting.
- 7.81 **Nominee Statement in Proxy** – Always abstain from voting for a shareholder proposal to require directors to place a statement of candidacy in the proxy statement.
- 7.82 **Double Board Nominees** - Always abstain from voting for a shareholder proposal to nominate two director candidates for each open board seat.
- 7.83 **Director Liability** - Always abstain from voting for a shareholder proposal to make directors liable for acts or omissions that constitute a breach of fiduciary care resulting from a director's gross negligence and/or reckless or willful neglect.
- 7.84 **Repeal Classified Board** – Always vote for a shareholder proposal to repeal a classified board.
- 7.85 **Redeem or vote on Poison Pill** - Always vote for a shareholder proposal asking the board to redeem or to allow shareholders to vote on a shareholder rights plan (poison pill).
- 7.86 **Eliminate or Reduce Supermajority Provision** - Always vote for a shareholder proposal that seeks to eliminate supermajority provisions.
- 7.87 **Repeal Fair Price Provision** - Always vote for a shareholder proposal that seeks to repeal fair price provisions.

- 7.88 **Restore Right to Call a Special Meeting** - Always vote for a shareholder proposal to restore shareholders' right to call a special meeting.
- 7.89 **Restore Right to Act by Written Consent** - Always vote for a shareholder proposal to restore shareholders' right to act by written consent.
- 7.90 **Prohibit Targeted Share Placement** - Always vote for a shareholder proposal to limit the board's discretion to issue targeted share placements or to require shareholder approval before such block placements can be made.
- 7.91 **Opt Out of State Takeover Statute** - Always abstain from voting for a shareholder proposal seeking to force the company to opt out of a state takeover statutory provision.
- 7.92 **Re-incorporation** - Always abstain from voting for a shareholder proposal to reincorporate the company in another state.
- 7.93 **Anti-Greenmail Provision** - Always vote for a shareholder proposal to limit greenmail payments.
- 7.94 **Restrict or Disclose Executive Compensation** - Always abstain from voting for a shareholder proposal to restrict or to enhance the disclosure of executive compensation.
- 7.95 **Restrict Director Compensation** - Always abstain from voting for a shareholder proposal to restrict director compensation.
- 7.96 **Cap Executive Pay** - Always abstain from voting for a shareholder proposal to cap executive pay.
- 7.97 **Pay Directors in Stock** – Vote against if the resolution would require directors to receive their entire compensation in the form of company stock.
- 7.98 **Approve Executive Compensation** - Always abstain from voting for a shareholder proposal calling for shareholder votes on executive pay.
- 7.99 **Restrict Director Pensions** - Always vote for a shareholder proposal calling for the termination of director retirement plans.
- 7.100 **Review/Report on/Link Executive Pay to Social Performance** - Always abstain from voting for a shareholder proposal that asks management to review, report on and/or link executive compensation to non-financial criteria, particularly social criteria.
- 7.101 **No Repricing of Underwater Options** - Always vote for a shareholder proposal seeking shareholder approval to reprice or replace underwater stock options.
- 7.102 **Golden Parachutes** - Always vote for a shareholder proposal calling for a ban or shareholder vote on future golden parachutes.

- 7.103 **Award Performance-Based Stock Options** - Always vote for a shareholder proposal seeking to award performance-based stock options.
- 7.104 **Expense Stock Options** - Always vote for a shareholder proposal establishing a policy of expensing the costs of all future stock options issued by the company in the company's annual income statement.
- 7.105 **Pension Fund Surplus** - Always vote for a shareholder proposal that requests future executive compensation be determined without regard to any pension fund income.
- 7.106 **Create Compensation Committee** - Always abstain from voting for a shareholder proposal to create a compensation committee.
- 7.107 **Hire Independent Compensation Consultant** - Always abstain from voting for a shareholder proposal to require that the compensation committee hire its own independent compensation consultants – separate from the compensation consultants working with corporate management – to assist with executive compensation issues.
- 7.108 **Committee Independence** – Always vote for a shareholder proposal to increase the independence of the compensation, audit, or key committees.
- 7.109 **Social Issues** – Abstain from voting on all social issues. The General Manager shall present exceptional issues to the Board.
- 7.110 **General Manager Authority** - The Board instructs the General Manager to use his or her discretion as to whether or not proxy issues may be voted by Staff for the purpose of protecting the Pension System's economic interest, when such issues are not covered in the existing guidelines or timing does not allow the issue to be brought to the Board. The General Manager will report to the Board on all votes cast in this manner.

In researching potentially significant proxy issues, the General Manager is also instructed to obtain and consider recommendations from the applicable investment advisor(s) on proxy issues which may have an economic impact on the corporation or on the value of its stock.

As to proxy matters for non-U.S. securities, the Board delegates to the international equity advisors the authority to vote the Board's proxies in accordance with the guidelines set forth above for the General Manager on U.S. proxy matters.

- 7.111 **Report on Climate Change Issues** - Always vote for shareholder proposals that request management to "Report on Climate Change" issues.
- 7.112 **Firearms Related Issues** – Vote for shareholder proposals encouraging firms to refrain from manufacturing or merchandising firearms that are designated by the California State Attorney General's Assault Weapons Identification Guide as being illegal for sale within California. Shareholder proposals in connection with other firearms related issues would be reviewed by staff for consideration. (Amended 05/16/13).

