AGENDA

A REGULAR MEETING OF THE REAL ESTATE COMMITTEE

AND BOARD OF INVESTMENTS*

LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION

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

8:00 A.M., WEDNESDAY, JUNE 13, 2018**

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

I. CALL TO ORDER

II. APPROVAL OF THE MINUTES

A. Approval of the Minutes of the Regular Real Estate Committee Meeting of April 11, 2018

III. PUBLIC COMMENT

IV. NON-CONSENT ITEMS

A. Recommendation as submitted by Trina Sanders, Investment Officer and Kevin Bassi, Senior Investment Analyst: That the Committee advance the Real Estate Objectives, Policies and Procedures to the Board of Investments for adoption. (Memo dated June 1, 2018)

B. Recommendation as submitted by John D. McClelland, Principal Investment Officer; Amit Aggarwal, Investment Officer; and Mike Romero, Senior Investment Analyst: That the Committee advance the following proposed actions relating to the 2018-2019 Real Estate Investment Plan to the Board of Investments:

1.) Approve the proposed Real Estate Investment Plan for Fiscal Year 2018-2019; and

IV. NON-CONSENT ITEMS (Continued)

2.) Approve allocation of up to $550 million for investment by the Fund's separate account equity managers.

(Memo dated June 1, 2018)

V. REPORTS

A. Real Estate Performance Measurement Report 4th Quarter 2017
The Townsend Group
Jennifer Young Stevens, Principal
Robert Miranda, Vice President
Micolyn Magee, Partner
(Memo dated May 31, 2018)

B. Real Estate Economic Study/Review
John D. McClelland, Principal Investment Officer
(Memo dated June 1, 2018)

VI. REPORT ON STAFF ACTION ITEMS

VII. GOOD OF THE ORDER

VIII. ADJOURNMENT

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

**Although the meeting is scheduled for 8:00 a.m., it can start anytime thereafter, depending on the length of the Board of Investment meeting preceding it. Please be on call.

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

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

MINUTES OF THE REGULAR MEETING OF THE REAL ESTATE

COMMITTEE AND THE BOARD OF INVESTMENTS

LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION

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

8:00 A.M., WEDNESDAY, APRIL 11, 2018

PRESENT: Michael Schneider, Chair

Ron Okum, Vice Chair

Wayne Moore

Gina Sanchez

ABSENT: David Green

Shawn Kehoe, Alternate

MEMBERS AT LARGE:

Herman Santos

STAFF, ADVISORS, PARTICIPANTS

Jonathan Grabel, Chief Investment Officer

John McClelland, Principal Investment Officer – Real Estate

Meketa Investment Group
Stephen McCourt, Managing Principal
Tim Filla, Vice President
Andrea Light, Investment Analyst

The Townsend Group
Jennifer Young Stevens, Principal
Robert Miranda, Vice President
Felix Fels, Associate

I. CALL TO ORDER

The Meeting was called to order by Chair Schneider at 12:45 p.m., in the Board Room of Gateway Plaza.

II. APPROVAL OF MINUTES

A. Approval of the Minutes of the Regular Meeting of February 14, 2018.

Mr. Okum made a motion, seconded by Ms. Sanchez, to approve the minutes of the regular meeting of February 14, 2018. The motion carried by unanimous vote.

III. PUBLIC COMMENT

There were no requests from the public to speak.

IV. NON-CONSENT ITEMS

A. Recommendation as submitted by John McClelland, Principal Investment Officer: That the Committee adopt the immediate, intermediate and ongoing actions identified by the Real Estate Structure Review and associated recommendations.

Ms. Sanchez made a motion, seconded by Mr. Moore, to approve the recommendation to adopt the immediate, intermediate and ongoing actions identified by the Real Estate Structure Review and associated recommendations. The motion carried by unanimous vote.

V. REPORTS

A. Real Estate IMA Attribution Project-Final Conclusions
The Townsend Group
Jennifer Young Stevens, Principal

Robert Miranda, Vice President
Felix Fels, Associate
(Presentation dated April 11, 2018)

Ms. Young Stevens, Mr. Miranda and Mr. Fels provided a presentation and answered questions from the Committee.

VI. REPORTS ON STAFF ACTION ITEMS
There were no items to report.

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

There were no comments.

VIII. ADJOURNMENT

There being no further business to come before the Committee, the meeting was adjourned at 2:00 p.m.

REAL ESTATE OBJECTIVES, POLICIES, AND PROCEDURES RECOMMENDATION

June 13, 2018

TRINA SANDERS
INVESTMENT OFFICER–REAL ESTATE

KEVIN BASSI
Senior Investment Analyst-Real Estate

June 1, 2018

TO: Each Member
Real Estate Committee

FROM: Trina Sanders
Investment Officer - Real Estate

Kevin Bassi
Senior Investment Analyst - Real Estate

FOR: June 13, 2018 Real Estate Committee Meeting

SUBJECT: **REAL ESTATE OBJECTIVES, POLICIES AND PROCEDURES**

RECOMMENDATION

Advance the Real Estate Objectives, Policies and Procedures to the Board of Investments for adoption.

DISCUSSION

Staff and the Board's real estate consultant, The Townsend Group, have completed a periodic review of the Real Estate Objectives, Policies and Procedures (the "OPP"). The review resulted in several proposed changes that Staff considers to be material. The changes are outlined below.

- The definition of the role of real estate has been updated to reflect the unique characteristics of real estate that should benefit the portfolio. Definitions of "core/core-plus" and "non-core" have been introduced with "non-core" consisting of value-add and high-return investments.
- The newly adopted functional asset classes have been integrated into the OPP. core/core-plus and value-add will become a part of Real Assets and Inflation Hedges. High-return investments become a part of the Growth asset class and real estate debt will contribute to the Credit asset class. The real estate group will continue to be responsible for all real estate investment activity, regardless of the functional asset class treatment.
- A Manager Return Objective has been added and may make use of benchmarks related to property and geographic-specific investment mandates such as the National Council of Real Estate Fiduciaries (NCREIF) Property Index (NPI). This will facilitate better performance monitoring.
- New language was added to the existing Acquisition/Investment Review section that describes the process used when acquiring assets from a commingled fund structure

(fund-of-one). The added language outlines all the of the steps taken prior to acquisition and reflects the Board-approved process that has been previously used.

- Removing the Independent Fiduciary (IF) Selection section as this section has not been used since being inserted approximately ten years ago when staff had anticipated the more frequent use of IF's. A planned search to create a bench of IF's was cancelled last year. The most common use of an IF is expected to be when an opportunity arises to acquire an asset from a fund-of-one and correlates to the prior bullet point, describing the steps taken in the acquisition process. Use of an IF for this type of transaction is discussed in additional detail in the OPP.
- Replacing the Watch List with a Manager Return Objective and review process. The Watch List has been replaced with a Manager Return Objective, which will be incorporated into each IMA agreement. The manager will be evaluated on a rolling five-year period. If a manager fails to meet the return objective for two consecutive one-year periods, the manager will have a formal review with staff and the Board. The annual investment plan prepared by staff and subject to approval by the Board, will identify each manager that will be permitted to deploy capital for new investments and by omission, those managers that will not be allowed to make new investments.

A redline copy of the proposed changes to the OPP is **ATTACHMENT A**, the clean line OPP is **ATTACHMENT B**, and Townsend's concurrence memo is **ATTACHMENT C**.

Staff recommends that the Committee advance the updated OPP to the Board for adoption.

Attachments

Noted and Reviewed:

Jonathan Grabel,
Chief Investment Officer

ATTACHMENT A

LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION

REAL ESTATE

Objectives, Policies and Procedures

PROPOSED ADOPTED June 13, 2018

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REAL ESTATE OBJECTIVES, POLICIES and PROCEDURES

TABLE OF CONTENTS

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LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION
REAL ESTATE OBJECTIVES, POLICIES AND PROCEDURES

SECTION I – PORTFOLIO OBJECTIVES

1. Introduction

The Board of Investments (the "Board") of the Los Angeles County Employees Retirement Association (the "Fund") has determined that, over the long term, inclusion of real estate investments will enhance the risk/return characteristics of the Fund. The purpose of this document is to set forth objectives, policies and procedures for investment in the asset class of real estate. This document supplements but does not supersede LACERA's Investment Policy Statement.

2. Asset Allocation

Real estate comprises a portion of three functional asset classes. These include Real Assets and Inflation Hedges, Growth and Credit. The allocation to each of these functional asset classes is:

7 % Real Assets and Inflation Hedges
2 % Growth
1 % Credit
10% Total

The Board periodically reviews the allocation to the asset class of real estate and designates portions of the allocation to be managed by individual managers.

3. The Role of Real Estate

The primary role of real estate is to generate stable, reliable income as well as to preserve capital. Additionally, real estate is expected to provide a risk-adjusted total return that is accretive to the Fund achieving its long term rate of return with acceptable levels of risk. High-Return real estate, classified as part of the functional asset class Growth, can also provide returns similar to public equity, with a lower correlation to other asset classes. Real estate debt investments, classified as part of the functional asset class Credit, can provide attractive returns while taking lower levels of risk than equity real estate investments.

Real estate investments will be made into Core/Core-Plus and Non-Core real estate. The definition of these risk classifications, as well as those of the sub Non-Core real estate such as Value Add and High Return, is listed under section six, "Investment Categories".

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

4. Investment Philosophy

Investment decisions regarding the real estate portfolio should be primarily guided by the following objectives: (i) maximizing long term total cash returns; (ii) achieving a total return competitive with other asset classes; and (iii) maintaining a broad diversification of assets. LACERA should adhere to prudent risk management policies that will seek to manage risk, insuring diversification of assets and investment managers.

5. Return Objectives

5.1 Portfolio Benchmark

To evaluate the performance of the Real Estate portfolio, the benchmark will be based on the National Council of Real Estate Fiduciaries (NCREIF) Fund Index (NFI) Open-end Diversified Core Equity Index (ODCE) referred to as NFI-ODCE. All comparisons will be net performance to net index returns. The primary benchmark comparison will cover a ten-year period. The one, three and five year periods will also be measured.

Additional benchmarks such as the NCREIF Property Index (NPI) may be used for property or geographic specific investment measurements including the sub indices created by NPI as well as ODCE.

Investment Category	After Fee Benchmark
Private Core	ODCE
Private Value-Add	ODCE+100 bps
Private High-Return	ODCE+300 bps
Public REITs (Domestic)	NAREIT
Public REITs (International)	FTSE/EPRA/NAREIT
Private Debt	≥NPI Income
Total Portfolio	**ODCE + 80 bps**

The Total Portfolio benchmark is weighted 60% core, 20% value-add and 20% high-return. When evaluating the performance of the real estate portfolio, analysis will also include comparisons to the then current assumptions

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for the asset class to evaluate the Real Estate Portfolio's contribution to the Plan.

6. Investment Categories

All percentages and limits herein are based on the total real estate allocation. The targeted portfolio composition is relatively low risk and seeks at least 50% in Core investments. The ranges for each of the investment categories (defined and discussed below) are as follows:

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Target Portfolio Composition

Public and private as well as international investments in real estate may be included in core and non-core strategies. Limits for each are detailed below:

Core Minimum 50%	
Non-Core	Maximum 40%
Value-Added	Maximum 40%
High Return	Maximum 40%
Public REITs (Domestic)	Maximum 15%
Private Debt	Maximum 20%
International (Including International REITs)	Maximum 20%

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6.1 Core ("Core") /Core Plus ("Core Plus") Investments

Core/Core-Plus Portfolio investments are expected to be the lowest risk and return sector of real estate and consist of operating and substantially leased (typically 80% or more) institutional quality properties. These investments include well-located traditional property types in developed markets. Traditional property types are office, apartment, retail, and industrial. These investments offer relatively high current income returns and as a result, a greater predictability of total returns under normal market conditions. The income component typically represents a significant component of the expected total return of Core/Core-Plus investments.

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6.2 Non-Core

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6.2.1 Value Enhancement Opportunity ("Value Added") Investments

These investments are comprised of institutional quality traditional property types, and debt oriented investments. However, they offer the opportunity to enhance value through alleviating an

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identifiable deficiency specific to the property or associated financial instruments. For example, value can be added through active management in a property that has issues related to the lease-up, rehabilitation or repositioning. Value-Added opportunities include improving management and operations within management intensive assets such as Hotels.

These investments are of moderate risk with predicted appreciation contributing approximately 40% or more of the total return (i.e. greater dependence on appreciation).

6.2.2 High Return Investments

High Return investments include those situations where the investment seeks to capitalize on the disequilibrium of the real estate markets caused by dramatic shifts in capital flows or other fundamental real estate characteristics. They include "opportunity funds" with broad investment mandates, non-traditional investment vehicles (e.g., non-performing loans), investments in real estate operating companies ("REOCs") or other venture capital type investments involving complex, heavily negotiated transactions. Development projects are included in the High Return category.

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These investments are of medium to high risk with predicted appreciation contributing 40% or more of the total return. Investments may include core or non-core property types and may include non-traditional investment vehicles such as operating companies.

6.3 Public Market Equity

The public market equity component is comprised of real estate investment trusts ("REITs") and other real estate related companies that are publicly traded (collectively referred to as "REITs"). REITs provide greater liquidity than private equity real estate albeit with higher volatility in market valuation. In addition, the public markets may be used as a vehicle for the Fund to gain exposure to specific property types, such as international real estate and regional shopping malls, which are either inaccessible on a direct basis or would otherwise compliment the portfolio.

6.4 Private Debt

Debt investments may offer unique opportunities to enhance income generation within the real estate portfolio. Use of debt-oriented investments may occur within the core, value added or high return sectors.

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7. Legal

Investments shall be made, managed and disposed of in compliance with applicable federal, state and local country specific laws. Qualified legal counsel selected by the Legal Office shall document investment acquisitions, dispositions and leverage.

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8. Risk Management

There are numerous investment risks associated with real estate, as such that the actual income and total return may vary from the expected or projected return targets. The Fund shall manage these investments risk by implementing the Risk Management Policies included herein.

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SECTION II – POLICIES

1. Risk Management

The following risk management policies shall be implemented to manage the investment risk associated with the real estate portfolio:

1.1 Institutional Quality

A proposed investment must exhibit institutional quality, which is defined as similar, in risk and quality, to investments traditionally made by institutions (e.g., pension funds and insurance companies). Institutional quality core investments are investments providing long-term stable income returns and are typically located in stable and diversified economic markets, evidencing high quality design and construction, and are in a competitive position within the immediate market area of such investment.

1.2 Investment Management Services

All investments shall be underwritten, managed by, and disposed of, if necessary, by qualified investment Staff or an external real estate manager/independent fiduciary, which has an established, successful record of providing advisory services to institutions and is deemed able to deliver similar services in the future ("Manager"). When faced with two otherwise equivalent investment opportunities, the Fund will select the investment proposed

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Formatted: Font: Times New Roman, 12 pt by an Emerging Manager (as defined herein or LACERA's Emerging Manager Policy), if any.

1.2.1 Manager Characteristics:

Unless otherwise authorized by the Board, a manager shall exhibit the following characteristics:

1.2.1.1 Is registered as an investment advisor under the investment Advisor Act of 1940, or has provided sufficient explanation as to why they are exempt from registration;

1.2.1.2 Has a minimum of five (5) years institutional real estate investment management experience, and the responsible personnel of such manager shall have at least five (5) years of institutional real estate experience;

1.2.1.3 Has a minimum of $250 million (Net of leverage) of institutional real estate assets under management;

1.2.1.4 The investments by the Fund, in the aggregate, shall not constitute more than twenty percent (20%) of the manager's total assets under management, and no other single client (including any affiliates) shall control or have authority over more than twenty percent (20%) of the manager's total assets under management at the time of selection and approval by the Board;

1.2.1.5 Has a proven and verifiable record of competitive performance returns; and

1.2.1.6 Has a proven and verifiable record of well-articulated and executed real estate investment strategies.

1.2.2 Emerging Managers

Notwithstanding the above requirements, the Board may select an Emerging Manager to manage assets in conformance with LACERA's Emerging Manager Policy (found within the LACERA Investment Statement Policy, ATTACHMENT J).

The structure and timing of capital raises may not coincide with times when LACERA has capital available for the Emerging Manager Program. Therefore, Staff will manage the twenty (20%) allocation limit of the real estate portfolio, within the range of zero percent (0%) to twenty percent (20%).

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1.3 Diversification

Investment strategy, property type, economic/geographic location and manager shall diversify the real estate portfolio with the purpose of reducing portfolio risk by minimizing the impact any investment or manager may have on the total return of the real estate portfolio. Appropriate diversification criteria shall be reviewed on a periodic basis, not less than annually.

The diversification requirements are discussed further below.

1.3.1 Property Type Diversification

The Core/Core Plus investments will be made in a diversified collection of office, retail, industrial, apartment and other property types. The Core/Core Plus Portfolio of office, retail, industrial and apartment properties will seek to replicate the diversification of the NFI-ODCE, within a variance of +/- 10.0%. Greater than 10% variance for Core/Core Plus from the benchmark property type weights will require Board approval.

Up to 20.0% of the Portfolio may be invested in "Other" property types. "Other" may include property types such as student housing, medical office and self-storage.

1.3.2 Geographic Diversification

Properties shall be distributed by location to attain economic diversification. Regional distribution shall be utilized along with economic diversification. Target locations should be selected by means of research substantiating positive economic growth during the life of the investment, a diversified economic base, geographic or regulatory supply constraints and tenant demand. In order to manage risk associated with geography, the following limitations will be followed:

Domestic Research has shown that diversification of private real estate by NCREIF region or state is not a perfect means to ensure effective diversification by location. For example, although in the same state, the southern California economy has distinct differences with the northern California economy.

1. No more than 20% of LACERA's Core/Core Plus real estate allocation may be invested in any Metropolitan Statistical Area ("MSA");

2. The diversification of LACERA's Core/Core Plus Portfolio will seek to replicate the geographic

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compositions of the NFI-ODCE +/- 10.0%. with up to 20.0% of the Portfolio allowed in "Other". Greater than 10% variance for Core/Core Plus from the benchmark geographic weights will require Board approval; and

3. No more than 20% of the total real estate portfolio will be invested in international real estate.

1.3.3 Low Correlation Investments

Public real estate equity and private real estate debt tend to have low correlations to private equity real estate and be slightly more correlated to the traditional debt and equity asset classes. In order to ensure that diversification within the real estate portfolio does not negatively impact the diversification benefits of real estate within the Total Plan, these strategies will be limited.

1.3.3.1 No more than 20% of the total real estate portfolio will be invested in debt oriented investments.

1.3.3.2 No more than 15% of the total real estate portfolio will be invested in publicly traded securities.

1.3.4 Manager Diversification

The Fund shall limit its exposure to any single manager. No single manager shall be permitted to manage more than 35% of the total allocation to real estate. Exposure to any single Emerging Manager shall be limited to an amount not to exceed 10% of the total allocation to real estate.

1.4 Prudent Expert Standard

A manager's acquisition, management and disposition of real estate investments will be guided by the "prudent expert" standard, which shall be the standard of care required of managers and set forth in their Investment Management Agreements with the Fund. A real estate investment shall be made only if said investment was evaluated and recommended by a manager or another qualified independent fiduciary engaged by the Fund.

1.5 Manager Compensation Structure

For non-core investing, preference shall be given to investment management fee contracts that reward superior investment management performance. Specifically, where appropriate, incentive management fees may be considered to effect reductions in base management fees and to motivate

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managers to enhance portfolio returns and may be based in part on cash distributions, if practicable.

1.6 Investment Plan

The Investment Plan will set forth investment activities consistent with the Real Estate Objectives, Policies and Procedures. The Investment Plan shall serve as the tactical implementation of the Real Estate Objectives, Policies and Procedures and endeavor to move the Fund toward its target allocation in a prudent manner. Investment activity should adhere to the policies and procedures set in the Real Estate Objectives, Policies and Procedures.

1.7 Management Procedures

The Fund will adhere to clearly defined procedures to monitor the investment, management and disposition of real estate assets by managers on behalf of the Fund as discussed further below.

1.8 Insurance Requirements

Management agreements between the Fund and its managers shall require appropriate levels of property and liability insurance be maintained at all times.

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2. Asset Management

The Fund shall seek discretionary manager relationships for pooled fund investments, individually managed accounts and co-investments. To the extent practical, the Fund shall prepare and implement investment criteria, objectives and procedures to ensure managers use their best efforts in executing duties in compliance with the Real Estate Objectives, Policies and Procedures and Investment Plan and consistent with industry standards.

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The individually managed accounts will be discretionary, although each manager shall be required to make investments consistent with applicable investment criteria determined by LACERA. These criteria shall be set forth in the Manager Investment Plan (as hereinafter defined), prepared by the manager and reviewed and approved by Staff. In addition, Staff shall conduct an annual review of the Budget and Management Plans (as hereinafter defined). Management decisions consistent with the pro forma projections and/or approved budgetary items are exclusively delegated to the Manager.

Where required by manager contract, Managers must provide an annual report to Staff describing actions taken by such manager to comply with LACERA's Responsible Contractor Policy (found within the LACERA Investment Statement Policy, ATTACHMENT F), including those taken by property managers and their subcontractors. In addition, managers must monitor and enforce compliance with the

Responsible Contractors Policy by property managers and their subcontractors, including reasonable investigation of potential violations.

The Board may assign direct asset management and/or co-investment management responsibilities to Staff. Staff will use its best efforts to execute duties in compliance with the Real Estate Objectives, Policies and Procedures and Investment Plan and consistent with industry standards

3. Environment, Social and Governance

As a signatory to the Principles for Responsible Investment (PRI), the Fund's individually managed accounts will be managed in a manner consistent with Principals one and two: (1.) incorporate ESG issues into investment analysis and decision-making processes; and (2.) be active owners and incorporate ESG issues into the ownership policies and practices.

Environmental risks will be fully assessed and considered prior to making any property investment. Specific requirements for this assessment are incorporated in the scope of work in Individually Managed Account contracts. Annual operating plans and budgets will address any ongoing effort addressing ESG-related matters.

The Fund requires the individually managed account managers to manage assets in compliance with LACERA's Responsible Contractor Policy. This policy encourages fair labor practices when constructing and maintaining real estate assets.

4. Property Management Policy

Direct or supervisory property management is acceptable. The Fund shall favor managers having clearly articulated and successfully implemented property management strategies. Investment properties shall be professionally managed by the most qualified property management firm given the investment's location and property type. In addition, the fees paid by the Fund for property management services (to a third party or an affiliate) shall be at a rate consistent with the market rates for comparable property management firms in that market for properties of like kind and quality.

5. Development Management Policy

Investments in development properties shall utilize the services of a qualified developer to manage the development process. Fund managers may provide such development services on a direct or supervisory basis. Any fees paid by the Fund for development services (to a third party or an affiliate) shall be at a rate consistent with the market rates for comparable development services in that market for properties of like kind and quality.

6. Property Valuation Policy - Directly Held

All directly held property investments made by Individually Managed Account managers shall be valued by a qualified independent appraiser(s) (MAI) at regular intervals, of no less than every three (3) years. Appraiser selection with respect to individually managed accounts will be determined by Staff, based on organizational qualifications, capabilities, personnel, references, and resources. Managers will estimate the market value of each property investment in those periods where independent appraisals are not performed.

Independent appraisals shall be performed, to the extent practicable, at such times as may be required to calculate performance and pay compensation to managers of individually managed accounts pursuant to any incentive compensation arrangement in any existing or future Investment Management Agreement. Valuations, whether determined by the manager or independent appraisers, will be used to calculate the performance of the portfolio.

6.1 Debt Secured by Property

Investments made through the provision of debt to third parties have unique challenges associated with their valuations. Until specific industry standards are established, best practices allow for the valuation of such investments to be determined by a formal audit of year-end financial statements. Such audit must be completed by a firm approved by Staff.

7. Investment Vehicle Policy

Investments may be made directly or indirectly by means of any legally permissible investment vehicles including individually managed accounts, co-investment, group trusts, REITs, real estate operating companies ("REOCs"), partnerships, and corporations (including limited liability companies). The Fund may seek investments through such investment vehicles in formal/informal secondary markets.

Deleted: For Core investments, the Fund prefers to use an individually managed account because of the superior control and flexibility such a vehicle provides.

8. Policy for Leverage on Wholly Owned Property

The prudent and conservative utilization of third party leverage can enhance returns on existing investments, minimize equity exposure and allow increased diversification of the portfolio, thus reducing risk levels. Staff shall monitor the use of all leverage for compliance with the criteria outlined below and report semi-annually to the Board on the status. The criteria included in this policy are intended to mitigate the risks associated with using leverage by imposing conservative requirements. This policy shall apply to all equity investing activities.

8.1 Leverage Criteria: Long-Term

Any leverage originated or assumed on wholly owned core or non-core (value-added and high return) investments by the manager ("long-term") must satisfy all of the criteria set out below.

8.1.1 Positive Leverage

The use of debt must result in positive leverage. Positive leverage shall apply to the current return, total return (IRR) and opportunity return according to the following:

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8.1.2 Return Premium

The total expected return to LACERA over the term of the debt must be expected to increase returns a minimum of 2 basis points for each 1% of leverage, compared to the unlevered return projections (e.g. 100 basis points for 50% leverage). Return to LACERA should be measured AFTER payment of acquisition and asset management fees but BEFORE payment of any incentive fees.

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8.1.3 Debt-to-Equity Ratio

The maximum debt-to-equity ratio permitted on **any single investment** is:

Core: 1:1 (50% loan-to-value).

Non-Core:

Value-Added: 1:.54 (65% loan-to-value)

High Return: 1:.25 (80% loan-to-value)

The maximum debt-to-equity ratio permitted on the total real estate portfolio is 1:1 (50% loan-to-value).

Debt-to-equity ratios are determined at the time of origination but monitored throughout the investment hold.

8.1.4 Security

All debt must be non-recourse to the borrower (or borrowing entity) except for environmental and related indemnities, fraud or material misrepresentations, and other similar provisions required by the lenders, and all loan documentation must be approved by LACERA's counsel. Unless authorized by the Board, recourse to LACERA or to any property or asset not owned by the borrowing entity will not be permitted.

8.1.5 Interest Rates

Fixed or variable interest rates are permissible.

8.1.6 Cross-collateralization

The manager may be allowed to use cross-collateralization on a case-by-case basis based on manager's strategy.

8.1.7 Pre-payment Requirement

All variable rate leverage must be pre-payable at par without penalty. Fixed rate loans must permit pre-payment, but may contain a penalty payment.

8.1.8 Amortization

No amortization is required.

8.2 Leverage Criteria: Short-Term

Any leverage utilized by the managers for development investments ("short-term") must satisfy all of the criteria set out below.

8.2.1 Debt-to-Equity Ratio

The maximum debt-to-equity ratio permitted on any development investment is 1:.25 (80% loan to total development cost).

The maximum debt-to-equity ratio permitted on any manager's total portfolio is 1:.25 (80% loan-to-value).

Debt-to-equity ratios are determined at the time of origination.

8.2.2 Security

Debt used for development investments may be secured by the real property owned by the borrower (or borrowing entity). Recourse to the borrower (or borrowing entity) shall not be permitted except for environmental and related indemnities, fraud or material misrepresentations, and other similar provisions required by the lenders. All loan documentation must be approved by LACERA's counsel. Unless authorized by the Board, recourse to LACERA or to any property or asset not owned by the borrowing entity will not be permitted.

8.2.3 Interest Rates

Fixed or variable interest rates are permissible.

8.2.4 Cross-collateralization

Development investment assets may not be cross-collateralized.

8.2.5 Pre-payment Requirement

All variable rate debt must be pre-payable at par without penalty. Fixed rates debt must permit pre-payment, but may contain a penalty payment.

8.2.6 Amortization

No amortization is required.

9. Lender Leverage Policy

The prudent and conservative utilization of third party leverage may be utilized by the Fund's debt managers to enhance returns to originated loans, minimize equity exposure and allow increased diversification of the portfolio, thus reducing risk levels. Staff shall monitor the use of all leverage for compliance with the criteria outlined below, and report semi-annually to the board on the status. The criteria included in this policy are intended to mitigate the risks associated with using leverage by imposing conservative requirements. This policy shall apply to all debt investing activities.

Any leverage originated by the debt manager must satisfy all of the criteria set out below.

9.1 Positive Leverage

The use of debt must result in positive leverage. Positive leverage shall apply to the current return (inclusive of current return generated through reserves and holdbacks for payment of interest), total return (IRR), and opportunity return according to the following:

9.1.1 Return Premium

The total expected return to LACERA over the term of the debt must be expected to increase returns a minimum of two basis points for each 1% of leverage, compared to the unlevered return projections (e.g. 100 basis points for 50% leverage). Return to LACERA should be measured AFTER payment of asset management fees.

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9.2 Leverage Ratio

The maximum leverage ratio permitted on **any single loan** is:

3:1 (75% third-party loan-to-LACERA position

The maximum leverage ratio permitted on the total real estate debt portfolio is 2:1 (67% third-party loan-to-LACERA position).

Leverage ratios are determined at the time of origination by dividing the total committed third party leverage (including future advance obligations).

9.3 Security

All debt must be non-recourse to LACERA. However, may be full recourse to the borrowing entity(ies) including for full repayment, environmental and related indemnities, fraud or material misrepresentations, and other similar provisions required by the lenders. All loan documentation must be approved by LACERA's counsel. Unless authorized by the Board, recourse to LACERA will not be permitted.

