

MINUTES
OF THE
BOARD OF FIRE AND POLICE PENSION COMMISSIONERS
AD HOC EMERGING INVESTMENT MANAGERS COMMITTEE
MEETING OF FEBRUARY 7, 2013

The Ad Hoc Emerging Investment Managers Committee and members of the Board of Fire and Police Pension Commissioners of the City of Los Angeles met at the LACERS Board Room, located at the Los Angeles Times Building, 202 W. First Street, Suite 500, Los Angeles 90012 on Thursday, February 7, 2013.

COMMITTEE

MEMBERS PRESENT: Wayne Moore, Chair
Ruben Navarro
Raúl Pérez
Belinda Vega

AD HOC COMMITTEE

SUPPORT STAFF: Tom Lopez, Chief Investment Officer

**DEPARTMENT OF FIRE AND
POLICE PENSIONS:**

William Raggio, Interim General Manager
Joseph Salazar, Assistant General Manager
Tom Lopez, Chief Investment Officer
Barbara Nobregas, Executive Administrative Assistant

CITY ATTORNEY'S OFFICE: Alan Manning, Assistant City Attorney

Wayne Moore, Chair, called the meeting to order at 11:10 a.m. All of the Committee members were present at the start of the meeting.

1. EMERGING MANAGER POLICIES CONSOLIDATION AND POSSIBLE COMMITTEE ACTION

Messrs. Paul Palmer, Investment Officer II and Daren Perlstein, Investment Officer I, presented the report. Mr. Perlstein stated the task assigned to staff.

Commissioner Moore directed staff to make format changes to Section 5.0 Emerging Managers Policy. He stated that Section 5.1 Guidelines is applicable to all three asset classes and to change it to a policy statement. Add to the first sentence in paragraph two of Section 5.1: *“This policy also allows the Board to identify potentially talented investment management organizations in the early growth stages. It recognizes that smaller firms may be more flexible and able to take advantage of opportunities to generate alpha because of their size.”*

Commissioner Vega agreed with Commissioner Moore's revisions.

Commissioner Moore directed staff to add in Section 5.4 of the Policy, criteria regarding graduation out of the emerging manager classification into the regular core portfolio or how to move managers out and give them opportunities for larger allocations if they meet some type of performance criteria. He stated that LACERS and Los Angeles County's emerging manager policies have good graduation criteria guidelines. He suggested that staff review these policies and consider them for inclusion in the LAFPP policy.

Mr. Palmer stated that staff will review the policies and provide a report to the Committee on the various options and the Committee may then make their decision on what they wish to include in the policy.

Mr. Palmer stated that in regards to Section 5.5 of the Policy, 50% of the funding size is more liberal, and many other policies are no more than 25%. Interim General Manager Raggio stated that in the policy for the equity program, in general we cannot be more than 20% invested to address Commissioner Moore's question.

Commissioner Moore discussed revising the formatting of Section 5.9 similar to Section 5.1.

Mr. Palmer stated in regards to Section 5.12 B, the intent of the \$500 million target size is to provide flexibility.

Mr. Tom Lopez provided an overview of what other funds are doing in regards to a graduation policy. Commissioner Vega stated she would like to review what other funds are doing regarding this issue. The Committee and staff continued their discussion on this issue.

Commissioner Navarro stated that the Committee should hold off on the recommendation because the policy needs further revisions.

The Committee did not take action on Item 1.

2. PROS AND CONS OF EMERGING MANAGER FUND-OF-FUNDS VS DIRECT INVESTMENT

Messrs. Paul Palmer and Daren Perlstein presented the report.

Mr. Tom Lopez addressed Commissioner Navarro's question regarding paying fees to small cap vs. large cap fund of fund managers. Mr. Lopez provided an overview of the Fund-of-Funds program. The Committee continued discussing the fund-of-funds manager fees and the operation of the program.

Interim General Manager Raggio stated that representatives from FIS Group and Attucks will be presenting at the board retreat on the topic of emerging managers.

Interim General Manager Raggio stated that staff will review the issues that the Committee has discussed.

The Committee did not take action on Item 2.

3. EMERGING MANAGER OUTREACH EFFORTS

Mr. Daren Perlstein provided an overview of the outreach efforts by staff and the events attended by Interim General Manager Raggio and Mr. Tom Lopez.

Interim General Manager Raggio stated he and Mr. Lopez will continue to attend future events and outreach efforts as indicated in the report.

The board report was received and file.

4. PROPOSED MANAGER SELECTION AND RETENTION POLICY LANGUAGE ADDITION AND POSSIBLE COMMITTEE ACTION

Mr. Paul Palmer and Daren Perlstein were before the Committee.

The Committee discussed the proposed language to the policy in regards to the consultant submitting a list of all investment managers who have qualified and the minimum qualifications. The Committee also discussed the issue of including firms not recommended by the consultant.

Interim General Manager Raggio stated it's the Board's discretion whether or not to consider firms not listed, by a majority vote of the Board. He believes staff would take direction from the Board as it was an issue with past Boards; it would be a consideration from the Board.

Mr. Alan Manning stated that the only legal consideration to add a firm to the list is that it be done at an open board meeting.

Mr. Jim Voytko, Chief Operating Officer from RV Kuhns stated that the Board approved a five-step process and for his firm and staff to follow in manager searches. It is the Board's prerogative to change the process. RV Kuhns will be ready to answer all questions in regards to the minimum qualifications and how the decisions were made in the manager selection.

Commissioner Moore wanted to ensure that the Board is allowed to view the complete list of managers who apply, that their gender and race/ethnicity data are included, and which firms meet the

minority and woman-owned enterprise qualifications. He also asked that staff clean up the policy and bring it back to the Committee.

Mr. Palmer stated staff is in the process of going through the entire investment policy and will bring it back to the Board.

Commissioner Navarro requested that he would like to see a roadmap in regards to the graduation and fund-to-funds policy.

Commissioner Moore asked for staff to make a recommendation on establishing targets for how much of the private equity portfolio to have in the emerging manager exposure. In regards to private equity, a target should be set.

That staff include in their recommendation, if the staff has a recommendation, for other asset classes. If staff has additional information on fixed income or real estate, please inform the Committee.


Commissioner Moore coordinated with staff and Committee members and scheduled the next meeting on March 21, 2013 after the regular board meeting.

5. PUBLIC COMMENTS

There were no public comments.

The meeting adjourned at 12:19 p.m.


Chair


Secretary