HISTORY

7.113 Adopted: June 20, 1985; Revised: 04/27/89, 04/13/95, 06/05/03, 09/06/07, 05/16/13 and 09/18/14.

Los Angeles Fire & Police Pension System

8.0 - MANAGER SELECTION AND RETENTION POLICY

BACKGROUND

- 8.1 Consistent with its fiduciary responsibilities, the Board of Fire and Police Pension Commissioners has developed a Manager Selection and Retention Policy to further the goal of generating superior long-term investment performance. This Policy outlines the responsibilities and activities of the Board and Staff with respect to monitoring and evaluating managers after being retained by the Board. The Board constantly reviews the performance that the managers are doing. The goal of the Board is to implement a process that removes managers with no value adding capabilities and retains managers that do add value.

As procedures have evolved at the Department of Fire and Police Pensions, the major responsibility for monitoring and evaluating managers has been assigned to Staff and employed consultants, with the Board assuming overall responsibility for setting investment policy and deciding which managers will be hired or retained. Evaluating the performance of a diverse group of money managers is an important part of carrying out the Board's investment responsibilities. The Manager Selection and Retention Policy, consistently applied, will assist the Board in making informed judgments regarding the capabilities of managers hired by the Fund, and in its decisions concerning retention and termination of money managers.

The policy provides a comprehensive framework for the analysis of manager performance promotes a long-term attitude towards performance evaluation and serves to communicate investment objectives between the Board, its managers and its Staff.

MANAGER SELECTION CRITERIA

- 8.2 The selection of investment managers is accomplished in accordance with all applicable Local, State, and Federal laws and regulations. Each investment manager, consultant, and custodian functions under a formal contract that delineates responsibilities and appropriate performance expectations.

Criteria will be established for each manager search undertaken by the Board and will be tailored to the Board's needs in such a search. In general, eligible managers will possess attributes including, but not limited to, the following criteria:

1. The firm must be experienced in managing money for institutional clients in the asset class/product category/investment style specified by the Board.
2. The firm must display a record of stability in retaining and attracting qualified investment professionals, as well as a record of managing asset growth effectively, both in gaining and in retaining clients.
3. The firm must have an asset base sufficient to accommodate the Board's portfolio. In general, managers should have at least \$100 million of

Manager Selection and Retention Policy

discretionary institutional assets under management, and the Board's portfolio should make up no more than 20% of the firm's total asset base at the time of hiring. Exceptions shall be made on a case-by-case basis.

4. The firm must demonstrate adherence to the investment style sought by the Board and adherence to the firm's stated investment discipline.
5. The firm's fees should be competitive with industry standards for the product category.
6. The firm must comply with the "Duties of the Investment Managers" outlined herein and conform to CFA Institute (formerly AIMR) standards for performance reporting.

The General Consultant shall provide to Staff a list of all Investment Managers who have met the minimum search qualifications established by the Board. Staff and the General Consultant shall recommend to the Board a list of finalists to interview. For searches to hire one (1) manager, Staff and the General Consultant shall recommend no more than three (3) finalists. For searches to hire two (2) managers, Staff and the General Consultant shall recommend no more than five (5) finalists.

QUALITATIVE/QUANTITATIVE FACTORS TO MONITOR

- 8.3 The Fund's manager selection process relies heavily upon qualitative analysis in identifying the parts of a manager's organization and investment process that are necessary for superior long-term investment performance. At the time a manager is hired by the Board, the rationale for retaining the manager is outlined and the manager's role in the Board's investment program is clearly established. The review and monitoring process is intended to keep the Board and Staff fully informed of qualitative attributes in a manager's organization.

Quantitative performance evaluation relates to those aspects of a money manager's operation that can be analyzed relative to measurable targets (Appendix 1). Managers hired by the Fund will be measured over a period of time relevant to their appropriate benchmark, style and peer universe. Managers will be measured net of fees, custody expenses and other costs. Performance attribution will include the manager's style (as reflected by the benchmark), manager skill, sector selection, timing and trading.

Staff will meet with the Fund's managers on a regular basis as part of on-going due diligence. Meetings and other contacts will be documented and will include summaries of and any changes in a manager's organization, personnel, strategy or style.

WATCH LIST POLICY

- 8.4 Managers will be reviewed annually at the end of the calendar year. Managers will be placed on the watch list when their performance is below the median of their peer group, (provided by the current performance consultant) for a year, or if there is no comparable peer group comparison, below the expected return for that manager classification. A manager may be placed on the watch list at this time. Significant

Manager Selection and Retention Policy

portfolio management personnel or manager style changes are also cause to be placed on the list immediately or to have the contract ended at any time.

When a manager is placed on the list, Staff will speak to the manager and send a letter (Appendix 2) as soon as possible to discuss the Board's concern at which time that manager will sign and return that letter acknowledging their watch list notification by this Board. A manager will remain on the list until short and long term performance improves enough to warrant removal or the contract is terminated which can occur at any time. The Board will have a manager in for a review at one of the scheduled Board meetings during the second consecutive year the manager is on the list. After the Board has met with a manager for their watch status review, further meetings are at the Board's discretion. Performance of the managers on the list will be evaluated annually, with emphasis on the three and five year returns, until the Board removes the manager from the list or ends the contract.

The Board, Staff and the performance consultant will monitor the manager's quarterly performance. Consultants will provide information on the manager's performance in relationship to other managers within the same style and universe.