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9.4 Interest Rates and Term

Fixed or variable interest rates are permissible. The term of any one-off third party loan should match the term of the LACERA loan. The manager may utilize loan facilities (portfolio-level leverage) that do not match the term of LACERA loans securing the facility provided that the manager believes that reinforced risk is appropriately mitigated.

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9.5 Cross-Collateralization and Cross-Default

The manager may cross-collateralize and cross-default LACERA loans to secure third-party leverage.

9.6 Pre-payment Requirement

All leverage shall be pre-payable on current market terms available at the time the leverage is sourced, which may include lockouts and prepayment penalties.

9.7 Amortization

No amortization is required.

10. Investment Size Policy

There is no minimum investment size. The maximum LACERA equity investment size in any one property shall be limited to five percent (5%) of the total allocation to real estate. The maximum investment size for specific types of investments may be restricted further elsewhere in this Plan.

11. Lease Structure Policy

Multi-tenanted properties with staggered lease termination dates are preferred to properties with an undue concentration of lease termination dates, unless such concentration further diversifies the lease termination dates of the entire real estate portfolio. Single tenant properties will be considered if the tenant will provide tenant and lease structure diversification within the total real estate portfolio of the Fund, the tenant is financially sound, and the property can be converted to multi-tenant use at a reasonable cost. Investments in single tenant properties in the aggregate shall not exceed ten percent (10%) of the real estate allocation.

12. Registration Policy

In order to enable the Fund's managers to obtain more competitive pricing structures for acquisition of directly held properties or originating debt investments, and to avoid overbidding on behalf of the Fund during property acquisitions or when making debt proposals, the Fund has implemented a registration policy. The Fund will permit each manager to register up to six transactions at any one time. Upon acceptance of a registration, the manager shall be the Fund's exclusive representative relative to the registered transaction. This policy will be subject to review and modification by the Fund at any time. Staff will provide managers with notice in advance of any changes to this registration policy.

13. Development Risk Management Policy

LACERA has established this Development Risk Management Policy to identify, control and to the extent possible, mitigate the risks inherent in investing in real estate development. The issues addressed within the Development Risk Management Policy supplement (i.e. are in addition to) the risk management criteria that appear within the Real Estate Objectives, Policies and Procedures. The Policy addresses the following issues:

- Physical Criteria
- Investment Location
- Time Of Development

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- Investment Structure
- Developer/Partner Criteria
- Zoning
- Fiduciary Oversight

13.1 Physical Criteria:

All development projects must be underwritten such that the physical criteria of the property would, upon completion, meet or exceed the physical criteria described within the manager's then current Manager Investment Plan.

13.2 Investment Location:

Investments shall be limited to locations identified within the manager's then current Manager Investment Plan.

13.3 Timing of Development

Individual development projects must be expected to be complete with minimum occupancy hurdles achieved in no longer than 36 months (inclusive of construction time).

13.4 Investment Structure

Investments may be made via 100% equity, partnership, or joint venture arrangement provided that the following criteria are satisfied:

1. The structure must preserve LACERA's right to own 100% of the property once completed and leased to a stabilized level.

2. LACERA must have control and/or approval rights over all major investment decisions.

13.5 Developer/Partner Criteria

Investments may be made in partnership or joint venture with qualified builders or developers at the discretion of the manager.

13.6 Zoning

Investments shall be limited primarily to property that is fully zoned with entitlements in place for the planned use. LACERA shall limit exposure to zoning and/or entitlement risk to investments totaling not more than 5% of the total real estate allocation.

13.7 Fiduciary Oversight

All investments must be underwritten and assets managed by a qualified investment manager acting in a fiduciary capacity to LACERA.

14. Co-Investment Policy

LACERA has established this Co-Investment Policy to identify, control and to the extent possible, mitigate the risks inherent in making one-off co-investments in real estate. The issues addressed within the Co-Investment Policy supplement the risk management criteria that appear within the Real Estate Objectives, Policies and Procedures.

14.1 Sources of Co-Investments

LACERA will consider co-investment opportunities from sponsors of commingled funds in which LACERA has invested, managers with which LACERA has a current separate account agreement, or external managers with which LACERA has no existing relationship.

14.2 LACERA Review

The method of review for co-investment opportunities will be dependent upon the source of the co-investment.

Co-investment opportunities sourced by existing separate account managers or sponsors of commingled funds in which LACERA is an investor will be reviewed, evaluated, and to the extent required, negotiated by the investment Staff.

Co-investment opportunities sourced by external managers with which LACERA has no existing relationship will be reviewed, evaluated and to the extent required, negotiated by the investment Staff. In addition, an Independent Fiduciary, retained by LACERA for such purpose, will opine on the fairness of pricing and reasonableness of the terms and conditions.

14.3 Commitment Authority

14.3.1 Staff-Level Commitment Authority

The investment Staff will have authority to approve co-investment commitments when all of the following conditions are met:

1. The amount of co-investment by the Fund does not exceed $50 million;

2. The subject property of the co-investment is located within the United States of America; and

3. The co-investment is sourced by an existing separate account manager or sponsor of a commingled fund in which LACERA is an investor.

14.3.2 Board-Level Commitment Authority

The Board of Investments will be presented with the opportunity to approve all co-investments when any of the following conditions are met:

1. The co-investment by the Fund will exceed $50 million; or

2. The subject property of the co-investment is located outside the boundaries of the United States of America; or

3. The co-investment is sourced by a manager with which LACERA has no existing relationship.

14.4 Co-Investment Documentation

All Real Estate co-investments will be subject to a separate management agreement between LACERA and the investment manager/sponsor. The terms and conditions of each co-investment will be articulated in the agreement.

15. Site Inspection Policy

As part of the on-going due diligence and monitoring of Individually Managed Accounts, staff will conduct periodic inspections of properties that are acquired on the Fund's behalf or that are securing debt investments, confirming their compliance with LACERA policies. Such inspections will be used to affirm that appropriate on-site management is being dedicated to the property, that the property is being appropriately maintained to compete effectively in its market, and that the investment is consistent with representations made by the manager in their periodic reports. The minimum frequency for Staff inspections will be as outlined below. However, the Chief Investment Officer may approve exceptions to the frequency of inspections for any investment on a case-by-case basis.

15.1 Core Investments

Investments classified as core will be inspected by Staff no less frequently than once every five years. The ten largest investments, as measured by Fund capital invested and total capitalization, will be inspected no less frequently than once every three years.

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15.2 Value-Add and High Return Investments

Investments classified as value-add or high return will be inspected by Staff no less frequently than once every three years.

SECTION III - PROCEDURES

1. Delegation of Responsibilities

The real estate program shall be implemented and monitored through the coordinated efforts of the Board, Staff, Consultant, managers, and Independent Fiduciaries. Delegation of the major responsibilities for each participant is reviewed below.

1.1 Board of Investments

The Board, assisted by the recommendations of Staff and Consultant, shall:

1.1.1 Establish real estate portfolio objectives and policies;

1.1.2 Approve the Real Estate Objectives, Policies and Procedures at least every three years, and the Investment Plan annually, including any revisions thereto;

1.1.3 Approve retention and termination of managers, independent fiduciaries, consultants and any other parties deemed appropriate, and approve search criteria;

1.1.4 Approve capital allocation limits to individual managers;

1.1.5 Review the performance of the real estate asset class and its compliance with the real estate portfolio objectives and policies as stated herein and in the Investment Plan;

1.1.6 Approve co-investments according to the Co-Investment Policy;

1.1.7 Approve use and selection of Independent Fiduciaries when compensation is greater than $150,000.

1.1.8 Complete or cause to be completed any other activities necessary to oversee and monitor the Fund's real estate investments.

1.2 Staff

The Staff shall:

1.2.1 Conduct searches for external professional services required for management of the Real Estate portfolio (management searches);

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1.2.2 Investigate other investment opportunities for strategies not otherwise encompassed by the Fund's separate account Managers' investment mandates and, if deemed appropriate, recommend such investments to the Board for approval;

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1.2.3 Prepare recommended changes to the Real Estate Objectives, Policies and Procedures as necessary and submit the same to Board for approval;

1.2.4 Prepare the Investment Plan as described below and submit the same for Board approval;

1.2.5 Approve Manager Investment Plans and Minimum Return Requirements;

1.2.6 Approve manager requested variances to the Manager Investment Plans and Minimum Return Requirements on a case-by-case basis;

1.2.7 Approve manager requested variances from LACERA's Leverage Policy involving the debt-to-equity ratio for any single investment;

1.2.8 Approve co-investments according to the Co-Investment Policy;

1.2.9 Prepare manager specific capital allocation limit recommendations and submit the same to the Board for approval;

1.2.10 Select and engage third party appraisers or auditors when necessary in accordance with Board approved procedures;

1.2.11 Provide asset management, acquisition, disposition, accounting and financial controls in accordance with Board approved procedures (see section 4.4 of this document);

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1.2.12 Conduct site inspections at the direction of the Chief Executive Officer or Chief Investment Officer;

1.2.13 Perform the Annual Oversight Review as described below;

1.2.14 Prepare funding procedures and coordinate the receipt and distribution of capital with the managers with respect to acquisitions, dispositions and the funding of existing property operations;

1.2.15 Monitor the closing process for acquisitions, refinancing and other capital transactions between managers and the Fund;

1.2.16 Select Independent Fiduciaries when compensation is expected to be no greater than $150,000.

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Deleted: Place managers on the Watch List (See Section 4.5 of this document);¶
1.2.17 Recommend or approve removal of a Manager from the Watch List (pursuant to Section 4.5 of this document);

1.2.18 Manage and oversee work assigned to Independent Fiduciaries; and

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1.2.19 Complete any other activities required by the Board and those specifically delegated to the Staff in the Real Estate Objectives, Policies and Procedures, the Investment Plan or other applicable document or agreement.

1.3 Consultant

Consultant shall:

1. Review the Real Estate Objectives, Policies and Procedures, as amended by Staff; Report to Board on appropriateness and impact of any changes.

2. Assist Staff in conducting manager searches and issue memo(s) on process and manager selection for Board review;

3. Provide Performance Measurement Reports Quarterly with Semi-Annual Board presentations (as described further in Section III.6;

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4. Undertake other activities, as determined by the Board and/or Staff; and

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5. Report to the Board of Investments on any activity or issue deemed to be in variance with Board approved roles and objectives for the real estate portfolio.

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Consultant shall review the Real Estate Objectives, Policies and Procedures periodically, and the Investment Plan annually, and recommend revisions to reflect changes in the capital markets, real estate markets and the real estate portfolio of the Fund. Consultant shall provide quarterly Performance Measurement Reports as described below.

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1.4 Managers

The managers shall acquire and manage real estate investments on behalf of the Fund in accordance with the Real Estate Objectives, Policies and Procedures, Investment Plan, Budget and Management Plan, the Manager Investment Plan, and any other program documentation developed by Staff and/or approved by the Board. The manager shall provide the Board and

Staff with such information as may be required to properly monitor the manager and its investment, including complying with the Procedures set forth herein.

1.5 Independent Fiduciaries

Independent fiduciaries ("IFs") will be utilized on an as-needed basis to evaluate the fairness or suitability of an investment by the Fund when the investment is not otherwise being sourced or underwritten by a Manager with which the Fund has an existing relationship.

2. Manager Search Procedure

Staff shall search for and identify investment managers to assist in the implementation of the investment program at such time as authorized by the Board. The search program shall be as follows:

2.1 Search Procedures

Real estate investment shall be accessed through the following process.

2.1.1 Individually Managed Accounts

The individually managed account manager search procedure is as follows:

2.1.1.1 Staff shall establish and prepare recommendations and submit for Board approval the proposed qualification criteria (consistent with the purpose(s) of the search and its recommendations). The recommendation shall include the proposed scope of the search efforts (whether the search will be limited to prequalified managers, open to all bidders, etc.). The purpose(s) of the search may include specific investment types or categories (such as Core, Non-Core (Value Added, High Return, or Public REITs) to be acquired on behalf of the Fund. The purposes for specific search or series of searches shall be set forth in the Investment Plan, or presented to the Board on an as needed basis.

2.1.1.2 If requested, Consultant shall screen its database and other available sources to identify manager candidates exhibiting qualities consistent with the qualification criteria. Consultant shall provide to Staff a preliminary listing of all manager candidates exhibiting such qualities consistent with the approved criteria.

2.1.1.3 Staff shall prepare and Consultant may review a Request for Proposal (“RFP”) or Request for Information ("RFI”) to further define manager capabilities specific to the qualification criteria. The RFP/RFI may require each prospective manager to describe its investment philosophy or strategy under the then prevailing market conditions, and to justify why it believes its strategy is appropriate, identifying and discussing all risks and how it has determined the appropriate time for investment consistent with its strategy or philosophy.

2.1.1.4 Staff shall forward an RFP/RFI to qualified manager candidates previously identified or all interested parties dependent upon the scope of search approved by the Board.

2.1.1.5 Staff shall establish evaluation areas and the respective weighting factors.

2.1.1.6 Staff will select an “evaluation team”, which shall review and evaluate RFP/RFI responses and compile a numerical ranking (1.0 to 10.0) for each manager for each evaluation area. The evaluation team may or may not include the Consultant.

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2.1.1.7 Staff shall visit preferred candidates to complete final operations due diligence.

2.1.1.8 Staff shall prepare a report to the Board concerning the final rankings, a review of the highest ranking managers and its recommendations to retain one or more managers.

2.1.1.9 The Board may approve or reject Staff’s recommendation to retain one or more managers based on the review and evaluation of information presented in the steps listed above.

2.1.1.10 After its selection, the manager shall prepare a Manager Investment Plan consistent with the investment strategy articulated in response to the RFP/RFI and consistent with the investment criteria established as part of the search or in the Investment Plan.

2.1.2 Pooled Funds Opportunities

The Fund may invest in pooled funds when it is willing to balance a lesser degree of control against obtaining other investment objectives, such as access to a specialized investment niche, increased diversification or reduced risk. The pooled fund search procedure is as follows:

2.1.2.1 Staff shall review and identify investment opportunities consistent with market opportunities and conduct due diligence as needed to determine if investment by the Fund is appropriate.

2.1.2.2 Staff shall direct the Consultant to review and evaluate recommended investments.

2.1.2.3 Staff and Consultant will provide documented recommendation(s) to the Board. Staff shall assist the Board with interviews/presentations with/by investment sponsors if deemed appropriate.

The Board shall determine whether to invest in offered vehicles based on the review and evaluation of information presented in the steps listed above.

2.1.3 Co-Investment Opportunities

2.1.3.1 Staff will review co-investment opportunities presented to LACERA and conduct due diligence as needed to determine if investment by the Fund is appropriate.

2.1.3.2 Staff will review, evaluate and to the extent required, negotiate the terms and conditions of each co-investment. If necessary, Staff will direct an Independent Fiduciary to conduct an assessment of a co-investment opportunity. An Independent Fiduciary will be utilized when the source of a co-investment opportunity is a manager with which the Fund does not have an existing relationship.

2.1.3.3 In accordance with Section 14.3 of this Policy, depending upon the size and location, Staff or the Board shall determine whether to invest in each co-investment opportunity. “Staff-level approval” means approval of the Chief Investment Officer of the Fund.

Staff shall notify the Board promptly of any Staff-approved commitments to co-investment.

2.2 Referral Procedures

The Board may refer to its Staff or Consultant for review a pooled fund, a manager, a co-investment or other investment opportunity for evaluation. Such referral shall be in writing and approved by a formal motion of the Board.

4. Appraiser Search Procedures

Staff shall search for and select third party appraisers to value real estate assets when required under the manager Agreements or when otherwise deemed appropriate. The search process for appraisers shall be as follows:

4.1 Staff will maintain a list of potential appraisers. This list shall consist of qualified appraisers (i.) recommended by managers and other plan sponsors; (ii.) that have successfully completed other appraisal assignments for LACERA; and (iii.) that have expressed interest in providing services to the Fund.

4.2 Staff, in conjunction with LACERA’s Legal Office, shall prepare a draft engagement letter which identifies the requirements of the appraisal and delivery dates. The engagement letter will be attached to an RFP sent to all appraisers included on the list of potential appraisers.

4.3 Staff shall evaluate RFP responses and selects appraisers based on qualifications and expertise in the geographical location and product type, fee structure and sample work provided. In some instances Staff may determine that an update appraisal may be satisfactory and cost effective, rather than a full narrative appraisal. Selection of appraisers is guided by a desire to diversify among appraisal firms such that no single appraisal firm appraises all of the assets in any one geographic area or all of any single property type.

Deleted: <#>Independent Fiduciaries and Selection Procedures¶
<#>3.1 Staff shall search for and identify independent fiduciaries to assist in the implementation of the investment program at such time as authorized by Board-approved procedures. Selection of Independent Fiduciaries that may be assigned specific projects program shall be as follows:¶
<#>3.1.1 Staff will prepare and issue a Request for Proposal (RFP) for qualified IFs. ¶
<#>3.1.2 Staff evaluates RFP responses and selects IFs based on qualifications and expertise in the geographical location and product type, fee structure and sample work provided. Selected IFs will be placed in a standby mode until such time as an investment opportunity creates a need for their services (The Bench). ¶
<#>3.2 Assignment of projects to IFs will occur on an as-needed basis utilizing the following process:¶
<#>3.2.1 Staff shall prepare and submit a package that contains the detail of the proposed investments to IFs on the bench.¶
<#>3.2.2 The IFs shall submit a bid, their qualifications and their desire to work on the proposed investment.¶
<#>3.2.3 Staff shall select IFs based on their qualifications and proposed pricing for each proposed investment.¶

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5. Investment Management Procedures for Individually Managed and Co-Investment Accounts

5.1 New Investments

5.1.1 Manager Investment Plan

For each individually managed and co-investment account, the manager shall prepare, and Staff shall review and approve, an annual investment plan (a "Manager Investment Plan") setting forth the general and specific criteria for its investment allocation or approach. The investment criteria shall be consistent with the Real Estate Objectives, Policies and Procedures, and the Investment Plan pursuant to which the manager was selected.

Each Manager Investment Plan shall be updated at least annually to account for the dynamics of the real estate and capital markets and the Fund's real estate investments.

5.1.2 Registration – Directly Held Assets

Each manager shall provide Staff, in writing (including via facsimile), a preliminary investment summary identifying a prospective investment opportunity. Staff shall maintain a log and records of all proposed investments.

5.1.2.1 The Preliminary Investment Summary shall include the following information: (i) property name and location; (ii) seller name and location; (iii) summary investment term sheet (a proposed investment will not be registered if the Summary Investment Term Sheet is incomplete. The manager shall specifically note whether the proposed investment complies with the then current Manager Investment Plan. Any variances from the Manager Investment Plan should be noted and approved by Staff.); (iv) a copy of an accurate and complete rent roll for the subject property, as of a recent date secured from the seller and/or a registered representative thereof; (v) a complete disclosure by the manager of the internal allocation history of the investment opportunity, including any prior exposure to other clients of the manager, discretionary or non-discretionary, whether through formal registration or information discussions, and reason(s) for any other client's election to decline to make the investment.

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Following the receipt of the preliminary investment summary, Staff shall review its records to determine if the proposed investment has been registered by another manager. Staff will determine whether the proposed investment (i) complies with the approved Manager Investment Plan; (ii) fits within the allocation limits for the Manager; and (iii) fits within the Fund allocation limits for the relevant investment category; and if so, may accept the registration. Staff will also evaluate the allocation history and accept or reject the allocation as follows: (i) the Fund is the first investor client allocated the investment opportunity, Staff will accept the allocation; (ii) the Fund is NOT the first investor client allocated the investment opportunity, Staff will review the circumstances and rationale behind why each client previously exposed to the investment elected not to pursue it and determine whether to accept the allocation to the Fund. Failure to accept the allocation will result in denial of registration, and the manager will be precluded from pursuing the investment opportunity on the Fund's behalf.

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If the proposed investment opportunity has not been previously registered by another manager and the allocation is accepted, Staff will register the investment in the log and will provide a registration letter to the manager within two (2) business days of receipt. The effective date of registration of the prospective investment shall be the date the complete preliminary investment summary has been received by Staff.

Upon the registration of a prospective investment opportunity by Staff, the manager for whom the investment opportunity has been registered shall have the exclusive right, for a period of one hundred eighty (180) days from the date of registration, to negotiate and complete a successful acquisition of such investment. Extensions of the exclusivity period may be granted by Staff upon a showing by the manager of good cause.

5.1.2.2 Each manager shall have not more than six (6) prospective investments registered with the Fund at any time. In the event the maximum is reached, or at any other time, the manager may eliminate a proposed investment from its registration list. All such eliminations must be identified in writing and submitted to Staff for confirmation. Staff will remove a proposed investment upon receipt of such notice and will confirm to the manager in writing (including via facsimile) the elimination. In addition, a transaction which has received final Investment Committee approval from the manager, upon written notice provided by the manager to Staff, shall be removed from the registration list.

5.1.3 Acquisition/Investment Review

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Prior to making an investment, the manager shall provide Staff with a Final Investment Package which shall provide such information to evaluate the proposed investment relative to the Real Estate Objectives, Policies and Procedures, Manager Investment Plan, and such other investment criteria as has been established for the respective manager.

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5.3 Staff Review

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Staff shall undertake the following review of each proposed investment:

5.3.1 Evaluate the consistency of the investment proposal with the Strategic and Investment Plans and any investment guidelines prepared for the manager as part of the Manager Investment Plan;

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5.3.2 Confirm the qualifications of the manager to acquire and manage the proposed investment;

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5.3.3 Identify potential conflicts of interest;

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5.3.4 Determine whether the manager has underwritten the proposed investment consistent with industry practices;

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5.3.5 Evaluate the reasonableness of the assumptions used by the manager to project performance of the proposed investment;

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5.3.4.6 When practicable, perform a site inspection of the property to confirm the accuracy of the oral and written representations made by the manager with respect to the proposed investment; and

5.3.4.7 Identify material issues attendant to the proposed investment.

The primary purpose of Staff's review is to confirm that the manager has exercised prudence and complied with its fiduciary obligation to the Fund relative to the new investment. Staff has no approval rights over the new investment and Staff's site inspection, which may occur as much as sixty (60) days subsequent to closing, shall not inhibit the manager's discretionary authority to make the new investment. The Chief Investment Officer may approve exceptions to inspections of new investments on a case-by-case basis.

5.4 Funding Procedures

The manager and Staff shall prepare written funding procedures for each individually managed and co-investment accounts which are compatible with the system of the manager, consistent with industry practice and enable the accurate control of monies. The manager shall provide Staff with a critical date list with respect to an acquisition, including funding and closing dates, updating the list as necessary or as required under any current Investment Management agreement for existing managers.

5.5 Asset Management

5.5.1 Asset/Investment Management Introduction

Asset management for directly held assets refers to all activities relating to the operations of the real estate investments and the timely and accurate reporting of the results of those operations. Managers are directly accountable for asset management responsibilities described above and hereinafter.

This section also designates certain property level responsibilities which the manager may perform through its affiliated property management subsidiary or cause to happen through a contractual arrangement with a third party property management firm. Specific responsibilities, compensation, and reimbursements for property management will be covered under a separate agreement to be entered into by the manager with such affiliate or third party firm.

Investment management for debt refers to all activities relating to servicing and oversight of the debt investment during its holding period

5.5.2 Budget and Management Plan –Directly Held Assets

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Not less than 45 days prior to the end of the fiscal or calendar year (as mutually agreed upon by the manager and Staff), each manager of individually managed and co-investment account investments shall submit a Budget and Management Plan for the upcoming year for each direct investment and the portfolio to Staff. Prior to the end of the fiscal or calendar year, Staff will meet with the manager personnel directly responsible for portfolio and asset management for a review and evaluation of the reasonableness of the Budget and Management Plan.

The Budget and Management Plan shall include a narrative strategy for the ensuing year (including leasing, operations and capital programs) and an estimated income and cash flow statement for the ensuing year including 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 fees with quarterly distribution projections. The Budget and Management Plan shall include the annual disposition review as described below.

The manager shall notify Staff in writing within a reasonable time of its occurrence of any significant event which may occur with respect to an investment which was not projected in the Budget and Management Plan.

5.5.3 Annual Report and Oversight Review

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Directly Held Assets

Within seventy-five (75) days after the close of each fiscal or calendar year (as mutually agreed by the manager and Staff), each manager shall provide Staff with an annual report (the "Annual Report") containing the following information with respect to each property managed and for the portfolio of properties managed; (i) a current performance summary, summary of performance yields, summary of investment performance and (ii) a funded investment summary, including an investment description, date of acquisition, acquisition cost, property value, appreciation analysis, leasing status, lease expirations for current year, comparative performance for the prior year and a budget for the current year (which may be updated from the Budget and Management Plan previously delivered). Within 60 days of the end of each fiscal year (July 1- June 30), audited financial statements for each property for the fiscal year, prepared by a certified public accounting firm selected by the Fund, will be prepared and delivered to the Fund.

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Debt

Within sixty (60) days after the close of each fiscal year (July 1 – June 30), each manager shall provide Staff with an annual report (the "Annual Report") containing the following information with respect to each property managed and for the debt portfolio; (i) a summary of investment performance and (ii) an investment description of each asset, including a description of the asset securing the debt, the structure of the loan and (iii) status of all payments due and borrower compliance with payments and covenants. Within 90 days of the end of each fiscal year, audited financial statements for each debt portfolio for the fiscal year, prepared by a certified public accounting firm selected by the Fund, will be prepared and delivered to the Fund.

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5.5.4 Quarterly Reviews

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Each manager shall provide to Staff a quarterly review of investment activity, including an evaluation of compliance with any applicable planning documents (Annual Investment Plan and/or Budget and Management Plan) and an explanation of any significant variances. Staff shall report any major issues to the Board.

5.6 Disposition

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5.6.1 Annual Disposition Review – Directly Held Assets

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Managers of individually managed and co-investment accounts shall provide to Staff an annual disposition analysis of each asset under management, setting forth the manager's opinion as to the prudence of selling or retaining each investment and the reasons therefore. The disposition analysis shall include long and short-term hold/sell scenarios. The disposition analysis shall be included in the Budget and Management Plan.

The disposition analysis shall contain, in addition to any other requirements set forth in any Investment Management agreement for existing managers, the following information:

5.6.2 Market Update

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Review of the ability, given market conditions, to divest or liquidate each asset, and determination of the current market value of each asset, i.e., the value at which an asset can be sold within a reasonable time (the “Disposition Value”). This analysis shall include a discussion of material assumptions on which any recommendation is based, including terms and conditions of any projected disposition and the estimated time frame within which such a disposition could be effected.

5.6.3 Strategic Evaluation

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Review of the original investment objectives relating to each investment and a variance analysis with the actual performance.

Review of the compliance (e.g., projected returns) of an investment with the Real Estate Objectives, Policies and Procedures, the Investment Plan, and Manager Investment Plan.

Review of market trends relevant to the investment, including investment market conditions (such as comparable sales, capitalization rates, discount rates and growth rates, among other conditions) and the investment’s competitive advantages and disadvantages in its market.

Review of each investment’s current rate of return, net of manager fees.

Review of each investment’s projected short term and long term rates of return, net of manager fees.

Review of an investment’s internal rate of return assuming a sale at the Disposition Value.

Review of an investment’s internal rate of return assuming a sale at future points in time at an investment’s then Disposition Value.

Review of the projected returns of alternative real estate investments exhibiting comparable risk.

5.6.4 Unsolicited Offers

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The manager shall notify the Fund of any Unsolicited Offer to purchase an asset of the Fund. “Unsolicited Offer” shall be defined as any written offer received from a purchaser considered by the manager to be credible. The manager shall prepare and submit to the Staff within 45 days of receipt of said offer, a written disposition analysis of the asset using the offered amount as the Disposition Value along with an outline of the manager’s response to the offer.

5.6.5 Disposition Procedures and Reinvestment of Proceeds

In the event a manager determines that the sale or other disposition of any investment under management is appropriate, the applicable disposition and reinvestment procedures shall be as set forth below. The Manager shall have discretionary authority to complete the disposition provided the following steps are followed.

5.6.6. The Manager shall select, if appropriate, the retention of a qualified independent real estate broker to assist in such sale provided that compensation to the selected broker does not exceed the then current market rate for such services. No broker affiliated with the Manager shall be engaged, however, without the prior written approval of Staff.

5.6.7. Manager shall develop and submit to Staff the marketing strategy for the investment.

5.6.8. Manager shall negotiate with potential purchasers, and in consultation with the Fund's counsel, prepare appropriate sale documentation.

5.6.9. All dispositions shall take place in an escrow account with escrow instructions prepared by the manager in such form as it deems prudent, and as approved by Fund counsel. The manager's discretion to sell assets is limited to cash sales. Dispositions that generate sales proceeds other than cash (e.g. REIT stock) remain subject to Board approval.

5.6.10. If requested by the Fund, the manager shall assist the Fund in the reinvestment of the net cash proceeds from the sale in such real estate investment consistent with the investment criteria set forth in the Strategic and Investment Plans and Manager Investment Plan, if any. However, the Fund, in its sole discretion, may elect not to utilize the manager for reinvestment of such proceeds for any reason, including, but not limited to, as a result of the annual review of the manager's performance by the Board and Staff.

5.7 Acquiring Assets from Commingled Funds

LACERA may have the ability to purchase one or more assets from a commingled fund that the Fund is

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an investor in. In order to complete the potential acquisition, an Independent Fiduciary (IF) will be engaged to facilitate the transaction. Once the asset(s) are acquired, the asset(s) will then be transferred to one of the existing IMA's. Whenever this process is initiated, the Board will be notified.