The decision to terminate an investment manager's contract is never taken lightly. Managers are hired after lengthy, time-consuming searches and at the time of hiring have demonstrated the ability to successfully outperform a benchmark and their peers. Termination involves the expense of transitioning the account's assets. It also involves decisions of where to place the assets – with an existing manager or with a newly-hired manager following a new search – and how the assets should be managed, whether with an active manager or a passive (index) manager. When evaluating a manager for termination, longer-term performance should weigh more heavily than shorter-term performance. Market cycles can move against a manager's style for a number of years, yet when the cycle changes the manager will again outperform. A manager may experience a single poor year for a particular, specific reason and the negative effects could impact returns for several reporting periods, yet the manager still retains the ability to deliver outperformance. A manager's performance may regularly beat a benchmark but lag the median performance of its peers, in which case the behavior of the peer universe should be analyzed before assuming that a new search could identify a manager in the group that consistently beat median performance. Identifying and dealing with poorly performing managers is an important part of the Board's risk management responsibilities and necessary if the Fund is to achieve its targeted returns. The decision should be made only after thoughtful analysis involving quantitative and qualitative factors measured over significant time periods.

The following list **specifies** the factors that the Board and Staff will analyze before making a decision.

- Evaluate the manager's performance relative to the specified benchmark and other relevant benchmarks.
- Evaluate the manager's performance ranking compared to managers of the same style. Active managers are expected to generate returns better than their benchmarks and their peers. We look for consistency of returns as well as the degree of under-performance. Rolling three and five year returns are more meaningful than shorter periods of time.

Manager Selection and Retention Policy

- Compare performance of the Fund's portfolio to the manager's other accounts.
- Review hiring objectives. Managers are hired for specific reasons: a style or strategy that is expected to add value and contribute to diversification.
- Evaluate personnel. Review the people who establish investment strategy and manage the portfolio.
- Review any changes in ownership. A change in ownership may or may not presage meaningful changes in the organization, key personnel, investment strategy and the decision making process, however any ownership change needs to be reviewed.
- Review the loss of clients and the addition of new business. Losses may signal problems at the firm Staff haven't noticed yet, while adding new clients too quickly may overload the manager's resources or force a change in investment approach.

Upon the decision to terminate, Staff will implement its termination checklist. All outstanding issues with the custodian bank, brokers, consultants, or other parties and the investment manager are to be resolved before the final payment to the manager.

Staff will have the responsibility to manage the details of terminating an investment manager.

REAL ESTATE SEPARATE ACCOUNT MANAGERS

- 8.5 Real Estate managers will be reviewed on the same basis as other managers. However, due to the longer life and the illiquid nature of real estate investments, a formal review of the performance of the real estate separate account managers will take place in conjunction with the expiration of the contracts with the manager. Interim performance reviews may be conducted as warranted after the completion of the annual appraisals.

The benchmark for the separate account real estate managers is the NFI-ODCE Index plus 0.50%.

PRIVATE EQUITY

- 8.6 The Fund's private equity portfolio is made up of individual partnerships that generally last from 10 to 12 years, with provisions for possible extensions beyond the original term. The interim performance of a partnership investment (anything prior to the termination of a partnership) may not always be indicative of the final results for a particular partnership. The interim valuations of a partnership's underlying investments (most of which are privately-held companies) reflect a high degree of subjectivity. As a partnership's underlying investments are disposed of, either at a gain or at a loss, the interim performance begins to become more indicative of the partnership's final performance level.

Manager Selection and Retention Policy

The ultimate measure of a partnership's performance is calculated from the total amount of cash that is contributed (paid-in) to the partnership compared to the timing and amount of cash returned to the Fund. The most common measurement tool is calculating a net compound annual internal rate of return (Net IRR) which is a discounted cash flow analysis of the cash flows to and from the partnership over the life of the partnership.

The Fund expects the private equity portfolio to provide a higher return than publicly-traded equities over the long term (10-12 years). The Fund's return benchmark for our alternatives is the S&P 500 plus four percent.

HISTORY

- 8.7 Adopted: June 10, 1999; Revised 05/03/01; 02/07/02, 09/18/03, 05/03/07, 08/20/09, 04/18/13, 09/18/14, 10/16/14 and 02/05/15.

APPENDIX 1 - PERFORMANCE BENCHMARKS

S&P 500: The Standard & Poor's 500 Index covers 500 large cap stocks representing approximately 75% of the total U.S. equity market capitalization. Companies included in the index have market capitalizations of \$5 billion or greater. A company's weight in the index is proportional to its market value. This index is used as a benchmark for large cap domestic equity managers.

Russell 3000: A Frank Russell Company index consisting of the 3,000 largest U.S. companies as measured by total market capitalization, representing approximately 98% of the investable U.S. equity market. The largest company in the index has a market cap of approximately \$420 billion and the smallest company is roughly \$130 million. The Russell 3000 Index is the overall domestic equity benchmark.

Russell 2000: An index consisting of the 2,000 smallest securities contained in the Russell 3000, representing approximately 10% of the investable U.S. equity market. The average market capitalization of companies in the index is approximately \$1.3 billion. This index is used as a benchmark for small cap domestic equity managers.

Russell 2000 Growth: A small cap growth index consisting of approximately 50% of stocks in the Russell 2000 Index. This index consists of companies with higher price-to-book ratios and higher forecasted growth values. The average market value cap for stocks in this index is \$1.55 billion and the median market cap is \$0.6 billion.