The process is outlined below.

5.7.1

5.7.3 The General Partner (GP) would notify LACERA of asset(s) ready for sale from the commingled fund and the Proposed Price (the "GP Price") of each asset.

LACERA's Staff would determine whether the assets are a desirable addition to the core portfolio (without regard to price). If so, then the pricing is determined as outlined below. If not, then the GP moves forward with the third-party sale.

5.7.4 Engage an IF to consider the asset purchase on an off-market basis. obtain a third-party appraisal of the asset(s) (and if so, engage the appraiser); and (iii.) if deemed appropriate, attempt to reach price agreement with the GP for an off-market purchase. Staff will select and engage the IF when the cost does not exceed $150,000. Independent Fiduciary assignments exceeding $150,000 in cost will be subject to Board approval.

5.7.2 The Independent Fiduciary will represent LACERA's interest in determining whether or not to acquire an asset from a commingled fund. The IF would: (i.) be retained directly by LACERA; (ii.) complete a one-time assignment that should be completed in a short period of time (likely 30-45 days), and (iii.) be compensated on a fixed fee basis. The fee payable to the IF would be non-contingent (i.e., the IF would earn a fee whether or not a transaction is consummated).

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5.2.1 Independent Fiduciary (IF) will represent LACERA's interest in determining whether or not to acquire asset from a commingled fund by a separate account entity. The IF would: (i.) be retained directly by LACERA; (ii.) complete a one-time assignment that should be completed in a short period of time (30 days per the fund Agreement), and (iii.) be compensated on a fixed fee basis. The fee payable to the IF would be non-contingent (i.e., the IF would earn a fee whether or not a transaction is consummated).

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The IF will (i.) conduct an independent review and underwriting of the asset(s); (ii.) determine whether or not to obtain a third-party appraisal of the asset(s) (and if so, engage the appraiser); and (iii.) if deemed appropriate, attempt to reach price agreement with the GP for an off-market purchase.

If price agreement is reached, a sale is completed with the IF representing LACERA and GP representing the commingled fund. Once closed, LACERA may assign ongoing asset management responsibility to the GP or another separate account Manager.

If price agreement is not reached via this off-market process, a competitive bidding process may be initiated.

5.8 Accounting and Financial Controls

The managers shall comply with the industry standard accounting and financial control guidelines set forth by the Real Estate Information Standards as revised and other requirements set forth in each manager's Investment Advisory Agreement.

5.8.1 Reporting Requirements

5.8.1.1 On a quarterly basis, the manager of individually managed and co-investment accounts shall provide the Fund and Consultant with combined financial statements for the entire portfolio and separate financial statements for each property in the portfolio.

5.8.1.2 The manager of individually managed and co-investment accounts shall provide the Fund with the Budget and Management Plan and with the Annual Report. Any subsequent amendment to the operating and capital improvement budgets and the reasons therefore shall be communicated to the Fund in a timely manner.

5.8.1.3 Each manager shall maintain complete and accurate books and records of the portfolio and each portfolio investment at all times. Each manager shall provide Staff or their representative(s) access to all such books and records upon reasonable notice. Each manager

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shall also maintain and furnish other reports, information, and records requested by Staff relating to the Fund's real estate investments.

6.0 Manager Return Objective

6.1 Section I, 5.1 of this document identifies Benchmarks by Investment Category. Each investment held in a manager's portfolio shall initially be classified by Investment Category: Core, and Non-Core (Value-Added and High Return) so that performance can be measured according to an appropriate benchmark The classification of each investment will be regularly reviewed to ensure that the appropriate benchmark is being utilized. At each quarter end the manager shall identify any investment that it believes should be re-classified from one Investment Category to another and the justification for the change (e.g. from value-added to core). Staff will consider the manager's recommendation and will accept or reject the recommendation.

6.2 A Board-approved Manager Return Objective will be identified and be incorporated into each IMA agreement. Manager performance will be evaluated over a five-year period. If a manager fails to meet the manager return objective for any two consecutive one-year periods, the manager will have a formal review with staff and Board.

6.3 The annual investment plan prepared by staff and approved by the Board will identify each manager that will be permitted to deploy capital for new investments during the period covered by that plan.

6.4 Disputes in investment classification between the manager and Staff, if any, shall be submitted to the Board for final determination.

7. Performance Measurement Report

A comprehensive reporting and evaluation system addressing each investment, manager and portfolio shall be prepared by the Consultant on a quarterly basis and presented to the Board at least semi-annually. The Consultant shall provide such information as may be required to enable the Fund to administer its investments and managers.

The content of the report will include investment and portfolio attributes including: income, appreciation, total gross and total net return, cash flow, internal rate of return, diversification, comparisons to relevant industry performance indices, and comments regarding each manager's performance.

Within ten (10) days following the last day of each quarter, Consultant shall forward to each manager a Performance Measurement Questionnaire. The manager

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Managers failing to positively contribute to the Fund meeting its goals and objectives for real estate or presenting additional risk to LACERA may be placed on a Watch List. Managers placed on the Watch List will be precluded from initiating new property investments until removed from the Watch List. Qualitative and quantitative criteria will be utilized to identify any Manager that; (i.) has delivered consistent under-performance; or (ii.) is undergoing organizational challenges/events that create concern over their continued ability to act as a fiduciary for the Fund.
Managers placed on the Watch List will be closely monitored by Staff and specific updates will be provided to the Board in conjunction with performance reports. Managers on the Watch List will be evaluated over a three-year period. If/When the circumstance(s) that lead to a Manager being placed on the Watch List have been satisfactorily resolved or performance has significantly improved, a Manager may be removed from the Watch List as described below.
5.5.1 If the Manager was placed on the Watch list by direction from the Board, Staff will prepare a recommendation for Board consideration that the Manager be removed from the Watch List.
5.5.2 If the Manager was placed on the Watch List by Staff, Staff may remove the Manager from the Watch List and notify the Board of the action taken.
5.5.3 If the Manager has not satisfactorily resolved or performance has not significantly improved, than termination will be recommended.
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shall forward its responses to the questionnaire within forty-five (45) days following the last day of each quarter. Consultant shall prepare and forward to the Fund a Performance Measurement Report within ninety (90) days following the last day of each quarter or within five (5) days of final and complete data submission.

ATTACHMENT B

LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION

REAL ESTATE

Objectives, Policies and Procedures

PROPOSED ADOPTED June 13, 2018

LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION
REAL ESTATE OBJECTIVES, POLICIES and PROCEDURES

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LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION
REAL ESTATE OBJECTIVES, POLICIES AND PROCEDURES

SECTION I – PORTFOLIO OBJECTIVES

1. Introduction

The Board of Investments (the "Board") of the Los Angeles County Employees Retirement Association (the "Fund") has determined that, over the long term, inclusion of real estate investments will enhance the risk/return characteristics of the Fund. The purpose of this document is to set forth objectives, policies and procedures for investment in the asset class of real estate. This document supplements but does not supersede LACERA's Investment Policy Statement.

2. Asset Allocation

Real estate comprises a portion of three functional asset classes. These include Real Assets and Inflation Hedges, Growth and Credit. The allocation to each of these functional asset classes is:

7 % Real Assets and Inflation Hedges
2 % Growth
1 % Credit
10% Total

The Board periodically reviews the allocation to the asset class of real estate and designates portions of the allocation to be managed by individual managers.

3. The Role of Real Estate

The primary role of real estate is to generate stable, reliable income as well as to preserve capital. Additionally, real estate is expected to provide a risk-adjusted total return that is accretive to the Fund achieving its long term rate of return with acceptable levels of risk. High Return real estate, classified as part of the functional asset class Growth, can also provide returns similar to public equity, with a lower correlation to other asset classes. Real estate debt investments, classified as part of the functional asset class Credit, can provide attractive returns while taking lower levels of risk than equity real estate investments.

Real estate investments will be made into Core/Core-Plus and Non-Core real estate. The definition of these risk classifications, as well as those of the sub Non-Core real estate such as Value-Add and High Return, is listed under Section I.6, "Investment Categories".

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

4. Investment Philosophy

Investment decisions regarding the real estate portfolio should be primarily guided by the following objectives: (i.) maximizing long term total cash returns; (ii.) achieving a total return competitive with other asset classes; and (iii.) maintaining a broad diversification of assets. LACERA should adhere to prudent risk management policies that will seek to manage risk, ensuring diversification of assets and investment managers.

5. Return Objectives

5.1 Portfolio Benchmark

To evaluate the performance of the real estate portfolio, the benchmark will be based on the National Council of Real Estate Fiduciaries (NCREIF) Fund Index (NFI) Open-end Diversified Core Equity Index (ODCE) referred to as NFI-ODCE. All comparisons will be net performance to net index returns. The primary benchmark comparison will cover a ten-year period. The one, three and five year periods will also be measured.

Additional benchmarks such as the NCREIF Property Index (NPI) may be used for property or geographic specific investment measurements including the sub indices created by NPI as well as ODCE.

Investment Category	After Fee Benchmark
Private Core	ODCE
Private Value-Add	ODCE+100 bps
Private High Return	ODCE+300 bps
Public REITs (Domestic)	NAREIT
Public REITs (International)	FTSE/EPRA/NAREIT
Private Debt	≥NPI Income
Total Portfolio	**ODCE + 80 bps**

The Total Portfolio benchmark is weighted 60% Core, 20% Value-Add and 20% High Return. When evaluating the performance of the real estate portfolio, analysis will also include comparisons to the then current assumptions for the asset class to evaluate the real estate portfolio's contribution to the Plan.

6. Investment Categories

All percentages and limits herein are based on the total real estate allocation. The targeted portfolio composition is relatively low risk and seeks at least 50% in Core investments. Public and private as well as international investments in real estate may be included in core and non-core strategies. The ranges for each of the investment categories (defined and discussed below) are as follows:

Target Portfolio Composition

Core	Minimum 50%
Non-Core	Maximum 40%
Value-Add	Maximum 40%
High Return	Maximum 40%
Public REITs (Domestic)	Maximum 15%
Private Debt	Maximum 20%
International (Including International REITs)	Maximum 20%

6.1 Core ("Core")/Core-Plus ("Core-Plus") Investments

Core/Core-Plus Portfolio investments are expected to be the lowest risk and return sector of real estate and consist of operating and substantially leased (typically 80% or more) institutional quality properties. These investments include well-located traditional property types in developed markets. Traditional property types are office, apartment, retail, and industrial. These investments offer relatively high current income returns and as a result, a greater predictability of total returns under normal market conditions. The income component typically represents a significant component of the expected total return of Core/Core-Plus investments.

6.2 Non-Core

6.2.1 Value Enhancement Opportunity ("Value-Add") Investments

These investments are comprised of institutional quality traditional property types and debt-oriented investments. However, they offer the opportunity to enhance value through alleviating an identifiable deficiency specific to the property or associated financial instruments. For example, value can be added through active management in a property that has issues related to lease-up, rehabilitation or repositioning. Value-Add opportunities include improving management and operations within management intensive assets such as Hotels.

These investments are of moderate risk with predicted appreciation contributing approximately 40% or more of the total return (i.e., greater dependence on appreciation).

6.2.2 High Return Investments

High Return investments include those situations where the investment seeks to capitalize on the disequilibrium of the real estate markets caused by dramatic shifts in capital flows or other fundamental real estate characteristics. They include "opportunity funds" with broad investment mandates, non-traditional investment vehicles (e.g., non-performing loans), investments in real estate operating companies ("REOCs") or other venture capital type investments involving complex, heavily negotiated transactions. Development projects are included in the High Return category.

These investments are of medium to high risk with predicted appreciation contributing 40% or more of the total return. Investments may include core or non-core property types and may include non-traditional investment vehicles such as operating companies.

6.3 Public Market Equity

The public market equity component is comprised of real estate investment trusts ("REITs") and other real estate related companies that are publicly traded (collectively referred to as "REITs"). REITs provide greater liquidity than private equity real estate albeit with higher volatility in market valuation. In addition, the public markets may be used as a vehicle for the Fund to gain exposure to specific property types, such as international real estate and regional shopping malls, which are either inaccessible on a direct basis or would otherwise compliment the portfolio.

6.4 Private Debt

Debt investments may offer unique opportunities to enhance income generation within the real estate portfolio. Use of debt-oriented investments may occur within the core, value-add or high return sectors.

7. Legal

Investments shall be made, managed and disposed of in compliance with applicable federal, state and local country specific laws. Qualified legal counsel selected by the Legal Office shall document investment acquisitions, dispositions and leverage.

8. Risk Management

There are numerous investment risks associated with real estate, as such that the actual income and total return may vary from the expected or projected return targets. The Fund shall manage these investment risks by implementing the Risk Management Policies included herein.

SECTION II – POLICIES

1. Risk Management

The following risk management policies shall be implemented to manage the investment risk associated with the real estate portfolio:

1.1 Institutional Quality

A proposed investment must exhibit institutional quality, which is defined as similar, in risk and quality, to investments traditionally made by institutions (e.g., pension funds and insurance companies). Institutional quality core investments are investments providing long-term, stable income returns and are typically located in stable and diversified economic markets, evidencing high quality design and construction, and are in a competitive position within the immediate market area of such investment.

1.2 Investment Management Services

All investments shall be underwritten, managed by, and disposed of, if necessary, by qualified investment staff or an external real estate manager/independent fiduciary which has an established, successful record of providing advisory services to institutions and is deemed able to deliver similar services in the future ("Manager"). When faced with two otherwise equivalent investment opportunities, the Fund will select the investment proposed by an Emerging Manager (as defined herein or LACERA's Emerging Manager Policy), if any.

1.2.1 Manager Characteristics

Unless otherwise authorized by the Board, a manager shall exhibit the following characteristics:

1. Is registered as an investment advisor under the investment Advisor Act of 1940, or has provided sufficient explanation as to why they are exempt from registration;

2. Has a minimum of five (5) years institutional real estate investment management experience, and the responsible personnel of such manager shall have at least five (5) years of institutional real estate experience;

3. Has a minimum of $250 million (net of leverage) of institutional real estate assets under management;

4. The investments by the Fund, in the aggregate, shall not constitute more than twenty percent (20%) of the manager's total assets under management, and no other single client (including any affiliates) shall control or have authority over more than twenty percent (20%) of the manager's total assets under management at the time of selection and approval by the Board;

5. Has a proven and verifiable record of competitive performance returns; and

6. Has a proven and verifiable record of well-articulated and executed real estate investment strategies.

1.2.2 Emerging Managers

Notwithstanding the above requirements, the Board may select an Emerging Manager to manage assets in conformance with LACERA's Emerging Manager Policy (found within the LACERA Investment Statement Policy, ATTACHMENT J).

The structure and timing of capital raises may not coincide with times when LACERA has capital available for the Emerging Manager Program. Therefore, staff will manage the twenty percent (20%) allocation limit of the real estate portfolio, within the range of zero percent (0%) to twenty percent (20%).

1.3 Diversification

Investment strategy, property type, economic/geographic location and manager shall diversify the real estate portfolio with the purpose of reducing portfolio risk by minimizing the impact any investment or manager may have on the total return of the real estate portfolio. Appropriate diversification criteria shall be reviewed on a periodic basis, not less than annually.

The diversification requirements are discussed further below.

1.3.1 Property Type Diversification

The Core/Core-Plus investments will be made in a diversified collection of office, retail, industrial, apartment and other property types. The Core/Core-Plus Portfolio of office, retail, industrial and apartment properties will seek to replicate the diversification of the NFI-ODCE, within a variance of +/- 10%. Greater than 10% variance for Core/Core-Plus from the benchmark property type weights will require Board approval.

Up to 20% of the Portfolio may be invested in "Other" property types. "Other" may include property types such as student housing, medical office and self-storage.

1.3.2 Geographic Diversification

Properties shall be distributed by location to attain economic diversification. Regional distribution shall be utilized along with economic diversification. Target locations should be selected by means of research substantiating positive economic growth during the life of the investment, a diversified economic base, geographic or regulatory supply constraints and tenant demand.

Domestic Research has shown that diversification of private real estate by NCREIF region or state is not a perfect means to ensure effective diversification by location. For example, although in the same state, the southern California economy has distinct differences with the northern California economy.

In order to manage risk associated with geography, the following limitations will be followed:

1. No more than 20% of LACERA's Core/Core-Plus real estate allocation may be invested in any Metropolitan Statistical Area ("MSA");

2. The diversification of LACERA's Core/Core-Plus Portfolio will seek to replicate the geographic compositions of the NFI-ODCE +/- 10% with up to 20% of the Portfolio allowed in Other. Greater than 10% variance for Core/Core-Plus from the benchmark geographic weights will require Board approval; and

3. No more than 20% of the total real estate portfolio will be invested in international real estate.

1.3.3 Low Correlation Investments

Public real estate equity and private real estate debt tend to have low correlations to private equity real estate and be slightly more correlated to the traditional debt and equity asset classes. In order to ensure that diversification within the real estate portfolio does not negatively impact the diversification benefits of real estate within the Total Plan, these strategies will be limited as follows:

1. No more than 20% of the total real estate portfolio will be invested in debt oriented investments.

2. No more than 15% of the total real estate portfolio will be invested in publicly traded securities.

1.3.4 Manager Diversification

The Fund shall limit its exposure to any single manager. No single manager shall be permitted to manage more than 35% of the total allocation to real estate. Exposure to any single Emerging Manager shall be limited to an amount not to exceed 10% of the total allocation to real estate.

1.4 Prudent Expert Standard

A manager's acquisition, management and disposition of real estate investments will be guided by the "prudent expert" standard, which shall be the standard of care required of managers and set forth in their Investment Management Agreements with the Fund. A real estate investment shall be made only if said investment was evaluated and recommended by a manager or another qualified independent fiduciary engaged by the Fund.

1.5 Manager Compensation Structure

For non-core investing, preference shall be given to investment management fee contracts that reward superior investment management performance. Specifically, where appropriate, incentive management fees may be considered to effect reductions in base management fees and to motivate managers to enhance portfolio returns and may be based in part on cash distributions, if practicable.

1.6 Investment Plan

The Investment Plan will set forth investment activities consistent with the Real Estate Objectives, Policies and Procedures. The Investment Plan shall serve as the tactical implementation of the Real Estate Objectives, Policies and Procedures and endeavor to move the Fund toward its target allocation in a prudent manner. Investment activity should adhere to the policies and procedures set in the Real Estate Objectives, Policies and Procedures.

1.7 Management Procedures

The Fund will adhere to clearly defined procedures to monitor the investment, management and disposition of real estate assets by managers on behalf of the Fund as discussed further below.

1.8 Insurance Requirements

Management agreements between the Fund and its managers shall require appropriate levels of property and liability insurance be maintained at all times.

2. Asset Management

The Fund shall seek discretionary manager relationships for pooled fund investments, individually managed accounts and co-investments. To the extent practical, the Fund shall prepare and implement investment criteria, objectives and procedures to ensure managers use their best efforts in executing duties in compliance with the Real Estate Objectives, Policies and Procedures and Investment Plan and consistent with industry standards.

The individually managed accounts will be discretionary, although each manager shall be required to make investments consistent with applicable investment criteria determined by LACERA. These criteria shall be set forth in the Manager Investment Plan (as hereinafter defined), prepared by the manager and reviewed and approved by staff. In addition, staff shall conduct an annual review of the Budget and Management Plans (as hereinafter defined). Management decisions consistent with the pro forma projections and/or approved budgetary items are exclusively delegated to the Manager.

Where required by manager contract, Managers must provide an annual report to staff describing actions taken by such manager to comply with LACERA's Responsible Contractor Policy (found within the LACERA Investment Statement Policy, ATTACHMENT F), including those taken by property managers and their subcontractors. In addition, managers must monitor and enforce compliance with the Responsible Contractors Policy by property managers and their subcontractors, including reasonable investigation of potential violations.

The Board may assign direct asset management and/or co-investment management responsibilities to staff. Staff will use its best efforts to execute duties in compliance with the Real Estate Objectives, Policies and Procedures and Investment Plan and consistent with industry standards.

3. Environment, Social and Governance

As a signatory to the Principles for Responsible Investment ("PRI"), the Fund's individually managed accounts will be managed in a manner consistent with Principals one and two: (i.) incorporate Environmental, Social and Governance ("ESG") issues into investment analysis and decision-making processes; and (ii.) be active owners and incorporate ESG issues into the ownership policies and practices.

Environmental risks will be fully assessed and considered prior to making any property investment. Specific requirements for this assessment are incorporated in the scope of work in Individually Managed Account contracts. Annual operating plans and budgets will address any ongoing effort addressing ESG-related matters.

The Fund requires the individually managed account managers to manage assets in compliance with LACERA's Responsible Contractor Policy. This policy encourages fair labor practices when constructing and maintaining real estate assets.

4. Property Management Policy

Direct or supervisory property management is acceptable. The Fund shall favor managers having clearly articulated and successfully implemented property management strategies. Investment properties shall be professionally managed by the most qualified property management firm given the investment's location and property type. In addition, the fees paid by the Fund for property management services (to a third party or an affiliate) shall be at a rate consistent with the market rates for comparable property management firms in that market for properties of like kind and quality.

5. Development Management Policy

Investments in development properties shall utilize the services of a qualified developer to manage the development process. Fund managers may provide such development services on a direct or supervisory basis. Any fees paid by the Fund for development services (to a third party or an affiliate) shall be at a rate consistent with the market rates for comparable development services in that market for properties of like kind and quality.

6. Property Valuation Policy - Directly Held

All directly held property investments made by Individually Managed Account managers shall be valued by a qualified independent appraiser(s) (MAI) at regular intervals, of no less than every three (3) years. Appraiser selection with respect to individually managed accounts will be determined by staff, based on organizational qualifications, capabilities, personnel, references, and resources. Managers will estimate the market value of each property investment in those periods where independent appraisals are not performed.

Independent appraisals shall be performed, to the extent practicable, at such times as may be required to calculate performance and pay compensation to managers of individually managed accounts pursuant to any incentive compensation arrangement in any existing or future Investment Management Agreement. Valuations, whether determined by the manager or independent appraisers, will be used to calculate the performance of the portfolio.

6.1 Debt Secured by Property

Investments made through the provision of debt to third parties have unique challenges associated with their valuations. Until specific industry standards are established, best practices allow for the valuation of such investments to be determined by a formal audit of year-end financial statements. Such audit must be completed by a firm approved by staff.

7. Investment Vehicle Policy

Investments may be made directly or indirectly by means of any legally permissible investment vehicles including individually managed accounts, co-investment, group trusts, REITs, real estate operating companies ("REOCs"), partnerships, and corporations (including limited liability companies). The Fund may seek investments through such investment vehicles in formal/informal secondary markets.

8. Policy for Leverage on Wholly Owned Property

The prudent and conservative utilization of third party leverage can enhance returns on existing investments, minimize equity exposure and allow increased diversification of the portfolio, thus reducing risk levels. Staff shall monitor the use of all leverage for compliance with the criteria outlined below and report semi-annually to the Board on the status. The criteria included in this policy are intended to mitigate the risks associated with using leverage by imposing conservative requirements. This policy shall apply to all equity investing activities.

8.1 Leverage Criteria: Long-Term

Any leverage originated or assumed on wholly owned Core or Non-Core (Value-Add and High Return) investments by the manager ("long-term") must satisfy all of the criteria set out below:

8.1.1 Positive Leverage

The use of debt must result in positive leverage. Positive leverage shall apply to the current return, total return (IRR) and opportunity return.

8.1.2 Return Premium

The total expected return to LACERA over the term of the debt must be expected to increase returns a minimum of 2 basis points for each 1% of leverage, compared to the unlevered return projections (e.g., 100 basis points for 50% leverage). Return to LACERA should be measured AFTER payment of acquisition and asset management fees but BEFORE payment of any incentive fees.

8.1.3 Debt-to-Equity Ratio

The maximum debt-to-equity ratio permitted on **any single investment** is:

Core: 1:1 (50% loan-to-value).

Non-Core:

Value-Add: 1:0.54 (65% loan-to-value)

High Return: 1:0.25 (80% loan-to-value)

The maximum debt-to-equity ratio permitted on the total real estate portfolio is 1:1 (50% loan-to-value).

Debt-to-equity ratios are determined at the time of origination but monitored throughout the investment hold.

8.1.4 Security

All debt must be non-recourse to the borrower (or borrowing entity) except for environmental and related indemnities, fraud or material misrepresentations, and other similar provisions required by the lenders, and all loan documentation must be approved by LACERA's counsel. Unless authorized by the Board, recourse to LACERA or to any property or asset not owned by the borrowing entity will not be permitted.

8.1.5 Interest Rates

Fixed or variable interest rates are permissible.

8.1.6 Cross-collateralization

The manager may be allowed to use cross-collateralization on a case-by-case basis based on manager's strategy.

8.1.7 Pre-payment Requirement

All variable rate leverage must be pre-payable at par without penalty. Fixed rate loans must permit pre-payment, but may contain a penalty payment.

8.1.8 Amortization

No amortization is required.

8.2 Leverage Criteria: Short-Term

Any leverage utilized by the managers for development investments (i.e., short-term) must satisfy all of the criteria set out below.

8.2.1 Debt-to-Equity Ratio

The maximum debt-to-equity ratio permitted on any development investment is 1:0.25 (80% loan to total development cost).

The maximum debt-to-equity ratio permitted on any manager’s total portfolio is 1:0.25 (80% loan-to-value).

Debt-to-equity ratios are determined at the time of origination.

8.2.2 Security

Debt used for development investments may be secured by the real property owned by the borrower (or borrowing entity). Recourse to the borrower (or borrowing entity) shall not be permitted except for environmental and related indemnities, fraud or material misrepresentations, and other similar provisions required by the lenders. All loan documentation must be approved by LACERA’s counsel. Unless authorized by the Board, recourse to LACERA or to any property or asset not owned by the borrowing entity will not be permitted.

8.2.3 Interest Rates

Fixed or variable interest rates are permissible.

8.2.4 Cross-collateralization

Development investment assets may not be cross-collateralized.

8.2.5 Pre-payment Requirement

All variable rate debt must be pre-payable at par without penalty. Fixed rates debt must permit pre-payment, but may contain a penalty payment.

8.2.6 Amortization

No amortization is required.

9. Lender Leverage Policy

The prudent and conservative utilization of third party leverage may be utilized by the Fund's debt managers to enhance returns to originated loans, minimize equity exposure and allow increased diversification of the portfolio, thus reducing risk levels. Staff shall monitor the use of all leverage for compliance with the criteria outlined below, and report semi-annually to the board on the status. The criteria included in this policy are intended to mitigate the risks associated with using leverage by imposing conservative requirements. This policy shall apply to all debt investing activities.

Any leverage originated by the debt manager must satisfy all of the criteria set out below.

9.1 Positive Leverage

The use of debt must result in positive leverage. Positive leverage shall apply to the current return (inclusive of current return generated through reserves and holdbacks for payment of interest), total return (IRR), and opportunity return according to the following:

9.2 Return Premium

The total expected return to LACERA over the term of the debt must be expected to increase returns a minimum of two basis points for each 1% of leverage, compared to the unlevered return projections (e.g., 100 basis points for 50% leverage). Return to LACERA should be measured AFTER payment of asset management fees.

9.3 Leverage Ratio

The maximum leverage ratio permitted on **any single loan** is 3:1 (75% third-party loan-to-LACERA position).

The maximum leverage ratio permitted on the total real estate debt portfolio is 2:1 (67% third-party loan-to-LACERA position).

Leverage ratios are determined at the time of origination by dividing the total committed third party leverage (including future advance obligations).

9.4 Security

All debt must be non-recourse to LACERA. However, may be full recourse to the borrowing entity(ies), including for full repayment, environmental and related indemnities, fraud or material misrepresentations, and other similar provisions required by the lenders. All loan documentation must be approved by LACERA's counsel. Unless authorized by the Board, recourse to LACERA will not be permitted.

9.5 Interest Rates and Term

Fixed or variable interest rates are permissible. The term of any one-off third party loan should match the term of the LACERA loan. The manager may utilize loan facilities (portfolio-level leverage) that do not match the term of LACERA loans securing the facility provided that the manager believes that reinforced risk is appropriately mitigated.

9.6 Cross-Collateralization and Cross-Default

The manager may cross-collateralize and cross-default LACERA loans to secure third-party leverage.

9.7 Pre-payment Requirement

All leverage shall be pre-payable on current market terms available at the time the leverage is sourced, which may include lockouts and prepayment penalties.

9.8 Amortization

No amortization is required.

10. Investment Size Policy

There is no minimum investment size. The maximum LACERA equity investment size in any one property shall be limited to five percent (5%) of the total allocation to real estate. The maximum investment size for specific types of investments may be restricted further elsewhere in this Plan.

11. Lease Structure Policy

Multi-tenanted properties with staggered lease termination dates are preferred to properties with an undue concentration of lease termination dates, unless such concentration further diversifies the lease termination dates of the entire real estate portfolio. Single tenant properties will be considered if the tenant will provide tenant and lease structure diversification within the total real estate portfolio of the Fund, the tenant is financially sound, and the property can be converted to multi-tenant use at a reasonable cost. Investments in single tenant properties in the aggregate shall not exceed ten percent (10%) of the real estate allocation.

12. Registration Policy

In order to enable the Fund’s managers to obtain more competitive pricing structures for acquisition of directly held properties or originating debt investments, and to avoid overbidding on behalf of the Fund during property acquisitions or when making debt proposals, the Fund has implemented a registration policy. The Fund will permit each manager to register up to six transactions at any one time. Upon acceptance of a registration, the manager shall be the Fund’s exclusive representative relative to the registered transaction. This policy will be subject to review and modification by the Fund at any time. Staff will provide managers with notice in advance of any changes to this registration policy.

13. Development Risk Management Policy

LACERA has established this Development Risk Management Policy to identify, control and to the extent possible, mitigate the risks inherent in investing in real estate development. The issues addressed within the Development Risk Management Policy supplement (i.e., are in addition to) the risk management criteria that appear within the Real Estate Objectives, Policies and Procedures. The Policy addresses the following issues:

- Physical Criteria
- Investment Location
- Time of Development
- Investment Structure
- Developer/Partner Criteria
- Zoning
- Fiduciary Oversight

13.1 Physical Criteria

All development projects must be underwritten such that the physical criteria of the property would, upon completion, meet or exceed the physical criteria described within the manager's then current Manager Investment Plan.

13.2 Investment Location

Investments shall be limited to locations identified within the manager's then current Manager Investment Plan.

13.3 Timing of Development

Individual development projects must be expected to be complete with minimum occupancy hurdles achieved in no longer than 36 months (inclusive of construction time).

13.4 Investment Structure

Investments may be made via 100% equity, partnership, or joint venture arrangement provided that the following criteria are satisfied:

1. The structure must preserve LACERA's right to own 100% of the property once completed and leased to a stabilized level; and

2. LACERA must have control and/or approval rights over all major investment decisions.

13.5 Developer/Partner Criteria

Investments may be made in partnership or joint venture with qualified builders or developers at the discretion of the manager.

13.6 Zoning

Investments shall be limited primarily to property that is fully zoned with entitlements in place for the planned use. LACERA shall limit exposure to zoning and/or entitlement risk to investments totaling not more than 5% of the total real estate allocation.

13.7 Fiduciary Oversight

All investments must be underwritten and assets managed by a qualified investment manager acting in a fiduciary capacity to LACERA.

14. <u>Co-Investment Policy</u>

LACERA has established this Co-Investment Policy to identify, control and to the extent possible, mitigate the risks inherent in making one-off co-investments in real estate. The issues addressed within the Co-Investment Policy supplement the risk management criteria that appear within the Real Estate Objectives, Policies and Procedures.

14.1 Sources of Co-Investments

LACERA will consider co-investment opportunities from sponsors of commingled funds in which LACERA has invested, managers with which LACERA has a current separate account agreement, or external managers with which LACERA has no existing relationship.

14.2 LACERA Review

The method of review for co-investment opportunities will be dependent upon the source of the co-investment.

Co-investment opportunities sourced by existing separate account managers or sponsors of commingled funds in which LACERA is an investor will be reviewed, evaluated, and to the extent required, negotiated by the investment staff.

Co-investment opportunities sourced by external managers with which LACERA has no existing relationship will be reviewed, evaluated and to the extent required, negotiated by the investment staff. In addition, an Independent Fiduciary, retained by LACERA for such purpose, will opine on the fairness of pricing and reasonableness of the terms and conditions.

14.3 Commitment Authority

14.3.1 Staff-Level Commitment Authority

The investment staff will have authority to approve co-investment commitments when all of the following conditions are met:

1. The amount of co-investment by the Fund does not exceed $50 million;
2. The subject property of the co-investment is located within the United States of America; and
3. The co-investment is sourced by an existing separate account manager or sponsor of a commingled fund in which LACERA is an investor.

14.3.2 Board-Level Commitment Authority

The Board of Investments will be presented with the opportunity to approve all co-investments when any of the following conditions are met:

1. The co-investment by the Fund will exceed $50 million; or
2. The subject property of the co-investment is located outside the boundaries of the United States of America; or
3. The co-investment is sourced by a manager with which LACERA has no existing relationship.

14.4 Co-Investment Documentation

All Real Estate co-investments will be subject to a separate management agreement between LACERA and the investment manager/sponsor. The terms and conditions of each co-investment will be articulated in the agreement.

15. Site Inspection Policy

As part of the on-going due diligence and monitoring of Individually Managed Accounts, staff will conduct periodic inspections of properties that are acquired on the Fund's behalf or that are securing debt investments confirming their compliance with LACERA policies. Such inspections will be used to affirm that appropriate on-site management is being dedicated to the property, that the property is being appropriately maintained to compete effectively in its market, and that the investment is consistent with representations made by the manager in their periodic reports. The minimum frequency for staff inspections will be as outlined below. However, the Chief Investment Officer may approve exceptions to the frequency of inspections for any investment on a case-by-case basis.

15.1 Core Investments

Investments classified as core will be inspected by staff no less frequently than once every five years. The ten largest investments, as measured by Fund capital invested and total capitalization, will be inspected no less frequently than once every three years.

15.2 Value-Add and High Return Investments

Investments classified as Value-Add or High Return will be inspected by staff no less frequently than once every three years.

SECTION III - PROCEDURES

1. Delegation of Responsibilities

The real estate program shall be implemented and monitored through the coordinated efforts of the Board, staff, Consultant, managers, and Independent Fiduciaries. Delegation of the major responsibilities for each participant is reviewed below.

1.1 Board of Investments

The Board, assisted by the recommendations of staff and Consultant, shall:

1. Establish real estate portfolio objectives and policies;

2. Approve the Real Estate Objectives, Policies and Procedures at least every three years, and the Investment Plan annually, including any revisions thereto;

3. Approve retention and termination of managers, independent fiduciaries, consultants and any other parties deemed appropriate, and approve search criteria;

4. Approve capital allocation limits to individual managers;

5. Review the performance of the real estate asset class and its compliance with the real estate portfolio objectives and policies as stated herein and in the Investment Plan;

6. Approve co-investments according to the Co-Investment Policy;

7. Approve use and selection of Independent Fiduciaries when compensation is greater than $150,000; and

8. Complete or cause to be completed any other activities necessary to oversee and monitor the Fund's real estate investments.

1.2 Staff

The staff shall:

1. Conduct searches for external professional services required for management of the real estate portfolio (management searches);

2. Investigate other investment opportunities for strategies not otherwise encompassed by the Fund's separate account Managers' investment mandates and, if deemed appropriate, recommend such investments to the Board for approval;

3. Prepare recommended changes to the Real Estate Objectives, Policies and Procedures as necessary and submit the same to Board for approval;

4. Prepare the Investment Plan as described below and submit the same for Board approval;

5. Approve Manager Investment Plans and Minimum Return Requirements;

6. Approve manager requested variances to the Manager Investment Plans and Minimum Return Requirements on a case-by-case basis;

7. Approve manager requested variances from LACERA's Leverage Policy involving the debt-to-equity ratio for any single investment;

8. Approve co-investments according to the Co-Investment Policy;

9. Prepare manager specific capital allocation limit recommendations and submit the same to the Board for approval;

10. Select and engage third party appraisers or auditors when necessary in accordance with Board approved procedures;

11. Provide asset management, acquisition, disposition, accounting and financial controls in accordance with Board approved procedures (see Section III.4 of this document);

12. Conduct site inspections at the direction of the Chief Executive Officer or Chief Investment Officer;

13. Perform the Annual Oversight Review as described below;

14. Prepare funding procedures and coordinate the receipt and distribution of capital with the managers with respect to acquisitions, dispositions and the funding of existing property operations;

15. Monitor the closing process for acquisitions, refinancing and other capital transactions between managers and the Fund;

16. Select Independent Fiduciaries when compensation is expected to be no greater than $150,000;

17. Manage and oversee work assigned to Independent Fiduciaries; and

18. Complete any other activities required by the Board and those specifically delegated to the staff in the Real Estate Objectives, Policies and Procedures, the Real Estate Investment Plan or other applicable document or agreement.

1.3 Consultant

Consultant shall:

1. Review the Real Estate Objectives, Policies and Procedures, as amended by staff;

2. Report to Board on appropriateness and impact of any changes;

3. Assist staff in conducting manager searches and issue memo(s) on process and manager selection for Board review;

4. Provide Performance Measurement Reports Quarterly with Semi-Annual Board presentations (as described further in Section III.6);

5. Undertake other activities, as determined by the Board and/or staff; and

6. Report to the Board of Investments on any activity or issue deemed to be in variance with Board approved roles and objectives for the real estate portfolio.

Consultant shall review the Real Estate Objectives, Policies and Procedures periodically, and the Investment Plan annually, and recommend revisions to reflect changes in the capital markets, real estate markets and the real estate portfolio of the Fund. Consultant shall provide quarterly Performance Measurement Reports.

1.4 Managers

The managers shall acquire and manage real estate investments on behalf of the Fund in accordance with the Real Estate Objectives, Policies and Procedures, Investment Plan, Budget and Management Plan, the Manager Investment Plan, and any other program documentation developed by staff and/or approved by the Board. The manager shall provide the Board and staff with such information as may be required to properly monitor the manager and its investment, including complying with the Procedures set forth herein.

1.5 Independent Fiduciaries

Independent Fiduciaries ("IFs") will be utilized on an as-needed basis to evaluate the fairness or suitability of an investment by the Fund when the investment is not otherwise being sourced or underwritten by a Manager with which the Fund has an existing relationship.

2. Manager Search Procedure

Staff shall search for and identify investment managers to assist in the implementation of the investment program at such time as authorized by the Board. The search program shall be as follows:

2.1 Search Procedures

Real estate investment shall be accessed through the following process:

2.1.1 Individually Managed Accounts

The individually managed account manager search procedure is as follows:

1. Staff shall establish and prepare recommendations and submit for Board approval the proposed qualification criteria (consistent with the purpose(s) of the search and its recommendations). The recommendation shall include the proposed scope of the search efforts (whether the search will be limited to pre-qualified managers, open to all bidders, etc.). The purpose(s) of the search may include specific investment types or categories such as Core, Non-Core (Value-Add or High Return), or Public REITs to be acquired on behalf of the Fund. The purposes for specific search or series of searches shall be set forth in the Investment Plan, or presented to the Board on an as-needed basis;

2. If requested, Consultant shall screen its database and other available sources to identify manager candidates exhibiting qualities consistent with the qualification criteria. Consultant shall provide to staff a preliminary listing of all manager candidates exhibiting such qualities consistent with the approved criteria;

3. Staff shall prepare and Consultant may review a Request for Proposal (“RFP”) or Request for Information ("RFI”) to further define manager capabilities specific to the qualification criteria. The RFP/RFI may require each prospective manager to describe its investment philosophy or strategy under the then prevailing market conditions, and to justify why it believes its strategy is appropriate, identifying and discussing all risks and how it has determined the appropriate time for investment consistent with its strategy or philosophy;

4. Staff shall forward an RFP/RFI to qualified manager candidates previously identified or all interested parties dependent upon the scope of search approved by the Board;

5. Staff shall establish evaluation areas and the respective weighting factors;

6. Staff will select an “evaluation team”, which shall review and evaluate RFP/RFI responses and compile a numerical ranking (1.0 to 10.0) for each manager for each evaluation area. The evaluation team may or may not include the Consultant;

7. Staff shall visit preferred candidates to complete final operations due diligence;

8. Staff shall prepare a report to the Board concerning the final rankings, a review of the highest ranking managers and its recommendations to retain one or more managers;

9. The Board may approve or reject staff’s recommendation to retain one or more managers based on the review and evaluation of information presented in the steps listed above; and

10. After its selection, the manager shall prepare a Manager Investment Plan consistent with the investment strategy articulated in response to the RFP/RFI and consistent

with the investment criteria established as part of the search or in the Investment Plan.

2.1.2 Pooled Funds Opportunities

The Fund may invest in pooled funds when it is willing to balance a lesser degree of control against obtaining other investment objectives, such as access to a specialized investment niche, increased diversification or reduced risk. The pooled fund search procedure is as follows:

1. Staff shall review and identify investment opportunities consistent with market opportunities and conduct due diligence as needed to determine if investment by the Fund is appropriate;

2. Staff shall direct the Consultant to review and evaluate recommended investments; and

3. Staff and Consultant will provide documented recommendation(s) to the Board. Staff shall assist the Board with interviews/presentations with/by investment sponsors if deemed appropriate.

The Board shall determine whether to invest in offered vehicles based on the review and evaluation of information presented in the steps listed above.

2.1.3 Co-Investment Opportunities

1. Staff will review co-investment opportunities presented to LACERA and conduct due diligence as needed to determine if investment by the Fund is appropriate;

2. Staff will review, evaluate and to the extent required, negotiate the terms and conditions of each co-investment. If necessary, staff will direct an Independent Fiduciary to conduct an assessment of a co-investment opportunity. An Independent Fiduciary will be utilized when the source of a co-investment opportunity is a manager with which the Fund does not have an existing relationship;

3. In accordance with Section II.14.3 of this Policy, depending upon the size and location, staff or the Board shall determine whether to invest in each co-investment opportunity. “Staff-level approval” means approval of the Chief Investment Officer of the Fund; and

4. Staff shall notify the Board promptly of any staff-approved commitments to co-investment.

2.2 Referral Procedures

The Board may refer to its staff or Consultant for review a pooled fund, a manager, a co-investment or other investment opportunity for evaluation. Such referral shall be in writing and approved by a formal motion of the Board.

3. Appraiser Search Procedures

Staff shall search for and select third party appraisers to value real estate assets when required under the manager Agreements or when otherwise deemed appropriate. The search process for appraisers shall be as follows:

1. Staff will maintain a list of potential appraisers. This list shall consist of qualified appraisers: (i.) recommended by managers and other plan sponsors; (ii.) that have successfully completed other appraisal assignments for LACERA; and (iii.) that have expressed interest in providing services to the Fund;

2. Staff, in conjunction with LACERA's Legal Office, shall prepare a draft engagement letter which identifies the requirements of the appraisal and delivery dates. The engagement letter will be attached to an RFP sent to all appraisers included on the list of potential appraisers; and

3. Staff shall evaluate RFP responses and selects appraisers based on qualifications and expertise in the geographical location and product type, fee structure and sample work provided. In some instances, staff may determine that an update appraisal may be satisfactory and cost effective, rather than a full narrative appraisal. Selection of appraisers is guided by a desire to diversify among appraisal firms such that no single appraisal firm appraises all of the assets in any one geographic area or all of any single property type.

4. Investment Management Procedures for Individually Managed and Co-Investment Accounts

4.1 New Investments

4.1.1 Manager Investment Plan

For each individually managed and co-investment account, the manager shall prepare, and staff shall review and approve, an annual investment plan (a "Manager Investment Plan") setting forth the general and specific criteria for its investment allocation or approach. The investment criteria shall be consistent with the Real Estate Objectives, Policies and Procedures, and the Investment Plan pursuant to which the manager was selected.

Each Manager Investment Plan shall be updated at least annually to account for the dynamics of the real estate and capital markets and the Fund's real estate investments.

4.1.2 Registration – Directly Held Assets

Each manager shall provide staff, in writing (including via facsimile), a preliminary investment summary identifying a prospective investment opportunity. Staff shall maintain a log and records of all proposed investments.

The Preliminary Investment Summary shall include the following information: (i.) property name and location; (ii.) seller name and location; (iii.) summary investment term sheet (a proposed investment will not be registered if the Summary Investment Term Sheet is incomplete. The manager shall specifically note whether the proposed investment complies with the then current Manager Investment Plan. Any variances from the Manager Investment Plan should be noted and approved by staff.); (iv.) a copy of an accurate and complete rent roll for the subject property, as of a recent date secured from the seller and/or a registered representative thereof; and (v.) a complete disclosure by the manager of the internal allocation history of the investment opportunity, including any prior exposure to other clients of the manager, discretionary or non-discretionary, whether through formal registration or information discussions, and reason(s) for any other client's election to decline to make the investment.

Following the receipt of the preliminary investment summary, staff shall review its records to determine if the proposed investment has been registered by another manager. Staff will determine whether the proposed investment: (i.) complies with the approved Manager Investment Plan; (ii.) fits within the allocation limits for the Manager; and (iii.) fits within the Fund allocation limits for the relevant investment category; and if so, may accept the registration. Staff will also evaluate the allocation history and accept or reject the allocation as follows: (i.) the Fund is the first investor client allocated the investment opportunity, staff will accept the allocation; and (ii.) the Fund is NOT the first investor client allocated the investment opportunity, staff will review the circumstances and rationale behind why each client previously exposed to the investment elected not to pursue it and determine whether to accept the allocation to the Fund. Failure to accept the allocation will result in denial of registration, and the manager will be precluded from pursuing the investment opportunity on the Fund's behalf.

If the proposed investment opportunity has not been previously registered by another manager and the allocation is accepted, staff will register the investment in the log and will provide a registration letter to the manager within two (2) business days of receipt. The effective date of registration of the prospective investment shall be the date the complete preliminary investment summary has been received by staff.

Upon the registration of a prospective investment opportunity by staff, the manager for whom the investment opportunity has been registered shall have the exclusive right, for a period of one-hundred-eighty (180) days from the date of registration, to negotiate and complete a successful acquisition of such investment. Extensions of the exclusivity period may be granted by staff upon a showing by the manager of good cause.

Each manager shall have not more than six (6) prospective investments registered with the Fund at any time. In the event the maximum is reached, or at any other time, the manager may eliminate a proposed investment from its registration list. All such eliminations must be identified in writing and submitted to staff for confirmation. Staff will remove a proposed investment upon receipt of such notice and will confirm to the manager in writing (including via facsimile) the elimination. In addition, a transaction which has received final Investment Committee approval from the manager, upon written notice provided by the manager to staff, shall be removed from the registration list.

4.1.3 Acquisition/Investment Review

Prior to making an investment, the manager shall provide staff with a Final Investment Package, which shall provide such information to evaluate the proposed investment relative to the Real Estate Objectives, Policies and Procedures, Manager Investment Plan, and such other investment criteria as has been established for the respective manager.

4.1.4 Staff Review

Staff shall undertake the following review of each proposed investment:

1. Evaluate the consistency of the investment proposal with the Strategic and Investment Plans and any investment guidelines prepared for the manager as part of the Manager Investment Plan;

2. Confirm the qualifications of the manager to acquire and manage the proposed investment;

3. Identify potential conflicts of interest;

4. Determine whether the manager has underwritten the proposed investment consistent with industry practices;

5. Evaluate the reasonableness of the assumptions used by the manager to project performance of the proposed investment;

6. When practicable, perform a site inspection of the property to confirm the accuracy of the oral and written representations made by the manager with respect to the proposed investment; and

7. Identify material issues attendant to the proposed investment.

The primary purpose of staff's review is to confirm that the manager has exercised prudence and complied with its fiduciary obligation to the Fund relative to the new investment. Staff has no approval rights over the new investment and staff's site inspection, which may occur as much as sixty (60) days subsequent to closing, shall not inhibit the manager's discretionary authority to make the new investment. The Chief Investment Officer may approve exceptions to inspections of new investments on a case-by-case basis.

4.1.5 Funding Procedures

The manager and staff shall prepare written funding procedures for each individually managed and co-investment accounts which are compatible with the system of the manager, consistent with industry practice and enable the accurate control of monies. The manager shall provide staff with a critical date list with respect to an acquisition, including funding and closing dates, updating the list as necessary or as required under any current Investment Management agreement for existing managers.

4.2 Asset Management

4.2.1 Asset/Investment Management Introduction

Asset management for directly held assets refers to all activities relating to the operations of the real estate investments and the timely and accurate reporting of the results of those operations. Managers are directly accountable for asset management responsibilities described above and hereinafter.

This section also designates certain property level responsibilities which the manager may perform through its affiliated property management subsidiary or cause to happen through a contractual arrangement with a third party property management firm. Specific responsibilities, compensation, and reimbursements for property management will be covered under a separate agreement to be entered into by the manager with such affiliate or third party firm.

Investment management for debt refers to all activities relating to servicing and oversight of the debt investment during its holding period

4.2.2 Budget and Management Plan –Directly Held Assets

Not less than forty-five (45) days prior to the end of the fiscal or calendar year (as mutually agreed upon by the manager and staff), each manager of individually managed and co-investment account investments shall submit a Budget and Management Plan for the upcoming year for each direct investment and the portfolio to staff. Prior to the end of the fiscal or calendar year, staff will meet with the manager personnel directly responsible for portfolio and asset management for a review and evaluation of the reasonableness of the Budget and Management Plan.

The Budget and Management Plan shall include a narrative strategy for the ensuing year (including leasing, operations and capital programs) and an estimated income and cash flow statement for the ensuing year including 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 fees with quarterly distribution projections. The Budget and Management Plan shall include the annual disposition review as described below.

The manager shall notify staff in writing within a reasonable time of its occurrence of any significant event which may occur with respect to an investment which was not projected in the Budget and Management Plan.

4.2.3 Annual Report and Oversight Review

Directly Held Assets

Within seventy-five (75) days after the close of each fiscal or calendar year (as mutually agreed by the manager and staff), each manager shall provide staff with an annual report (the "Annual Report") containing the following information with respect to each property managed and for the portfolio of properties managed: (i.) a current performance summary, summary of performance yields, summary of investment performance; and (ii.) a funded investment summary, including an investment description, date of acquisition, acquisition cost, property value, appreciation analysis, leasing status, lease expirations for current year, comparative performance for the prior year and a budget for the current year, which may be updated from the Budget and Management Plan previously delivered. Within sixty (60) days of the end of each fiscal year (herein defined as July 1 - June 30), audited financial statements for each property for the fiscal year, prepared by a certified public accounting firm selected by the Fund, will be prepared and delivered to the Fund

Debt

Within sixty (60) days after the close of each fiscal year, each manager shall provide staff with an annual report (the "Annual Report") containing the following information with respect to each property managed and for the debt portfolio: (i.) a summary of investment performance; (ii.) an investment description of each asset, including a description of the asset securing the debt, the structure of the loan; and (iii.) status of all payments due and borrower compliance with payments and covenants. Within ninety (90) days of the end of each fiscal year, audited financial statements for each debt portfolio for the fiscal year, prepared by a certified public accounting firm selected by the Fund, will be prepared and delivered to the Fund.

4.2.4 Quarterly Reviews

Each manager shall provide to staff a quarterly review of investment activity, including an evaluation of compliance with any applicable planning documents (Annual Investment Plan and/or Budget and Management Plan) and an explanation of any significant variances. Staff shall report any major issues to the Board.

4.3 Disposition

4.3.1 Annual Disposition Review – Directly Held Assets

Managers of individually managed and co-investment accounts shall provide to staff an annual disposition analysis of each asset under management, setting forth the manager's opinion as to the prudence of selling or retaining each investment and the reasons therefore. The disposition analysis shall include long and short-term hold/sell scenarios. The disposition analysis shall be included in the Budget and Management Plan.

The disposition analysis shall contain, in addition to any other requirements set forth in any Investment Management agreement for existing managers, the following information:

1. Market Update

Review of the ability, given market conditions, to divest or liquidate each asset, and determination of the current market value of each asset, i.e., the value at which an asset can be sold within a reasonable time (the “Disposition Value”). This analysis shall include a discussion of material assumptions on which any recommendation is based, including terms and conditions of any projected disposition and the estimated time frame within which such a disposition could be effected; and

2. Strategic Evaluation

Review of the original investment objectives relating to each investment and a variance analysis with the actual performance;

Review of the compliance (e.g., projected returns) of an investment with the Real Estate Objectives, Policies and Procedures, the Investment Plan, and Manager Investment Plan;

Review of market trends relevant to the investment, including investment market conditions (such as comparable sales, capitalization rates, discount rates and growth rates, among other conditions) and the investment’s competitive advantages and disadvantages in its market;

Review of each investment’s current rate of return, net of manager fees;

Review of each investment’s projected short term and long term rates of return, net of manager fees;

Review of an investment’s internal rate of return assuming a sale at the Disposition Value;

Review of an investment’s internal rate of return assuming a sale at future points in time at an investment’s then Disposition Value; and

Review of the projected returns of alternative real estate investments exhibiting comparable risk.

4.3.2 Unsolicited Offers

The manager shall notify the Fund of any Unsolicited Offer to purchase an asset of the Fund. "Unsolicited Offer" shall be defined as any written offer received from a purchaser considered by the manager to be credible. The manager shall prepare and submit to the staff within forty-five (45) days of receipt of said offer, a written disposition analysis of the asset using the offered amount as the Disposition Value along with an outline of the manager's response to the offer.

4.3.3 Disposition Procedures and Reinvestment of Proceeds

In the event a manager determines that the sale or other disposition of any investment under management is appropriate, the applicable disposition and reinvestment procedures shall be as set forth below. The Manager shall have discretionary authority to complete the disposition provided the following steps are followed:

1. The Manager shall select, if appropriate, the retention of a qualified independent real estate broker to assist in such sale provided that compensation to the selected broker does not exceed the then current market rate for such services. No broker affiliated with the Manager shall be engaged, however, without the prior written approval of staff;

2. Manager shall develop and submit to staff the marketing strategy for the investment;

3. Manager shall negotiate with potential purchasers, and in consultation with the Fund's counsel, prepare appropriate sale documentation;

4. All dispositions shall take place in an escrow account with escrow instructions prepared by the manager in such form as it deems prudent, and as approved by Fund counsel. The manager's discretion to sell assets is limited to cash sales. Dispositions that generate sales proceeds other than cash (e.g., REIT stock) remain subject to Board approval; and

5. If requested by the Fund, the manager shall assist the Fund in the reinvestment of the net cash proceeds from the sale in such real estate investment consistent with the investment criteria set forth in the Strategic and Investment Plans and Manager Investment Plan, if any. However, the Fund, in its sole discretion, may elect not to utilize the manager for reinvestment of such proceeds for any reason, including, but not limited to, as a result of the annual review of the manager's performance by the Board and staff.

4.4 Acquiring Assets from Commingled Funds

LACERA may have the ability to purchase one or more assets from a commingled fund that the Fund is an investor in. In order to complete the potential acquisition, an Independent Fiduciary will be engaged to facilitate the transaction. Once the asset(s) are acquired, the asset(s) will then be transferred to one of the existing IMA's. Whenever this process is initiated, the Board will be notified.

The process is outlined below:

1. The General Partner (GP) would notify LACERA of asset(s) ready for sale from the commingled fund and the Proposed Price (the "GP Price") of each asset;

2. LACERA's staff would determine whether the assets are a desirable addition to the core portfolio (without regard to price). If so, then the pricing is determined as outlined below. If not, then the GP moves forward with the third-party sale;

3. Engage an IF to consider the asset purchase on an off-market basis;

4. Staff will select and engage the IF when the cost does not exceed $150,000. Independent Fiduciary assignments exceeding $150,000 in cost will be subject to Board approval;

5. The Independent Fiduciary will represent LACERA's interest in determining whether or not to acquire an asset from a commingled fund. The IF would: (i.) be retained directly by LACERA; (ii.) complete a one-time assignment that should be completed in a short period of time (likely 30-45 days); and (iii.) be compensated on a fixed fee basis. The fee payable to the IF would be non-contingent (i.e., the IF would earn a fee whether or not a transaction is consummated);

6. The IF will: (i.) conduct an independent review and underwriting of the asset(s); (ii.) determine whether or not to obtain a third-party appraisal of the asset(s) (and if so, engage the appraiser); and (iii.) if deemed appropriate, attempt to reach price agreement with the GP for an off-market purchase;

7. If price agreement is reached, a sale is completed with the IF representing LACERA and GP representing the commingled fund. Once closed, LACERA may assign ongoing asset management responsibility to the GP or another separate account Manager; and

8. If price agreement is not reached via this off-market process, a competitive bidding process may be initiated.

4.5 Accounting and Financial Controls

The managers shall comply with the industry standard accounting and financial control guidelines set forth by the Real Estate Information Standards as revised and other requirements set forth in each manager's Investment Advisory Agreement.

4.6 Reporting Requirements

On a quarterly basis, the manager of individually managed and co-investment accounts shall provide the Fund and Consultant with combined financial statements for the entire portfolio and separate financial statements for each property in the portfolio.

The manager of individually managed and co-investment accounts shall provide the Fund with the Budget and Management Plan and with the Annual Report. Any subsequent amendment to the operating and capital improvement budgets and the reasons therefore shall be communicated to the Fund in a timely manner.

Each manager shall maintain complete and accurate books and records of the portfolio and each portfolio investment at all times. Each manager shall provide staff or their representative(s) access to all such books and records upon reasonable notice. Each manager shall also maintain and furnish other reports, information, and records requested by staff relating to the Fund's real estate investments.

5. Manager Return Objective

Section I.5.1 of this document identifies Benchmarks by Investment Category. Each investment held in a manager's portfolio shall initially be classified by Investment Category: Core, and Non-Core (Value-Add and High Return) so that performance can be measured according to an appropriate benchmark. The classification of each investment will be regularly reviewed to ensure that the appropriate benchmark is being utilized. At each quarter-end, the manager shall identify any investment that it believes should be re-classified from one Investment Category to another and the justification for the change (e.g., from Value-Add to Core). Staff will consider the manager's recommendation and will accept or reject the recommendation.

A Board-approved Manager Return Objective will be identified and be incorporated into each IMA agreement. Manager performance will be evaluated on a rolling five-year period. If a manager fails to meet the manager return objective for any two consecutive one-year periods, the manager will have a formal review with staff and Board.

The annual investment plan prepared by staff and approved by the Board will identify each manager that will be permitted to deploy capital for new investments during the period covered by that plan.