Russell 1000 Growth: An index compiled from the stocks of the 1,000 largest companies in the Russell 3000 which reflect a greater than average growth orientation. Stocks in the index tend to exhibit higher price-to-book and price-earnings ratios, and other growth characteristics. The index contains stocks from approximately 590 companies. It is used as a benchmark for large cap domestic equity growth managers.

Russell 1000 Value: An index compiled from the stocks of the 1,000 largest companies in the Russell 3000 which reflect a less than average growth orientation. Stocks in the index tend to exhibit low price-to-book and price-earnings ratio, and other value characteristics. The index contains stocks from approximately 600 companies (Note: there are over 300 overlap of stocks in both the 1000 Growth and 1000 Value). The index is used as a benchmark for large cap domestic equity value managers.

MSCI ACW ex U.S.*: The Morgan Stanley Capital International All Country World Free ex U.S. Index. An index composed of securities from 45 developed and emerging market countries of the Americas, Europe, the Middle East, Asia and the Pacific, excluding the United States. The index does not include securities from markets closed to foreign investment or those securities in open markets that are not purchasable by foreigners. The index is used as a benchmark for international equity managers.

MSCI EAFE Index*: The Morgan Stanley Capital International Europe, Australasia, and Far East Index is a market capitalization weighted index consisting of developed markets outside of the U.S. and Canada. It is maintained by MSCI Barra. The index ranks each stock in the investable universe from largest to smallest by market capitalization. The index includes a selection of stocks from 22 developed markets, but excludes those from the U.S. and Canada. The index has been calculated since December 31, 1969, making it the oldest

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international stock index. It is probably the most common benchmark for foreign stock funds.

MSCI Emerging Markets*: The Morgan Stanley Capital Emerging Markets Free Index is composed of securities from companies of 26 emerging market countries in Europe, Latin America, Asia and the Pacific. The index does not include securities from markets closed to foreign investment or those securities in open markets that are not purchasable by foreigners. The index is used as a benchmark for emerging markets managers.

Barclays U.S. Government/Credit Index: The Barclays U.S. Government/Credit Long Index is a broad market index similar in composition to the Barclays Government/Credit. The Barclays Long index is composed of those bonds within the Government/Credit index that have maturities of 10 years or greater. This index is used as a benchmark for the fixed income long duration manager.

Barclays U.S. Universal Bond Index: The index covers most of the different sectors in the U.S. fixed income market including the high yield sector. The index is used as a benchmark for our fixed income allocation.

Barclays U.S. Aggregate Index: The index covers U.S. dollar denominated debt including treasury and various corporate bonds. This index is used as a benchmark for our fixed income core and opportunistic managers.

BofA Merrill Lynch U.S. High Yield Master II Constrained Index: The Bank of America Merrill Lynch U.S. High Yield Master II Constrained Index tracks the performance of US dollar denominated below investment grade corporate debt publically issued in the U.S. domestic market with caps on each issuer exposure set at 2%.

Barclays U.S. Treasury: U.S. TIPS Inflation-Linked Bond Index: The index measures the performance of the U.S. Treasury Inflation Protected Securities (TIPS) market. Inflation-linked bond indices include only capital indexed bonds with a remaining maturity of one year or more.

NCREIF: The National Council of Real Estate Investment Fiduciaries Property Index is comprised of real properties of all types located throughout the United States and owned by tax exempt institutional investors. The Property Index includes properties that are encumbered with mortgages (leverage). However, all returns are reported on a non-levered basis. The NCREIF Property Index has been used since July 1, 2001.

NFI-ODCE: The National Council of Real Estate Investment Fiduciaries (NCREIF) Fund Index (NFI) Open-End Diversified Core (ODCE) Index is an index of investment returns reporting on both a historical and current basis of the results of 33 open-end commingled funds pursuing a core investment strategy.

Dow Jones U.S. Selected Real Estate Securities Index: The index includes Real Estate Investment Trusts (REITs) and Real Estate Operating Companies (REOCs). A company must have a minimum market capitalization of \$200 million at the time of its inclusion and at least 75% of the company's total revenue must be derived from ownership and operation of real estate assets.

Manager Selection and Retention Policy

FTSE EPRA/NAREIT Developed Index*: The Financial Times Stock Exchange European Public Real Estate Association/National Association of Real Estate Investment Trusts Developed Index is designed to track the performance of listed real estate companies and REITS worldwide.

S&P Global Natural Resources Index*: The index includes 90 of the largest publicly traded companies in natural resources and commodities business that meet specific investability requirements, offering investors diversified and investable equity exposure across three primary commodity-related sectors: agribusiness, energy, and metals and mining.

S&P Global Water Index*: The index provides liquid and tradable exposure to 50 companies from around the world that are involved in water-related business.

S&P Global Timber & Forestry Index*: The index consists of 25 of the largest publicly traded companies engaged in the ownership, management or upstream supply chain of forests and timberlands.

S&P MLP Index: The index is designed to measure the performance of leading partnerships that trade on major U.S. exchanges. The index includes both master limited partnerships (MLPs) as well as publicly traded limited liability companies (LLCs), which have a similar legal structure to MLPs and share the same tax benefits. As the vast majority of traded partnerships have operations in the oil and gas industries, the S&P MLP Index focuses on companies in the Global Industry Classification Standard (GICS) Energy Sector and the GICS Gas Utilities Industry.

Bloomberg Commodity Index: Formerly known as the Dow Jones-UBS Commodity Index, the index is composed of futures contracts on a diversified basket of commodities traded on U.S. exchanges.

* International indexes are gross total return indexes.