Disputes in investment classification between the manager and staff, if any, shall be submitted to the Board for final determination.

6. Performance Measurement Report

A comprehensive reporting and evaluation system addressing each investment, manager and portfolio shall be prepared by the Consultant on a quarterly basis and presented to the Board at least semi-annually. The Consultant shall provide such information as may be required to enable the Fund to administer its investments and managers.

The content of the report will include investment and portfolio attributes including: income, appreciation, total gross and net return, cash flow, internal rate of return, diversification, comparisons to relevant industry performance indices, and comments regarding each manager's performance.

Within ten (10) days following the last day of each quarter, Consultant shall forward to each manager a Performance Measurement Questionnaire. The manager shall forward its responses to the questionnaire within forty-five (45) days following the last day of each quarter. Consultant shall prepare and forward to the Fund a Performance Measurement Report within ninety (90) days following the last day of each quarter or within five (5) days of final and complete data submission.

ATTACHMENT C

TOWNSEND® GROUP
an Aon company

88 Kearny Street, Suite 800
San Francisco, CA 94105

Memorandum

To: LACERA Real Estate Committee ("REC")

From: Townsend Group, an Aon Company Jennifer A. Stevens

Date: June 13, 2018

Re: LACERA 2018 Real Estate Objectives, Policies and Procedures

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LACERA Staff provided Townsend with a copy of the LACERA 2018 Real Estate Objectives, Policies and Procedures (the "OPP") for review and comment. The memo below summarizes Townsend's comments on the OPP submitted by LACERA Staff for approval. A **Compliance Matrix** is attached as **Exhibit A** and summarizes the changes made to the OPP Guidelines.

Townsend Comments on Real Estate OPP

The OPP incorporates changes made to the structure of the Real Estate Program resulting from both the Meketa Asset Allocation Study and the LACERA Real Estate Structure Review approved by the LACERA Board of Investments on May 9, 2018. The LACERA Real Estate Structure Review followed the multi-phase Real Estate Attribution Analysis presented by Townsend. Townsend reviewed the OPP to ensure elements of the LACERA Structure Review are reflected in the LACERA OPP presented today, and believes all elements have been adequately incorporated. A summary of major changes in the OPP are outlined below. Townsend's additional comments below are provided for the REC's consideration.

1. **Reference to New Asset Allocation Model throughout OPP**
   In 2018, the LACERA BOI adopted a new asset allocation framework recommended by Meketa, which directly impacts the structure of the LACERA Real Estate Program. The new framework decreases the total target allocation for real estate from 11% to 10% and re-categorizes investments held within the Real Estate Program according to the functional asset class buckets below.

LACERA Asset Allocation (Adopted 2018)

Functional Asset Class	Real Estate Classification	Target Allocation
Real Assets & Inflation Hedge	Core & Value Add Real Estate	7%
Growth	High Return Real Estate	2%
Credit*	Private Real Estate Debt	1%
Total		10%

**The total allocation to Illiquid Credit is 3%. The 1% is an estimated amount, as footnoted in LACERA's documents.*

Townsend notes for the REC that the most notable change is that the 2018 asset allocation restructuring results in a greater target allocation to High Return investments categorized in the Growth category than previously employed. To meet the target, this would increase the risk in the Real Estate Portfolio late in the market recovery. Townsend recommends executing within the permissible ranges (outlined in point #5 below), minding risk and taking time to achieve these targets.

2. **Modified Role of Real Estate**

During the OPP review, Townsend provided LACERA with 14 examples of the "role of real estate" from its diverse client base. The statement below was customized to meet LACERA's needs after Staff discussions with the Chief Investment Officer. ***Townsend recommends moving the highlighted statement below, "with a lower correlation to other asset classes," to the first paragraph regarding the "primary role of real estate." Real estate, as a whole, provides LACERA with a lower correlation to other asset classes and this is not tied specifically to the High Return Portfolio.***

Previous:

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

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

Recommended Change (LACERA Memo):

The primary role of real estate is to generate stable, reliable income as well as to preserve capital. Additionally, real estate is expected to provide a risk-adjusted total return that is accretive to the Fund achieving its long term rate of return with acceptable levels of risk.

High-Return real estate, classified as part of the functional asset class Growth, can also provide returns similar to public equity, ***with a lower correlation to other asset classes.*** *Real estate debt investments, classified as part of the functional asset class Credit, can provide attractive returns while taking lower levels of risk than equity real estate investments.*

3. **Investment Philosophy**

LACERA removed language related to "controlling risk" from this section. Townsend believes the former language in the OPP was one of the primary reasons why separate accounts were prevalent in US portfolio construction (given separate accounts allow for more control over underlying investment activity) and agrees with this change. The new language below takes in to account the approved changes to the Real Estate Structure, which will re-introduce US commingled funds as a method of execution going forward. ***Townsend concurs with the removal of this language. However, the Investment Philosophy section is repetitive (see "Role of Real Estate" above) and as such, Townsend recommends that this section may be removed entirely.***

Previous:

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

Recommended Change:

Investment decisions regarding the real estate portfolio should be primarily guided by the following objectives: (i) maximizing long term total cash returns; (ii) achieving a total return competitive with other asset classes; and (iii) maintain a broad diversification of assets. LACERA should adhere to prudent risk management policies that will seek to manage risk, insuring diversification of assets and investment managers.

4. **New 60/20/20 Target Mix within Private Real Estate**
In the 2018 OPP, the new mix for Core/Value-Add/High Return investments is identified as 60/20/20, which aligns with the approved functional asset allocation targets. ***Townsend concurs that this change is consistent with the new asset allocation targets recommended by Meketa in 2018. Townsend highlights to the REC that this change will increase the risk profile and risk tolerance within the Real Estate Program, which was previously 70/25/5.***

Previous:

Core	70%
Value	25%
High Return	5%

Recommended Change:

Core	*60%*
Value	*20%*
High Return	*20%*

5. **Reduced Core Maximum and Increased High Return Maximum Allowance**
To align with the aforementioned targets, LACERA also changed the parameters for Core investment to represent no more than 50% in the 2018 OPP. Additionally, the maximum threshold was increased from 20% (which is now the new target) to 40% to reflect that the target should be the midpoint of the range. Though LACERA will not be forced to execute at the higher end of the permissible range, both the recommended targets and ranges does insinuate a higher risk profile than previously executed within the Real Estate program. No other changes to minimum and maximum thresholds were observed.

Previous:
Core > 60%
Value < 40%
High Return < 20%

Recommended Change:
Core > 50%
Value < 40%
High Return < 40%

Townsend recommends the consideration of the targets and ranges below, which align with the targets for Real Estate within the new functional asset classes and allow for additional flexibility at certain points in the market cycle.

	LACERA Real Estate Portfolio Guidelines	
	Strategic Target	**Tactical Range**
Private Real Estate Equity Targets	**9% of TPA**	
Core Portfolio	60%	50% - 100%
Value Add Portfolio	20%	*0% - 40%*
High Return Portfolio	20%	*0% - 40%*
Private Debt/Credit*	**1% of TPA**	
Permissible Strategies within Real Estate		
Public Real Estate	0%	*0-15%*
Private Real Estate	100%	*85-100%*
International (Public – Private)	15%	*0-20%*

**TPA = Total Plan Assets; Note that 1% is not a set target for Commercial Real Estate Debt within the Credit Allocation, but an estimate of possible exposure.*

6. **Change of Total Portfolio Benchmark to ODCE + 80 bps & Reference to Secondary Benchmarks**
To reflect the increased risk inherent in the new targets recommended by Meketa, LACERA has adjusted the Total Portfolio benchmark appropriately to reflect the targeted Portfolio Mix of the Private Portfolio. However, the Total Portfolio benchmark reflects ONLY private real estate equity investments. LACERA Staff has indicated that the transition to the new benchmark would begin at in the quarter-end following the BOI approval (estimated 3Q2018). At that time the full transition to the benchmark would take 12 months with a 50% step (ODCE + 60 bps) 6 months into the transition and then a full step to ODCE + 80 estimated for 3Q2019. ***Townsend recommends further modification to this section to address the Townsend comments below.***

Previous Total Portfolio Benchmark:
Total Portfolio Benchmark: ODCE + 40 bps to reflect 70/25/5 Mix

LACERA Recommended Change:
Total **RE Private Equity Portfolio** Benchmark: ODCE + 80 bps to reflect 60/20/20 Mix

Townsend Comments:

Townsend notes it will be difficult to meet or exceed the new ODCE + 80 bps benchmark in the near term, as the portfolio will require restructuring, the introduction of commingled funds and a higher allocation to Non-Core assets. Additionally, as noted in the Townsend Attribution Project, the LACERA Portfolio has struggled to meet or exceed its prior ODCE + 40 bps benchmark over all time periods.

a) Townsend recommends that the benchmark for Public Real Estate and Private Real Estate Debt be measured <u>separately</u> against their identified benchmarks in the OPP. It is our understanding that Staff agrees with this recommended change.

b) Townsend also recommends tailoring an interim benchmark to the composition of the portfolio relative to the style sector benchmarks identified below for a period of up to five years (the amount of time it may take to transition the portfolio).

c) Though REITs are not present in the LACERA Portfolio today, Townsend also notes that the Portfolio lacks a specified benchmark for Global REITs (whereas benchmarks for Domestic & International REITs are identified). Townsend recommends that LACERA can specify an appropriate benchmark if/when Global REITs enter the portfolio.

7. Change to Diversification Limits

New diversification constraints tie the Core/Core Plus Portfolio to the exposures of the ODCE +/- 10%. Exceptions are permitted for "Other" property types (outside of Multifamily, Office, Retail and Industrial) and International exposure. Previously, the upper limit on any property type or geography was 40%, which posed a challenge for sectors or regions that had a higher weighting within the benchmark. The +/- 10% constraint allows for additional flexibility so that LACERA is not forced to sell out of a region or property type that is expected to outperform. ***Townsend concurs with this change.***

Previous Diversification Constraints:

- No more than 20% of the total real estate allocation may be invested in any Metropolitan Statistical Area ("MSA")
- Max of 40% per property type or geography as measured at the Total Portfolio level
- No more than 20% international measured at the Total Portfolio Level

Recommended Change:

Property Type: The Core/Core Plus investments will be made in a diversified collection of office, retail, industrial, apartment and other property types. The Core/Core Plus Portfolio of office, retail, industrial and apartment properties will seek to replicate the diversification of the NFI-ODCE, within a variance of +/- 10.0%. Greater than 10% variance for Core/Core Plus from the benchmark property type weights will require Board approval. Up to 20.0% of the Portfolio may be invested in "Other" property types. "Other" may include student housing, medical office and self storage. Property type diversification parameters do not apply to Non-

Core investments (Value Add and High Return). Doesn't want to define other as above, says it's not all inclusive.

Geography: No more than 20% of the Core/Core Plus Portfolio may be invested in any Metropolitan Statistical Area ("MSA"). The diversification of LACERA's Core/Core Plus Portfolio will seek to replicate the geographic compositions of the NFI-ODCE +/- 10.0%, with up to 20.0% of the Portfolio allowed in "Other". The geographic diversification parameter is only for Core/Core plus investments and excludes Non-Core (Value Add and High Return).

Greater than 10% variance for Core/Core Plus from the benchmark geographic weights will require Board approval.

8. **Removal of Language (Led to execution through individually managed accounts):**
This change takes in to account the challenged historical performance of the individually managed accounts, the revised role of real estate and the envisioned structure of the Real Estate Program going forward. ***Townsend concurs with the removal of this language and previously recommended the inclusion of open-end and closed-end commingled funds in the Real Estate Portfolio.***

    Previous Language Removed:
    "For Core investments, the Fund prefers to use an individually managed account because of the superior control and flexibility such a vehicle provides."

9. **Reduce Maximum Investment Size Limit to 5% of Total Real Estate Allocation for Single Property**
Townsend agrees with this change given the growth in the LACERA envisioned structure of the Real Estate Program going forward. At the recommended 5% limit (previously 10%) and 3Q2017 total plan asset figure, no single property would exceed <u>$270 M in equity</u> without exception by the Board. Note that the Target Real Estate Allocation will be reduced from 11% to 10% going forward according to the asset allocation study. ***Townsend concurs with this change.***

    Previous:
    Total Equity for a Single Property cannot exceed 10% of the Target Real Estate Allocation

    Recommended Change:
    Total Equity for a Single Property cannot exceed 10% of the Target Real Estate Allocation

10. **Modification of Watch List Language**
Townsend agrees with the modification of the Watch List Policy. The prior Watch List largely pertained to the LACERA separately managed accounts. LACERA Staff replaced the Watch List language with a more detailed manager review process that covers all the factors that were in the prior Watch List. Staff replaced the Watch List with more stringent manager review requirements as well as a Board-approval for managers that are permitted to invest capital as part of each Investment Plan. The new Watch List language indicates that, on annual basis, the LACERA Investment Plan will be subject to approval by the Board. The Plan will include identification of investment managers which will be permitted to deploy capital in the coming year for the separately managed accounts. In addition, the Staff and Consultant will continue to report

performance of investment managers in the quarterly performance measurement report, summarizing those that are underperforming in each report. ***Townsend concurs with this change.***

Recommendation

The LACERA OPP takes in to account the key findings and recommendations outlined in Townsend's LACERA IMA Attribution Project and the approved LACERA Real Estate Structure Review. ***Townsend recommends that the REC consider and discuss the points outlined in this memo prior to adoption of the LACERA 2018 OPP.***

Exhibit A – LACERA Compliance Matrix

Allocation	Current Guidelines	Proposed Guidelines	As of December 31, 2017 vs. Current
Core Real Estate Target Core Real Estate Ranges	Target: 70% Range: ≥60%	Target: 60% Range: ≥50%	In Compliance w/ Ranges (Core 75.4%)
Non-Core Real Target Non-Core Real Estate Ranges	Target: 25% Value/5% High Return Range: Value Add ≤ 40% Range: High Return ≤ 20%	Target: 20% Value/20% High Return Range: Value Add ≤ 40% Range: High Return ≤ 40%	In Compliance w/ Ranges (Value 11.7%, High Return 12.9%)
Return Targets			
LACERA Custom Core Benchmark	NPI -50 bps: inception through 2Q 2013, ODCE (Net): from 3Q 2013 thereafter.	NPI -50 bps: inception through 2Q 2013, ODCE (Net): from 3Q 2013 thereafter.	Out of Compliance (5.2% net Actual vs. 5.9% Custom Benchmark over 10 years)
LACERA Custom Value Added Benchmark	NPI +25 bps: inception through 2Q 2013, ODCE (Net) +100 bps: from 3Q 2013 thereafter.	NPI +25 bps: inception through 2Q 2013, ODCE (Net) +100 bps: from 3Q 2013 thereafter.	Out of Compliance (-2.8% net Actual vs. 6.8% Custom Benchmark over 10 years)
LACERA Custom High Return Benchmark	NPI +225 bps: inception through 2Q 2013, ODCE (Net) +300 bps from 3Q 2013 thereafter.	NPI +225 bps: inception through 2Q 2013, ODCE (Net) +300 bps from 3Q 2013 thereafter.	Out of Compliance (-5.4% net Actual vs 8.9% Custom Benchmark over 10 years)
LACERA Total Portfolio Benchmark (recommend tying this going forward to only private equity RE in new OPP)	NPI – 25 bps through 2Q2013 ODCE (Net) + 40 bps	NPI – 25 bps through 2Q2013 ODCE (Net) + 40 bps through TBD ODCE (Net) + 60 bps through TBD + 6 mo ODCE (Net) + 80 bps from TBD + 12 mo	Out of Compliance (3.1% net vs. 6.2% over 10 years)
Debt Investments	NPI Income	NPI Income	
Public REITs	Domestic NAREIT International FTSE/EPRA/NAREIT	Domestic NAREIT International FTSE/EPRA/NAREIT	
Private Portfolio Risk Policies			
Property Location Diversification	- No more than 20% of the total real estate allocation may be invested in any Metropolitan Statistical Area (“MSA”) - No more than 40% of the total real estate allocation may be invested in any one of the four NCREIF regions - No more than 20% of the total real estate portfolio will be invested in international real estate	- No more than 20% of the Core/Core Plus Portfolio may be invested in any Metropolitan Statistical Area (“MSA”) - LACERA Core/Core Plus Portfolio will be measured ODCE +/- 10% - No more than 20% of the total real estate portfolio will be in international real estate	**Overweight Pacific Region** Pacific (40.1%) *(This will be **In Compliance** with the new guidelines, if adopted)*
Property Type Diversification	No single property type (apartments, hotels, industrial, office, and retail) will exceed 40% without Board approval.	- LACERA Core Portfolio measured ODCE +/- 10% - Up to 20% in “Other”	**In Compliance**
Leverage	- 50% LTV ratio maximum for any single Core Investment, - 65% LTV ratio maximum for any single Value Added Investment, - 80% LTV ratio maximum for any single High Return Investment.	- 50% LTV ratio maximum for any single Core Investment, - 65% LTV ratio maximum for any single Value Added Investment, - 80% LTV ratio maximum for any single High Return Investment.	**In Compliance**

REAL ESTATE INVESTMENT PLAN FISCAL YEAR 2018-2019

June 13, 2018

JOHN MCCLELLAND
PRINCIPAL INVESTMENT OFFICER–REAL ESTATE

AMIT AGGARWAL
INVESTMENT OFFICER–REAL ESTATE

MIKE ROMERO
Senior Investment Analyst-Real Estate

LACERA

June 1, 2018

TO: Each Member
Real Estate Committee

FROM: John D. McClelland
Principal Investment Officer

Amit Aggarwal
Investment Officer

Mike Romero
Senior Investment Analyst

FOR: June 13, 2018 Real Estate Committee Meeting

SUBJECT: **REAL ESTATE INVESTMENT PLAN FISCAL YEAR 2018-2019**

RECOMMENDATION

Advance the following proposed actions relating to the 2018-2019 Real Estate Investment Plan to the Board of Investments:

1. Approve the proposed Real Estate Investment Plan for Fiscal Year 2018-2019.

2. Approve allocation of up to $550 million ($450 million in the Real Assets and Inflation Hedging and $100 million in the Growth category) for investment by the Fund's separate account equity managers.

Staff has prepared the attached Real Estate Investment Plan (the "Plan" and **Attachment 1**) that will guide real estate investment activities of the Fund during the 2018-2019 fiscal year. Staff develops the investment plan annually to guide its short-term (12-month) efforts towards meeting the long-term objectives identified within LACERA's Real Estate Objectives, Policies and Procedures.

The functional asset classes recently adopted as part of a new asset allocation plan have been integrated into the Plan. Real estate will be part of three functional asset classes, Real Assets and Inflation Hedges, Growth, and Credit. The Plan calls for greater use of commingled fund vehicles as a way to increase diversification and better match the benchmark.

The Plan is subject to approval by the Board. Staff anticipates presenting the Plan to the Board at the meeting scheduled for July 10, 2018.

The Plan has been reviewed by the Board's real estate consultant, The Townsend Group. **Attachment 2** is a memo from the consultant with their observations and concurrence.

Attachments

NOTED AND REVIEWED:

Jonathan Grabel
Chief Investment Officer
JM:dr

ATTACHMENT 1

LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION
REAL ESTATE INVESTMENT PLAN
FISCAL YEAR 2018-2019

JUNE 2018

Table of Contents

INTRODUCTION

The 2018-2019 Real Estate Investment Plan (the "Plan") will guide real estate investment activities of the Fund during the fiscal year. It outlines the short-term (12-month) efforts towards meeting the long-term objectives identified within LACERA's Real Estate Objectives, Policies and Procedures.

A new asset allocation plan was adopted by the Fund in May 2018, resulting in real estate contributing to three functional asset classes going forward. The functional asset classes and target allocations for real estate are summarized in **TABLE 1** below.

TABLE 1
Functional Asset Classes and Real Estate
Asset Allocation Targets

Functional Asset Class	**Target Allocation**
Real Assets and Inflation Hedges	7%
Growth	2%
Credit[1]	1%
Total Real Estate	**10%**

The Fund will begin the fiscal year with 11.4% invested in real estate, 1.4% or $767 million over the new asset allocation target of 10%. The Plan calls for the Fund to be a **net seller** in order to bring the portfolio closer to the asset allocation target of 10%.

The Plan also calls for a modest adjustment to the vehicles used for investment, making more use of closed-end commingled funds for non-core investments and open-end commingled funds for core investment. Using non-core commingled funds should result in greater diversification than what has been possible using separate accounts. Using open-end core commingled funds should result in improved access to larger properties as well as more closely matching the performance benchmark. These changes are expected to enhance the prospects for improved performance.

The Plan is organized in the following manner:

- Strategic goals
- Existing portfolio
- Risk management
- Market update
- Review 2017-2018 Investment Plan
- 2018-2019 Investment Plan

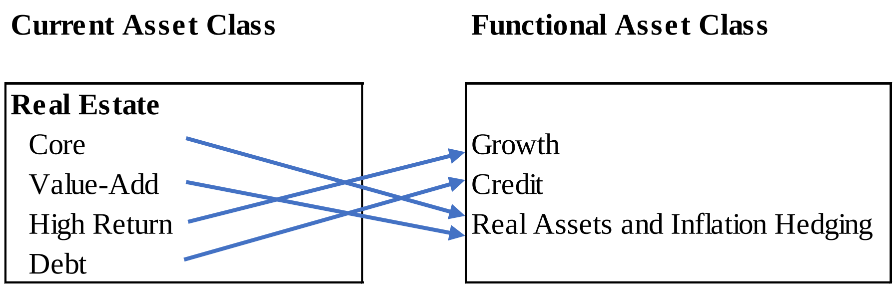
[1] Illiquid credit has an allocation of 3%. Real estate is targeted to be 1/3 of that amount.

STRATEGIC GOALS

Real estate is included in the total Fund portfolio primarily to generate stable, reliable income as well as to preserve capital. Additionally, real estate is expected to provide a risk-adjusted total return that is accretive to the Fund achieving its long-term rate of return with acceptable levels of risk. Real estate may also serve as a hedge against inflation when market conditions allow such a hedge (primarily in supply/demand balanced market cycles in times of greater than expected inflation).

CHART 1 illustrates how the real estate categories of core, value-add, high-return and debt will fit within the functional asset class framework adopted in May 2018. Core and value-add investments will be characterized as Real Assets and Inflation Hedging. High Return will be classified as Growth and real estate debt will be classified as part of the Credit allocation.

CHART 1
NEW ASSET ALLOCATION FRAMEWORK



The benchmark utilized for the real estate allocation is the ten-year rolling return of the National Council of Real Estate Investment Fiduciaries (NCREIF) Fund Index (NFI) Open-end Diversified Core Equity Index (ODCE) plus 40 basis points (ODCE+40 bps). This benchmark target is based on a mix of 60% core, 20% value-add and 20% high-return investments.

Focus on Core:
The Real Estate Objectives, Policies and Procedures requires that at least 50% of the real estate allocation be invested in core properties. Core properties present the lowest expected risk for the Fund. Core investments are completed buildings that are ≥80% leased. They usually generate the majority of their return, ≥70%, from income. Core investments consist of office, retail, apartment and warehouse property types. Core investments are classified as part of the Real Assets and Inflation Hedging functional asset class.

A limited amount of investment in private real estate debt (up to 20% of the real estate allocation) may be made. Debt investments are considered to be an alternative to core equity investments due to the safety provided by the borrower equity "cushion". Debt investments are expected to generate a relatively safe and high income return. However, such investments will not benefit from any appreciation in underlying property value since they are debt instruments. Real estate debt investments are classified as part of the illiquid credit portion of the Credit functional asset class.

Non-Core:
Non-core investments present an opportunity to enhance value through alleviating an identifiable deficiency or developing new buildings. They may be characterized as either Value-Add or High Return. Non-core strategies may include increasing occupancy of a property through leasing space, completing capital improvement projects, and recapitalizing properties. It may also involve ground-up development.

Upon completion of a value-add or high return strategy, assets are sold or moved to the core portfolio for longer term hold. Yields on value-add and high return investments are expected to exceed those available for core investments by at least 125 and 250 basis points, respectively. Value-Add investments are classified as part of the Real Assets and Inflation Hedging functional asset class. High Return investments are classified as part of the Growth functional asset class.

International:
International investments in real estate are used to enhance geographic diversification and/or produce higher returns. LACERA began implementing a multi-year plan to invest up to 15% of the real estate allocation internationally in 2016. International investments are accomplished via commingled funds.

PROFILE AND ANALYSIS OF EXISTING PORTFOLIO

Staff estimates that the Fund will enter the 2018-2019 fiscal year with approximately **11.4%** of the Total Fund invested in real estate, exceeding the new target allocation to real estate of 10%, but within the total Fund range for real estate of 7% to 15%[2]. The portfolio, valued at approximately **$6.3 billion**, is comprised of core, value-add and high-return investments. **TABLE 1A** summarizes the current composition of the real estate portfolio.

TABLE 1A
LACERA REAL ESTATE PORTFOLIO COMPOSITION
(as of December 31, 2017, $ in millions)

Investment Style	Separate Account	% of Style	Commingled Funds	% of Style	Net Market Value	% of Total Style
Core	$4,358	91%	$416	9%	$4,773	75%
Value Added	$736	100%	$3	0%	$740	12%
High Return	$482	59%	$336	41%	$818	13%
Total	**$5,575**	**88%**	**$755**	**12%**	**$6,330**	**100%**

TABLE 1B summarizes the portfolio composition utilizing the functional asset classes. It also illustrates the change necessary to achieve the new target allocations. Reaching the target allocations will require reducing exposure to core and value-add real estate (Real Assets and Inflation Hedging) by approximately **$1.4 billion**. Exposure to high return real estate (Growth) will need to be increased by approximately **$295 million,** and real estate debt (Credit) increased by **$337 million**. As discussed in the 2018-2019 Plan, reaching the target allocations is expected to take several years.

TABLE 1B
LACERA REAL ESTATE
NEW PROJECTED PORTFOLIO COMPOSITION
(as of December 31, 2017, $ in millions)

Asset Class/Strategy	Target %	Current Market Value $	Target $	Change from Current
Inflation Hedging and Real Assets	7.0%	$5,293	$3,894	($1,399)
Growth	2.0%	$818	$1,113	$295
Credit	1.0%	$220	$556	$337
Total	**10.0%**	**$6,330**	**$5,563**	**($767)**

Investment vehicle:
Separate account vehicles hold 88% of the portfolio, with the remaining 12% invested using commingled funds.

[2] The range for real estate is estimated based on prior practice of -3% to +5%.

Geography:

The portfolio is 95% invested within the United States. All of the international real estate investments (total value of $338 million) have been made using commingled funds. **TABLE 2** summarizes international investments by geography and risk sector. Staff is implementing the International Real Estate Investment Plan initiated in 2016 which allows for up to 15% of the real estate allocation to be invested internationally.

TABLE 2
LACERA INTERNATIONAL REAL ESTATE COMPOSITION
(as of December 31, 2017, $ in millions)

Region	Core	% of Total	Non-Core	% of Total	Total	% of Total
UK/Europe	$147	74%	$52	26%	$199	59%
Asia	$134	100%	$0	0%	$134	40%
Latin America	$0	0%	$5	100%	$5	2%
Total	**$281**	**83%**	**$58**	**17%**	**$338**	**100%**

Equity and Debt:

Equity investments comprise 97% of the real estate portfolio. A modest portion, 3% or $220 million, is invested in real estate debt as an alternative to core real estate equity investments. Two separate account managers have allocations with which they originate loans secured by real estate located within the United States. There are currently seven loans held in this portion of the portfolio.

Additional portfolio characteristics are described in the Risk Management section of this Plan.

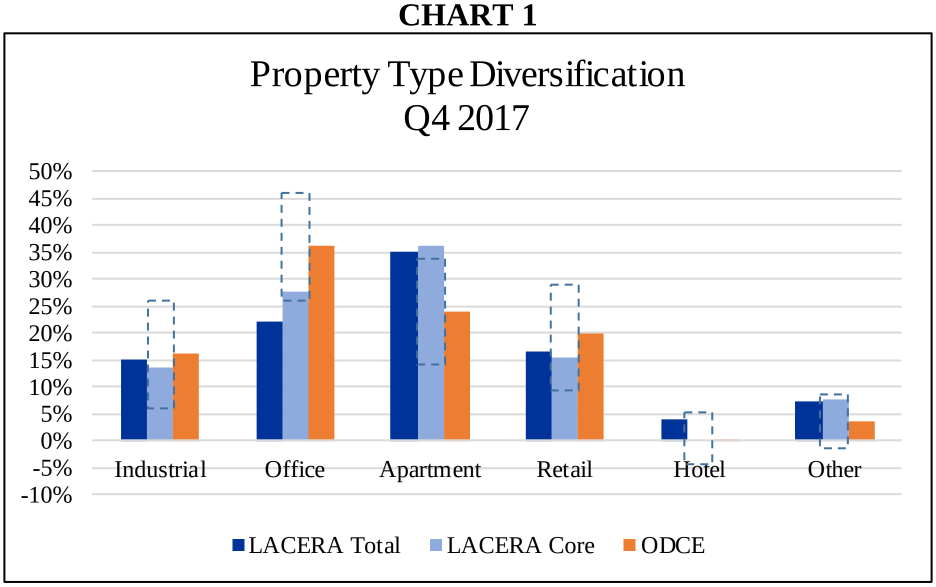
RISK MANAGEMENT

Risk in the real estate portfolio is managed by allocating most of the capital to lower risk investments, diversifying (by risk sector, property type, geography and managers), and controlling the amount and type of leverage utilized. All investments are limited to institutional-quality properties located in major metropolitan areas.

Diversification
By Risk Sector:
The real estate program has historically placed an emphasis on investing in **lower-risk, core properties**.[3] The LACERA portfolio is 75% invested in core assets which were collectively 93% leased as of December 2017. Greater use of commingled vehicles in both core and non-core risk sectors should reduce risk by spreading LACERA's investment dollars over a larger number of investments.

Diversification
By Property Type:
CHART 1 illustrates the property type composition of LACERA's core and total portfolio compared to the benchmark. Ranges of +/- 10% variance from the benchmark have been outlined using a dashed line. Staff has used the 10% variance range for **core holdings** of the four major property types (office, retail, industrial and apartment) to define a variance as sufficiently material as to merit discussion. A 5% variance range for core holdings of other property types was used to define a variance as sufficiently material as to merit discussion. Non-core holdings are excluded from the measure since non-core investments are intended to be tactical and the benchmark is, by definition, core. All of the property type positions fall within the 10% variance range, except for apartments. The office weighting is near the 10% limit.

CHART 1



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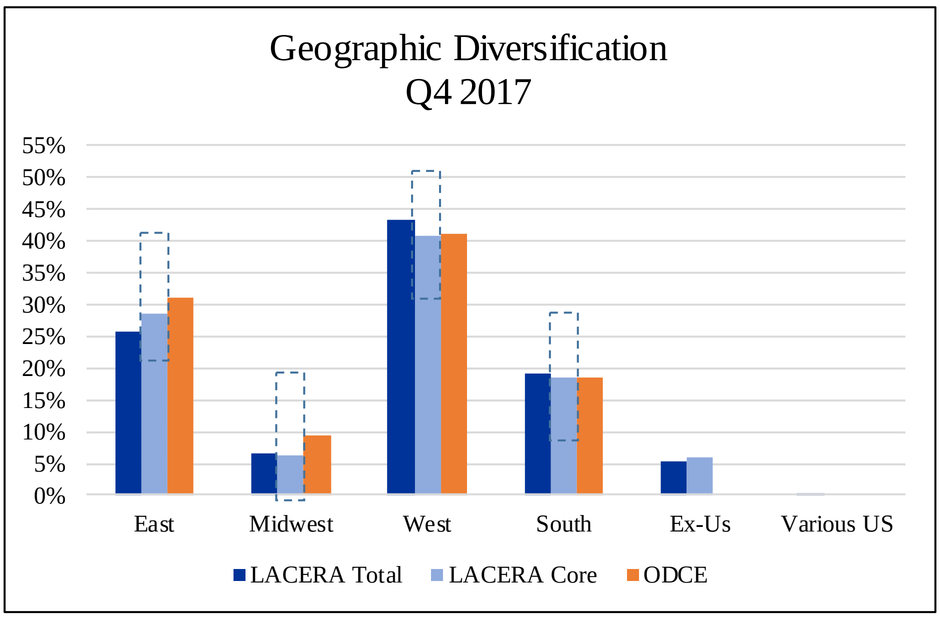
[3] LACERA's Real Estate Objectives, Policies and Procedures require that ≥50% of the portfolio be invested in core properties.

The portfolio is **overweight** to apartments when compared to the benchmark, 35% for LACERA v. 24% for the benchmark. The Plan includes efforts to reduce exposure to apartments to within the 10% variance from the benchmark.[4]

The portfolio is **underweight** office by 8% when compared to the benchmark. The relative underweight position is expected to be maintained. Office properties in the NPI have delivered the lowest return and been the most volatile over the last 20-year period. One of the themes proposed in the Plan is to research how best to achieve exposure to office, if desired.

Diversification
By Geography:
CHART 2 illustrates the geographic region composition of LACERA's core and total portfolio compared to the benchmark. LACERA's portfolio is within a +/- 10% weighting relative to the benchmark for each of the four major regions.

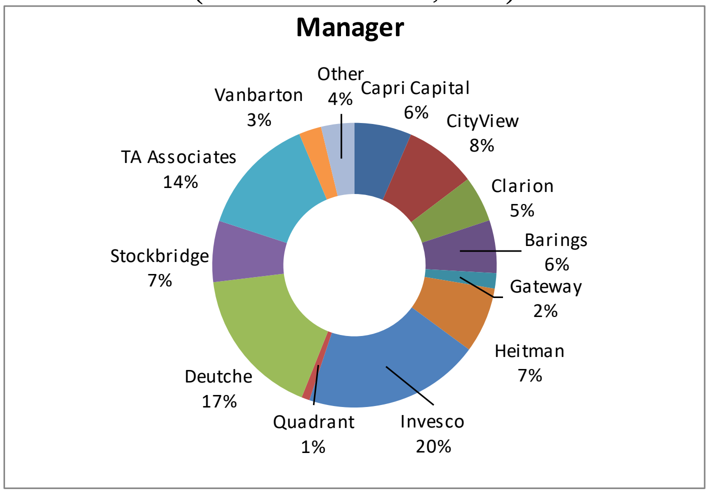
CHART 2



Diversification
By Manager:
The Fund is reasonably diversified by manager. **CHART 5** illustrates that LACERA currently has 13 separate account relationships and 14 commingled funds (domestically and internationally). The 3 largest separate account relations are with Invesco (20%), Deutsche Bank (17%) and TA Realty (14%). The Objectives, Policies and Procedures limit exposure to any single manager to 35% of the real estate allocation.

[4] A portfolio sale occurred in the first quarter of 2018 that reduced apartment exposure by 2%.

CHART 5
DIVERSIFICATION BY MANAGER
(As of December 31, 2017)



Diversification
By Property:
The separate account portfolio holds 101 separate properties. The average equity investment per property is $56 million. The ten largest assets, including gross and net value as well as the percent they represent of the total real estate portfolio are listed in **TABLE 3.**

TABLE 3
TEN LARGEST ASSETS BY GROSS ASSET VALUE
(As of December 31, 2017, $ in millions)

No.	Type	City	State	GAV	NAV	NAV % of Total Real Estate
1	Apartment	New York	NY	$410.8	$260.8	4.1%
2	Hotel	New York	NY	$376.5	$101.5	1.6%
3	Apartment	Los Angeles	CA	$332.0	$182.0	2.9%
4	Apartment	Marina del Rey	CA	$289.0	$165.3	2.6%
5	Retail	New York	NY	$238.0	$140.9	2.2%
6	Industrial	Compton	CA	$235.0	$130.0	2.1%
7	Student Housing	College Park	MD	$219.0	$109.5	1.7%
8	Retail	Collegeville	PA	$212.1	$117.1	1.8%
9	Hotel	Princeville	HI	$200.5	$200.5	3.2%
10	Retail	Cranston	RI	$189.2	$148.0	2.3%

Leverage:
Leverage has historically been a significant source of risk to real estate investors. Leverage becomes a significant source of risk when: i.) a lender requires loan payoff when the borrower does not have access to funds needed; ii.) debt service payments are due and there is insufficient cash flow from the property; iii.) the interest rate on a loan increases to a level where the borrower can no longer afford to make payments; and iv.) the property declines to a value that is less than the loan balance. Each of these circumstances can introduce significant stress to a property owner and could lead to a sale of the asset at an inopportune time.

LACERA has managed its exposure to leverage risk several ways. **First**, the amount of leverage used has been limited. **TABLE 4** summarizes the amount of leverage used for each risk sector in the portfolio. Overall, portfolio debt level is 39% loan-to-value which is below the 50% loan-to-value limit in the Real Estate Objective, Policy and Procedures, yet higher than the 21.4% loan-to-value exhibited in the benchmark.[5] The higher than benchmark deviation is reasonable as: i.) unlike ODCE funds, LACERA does not have quarterly liquidity requirements from real estate; ii.) leverage helps to enhance income returns when the interest rate is lower than the cap rate, and iii.) LACERA was able to take advantage of historically low interest rates.

TABLE 4
LACERA REAL ESTATE PORTFOLIO
LEVERAGE SUMMARY
(as of December 31, 2017, $ in millions)

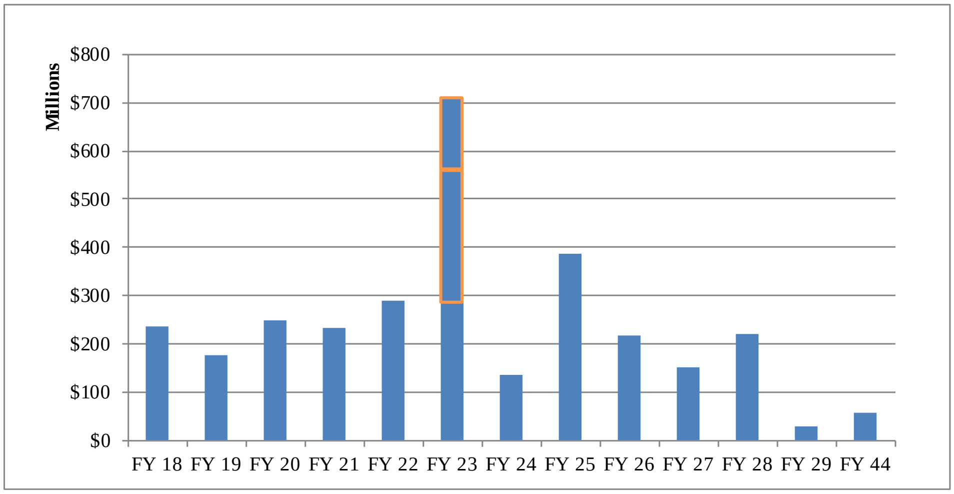
Investment Style	Gross MV	Debt	Net Market Value	LTV *
Core	$7,625	$2,852	$4,773	**37%**
Value Added	$906	$167	$740	**18%**
High Return	$1,369	$552	$818	**40%**
Total	**$9,901**	**$3,570**	**$6,330**	**39%**

*LTV is Loan to Value

Second, the maturity dates for loans have been spread out over several years so that excessive amounts of debt would not have to be repaid in any given year. **CHART 6** illustrates the debt maturity schedule for the Fund's separate account loans. With the exception of fiscal year ends 2023 and 2025, less than $300 million of loans are due and payable in any one year. This is a very manageable annual exposure for an investor the size of LACERA. The fiscal year 2023 exposure is created by two loans on large assets, both located in New York City, arguably the most liquid real estate market in the world. Staff feels comfortable that these two loan exposures can be effectively managed (paid off, extended or refinanced) well in advance of their due dates.

[5] Use of leverage increased in 2012 when the Board-approved Investment Plan allowed three separate account managers to lever a group of 24 of the Fund's core properties up to the 50% LTV level. That effort generated $607 million of proceeds at an average interest rate of 3.3%.

CHART 6
REAL ESTATE PORTFOLIO
DEBT MATURITY SCHEDULE



Third, the debt-service-coverage ratio for the portfolio leverage is 2.5X. This is a very strong coverage ratio and suggests that it is very unlikely that the Fund would find itself in a position where there was insufficient cash flow from the portfolio to keep loan payments current (and thus avoid being in default).

Finally, the Fund has very limited exposure to interest rate changes since the vast majority of the leverage is fixed or has been swapped to a fixed interest rate. [6]

Leverage is managed at the property level by the managers. Staff overlays portfolio level direction to the managers on an ongoing basis.

[6] 86% of the loans are fixed or swapped to a fixed interest rate. The average interest rate is 3.8%.

MARKET UPDATE

Staff notes that each piece of real estate is unique. Whether by property type, state, city or neighborhood, there may be little homogeneity. Consequently, it is very difficult to generalize about the real estate "market" because there are many "markets". Nonetheless, the information presented below attempts to present a generalization about the state of the real estate market primarily in the United States, within which the Plan will be executed. A few global references are included as well.

Fundamentals:
According to Richard Barkham, Global Chief Economist at CBRE Research, a large global real estate research group, "the global economy began - 2018 in its best shape since the Global Financial Crisis ended in 2009. All the major economic regions are growing at or above trend, and economic policy- both fiscal and monetary –remains expansionary."

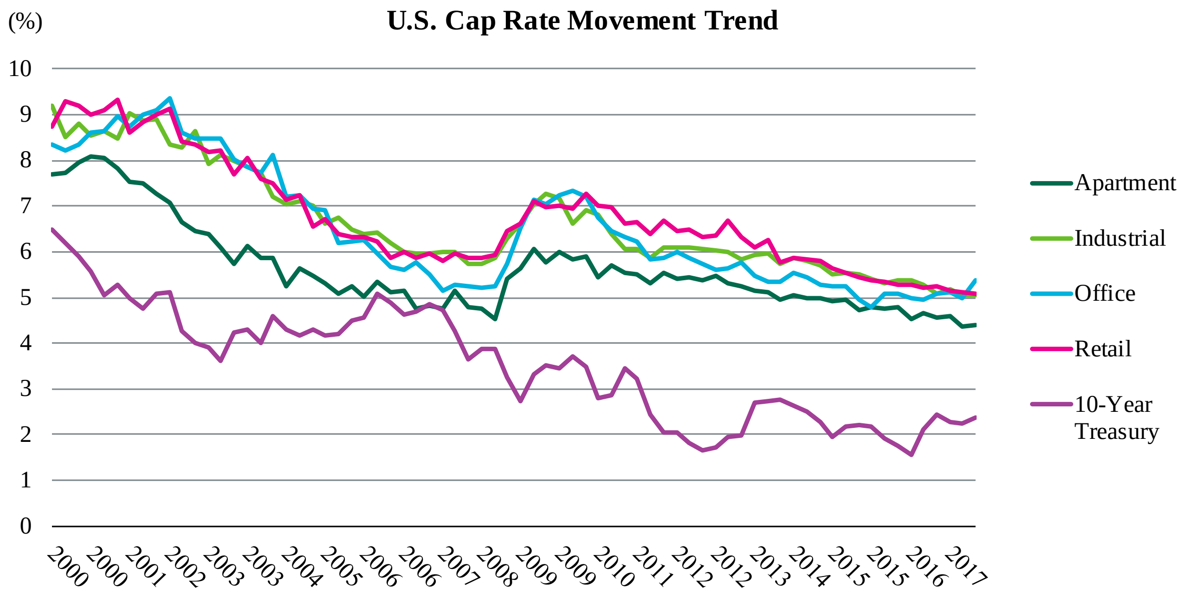
Global demand for real estate remained strong during 2017 with transaction volumes totaling $953 billion.[7] Prospects for continued activity are high with global dry powder estimated at a record $1.8 trillion.[8]

The U.S.:
In the 2018 Spring Global Real Estate Strategic Outlook, Deutsche Bank (DB) observed that the U.S. economy has entered its ninth year of economic expansion, yet prospects for continued expansion remain. In comparison to a year ago, DB believes the outlook for economic growth has improved considerably as evidenced by several factors. First, as a result of improved employment, there has been a sustained tenant demand for property. Second, inflation-adjusted interest rates are low, if not negative, remaining below average, which suggests that there is limited capital market risk. Third, the fiscal policy is supportive of economic growth. Fourth, even though there is a risk of rising short-term rates by the central bank, the marginal increase in interest rates remains below average, which in turn minimizes the risk of a recession. Fifth, there remain pockets of excess supply, however, construction activity remains below average.[9]

Valuations:
Valuations in the U.S. remain quite high, with capitalization rates (cap rates) hovering around record lows. **CHART 7** shows the U.S. cap rate movement trends. Cap rates have declined modestly over the last 5 years, falling from approximately 5.6% to 4.5%. Ten-year U.S. Treasuries over the same period have increased from 1.6% to 2.8%. Thus, the spread between cap rates and 10-year U.S. Treasuries has declined from 400 to 175 basis points, well below the long-term average spread of 250 basis points.[10]

[7] Global Investor Intentions Survey 2018, CBRE Research
[8] The rise and rise of private markets, McKinsey Global Private Markets Review 2018, McKinsey & Company
[9] 2018 Spring Global Real Estate Strategic Outlook, March 2018, Deutsche Bank
[10] Invesco Real Estate, using NCREIF and Moody's Analytics, April 2018

CHART 7



Source: NCREIF, CBRE Research, 2018.

Macro Indicators:
Deutsche Asset Management tracks many of key indicators that can help identify the general condition of the U.S. commercial real estate market. Their "dashboard" of indicators appears on **CHART 8.**

CHART 8
U.S. COMMERCIAL REAL ESTATE INDICATORS DASHBOARD[11]
MAY 2018

Metric		20-Year Average	Standard Deviation	Jan-08	Sign	May-18	Sign
Economy	Yield Curve (long less short)	160 bps	130 bps	-20 bps	□	120 bps	□
	Credit Spread (BBB-Treasury)	180 bps	80 bps	250 bps	□	120 bps	□
Supply	Construction (% of GDP)	0.9%	0.2%	1.1%	□	0.90%	□
REITs	REIT NAV Premium/Discount	2.0%	11.0%	-18.0%	□	-8%	□
Valuations	Cap Rate	6.6%	1.3%	5.5%	□	4.90%	□
	Cap Rate Spread to Treasuries	2.9%	0.9%	1.3%	□	1.90%	□
	Cap Rate Spread to BBB	1.2%	1.1%	-0.6%	□	0.70%	□
Mortgage Debt	Mortgage Debt (% of GDP)	18.6%	2.9%	22.1%	□	20.50%	□
	Average LTV	66.0%	3.1%	69.0%	□	61%	□
	CMBS Option-Adjusted Spread (OAS)	190 bps	100 bps*	370 bps	□	80 bps	□

Sources: Deutsche Asset Management, Federal Reserve (Treasury yields, BBB yields, mortgage debt); NAREIT (REIT NAV and prices); NCREIF (cap rates); American Council of Life Insurers (LTV); Barclays Live (CMBS OAS); Bureau of Economic Analysis (GDP); Deutsche Asset Management calculations.

[11] The "sign" for any dashboard metric is positive when the indicator is more than one standard deviation away from the 20-year average in a beneficial direction, negative when the more than one standard deviation from the 20-year average in a detrimental direction and neutral when in between on standard deviation from the 20- year average.

The dashboard illustrates that prices are relatively high, with: a.) core cap rates averaging 4.9%, which is 170 basis points lower than the 20-year average; and b.) only a 190 basis point premium of cap rates over ten-year treasuries, well below the 20-year average spread of 290 basis points. Nonetheless, real estate fundamentals remain strong and there is minimal risk of a near-term downturn in both the economy or supply. Construction is at the 20-year average which suggests that supply is not out of control. Mortgage debt appears to be under control, which should preclude an early 1990s or 2008-2009 style crash. The indicators from January 2008 are shown on the dashboard for comparison purposes because that date reflects the peak of the market prior to the Global Financial Crisis.

Forecast:
The Pension Real Estate Association conducts a quarterly survey of its members who are asked to predict the annual return from the NCREIF Property Index (NPI) over the next few years. **TABLE 5** summarizes the results from the survey taken during the first quarter of 2018.

TABLE 5
PREA CONSENSUS FORECAST SURVEY
NPI AND SUB-INDICES BY PROPERTY TYPE
Q1 2018

	Total Return (including icome) 2018	Total Return (including icome) 2018	Total Return (including icome) 2018	Total Return (including icome) 2018
National, All Property Types (NPI)	6.0	5.3	4.8	5.2
Office	5.6	4.7	3.6	4.3
Retail	5.1	4.7	4.1	4.7
Industrial	8.9	6.8	5.7	6.3
Apartment	5.4	5.0	4.5	5.2

The forecast survey suggests that returns for all property types will moderate each year over the next three-year period. The forecast returns are significantly lower than actual returns in 2017. The NPI reported an annual return in 2017 of 6.8%, 80 basis points higher than the forecast return in 2018. The largest forecast decline is for industrial properties. After posting a 12.5% return in 2017, the highest of the property types, the forecast for 2018 is 8.9%, a decline of 360 basis points. Nonetheless, industrial is forecasted to remain the best performing property type through 2020.

REVIEW PRIOR YEAR INVESTMENT PLAN

LACERA began the 2017-2018 fiscal year over its target allocation for real estate. The Investment Plan for the year called for selling assets and improving the defensive position of the portfolio.

Four themes guided the Fund's investment activity during the fiscal year. The themes were:

1. Selectively selling assets to reduce allocation closer to its target;
2. Maintaining a defensive position by keeping ≥70% of the portfolio in core;
3. Maintaining vintage year exposure with selective new investments; and
4. Continuing implementation of the International Real Estate Plan.

Selling Assets:
Managers were encouraged to a.) opportunistically cull non-strategic assets from the portfolio; and b.) harvest gains from completed non-core investments.

Separate account managers were active sellers during the year, selling $395 million of assets. One of the largest sales was of a 50% position in a portfolio of apartment assets located in the San Francisco Bay Area. Notwithstanding the $395 million of asset sales, $607 million of new investments were completed, making the Fund a net buyer of $212 million. The 2018-2019 Plan calls for LACERA to be a net seller in the fiscal year as the portfolio is positioned closer to the new asset allocation targets.

Defensive Position:
The amount of investments held in core assets, the lower-risk type of properties, decreased slightly from 76.5% to 74.5%. Core assets are expected to maintain value better than non-core assets in the event of an economic downturn. Core assets also have a history of generating relatively stable cash flow, which serves the needs of the Fund.

Additionally, certain property types have historically performed better in market downturns. Apartment, retail and industrial properties have generally experienced less declines in income and smaller declines in value than office properties. Consequently, managers were encouraged to continue investment in apartment, retail and industrial properties while being extremely selective about any new office investments. New investments completed during the year consisted of three apartments, four industrial and one office investment. There was also one student housing investment completed during the year.

The debt investment program, also considered defensive, struggled to keep capital deployed during the year as accretive new loans were difficult to source in the increasingly competitive loan market and borrowers paid off outstanding loans. Only one new loan was completed during the year. Quadrant closed on one mezzanine loan investment secured by an interest in an apartment located in Norwalk, CT for $31.5 million. Five loans managed by Barings paid off in the fiscal year for an aggregate of $339.3 million (68% of their total allocation). While the loan payoffs resulted in handsome realized returns, the aggregate net return was 8.6%, it is challenging to keep the capital allocated to this strategy invested.

Vintage Year Exposure:
Vintage year exposure was maintained as three $50 million commitments were completed. Commitments were made to two Pan-Asia funds and one European fund. Separate Account investments were made in core, value-added or high return opportunities for a total amount of $607 million. Individual investment sizes ranged from $20 to $115 million of equity.

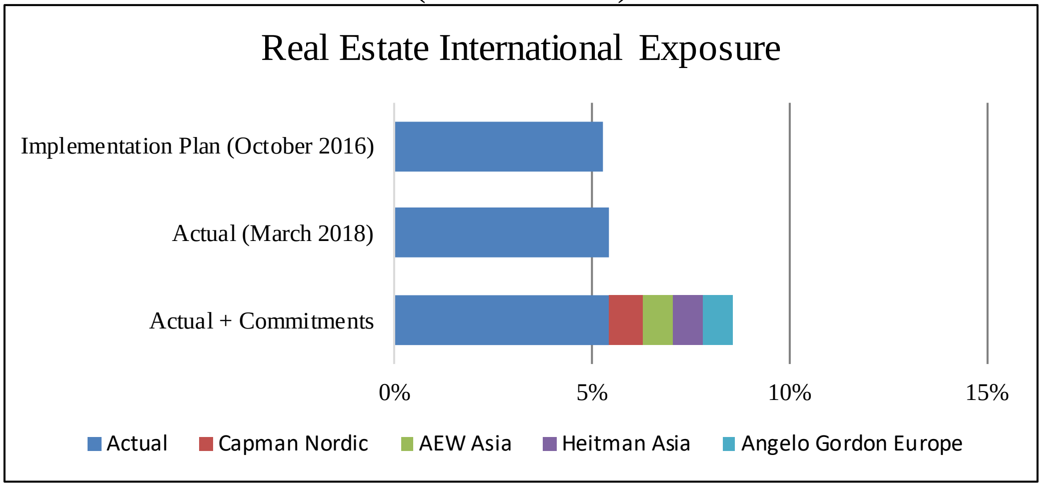
A build-to-core strategy was utilized for one apartment and one office investment.[12] This strategy provides the Fund an option upon completion of a property of either selling it (thus, realizing the gain or loss on the investment), or moving it from high return to a core holding. The strategy has the added benefit of upgrading the quality of the portfolio assets since the properties are constructed to current, modern building codes and standards. Build-to-core investments are classified as non-core until completed and stabilized. This typically takes two to three years.

Up to **$600 million** of new capital was authorized for investment by the separate account equity managers. LACERA made the capital available to the managers throughout the year for investment in core, value-add and high return opportunities. The managers have closed or registered new investments totaling $507 million from the available capital.

International Implementation Plan:
The implementation plan to invest up to 15% of the real estate allocation internationally continued during the fiscal year. Three commingled fund commitments were made, one in Europe and two in Asia. **CHART 11** illustrates LACERA's current international exposure and commitments. The Fund's international exposure, including commitments, has grown to 8% of the real estate portfolio. Approximately 63% of the total international allocation is projected to be invested in Europe and the remaining 37% in Asia.

[12] The office investment is an add on investment to a high-performing stabilized holding.

CHART 11
(As of 12/31/17)



Staff estimated that the 2017-2018 Plan would result in a reduction in the Fund's exposure to real estate by **0.9%.** Exposure to real estate actually declined by 0.8% during the year. The reduction was largely the result of growth in value of the Fund (the denominator), as new real estate investments outpaced asset sales. While the Fund moved closer to the previous target allocation of 11%, the portfolio remains slightly over-allocated.

2018-2019 INVESTMENT PLAN

The Fund will begin the fiscal year with 11.4% invested in real estate. That is 1.4% or $767 million over the new asset allocation target of 10%. Additionally, the current economic expansion in the United States has entered its ninth year, making it the third longest expansion in history. Staff is cautious about how much longer the expansion will continue unabated. Consequently, the Investment Plan calls for disciplined selling of assets resulting in the Fund being a net seller and maintaining the defensive over-weight to core investments in the portfolio.

Eight themes will guide the Fund's investment activity during the fiscal year. The themes are:

1. Reduce the size of the portfolio and rebalance in order to move closer to the new asset allocation targets;
2. Maintain a defensive position by keeping ≥60% of the portfolio in core;
3. Maintain vintage year exposure with selective new investments;
4. Continue implementation of the International Real Estate Plan;
5. Reduce exposure to apartments;
6. Increase exposure to industrial;
7. Evaluate office and retail exposure; and
8. Establish manager-specific performance objectives.

Each theme is discussed below. A summary of the Board-approved capital contemplated by the Plan appears following the discussions. Additionally, the managers that will be permitted access to the Board-approved capital are identified.

1. Reducing the portfolio size and rebalancing closer to target allocations:

As illustrated on **TABLE 1B**, the portfolio will begin the fiscal year $767 million over-allocated to real estate. Reaching the target allocations will require **decreased exposure** to Real Assets and Inflation Hedging and **increased exposure** to Growth and Credit.

For discussion purposes relating to target allocations, the Plan uses the following words interchangeably for types of real estate investments:

Real Assets and Inflation Hedging = Core and Value-Add
Growth = Opportunistic or High Return
Credit = Real Estate Debt (part of Illiquid Credit)

Core and Value-Add:
To reach the target allocations to Real Assets and Inflation Hedging, a reduction of $1.4 billion is required. Staff proposes to make progress towards achieving the target by causing approximately **$700 million of net core and value-add property sales** to be completed during the year, moving the portfolio halfway towards the new target.

This can be achieved by planned asset sales as well as from portfolio restructuring. Gaining exposure to one or more open-end diversified core commingled funds (ODCE funds) should improve diversification and better match the asset class benchmark. Staff will evaluate contributing/selling assets to ODCE funds in exchange for shares and cash, resulting in net sales. For example, LACERA may sell $1 billion of core assets to an ODCE fund for $500 million of cash and $500 million of shares in the ODCE fund. Any such portfolio restructure would require approval by the Board. Individual asset sales would be completed by the managers.

Value-add commingled funds may be considered and evaluated for new commitments. Investing in value-add using commingled funds should result in greater diversification than LACERA achieves by investing using the separate account managers. Separate account managers **will not** be permitted to make new value-add investments during the year.

Opportunistic/High Return:
Exposure to Growth investments should be net increased by $295 million to meet the asset allocation target. This figure will likely be even larger since some of the current investments in high return (development) are expected to be completed and sold or moved to real assets and inflation hedging. However, nine-plus years into an economic expansion may not be the optimal time to make new investments in this higher-risk sector. Therefore, higher expected returns will be demanded from any new growth investments.

The Plan calls for permitting limited (see separate account summary and **TABLE 6** below) new high return investments to be made by the separate account managers. Notably, development projects are funded over a 24- to 36-month period, so all of the funds will not be deployed at one time. Recent manager-controlled development investments have generated strong returns. The Plan allows for continuation of such investments.

Staff also proposes to evaluate high return commingled fund opportunities. Investing in high return commingled funds should result in greater diversification than LACERA achieves by investing using the separate account managers.

Credit:
Exposure to real estate debt should be increased by $337 million to meet the asset allocation target. The existing separate account managers should be able to meet the target allocation. Both managers have fixed allocations of capital available for investment on a revolving basis. There is approximately $640 million of allocated but un-invested capital between the two managers, more than enough to reach the target allocation. Once the target is reached, staff

will determine whether to permit additional investments within a Board-approved band for real estate debt.