APPENDIX 2 - SAMPLE LETTER – WATCH LIST

Dear:

Notice of Placement on Watch Status

This is to advise you that in accordance with the provisions of the Manager Selection and Retention Policy (Section 8.0) as adopted by the Board of Fire and Police Pension Commissioners, XYZ, Inc. has been formally placed on Watch status. Firms are placed on Watch status when their investment performance, changes in their investment style, or changes within their organization cause the Board concern.

The Purpose of the Manager Selection and Retention Policy is to help ensure the highest levels of performance by Los Angeles Fire and Police Pension Fund's (LAFPP) investment managers. The Policy requires regular evaluations of manager performance against objective standards and identifies those managers whose performance indicates their value-adding capabilities have deteriorated. A copy of the Manager Selection and Retention Policy is enclosed for your reference.

Your firm has been placed on the Watch List following the December 31, 2013 year end period. The portfolio returned XX.XX% for the calendar year 2013, which is less than the benchmark of the ABCDE Index at XX.XX%, and places XYZ, Inc. in the XXth percentile in comparison with a peer group of similar managers.

LAFPP Staff will contact you to discuss the specifics of your performance. Staff may also schedule you for a presentation of your plans for improvement before the Board.

Should the Board be dissatisfied with your portfolio's performance, changes in your investment style, or changes within your organization, the Board may, in the best interests of LAFPP, vote to terminate your contract immediately. I wish to stress that the Board retains the right to terminate a manager's contract at any time during the contract period or allow the contract to expire, including while a firm is on Watch status.

If you have any questions, please contact me at 213- 978-4464.

Very truly yours,

TOM LOPEZ
Chief Investment Officer

Enclosure

c: LAFPP General Consultant, RVK

Los Angeles Fire & Police Pension System

9.0 - MARKETING CESSATION POLICY

PURPOSE

- 9.1 The purpose of this policy is to prevent, and avoid the appearance of, undue influence on the Board or any of its members in the award of all contracts.

Notification of this policy will be sent to all firms considered by Staff or the Consultant to be interview candidates. From the time the search begins with the Board's approval of the minimum criteria for the search until the time the search ends with the selection of the firm(s) to receive the contract(s), all direct marketing contact with firms that meet the search criteria will be limited to meetings with the Consultant, information sent to the Consultant or Department, questions about the search directed to the Staff or Consultant, one meeting at the Department's office with Staff and any site visits. The Board members, Department Staff or Consultant will accept no entertainment or gifts of any kind from any firm qualifying for the search. This policy does not prohibit contact with potential interview candidates at group social events, educational seminars, conferences, or charitable events so long as there is no direct marketing.

During the three months prior to the renewal of a contract with a firm currently under contract, the Board Members, Department Staff and Consultant will accept no entertainment or gifts from that firm until the contract has been renewed or terminated by the Board. Firms who currently have contracts with the Los Angeles Fire and Police Pension System are allowed to continue contact related to the existing contract with Staff and the Consultant.

Firms that are invited to interview with the Board, at the time of the interview, will be required to submit a Contact Statement. This Contact Statement shall list all contacts with Board members and Consultants during the three month period prior to the interview or during the search period, whichever is longer.¹

The Los Angeles Municipal Code Section 49.5.11(A) (Commissioner Participation in Contracting Process) states:

"Except at a public meeting, a member of a City board or commission shall not participate in the development, review, evaluation, or negotiation of or the recommendation process for bids, proposals, or any other requests for the award or termination of a contract, amendment, or change order involving that board, commission, or agency. This does not preclude individual members from reviewing documents and other information provided by agency staff when preparing for a public meeting at which the matter will be considered."

¹See section 1.18.G.2.e of the Ethics Policy, also referred to as the Contractor Disclosure Policy, which can be found in the Board Operating Policies and Procedures.

Marketing Cessation Policy

Any violation of this policy shall result in automatic disqualification of the bidding firm.

This policy is also in the Board Operating Policies and Procedures.

HISTORY

9.2 Adopted: 02/07/02; Revised: 01/04/07, 09/03/09, 03/03/11 and 09/18/14.

Los Angeles Fire & Police Pension System

10.0 - SECURITIES LITIGATION POLICY

PURPOSE

- 10.1 The Board of Los Angeles Fire and Police Pension Commissioners (the “Board”) recognizes its obligation to make reasonable efforts to preserve and protect the assets of the Los Angeles Fire and Police Pension Plan (the “Plan”). The Board acknowledges that securities claims are as an asset of the Plan and that the pursuit of litigation may become necessary or appropriate in order to maximize the Plan’s recovery of assets.

The purpose of the Board’s securities litigation policy is to establish procedures and guidelines for monitoring and participating in both securities class actions and other securities related litigation when appropriate to protect the Plan’s assets.