LACERA may be able to effectively move the portfolio closer to desired for property type and geographic region exposure by using the public markets. A REIT completion portfolio may present an attractive way to achieve desired property type and/or geographic over/underweight positions. Staff plans to investigate the potential for using the public markets for this purpose and will present findings to the Board and/or Real Estate Committee for discussion.

2. **Defensive Position:**
The portfolio is positioned quite defensively, with 75% of the investments held in core assets with stable cash flows. Core assets should provide some downside protection to the Fund should an economic downturn occur, since core assets typically maintain value better than non-core assets in such circumstances. However, as noted in Theme 1 above, making progress towards meeting the new target for core and value-add real estate somewhat conflicts with Theme 2, maintaining a defensive position. The Plan addresses the defensive positioning by: i.) pacing the reduction in core assets; ii.) emphasizing investment in more defensive property types, like industrial; and iii.) enhancing diversification by utilizing more commingled fund vehicles. Exposure of 60% or greater will be maintained as required by the Objectives, Policies and Procedures.

Upon completion of the development projects that are underway, managers will be encouraged to keep industrial and selectively sell some of the new apartments. This should increase exposure to the most defensive property type and reduce the portfolio over-weight to apartments.

The debt investment program, also considered defensive, is expected to continue during the year. As discussed in Theme 1 above, both of LACERA's real estate debt managers have allocation available should attractive opportunities be identified.

3. **Vintage Year Exposure:**
The Plan calls for selectively making new investments in order to maintain vintage year exposure. Investments may be made in core, value-add or high return opportunities. Accessing high-quality properties through the build-to-core strategy is expected to continue.

The Plan calls for up to **$550 million** of new investment activity by the separate account equity managers. Only those managers identified in the summary below will be allowed access to this capital for deployment. Staff would "release" this capital periodically throughout the year for investment in core and high return opportunities. Having the capital Board-authorized allows the Fund to take advantage of opportunities that arise in a timely manner.

4. **International Real Estate:**
The International Real Estate Implementation Plan will continue to be executed during the fiscal year. Staff anticipates recommending 1-3 new commitments annually in each of the

European and Asia Pacific regions. Individual recommendations would not be expected to exceed $100 million as the Fund seeks to diversify and gain exposure to numerous vintage years. One or more smaller commitments to Latin America opportunities will also be considered.

5. **Apartments:**
The Plan calls for decreasing the overweight relative to benchmark positions. Apartment exposure will be decreased by:

    1. Encouraging Managers to selectively sell apartments that may not meet future performance targets;

    2. Consider selling some of LACERA's apartment to ODCE funds; and

    3. Focus new commitments, in either separate accounts or commingled funds, on strategies that are focused on other property types.

6. **Industrial:**
The Plan proposes for increasing the underweight relative to benchmark positions. Industrial exposure will be increased by:

    1. Considering select industrial assets (acquisitions and built-to-core) by the Managers; and

    2. Consider investing in additional core/core plus open ended Industrial Funds.

7. **Office and Retail:**
The Plan proposes maintaining an underweight to office. The portfolio is currently underweight to office compared to the NPI ODCE. Office is considered cyclical and requires high capital expenditures. Over the last 20-year period office has generated the smallest return at the highest risk level of the four major property types in the NPI.

    The Plan proposes maintaining the current slight underweight position to retail. U.S. retail is concerning today due to the influence of omni-channel retailing and the financial distress of some soft good retailers. The Plan proposes to retain LACERA's current exposure to outperforming small retail assets and selectively divest the larger underperforming assets, such as malls.

    Staff will evaluate evolving office and retail concepts as well as alternative ways to access these property types in the future. CBD office and regional mall properties are so large that LACERA is effectively precluded from owning them directly. Results of staff's research will be presented to the Real Estate Committee for discussion.

8. **Establishing manager-specific performance objectives:**
The Plan proposes that manager-specific performance objectives be established for each of the separate account managers. Currently, none of the individual engagement agreements contain an individual performance objective. Each agreement refers to the Objectives,

Policies and Procedures, which includes the LACERA benchmark for the program. Managers have been considered contributors to the total portfolio, however, none of the managers are individually held accountable for total portfolio performance. The Plan calls to review individual manager performance and mandate modifications where appropriate and put in place manager performance hurdles to better assess performance. This review may result in one or more manager termination recommendations. Any performance objectives, mandate modifications or termination recommendations will be subject to Board approval.

The proposed capital and investment style that can be made available to the separate account managers for investment during the fiscal year are identified in **TABLE 6** below. Managers that may be permitted access to the capital are indicated by an X. Manager access to new capital will be subject to successful completions of performance reviews that are underway.

TABLE 6
Fiscal Year 2018-2019
Real Estate Investment Plan
Board-Approved Capital
and
Authorized Separate Account Managers

Manager	Growth (High Return) Capital	Real Assets and Inflation Hedging (Core and Value-Add) Capital	Credit (Real Estate Debt) Capital
	$100 Million	$450 Million	No New Capital
Barings-Equity			
Barings-Debt			X
Capri Capital	X		
Cityview			
Clarion	X	X	
DWS	X	X	
Heitman	X	X	
Invesco	X	X	
Quadrant			X
Stockbridge	X	X	
TA	X	X	
Vanbarton			

ATTACHMENT 2

88 Kearny Street, Suite 800
San Francisco, CA 94105

Memorandum

To: LACERA Real Estate Committee ("REC")

From: Townsend Group, an Aon Company Jennifer A. Stevens

Date: June 13, 2018

Re: LACERA 2018 Real Estate Investment Plan

LACERA Staff provided Townsend with a copy of the LACERA 2018 Real Estate Investment Plan (the "Plan") for review and comment. The memo below summarizes Townsend's comments on the Plan submitted by LACERA Staff for approval. All recommended changes are highlighted in blue font. Townsend's May 2018 View of the World is also attached to this review as **Exhibit A.**

Townsend Comments on Proposed Real Estate Investment Plan

A summary of LACERA Staff's Investment Plan recommendations is provided below. Townsend's additional recommendations/suggested modifications are highlighted in blue for the REC's consideration below.

1. Total Portfolio Rebalancing

a. Rebalance to Target Allocations & Reduce Exposure through Net Sales

Approved LACERA 2018 Asset Class Allocations – Real Estate

Asset Class/Strategy	Target %	Current Market Value $	Target $	Change from Current
Inflation Hedging and Real Assets	7.0%	$5,293	$3,894	($1,399)
Growth	2.0%	$818	$1,113	$295
Credit	1.0%	$220	$556	$337
Total	**10.0%**	**$6,330**	**$5,563**	**($767)**

**Source: LACERA Staff*
** 3% allocation to Credit includes up to approximately 1% in CRE Debt, but is not set target*
**"Change from Current" column reflects amounts required to meet the targets over time, not what is specifically envisioned/recommended for 2018/2019.*

Activities Recommended by Style Sector

- **Core & Value-Add Real Estate/ "Inflation Hedging and Real Assets"**
  1. Activate Sales Plan for Core & Value Add Assets totaling approximately $700 M in Net Sales in 2018

a. Execute on Individual Asset Sales in Separate Accounts
b. Consider Portfolio or Partial Portfolio Sales
c. Consider Portfolio Transfers for Open-End Fund Shares & Cash

2. Introduce Core Open-End Commingled Funds
3. Cease new investment activity in Value-Add Separate Accounts, yet Introduce US Commingled Fund strategies and continue to allow ex-US Value-Add Commingled Fund strategies
4. Townsend Recommendation: Explicitly state in the Plan that LACERA will terminate underperforming Core and/or Value Add Separate Account Managers (as recommended and approved by the REC and BOI in the May Structure Review)

- **Opportunistic Real Estate / "Growth"**
  1. Allow for Net Opportunistic Activity of $295 M
  2. Townsend Comment: The $295 M of available net capital is an estimate provided to Townsend by LACERA Staff. It is assumed that there will be sales from the High Return Portfolio during this time fame and that incremental capital of up to $295 M will be placed in new High Return investments. Townsend recommends maintaining discipline and being mindful of vintage year risk. Though deploying up to $295 M of net capital in High Return will help LACERA to meet the new target allocations set forth by Meketa, heavily weighting High Return in the 2018/2019 vintage also exposes the Real Estate Portfolio to additional risk at peak market levels. We note that of the $295 M available, LACERA's Separate Account Plan only calls for up to $100 M in incremental Separate Account dollars to be placed, the balance of which may be placed in commingled funds or not at all. This helps to mitigate the risk.
  3. Townsend Recommendation: Explicitly state in the Plan that LACERA will terminate underperforming High Return Separate Account Managers (as recommended and approved by the REC and BOI in the May Structure Review)
  4. Townsend Recommendation: Explicitly introduce US & Non-US Closed-End Commingled Funds.

- **Real Estate Debt / "Credit"**
  1. Increase allocation by $337 million to meet the asset allocation target
  2. Townsend recommendation: Revise language to reflect that debt investments may or may not fulfill the envisioned real estate exposure of approximately 1% (of the total 3% Credit allocation). Further clarify that execution will not be limited to the existing separate account managers but may also include strategies sponsored by commingled fund managers.

2. Maintain Defensive Portfolio Position

a. Maintain < 60% of the Portfolio in Core
b. Less than > 40% of the Portfolio in Non-Core
c. Townsend Recommendation: To maintain a defensive posturing of the portfolio, monitor existing debt levels and debt maturity schedules.

1. LACERA's Total Portfolio LTV was 39% as of 12/31/2017, which is predominately driven by debt on Core assets. LACERA's Core LTV of 37% is significantly higher than the ODCE benchmark (21%). Though LACERA was able to lock-in attractive debt on Core assets, Townsend recommends monitoring the Core LTV exposure closely as the cycle matures. Cap rate adjustment may cause additional volatility in a highly levered portfolio. However, in some cases accretive debt will become an asset on specific properties. However, on underperforming assets debt can be a detriment in a declining market value environment. To offset this, consider paying down mortgages for underperforming assets and targeting OECF commitments with leverage closer to the benchmark, resulting in an overall decline in leverage within the Core and Value program. Remain mindful of debt levels and structuring (limit recourse and cross-collateralization) within the High Return Portfolio (currently 40% LTV) when making new commitments.

Townsend concurs with LACERA's Staff Memo regarding the following Investment Plan recommendations:

3. Maintain Adequate Vintage Year Exposure

4. Selectively Pursue International Real Estate Opportunities

5. Decrease Apartment Overweight

6. Increase Industrial Exposure

7. Maintain Office and Retail Underweight

8. Establish Performance Objectives for Separate Account Managers

Additional Townsend Recommendations

Separate Account Capital Chart

Regarding the capital available for Separate Account Managers in the coming year, Townsend suggested that Staff modify the language to signal that several of the managers listed may be terminated following performance reviews and thus not permitted to deploy capital. All terminations will be brought forward to the Board for consideration and this includes a list of managers that MAY receive capital.

Townsend also notes that though this chart contains estimates specifically related to the Separate Account Managers, it does not preclude US commingled fund investments from being brought forward separately to the REC or BOI for approval.

Recent History

Townsend recently completed a multi-phase Performance Attribution Project related to the LACERA Individually Managed Account ("IMA") Program. The goal of the assignment was to dissect the outperformance and underperformance of LACERA's IMA real estate holdings (the dominant position in the LACERA Real Estate Portfolio), draw conclusions based on past performance and make independent recommendations based on key findings. The results and recommendations resulting from this project were included in the LACERA Structural Review, which was approved by the LACERA Board of Investments on May 9, 2018. Key elements of the LACERA Structural Review, summarized below, should be reflected in the LACERA Investment Plan presented today.

Townsend's recommendations, resulting from the key findings of the LACERA IMA Attribution Project, are summarized for the LACERA BOI below.

Townsend Recommendations Resulting from LACERA IMA Attribution Project

1. **Terminate Underperforming IMA Managers**
    - Consider direct asset sales and/or portfolio sales (*Note: Sales of Industrial and Apartment IMA assets were recently executed by DB and CityView via disposition of a 50% stake),*
    - Consider transfer to Open-End Commingled Funds.

2. **Retain Outperforming IMA Managers**
    - Restructure IMA Contracts for Retained IMA Managers,
    - Hold IMA Managers Accountable for Performance,
    - Set IMA Primary and Secondary Performance Target,
    - Recommend managers sell assets that will not meet future performance targets,
    - Continue approving dollars available for deployment of capital on an annual basis, while limiting Non-Core exposure. Note: ODCE allows for Non-Core of up to 20%.

3. **Establish Mix of Open-End Commingled Funds & Separate Accounts for US Core Investment Portfolio**
    - Compliment IMA Exposure with Commingled Fund Exposure,
    - Allow for periodic rebalancing of positions to achieve competitive risk adjusted returns and/or take advantage of market opportunity.

4. **Re-introduce US Closed-End Non-Core Commingled Funds**
    - Target specific Non-Core strategies that cannot be replicated in IMA format (specific examples provided to the LACERA Real Estate Committee).

LACERA IMA Attribution Project Key Findings*

- **Overall IMA Program**
    - Despite generating positive income returns, LACERA's IMA Portfolio lags the Benchmark with respect to appreciation and total return,
    - Greater diversification could be achieved by including a mix of commingled funds and IMAs,
    - Vintage is a key factor in determining performance of Non-Core IMAs,
    - Setting performance targets may help to hold IMA managers accountable in the future,

- LACERA's choice to exclusively execute through US IMAs following the Global Financial Crisis has an associated opportunity cost.

- **Core IMA Program**
  - The LACERA Core Separate Account program has met the three primary objectives of the LACERA OPP:
    - Generates strong income returns,
    - Achieves a total net return that is competitive with other asset classes (8.14% since inception),
    - Provides a level of diversification to the Plan (albeit Townsend believes that superior diversification is achievable through Core and Core Plus open-end commingled fund execution).

- **Value IMA Program**
  - As a whole, Value Separate Accounts have not performed well,
  - The LACERA Value Separate Account program has consistently lagged LACERA's Value benchmark to-date,
  - Current J-Curve effect may be impacting near-term performance, which has yet to materialize into stabilized performance,
  - The Value Separate Account Composite lags the LACERA actuarial target for the Plan (6.47% since inception).

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

**Additional findings regarding property type and geographic selection were included in Phase I of the LACERA IMA Attribution Project. Historical findings regarding property type and geography were shared with the LACERA Real Estate Committee and the IMA Managers and should be considered in positioning the LACERA Portfolio going forward. Examples include the underperformance of Office investments and the outperformance of Apartment & Industrial investments in the IMA Portfolio.*

Recommendation

The LACERA Investment Plan takes in to account the key findings and recommendations outlined in Townsend's LACERA IMA Attribution Project and the approved LACERA Real Estate Structure Review. **Townsend recommends that the REC consider and discuss the additional changes outlined in this memo prior to adoption of the LACERA 2018 Investment Plan.**

Exhibit A

TOWNSEND® GROUP
an Aon company

View of The World 2018

The Townsend Group

LACERA Los Angeles County Employees Retirement Association

Los Angeles County Employees Retirement Association

June 13, 2018

TOWNSEND® GROUP
an Aon company

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Global Economies Continue to Grow

- Growth is expected across all the major countries, but a few like the U.S., Australia, India and Brazil are likely to witness an acceleration of growth
- Growth is likely to fuel higher inflation and, consequently, higher interest rates
- Growth and inflation are likely to be positive for real estate, especially higher quality real estate in desirable locations
- A rising interest rate environment will extend investor appetite for yield in investments with income growth potential
- Investors can leverage diversification by focusing on growth-driven opportunities in the U.S. as well as Australia, a higher current income profile in the Eurozone, and any future distress opportunities in the U.K.
- Emerging markets are also likely to offer improving fundamentals, albeit execution opportunities might be limited

Real GDP (YoY%)

	2016	2017	2018F	2019F
United States	1.5%	2.3%	2.7%	2.4%
Eurozone	1.8%	2.5%	2.3%	1.9%
United Kingdom	1.9%	1.7%	1.5%	1.5%
Japan	0.9%	1.6%	1.3%	1.0%
Australia	2.6%	2.3%	2.8%	2.8%
China	6.7%	6.9%	6.5%	6.3%
India	8.2%	7.1%	6.6%	7.4%
Brazil	-3.5%	1.0%	2.5%	2.7%

Inflation (CPI YoY%)

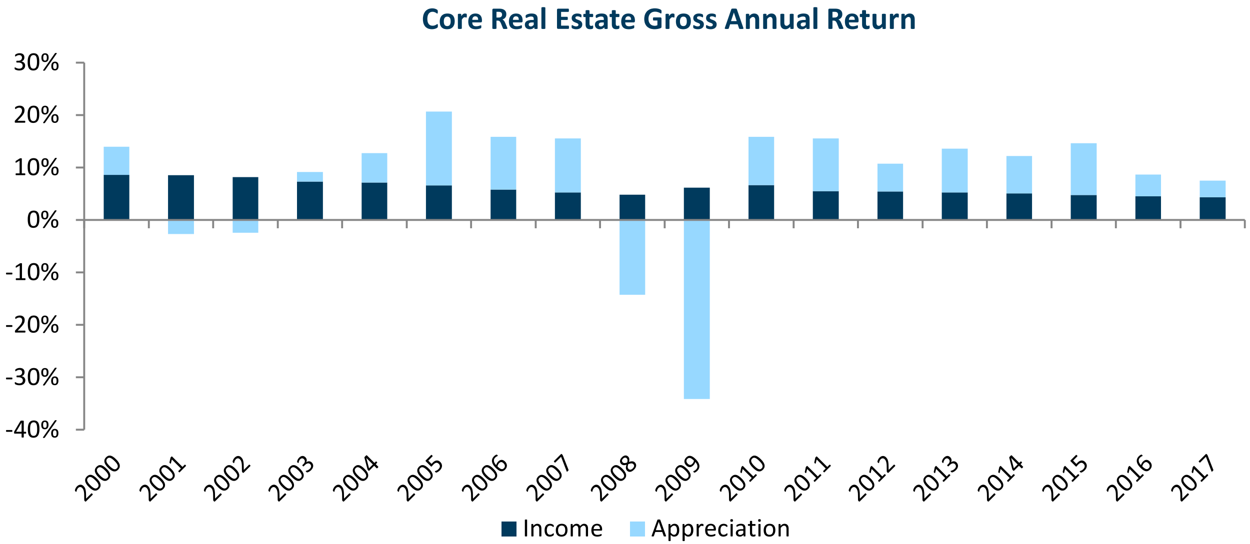
	2016	2017	2018F	2019F
United States	1.3%	2.1%	2.3%	2.2%
Eurozone	0.2%	1.5%	1.5%	1.6%
United Kingdom	0.7%	2.7%	2.5%	2.1%
Japan	-0.1%	0.5%	1.0%	1.0%
Australia	1.3%	1.9%	2.2%	2.3%
China	2.0%	1.6%	2.3%	2.3%
India	5.0%	3.3%	3.7%	4.6%
Brazil	8.8%	3.5%	3.7%	4.2%

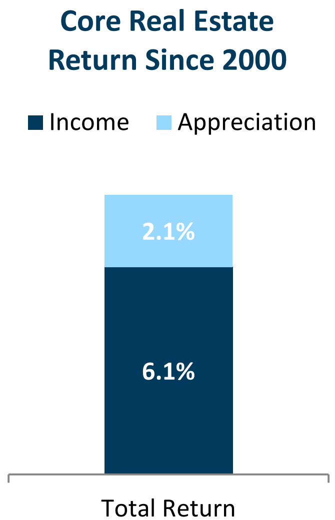
Source: Bloomberg

Real Estate Yields Are Low, But Economic Outlook is Positive

- Fundamentals remain strong, but valuations across real estate and other asset classes are rich. Long-term return expectations have normalized back to historical norms. Prefer investments that offer relatively strong rental income growth, or value-add potential with near-term income generation potential
- Critical to identify sub-sector and sub-market driven themes in the current environment; Unlike the last 6-7 year period, assets are no longer trading at deep discounts to replacement value
- Rising interest rates have led to asset value correction fears across various asset classes; within real estate, investors can mitigate these risks by shifting preference to investments that can participate and benefit from economic growth, with downside protection offered by current income
- Despite growth and low cost of debt, supply is generally limited to select regions and sectors, typically those most in need of product to replace tired assets or accommodate shift in desired specs; supply has been constrained by rising construction cost, risk avoidance and banks' reluctance to back speculative developments
- Uncertainties surrounding global political and economic events are concerning some investors, but real estate specific risks relating to over-supply and over-leverage remain muted. Examples of suggested execution alternatives include:
  - Seek levers of NOI growth that are not predicated on continued market uplift, by tilting portfolios towards sectors benefiting from secular changes (e.g. Industrial and e-commerce), acquiring in-place rents below current market terms, and improving operational efficiency
  - Acquire with appropriate capital structure which typically includes a conservative advance rate, no recourse or interim covenant tests, term and re-financeable, and the willingness to hold for longer time horizons
  - Focus on investments generating a substantial portion of the projected return from income and avoiding deals with binary risk, e.g. delivering new condos into a less favorable economic backdrop
  - Aggregate capital in order to access favorable investment dynamics such as pre-specified portfolios with embedded value, lower management fees and investor friendly legal terms
  - Investing in debt structured with downside protection preferably with potential upside participation
  - Internationally, leverage low cost of debt to generate high cash-on-cash yields on stable operating properties, and/or invest in high-growth regions

Returns Continue to Moderate

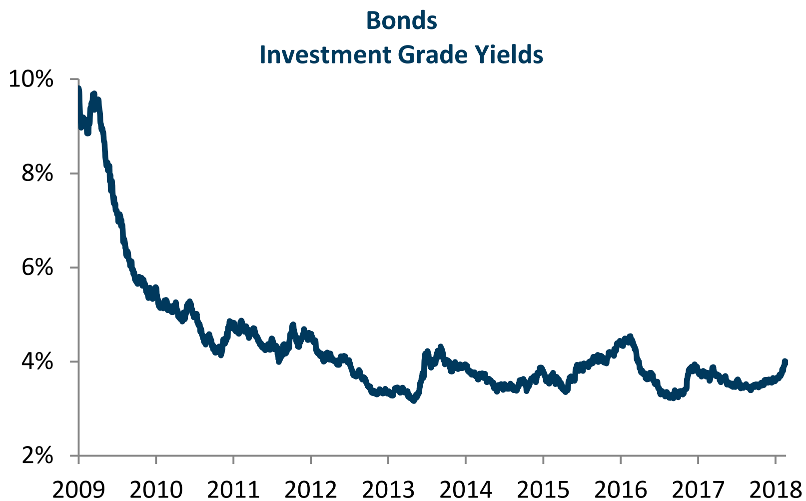


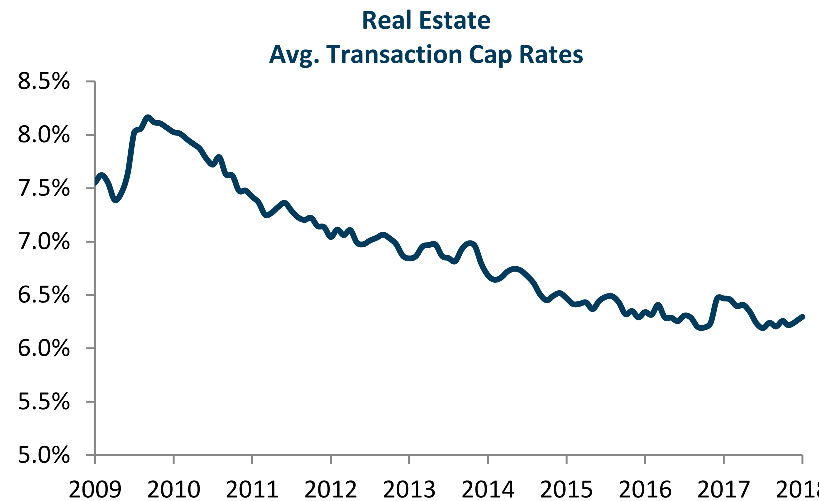


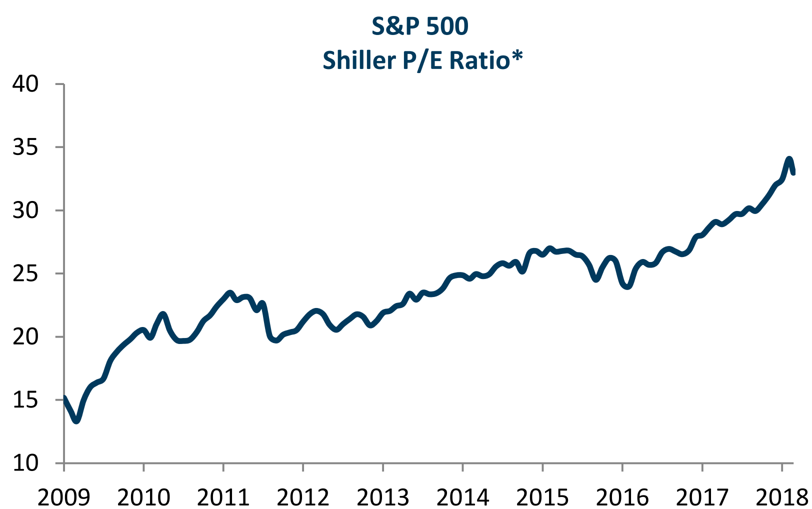
- High-quality real estate income generation has been very resilient, even during the toughest of economic times
- Over the period 2000 – 2016, around 70% of the total return generation of quality Core real estate has been through income
- During the current period, since cap rates are low, investors may benefit from focusing on high-quality assets
- Given that income is so stable, Core-Plus strategies that invest in high-quality real estate with higher leverage levels may produce higher returns especially due to the low cost of debt

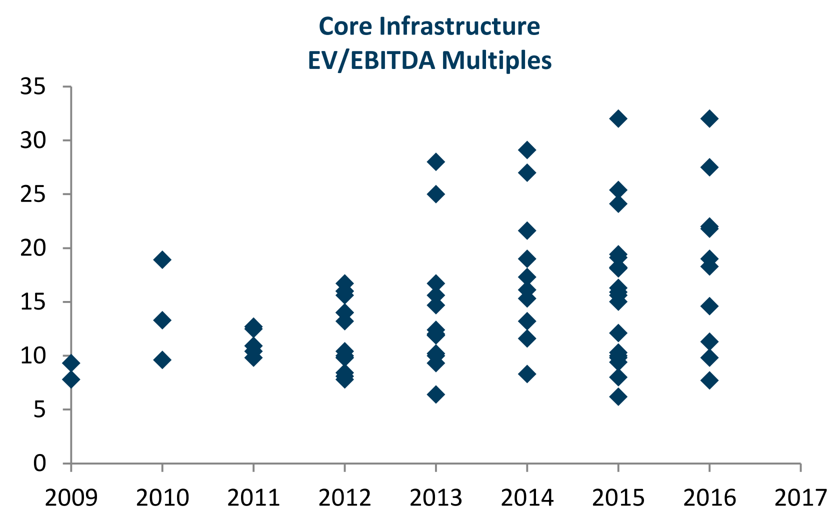
Source: NCREIF, December 31, 2017.
Townsend's views are as of the date of this publication and may be changed or modified at any time and without notice.