CLAIMS EVALUATION PROCESS AND PARTICIPATION AS LEAD PLAINTIFF

- 10.2 In order to fully and objectively evaluate the Plan’s position in connection with any potential claim, the Board has developed the following process:
- A. Unless the Plan incurs potential damages (loss net of gain) in excess of Three Million Dollars (\$3,000,000.00) in connection with any investment, the Plan shall proceed as a member of the class action or, if no class action has been filed, the Board shall determine whether or not to proceed with an independent action based upon review and recommendation by Staff, the City Attorney’s Office and outside counsel.
 - B. If the potential damages exceed Three Million Dollars (\$3,000,000.00), the Board shall determine whether or not the Plan should seek lead plaintiff status, pursue an independent action, or remain a member of the class based upon review and recommendation by Staff, the City Attorney’s Office and outside counsel.
 - C. When making a determination as to whether or not a specific loss gives rise to a litigation claim, the Board shall consider an estimate of the magnitude of the potential damages incurred by the Plan, the potential recovery that may be obtained if such claim is pursued, and the merits of such claim. The Board shall consider and determine if it is in the Plan’s best interest to pursue lead plaintiff status or proceed with individual litigation. In determining whether to seek lead plaintiff status, the factors to be considered shall include whether or not the Plan’s participation or action will increase net monetary value of settlement; the potential effect on the value of the Plan’s investment portfolio; and whether the Plan’s active participation will add value to the potential recovery.

SELECTION OF SECURITIES LITIGATION COUNSEL

- 10.3 The Board shall use an RFQ process to select one or more law firms to monitor and review the Plan's investment portfolio and the filing of class actions. Any law firms selected for such monitoring and review shall require the approval of the City Attorney. The selected law firms shall make recommendations to the Board regarding whether or not potential or actual securities litigation cases are meritorious and worthy of further investigation, including seeking lead plaintiff status. The monitoring and review service shall be performed at no cost to the Plan.

The Board shall use an RFQ process to select one or more law firms to advise and/or represent the Plan in connection with securities litigation cases. Any law firms selected for such advice and/or representation shall require the approval of the City Attorney. The selected law firms shall advise the Plan regarding whether or not the Plan should seek lead plaintiff status or recovery on a joint or individual basis in an action that is not a class action and represent the Plan in connection with such cases. Any law firm that has been selected to provide the monitoring and review service may participate in the RFQ process for the selection of law firms to advise and represent the Plan.

MONITORING ACTIONS

- 10.4 The City Attorney in conjunction with outside counsel shall provide on going status reports to the Board on all securities litigation cases in which the Plan is a class member or in which the Plan has filed an independent action. These reports shall include a summary of all major developments in connection with such cases.

HISTORY

- 10.5 Adopted: August 21, 2003; Revised 10/01/09, 09/18/14.

Los Angeles Fire & Police Pension System

11.0 - SUDAN POLICY

GENERAL POLICY

- 11.1 Investment managers should refrain from purchasing securities where the company has been identified as doing business in Sudan's energy sector or with the government of Sudan, when the same investment goals concerning risk, return and diversification can be achieved through the purchase of another security.

The list of companies identified by the Regents of the University of California as having business operations in Sudan will constitute the Board's list of companies subject to its Sudan Policy.

INVESTMENTS SUBJECT TO DIVESTMENT

- 11.2 The Sudan Policy shall apply only to actively managed separate accounts in the public equity asset classes. The Sudan Policy shall not apply to index funds, commingled funds, hedge funds or assets held in the real estate or alternative investment program.

HISTORY

- 11.3 Adopted: March 1, 2007; Revised: 05/17/07, 04/15/10 and 09/18/14.

Los Angeles Fire & Police Pension System

12.0 - DUTIES OF RESPONSIBLE PARTIES

DUTIES OF THE BOARD OR ITS DESIGNATE(S)

- 12.1 The Board has the responsibility for the administration of the Fund for the benefit of plan participants, although it is not the intent of the Board to become involved in the day-to-day investment decisions. The Board or its designee(s) will adhere to the following procedures in the management of the Board's assets:
1. The Board develops and approves policies for the execution of the Board's investment program. Only the Board in its sole discretion can delegate its decision-making authority regarding the investment program. Staff will be responsible for the implementation and administration of these decisions.
 2. The Board shall review investments quarterly, or as needed, to ensure that policy guidelines continue to be met. The Board shall monitor investment returns on both an absolute basis and relative to appropriate benchmarks, as well as peer group comparisons. The source of information for these reviews shall come from Staff, outside consultants, the custodian, investment managers, etc.
 3. The Board may retain investment consultants to provide such services as conducting performance reviews, asset allocation, manager reviews, and investment research.
 4. The Board shall be responsible for taking appropriate action if investment objectives are not being met or if policies and guidelines are not being followed. Reviews for separate portfolios managed by external managers will focus on the following areas:
 - a. Manager compliance to the Policy guidelines.
 - b. Material changes in the managers' organizations, such as investment philosophy, personnel changes, acquisitions or losses of major accounts, etc. The managers will be responsible for keeping the Board advised of any material changes in personnel, investment strategy, or other pertinent information potentially affecting performance.
 - c. Investment performance relative to each manager's stated performance benchmark(s) as set forth in the manager's investment guidelines.
 5. The Board shall expect Staff to administer the Fund's investments in a cost-effective manner subject to Board approval. These costs include, but are not limited to, management, consulting and custodial fees, transaction costs, and other administrative costs chargeable to the Board.

Duties of Responsible Parties

6. The Board shall be responsible for selecting qualified investment managers, consultants, and custodian.
7. Voting of proxies in stocks held by the System will be done according to Board policy.

DUTIES OF THE STAFF

12.2 The Staff provides analysis and recommendations to the Board on a wide variety of investments and investment related matters. Additionally, Staff oversees and directs the implementation of Board policies and manages the Fund on a day-to-day basis. Furthermore, Staff's responsibilities include the following details:

1. Invests the Fund's cash without requiring Board's permission as set forth elsewhere in the Board's Investment Guidelines.
2. Monitors investment managers for adherence to appropriate policies and guidelines.
3. Evaluates and manages the relationships with brokers, managers, and custodian(s) to the Fund to ensure that they are providing all of the necessary assistance to Board and to Staff.
4. Conducts the manager search process, as approved by the Board, with assistance from consultants as needed.
5. The Staff will manage Portfolio restructuring resulting from portfolio rebalancing or manager terminations with the assistance of consultants and managers, as needed.
6. The Staff and its designee(s) shall be responsible for organizing and/or participating in any special research for the Board.
7. The Staff shall ensure that Investment Managers conform to the terms of their contracts and that performance-monitoring systems are sufficient to provide the Board with the most timely, accurate, and useful information as possible.
8. The Staff shall advise and keep the Board apprised of any other events of investment significance.
9. Implements/Administers policies made by the Board.

DUTIES OF THE INVESTMENT MANAGERS

12.3 The Investment Managers shall perform the following duties:

1. Contract by written agreement with the Board to invest within approved guidelines.
2. Provide the Board with proof of liability and fiduciary insurance coverage.

Duties of Responsible Parties

3. Be an SEC-Registered Investment Advisor under the 1940 Act or an authorized bank or trust, and be recognized as providing demonstrated expertise during a number of years in the management of institutional, tax-exempt assets within a defined investment specialty.
4. Adhere to the investment management style concepts and principles for which they were retained, including, but not limited to, developing portfolio strategy, performing research, developing buy, hold and sell lists, and purchasing and selling securities.
5. Obtain best execution for all transactions for the benefit of the System with brokers and dealers qualified to execute institutional orders on an ongoing basis at the best net cost to the System, and, where appropriate, facilitate the recapture of commissions for the System's benefit.
6. Reconcile monthly accounting, transaction and asset summary data with custodian valuations, and communicate and resolve any significant discrepancies with the custodian and the Board's Staff.
7. Maintain frequent and open communication with the Board and Staff on all significant matters pertaining to the System, including, but not limited to, the following issues:
 - a. Major changes in the Investment Manager's investment outlook, investment strategy, and portfolio structure;
 - b. Significant changes in ownership, organizational structure, financial condition, or senior personnel;
 - c. Any changes in the Portfolio Manager or other personnel assigned to the System;
 - d. Each significant client that terminates or separates voluntarily its relationship with the Investment Manager, within 30 days of such termination/separation;
 - e. All pertinent issues that the Investment Manager deems to be of significant interest or material importance; and,
 - f. Meet with the Board and/or Staff on an as-needed basis.

DUTIES OF THE MASTER CUSTODIAN

12.4 The Master Custodian shall be responsible to the Board for the following duties:

1. Provide complete global custody and depository services for the designated accounts.
2. Manage a Short Term Investment Fund (STIF) for investment of any un-invested cash, and ensure that all available cash is invested. If the cash

Duties of Responsible Parties

reserves are managed externally, full cooperation must be provided.

3. Provide in a timely and effective manner a monthly report of the investment activities implemented by the investment managers.
4. Collect all income and realized principal realizable, and properly report it on the periodic statements.
5. Provide monthly and fiscal year-end accounting statements for the portfolio, including all transactions. The statements should be based on accurate security values for both cost and market. These reports should be provided within acceptable time frames.
6. Report situations where accurate security pricing, valuation, and accrued income are either not possible or subject to considerable uncertainty.
7. Assist the System to complete such activities as the annual audit, transaction verification, or unique issues as required by the Board.
8. Manage a securities lending program to enhance income if directed by the Board. If the securities lending program is managed externally, full cooperation must be provided.

DUTIES OF THE GENERAL INVESTMENT CONSULTANT

12.5 The Investment Consultant shall be responsible for the following:

1. Review quarterly performance including performance attribution on the Board's managers and total assets, including a check on guideline compliance and adherence to investment style and discipline.
2. Make recommendations for Board presentation regarding investment policy and strategic asset allocation.
3. Assist the Board in the selection of qualified investment managers and in the review of existing managers, including monitoring changes in personnel, ownership and the investment process.
4. Assist the Board in the selection of a qualified custodian if necessary.
5. Provide topical research and education on investment subjects as requested by the Board or Staff.
6. Communicating information that concerns the Board.

HISTORY

12.6 Adopted: May 3, 2007; Revised: 03/19/09 and 09/18/14.

Los Angeles Fire & Police Pension System

13.0 - ADDRESSING SOCIAL, POLITICAL, AND HUMAN RIGHTS ISSUES

PURPOSE

- 13.1 This policy addresses the financial and administrative risks that the LAFPP Board may face if one of the companies it has invested in has made corporate decisions that cause “substantial social injury”. It defines that term and describes what the LAFPP Board can do about it and how to act quickly.

THE RISK: BACKGROUND

- 13.2 The LAFPP Board is made up of lay volunteers and elected employee and retiree representatives who are the sole protectors of the funds that provide retirement money for current and future safety employees of the City of Los Angeles. Board members all serve in the City of Los Angeles — an international city that is deeply concerned with world-wide political, social and human rights issues. Some of those issues, like the Sudan/Darfur genocidal strife, occur in countries where companies that LAFPP may invest in may do business, directly or indirectly.

When the Board invests System assets, they must follow the standards set for all retirement board members by California Constitution Article XVI § 17. The Constitution imposes fiduciary responsibility on the Board for investing System’s assets, requires them to exercise a high degree of care, skill, prudence and diligence, requires them to diversify investments to avoid risk, and says that their duty to LAFPP’s members comes first, before any other duty.

The Board invests for the long term in companies that they expect will ultimately attain better investment performance by (among other things) operating their businesses with high ethical, social and legal standards. However, LAFPP’s ownership interest in a company does not mean it approves — or even knows about — all of a company’s policies, products, or actions. A company’s possibly risky political and social conduct can only be taken into consideration to the extent that the conduct affects the financial health of the company, or to the extent that divestment of a prior investment (or a decision not to make a particular investment) on account of the company’s conduct will not hurt the fund.

SUBSTANTIAL SOCIAL INJURY

- 13.3 What is “substantial social injury”? Answer: any specific action (including inaction) by a company that directly injures its employees, consumers, or other individuals or groups. It includes actions that violate, subvert, or frustrate the enforcement of American or international law aimed at protecting the health, safety, basic freedoms or human rights of individuals or groups. The term includes support of (i) government-endorsed genocide (as identified by the United States Department of Treasury, Office of Foreign Assets Control (OFAC)) or (ii) other human rights violations that inflict substantial injury to health, safety or freedom.

Addressing Social, Political, and Human Rights Issues

The company's action must be directly responsible for identifiable social injury to fall within this definition. Company action that creates only a chance that social injury might occur is not included. Likewise, doing business with other companies that are themselves engaged in socially injurious activities is not included except in unusual circumstances.

The LAFPP Board will examine any claim of substantial social injury on a case-by-case basis, using the best available evidence and allowing parties to the claim reasonable time to gather and present that evidence. The Board will decide whether to address these issues in a particular case, based on 1) the size of the interest that LAFPP holds in the business; and 2) how serious is the business's violation of LAFPP policies. As stated above, a company's possibly risky political and social conduct can only be taken into consideration to the extent that the conduct affects the financial health of the company, or to the extent that divestment of a prior investment (or a decision not to make a particular investment) on account of the company's conduct will not hurt the fund.

WHAT THE LAFPP BOARD CAN DO

- 13.4 When informed of a company's actions that violate LAFPP policies, the Board will promptly direct its investment staff to seek a change in the company's behavior, using the four steps described below, and to report on the status of progress at each subsequent Board meeting until the issue is resolved to the Board's satisfaction. Each of these steps will be undertaken promptly.

First, the LAFPP Board will direct its investment staff to engage, in a constructive manner, corporate management whose company's actions are reported to cause substantial social injury. All forms of engagement may be used — letter-writing, working with advocacy groups, proxy voting, etc. The most important feature is for the engagement to start right away and to request and obtain prompt replies from third parties to all questions throughout the process of engagement.

Second, if after reasonable efforts have been made to constructively engage management, it is still clear that the action complained of has in fact occurred and is continuing and, in the Board's opinion, the responses and remedies are insufficient or nonresponsive, the Board will direct its investment staff to tell its equity investment managers that, to the extent that suitable investment alternatives are available and that substituting them in the investment portfolio will result in no loss in portfolio return or increase in risk, the managers shall dispose of the interest (or avoid investing) in the violating company and invest in the alternative(s) until such time as the violations of this policy cease.

Third, the Board will direct its investment staff to advise the Board when and if the policy violation has been remedied.

Fourth, upon the Board's concurrence that the policy violation has been remedied, the Board will direct its investment staff to promptly inform the equity investment managers that the securities can thereafter be purchased.

HISTORY

13.5 Adopted: May 17, 2007; Revised: 09/18/14.

Los Angeles Fire & Police Pension System

14.0 - IRAN POLICY

GENERAL POLICY

- 14.1 Investment managers should refrain from purchasing securities where the company has been identified as doing business in Iran's energy sector or with the government of Iran, when the same investment goals concerning risk, return and diversification can be achieved through the purchase of another security.

The list of scrutinized companies identified by the Florida State Board of Administration as having activities in the Iran petroleum energy sector will constitute the Board's list of companies subject to its Iran Policy.

INVESTMENTS SUBJECT TO DIVESTMENT

- 14.2 The Iran Policy shall apply only to actively managed separate accounts in the public equity asset classes. The Iran Policy shall not apply to index funds, commingled funds, hedge funds or assets held in the real estate or alternative investment program.

HISTORY

- 14.3 Adopted: April 15, 2010; Revised: 09/18/14.

Los Angeles Fire & Police Pension System

15.0 - FIREARMS INVESTMENT POLICY

GENERAL POLICY

- 15.1 Investment managers should refrain from purchasing securities where the company has been identified as manufacturing firearms that are illegal in California, when the same investment goals concerning risk, return and diversification can be achieved through the purchase of another security.

The list of companies identified by the California State Attorney General as manufacturers of these firearms will constitute the Board's list of companies subject to its Firearms Investment Policy.

INVESTMENTS SUBJECT TO POLICY

- 15.2 The Firearms Investment Policy shall apply to actively managed separate accounts in the public equity asset classes.

The affected managers shall report on a calendar year basis the financial impact of any firearms manufacturers that were removed from the portfolio. (Amended 05/16/13)

- 15.3 The Board's private equity managers(s) shall inquire with each proposed fund, their intention to invest in companies that manufacture firearms that are designated by the California State Attorney General as being illegal for sale in California and inform the Board of the response. (Amended 05/16/13)

HISTORY

- 15.4 Adopted: March 7, 2013; Revised 05/16/13 and 09/18/14.