Valuations Stretched Across Asset Classes









Source: The Townsend Group, RCA, St. Louis Fed, Multpl, Bloomberg
*Schiller P/E Ratio is a cyclically adjusted measure, which utilizes the 10 year moving average of earnings adjusted for inflation.
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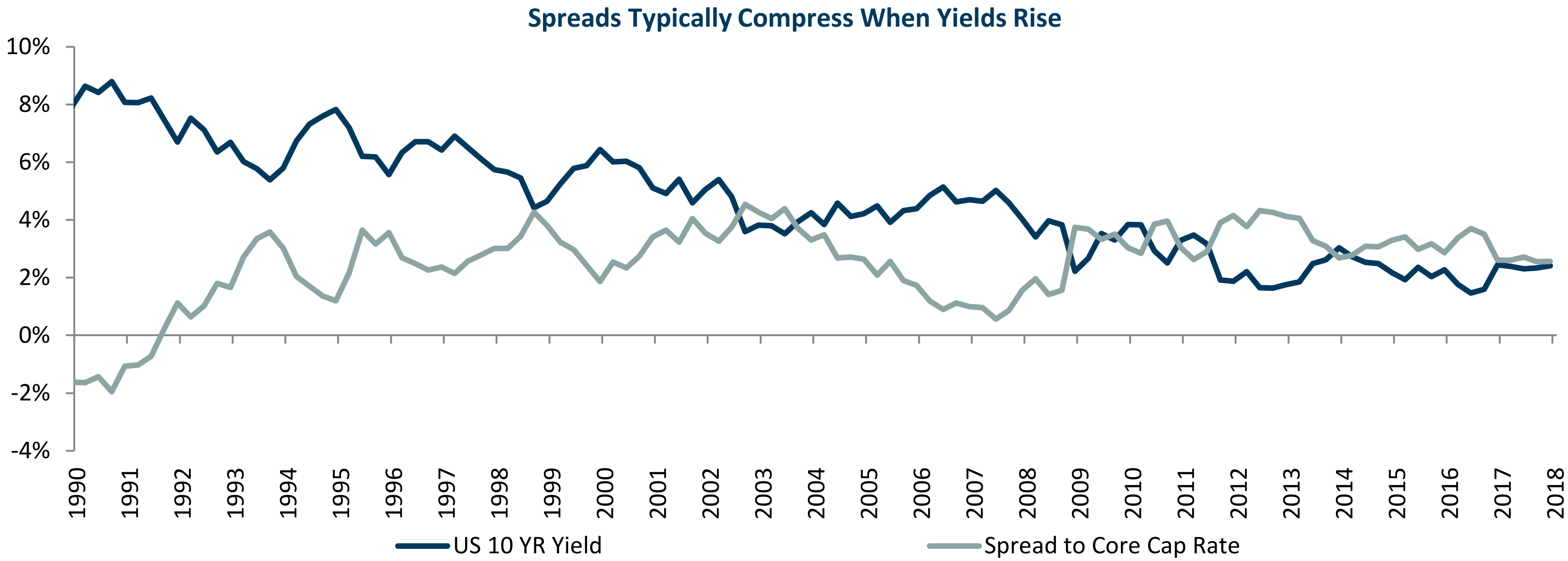
As Rates Rise, Investors Prefer Real Estate Due to Income Growth Potential



- Real estate investments offer attractive characteristics in a period of rising interest rates
  - Ability to benefit from inflation by growing rents unlike other fixed income investments
  - Current income generation that offers downside support to valuations
  - Strong diversification to listed equities, a feature highly desirable during a period of overall valuation uncertainty when rates rise
  - Potential to invest in sectors like senior housing, student housing, and self-storage that offer returns with low correlation to the broader economy, an attractive quality over a period when rising rates may introduce economic growth uncertainty

Source: Bloomberg, NCREIF

Global Economic Outlook and Real Estate Investment Opportunities

Macro Factors	U.S.	Europe	China	Japan
GDP ('18)	2.7%	2.3% (U.K. 1.5%, DE 2.4%, FR 2.1%)	6.5%	1.3%
Unemployment ('18)	3.9%	8.4% (U.K. 4.3%, DE 5.4%, FR 9.1%)	4.0%	2.7%
Key Real Estate Themes	Fundamentals diverge significantly across sectors and submarkets Core offers good income and protection against a potential slowdown Non-Core selectively mispriced	Income returns typically higher than in the U.S., but lower growth Repositioning opportunities attractive Low debt cost offers good leverage, without adding much risk	Slowing growth raising oversupply risks, but continued strong urbanization Focus on Tier I and II cities Leverage preferred equity/mezz structure to lower risk	Low growth despite easing Existing stock old, provides attractive repositioning opportunities Low debt cost offers good leverage, without adding much risk
Office	Select markets offer good rent growth; southern markets witnessing net migration likely to benefit Repositioning and high income-producing investments likely to outperform low cap rate opportunities	Recovery in continental Europe providing modest rent tailwind; attractive income generation potential In the U.K., Brexit-related demand slowdown and significant new supply to limit returns	High supply, credit risk, and slowing economy could lead to pockets of oversupply Prefer asset repositioning opportunities at attractive basis	Modestly rising rent growth outlook Old stock in good locations in Tokyo/ Osaka offers attractive upgrading opportunities
Industrial	E-commerce and imports driving demand at record high level Supply rising in hotbeds, requiring focus on quality assets in neglected markets	Strong demand from logistic players and e-commerce Stable fundamentals offer attractive cash returns boosted by low-cost debt	Strong demand for industrial properties conforming to modern standards Limited deal flow due to delay in land availability	Strong demand for modern logistics assets driven by 3PLs Supply building in town peripheries that is likely to limit rent growth
Retail	E-commerce reshaping landscape leading to shrinkage in per capita space Neighborhood retail presents interesting side play	E-commerce driven reshaping will put retail at risk	Shift to consumer economy leading to strong demand for productive sites Oversupply in central locations, but Non-Core locations still undersupplied	Select repositioning opportunities appear attractive given poor existing asset quality E-commerce likely to be a headwind
Residential	Rent affordability remains stretched in higher-end apartments; supply glut is being worked through Refurbishing Class B attractive, prefer debt oriented entry point	Most large cities undersupplied with dwellings, but still limited opportunities Select condo conversion and repositioning plays attractive	Urbanization trend driving strong demand albeit very volatile Favor preferred equity/mezz structures to limit risk	Attractive residential development opportunities in high-growth cities like Tokyo and Osaka Secular demand growth for aged care

Actively Pursuing | Neutral | Selectively Pursuing

Source: The Townsend Group, Consensus Estimates: Bloomberg (February 2018)

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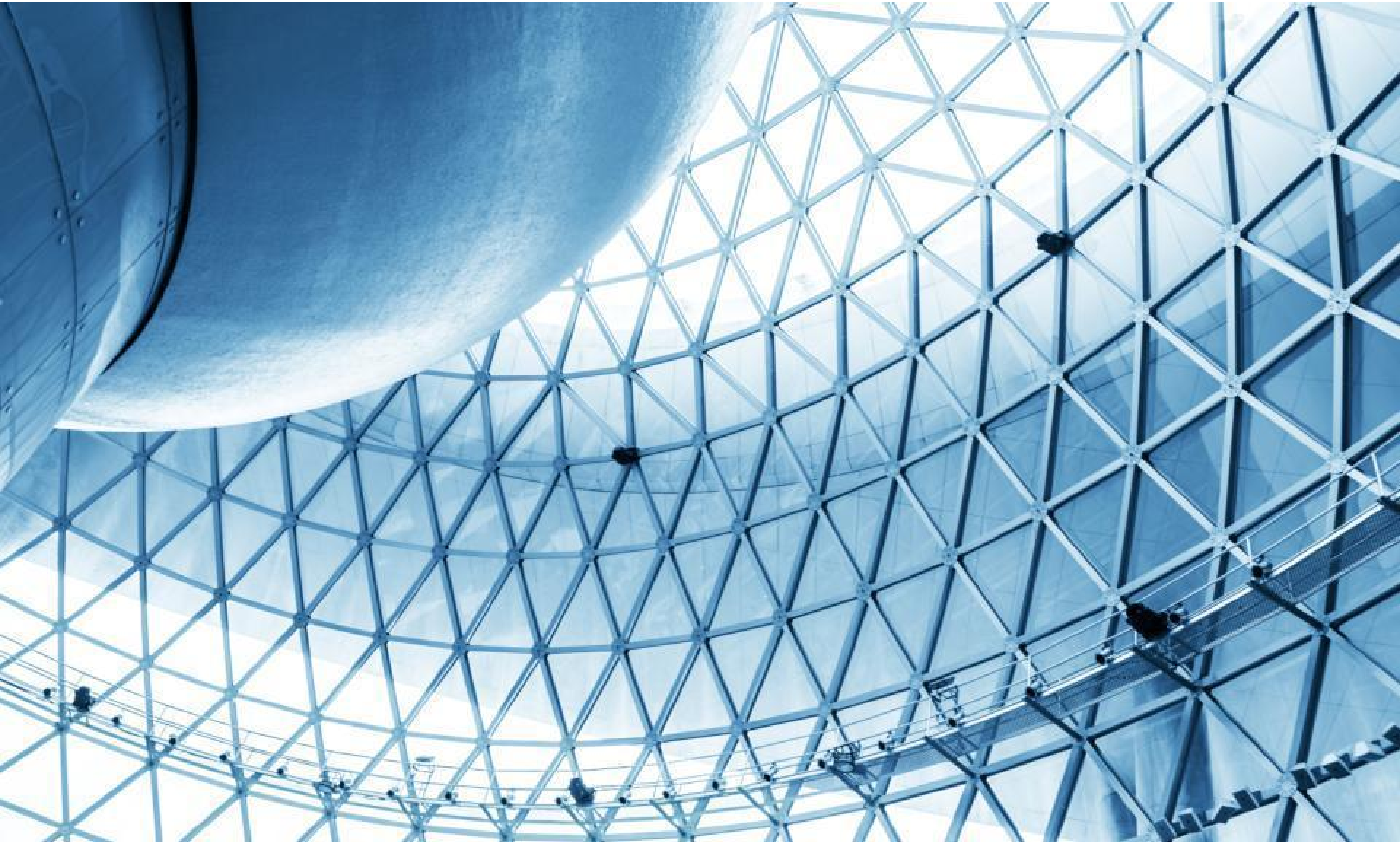
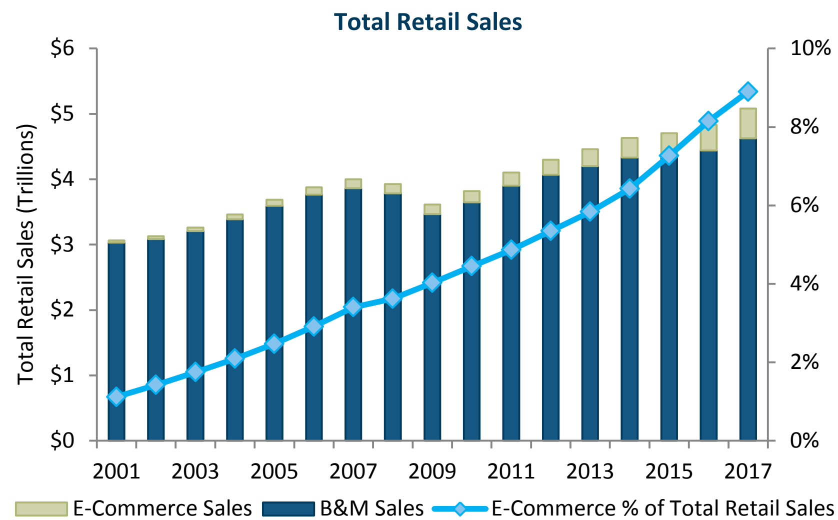
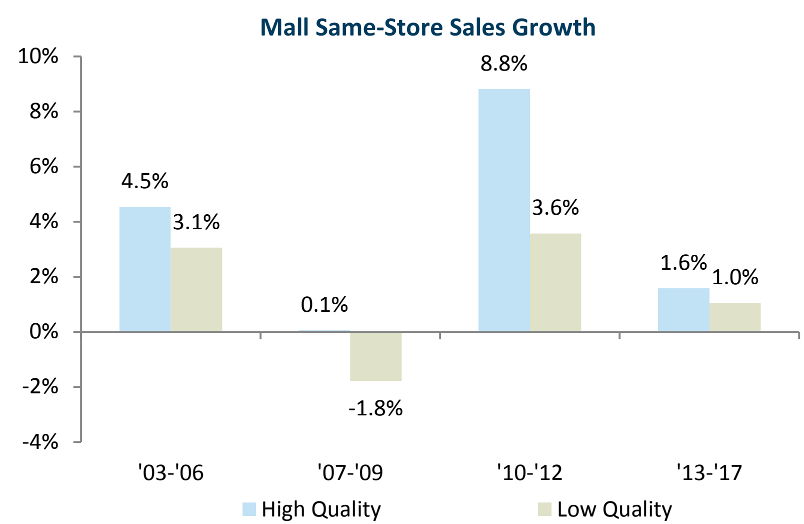
United States: Investment Themes



E-Commerce Continues to Be a Drag on Retail Rent Growth

- U.S. households are less levered today, and therefore, an improving economy has translated into rising consumer spending
- Wage growth has lagged overall GDP growth, and rising apartment rents and healthcare costs could limit overall retail sales growth
- Additionally, a rising interest rate environment could make the cost of servicing some types of personal debt more expensive and encourage savings, further dampening retail sales growth
- It is not a surprise that the pace of buying online has continued to be high
- As development and innovation in logistics networks continues to improve the e-commerce offerings to consumers, even high-quality malls have witnessed a sharp slowdown in sales growth

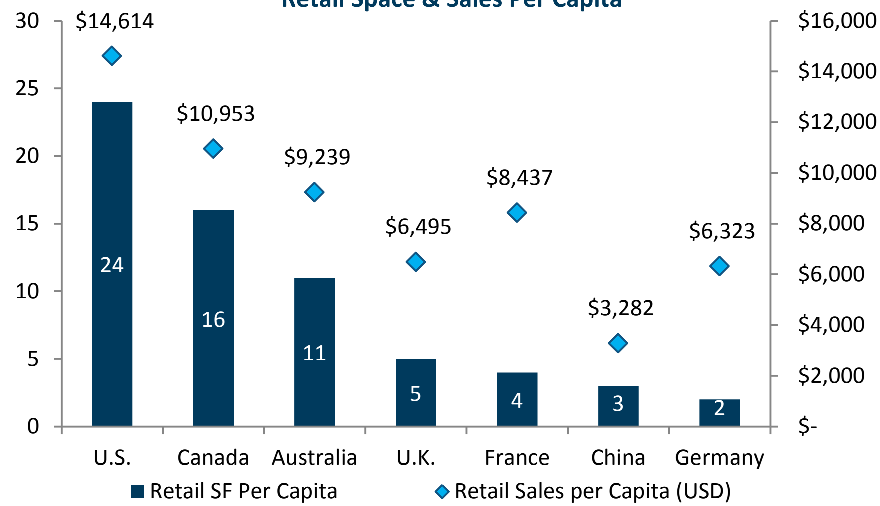


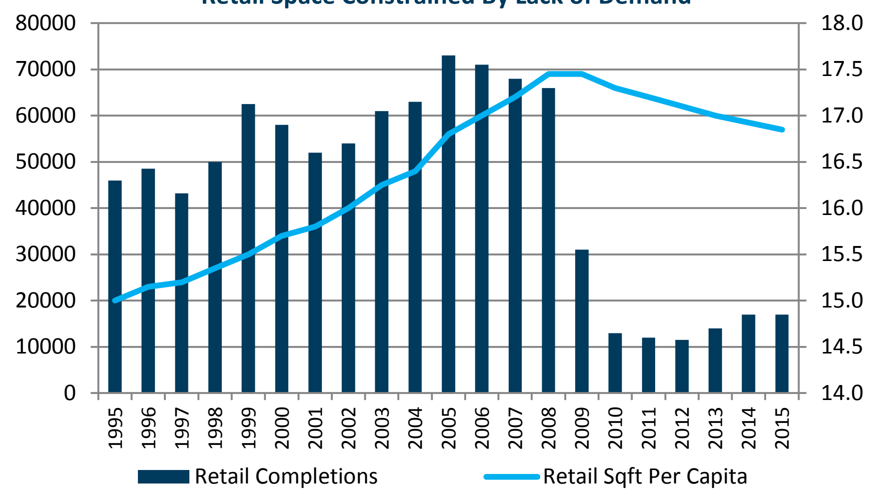


Source: Green Street, Public REIT Disclosures, U.S. Census Bureau

These Headwinds Are Likely to Strengthen

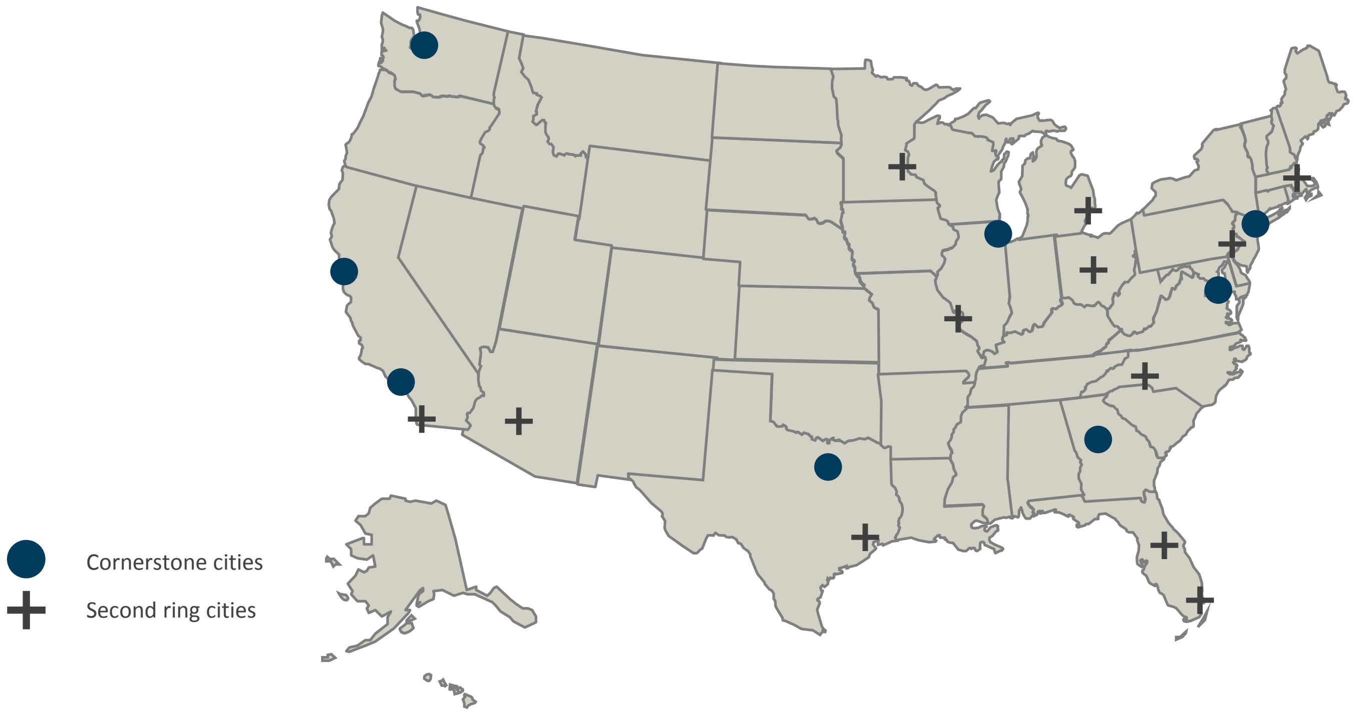
- U.S. retail space per capita is one of the highest in the world, this was in part justified by much higher retail sales per capita
- However, the U.S. is also witnessing the fastest development and innovation in logistics, fueling long-term e-commerce growth
- Consequently, retail space has been shrinking in the U.S. post-GFC
- Retailers' initial reaction was to focus on high-productivity sites which has led to a very rapid declining demand for lower-productivity sites
- We expect this process of consolidation of space on the part of retailers to continue
- Select retail opportunities around new, up-and-coming, live-and-work neighborhoods and select high-productivity sites are likely to escape further consolidation and perform better





Source: GGP March 2017 Investor Presentation, ICSC Country Fact Sheet, CBRE

On the Flip Side, Logistics Development Continues to Gain Momentum



- Today, 80% of the U.S. is covered by one-day delivery, up from 50% just four to five years ago
- This is made possible by a large number of mega-warehouses around cornerstone cities like New York, Los Angeles, San Francisco, Dallas, etc., and significant development around second-ring cities like Charlotte, Boston, Philadelphia, Miami, etc.
- It is estimated that around 70-80% of construction activity in the industrial sector over the last four to five years was for large warehouses

Source: The Townsend Group, CBRE

Industrial Landscape Evolving Rapidly Creating Lucrative Opportunities

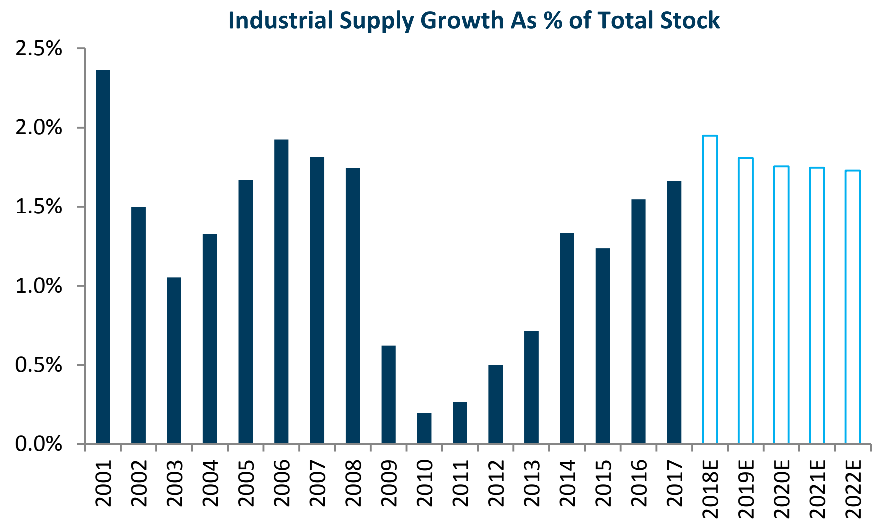
- Industrial construction activity is likely to continue as the demand for such space is rising at a very rapid rate

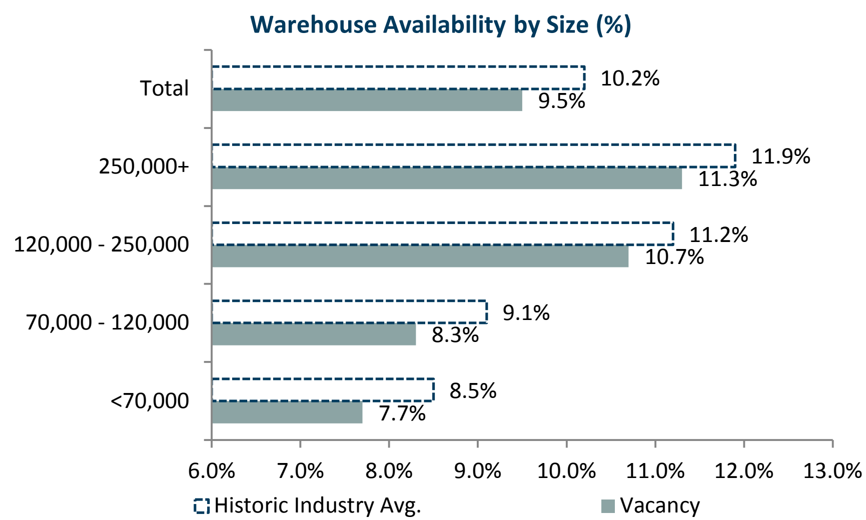
- Initial construction activity supported the roll-out of retail innovators like Amazon, while current activity is also supporting retail followers like Wal-Mart and other established retailers

- While large warehouse demand is still expected to grow, demand for smaller warehouses serving the last mile and located in population-dense locations are expected to rise rapidly

- Vacancy rates of smaller warehouses are already very low, which is expected to lead to rent growth and also attract new supply

- Acquiring well-located smaller warehouses and repurposing them for e-commerce will be an attractive investment opportunity

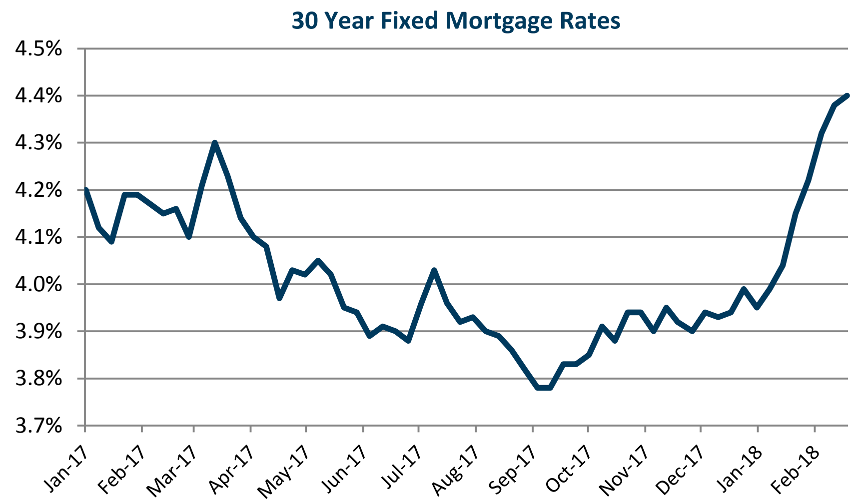


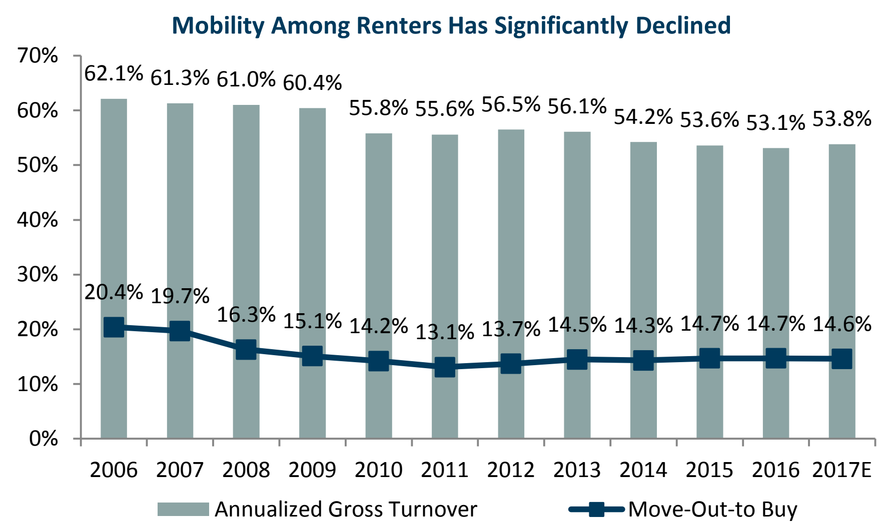


Source: Green Street, CBRE

Multifamily Rent Growth Hindered by Supply

- The home ownership rates that declined post-GFC have started to stabilize, but the rise in mortgage rates is likely to limit growth in ownership in the long run
- Over the last four to five years, the supply of apartments, especially at the higher-end, has been elevated, but millennials and seniors have shifting preferences towards apartments over houses
- Growing rents have stretched the affordability of apartments, and, given that over 40% of disposable income is currently servicing rent, we expect rent growth to moderate
- B-grade apartments with lower rents have become more attractive to renters due to affordability issues
- Given the stability of the income, we expect low cap rates to be justified and we continue to favor the sector, albeit with lower return expectations for the near term





Source: St. Louis Fed, Green Street

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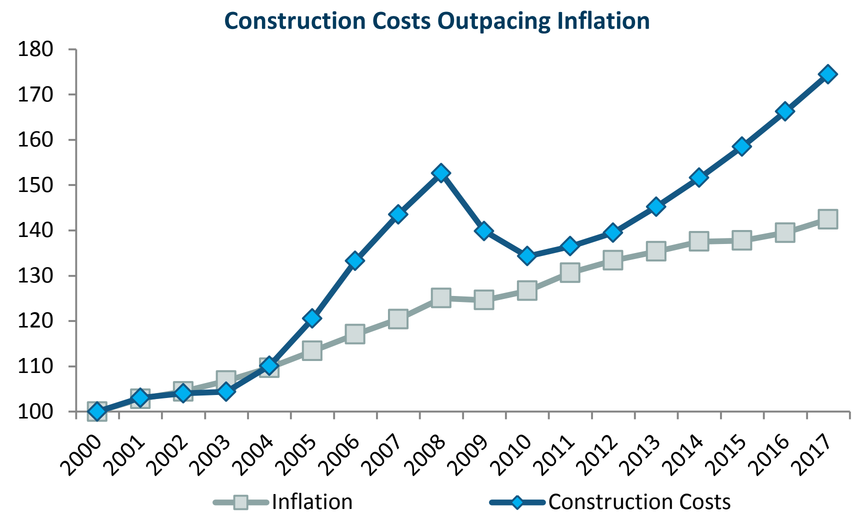
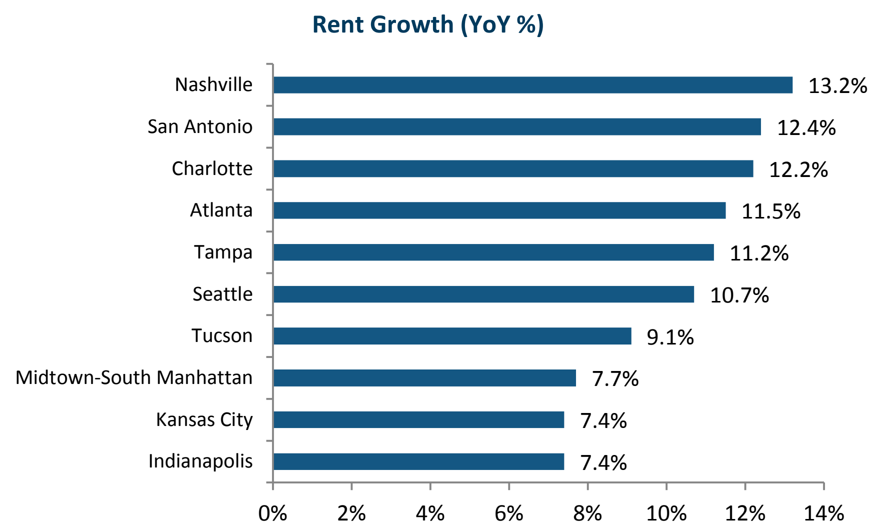
Office Market Recovery Extends to Non-Traditional Markets

- Improving economic growth expectations are likely to favor job creation and demand for office space
- Given that the property type is cyclical, investors benefit from acquiring assets in the sector at the right time in the cycle
- However, the opportunity is very regional and sub-market dependant with certain cities like San Francisco witnessing very high rents and valuations, while many non-traditional markets like Nashville, San Antonio, Charlotte, etc., are witnessing impressive rent growth
- A gradual population migration to cities with better weather and taxes continues, which will fuel office demand in those cities
- However, we continue to favor strategies with a four to six year exit time horizon and those that develop cash flow at the onset as they offer better risk-return tradeoff





Source: U.S. Census Bureau, Turner Construction, CBRE

Senior Housing: Benefitting From Long-Term Demographic Trend

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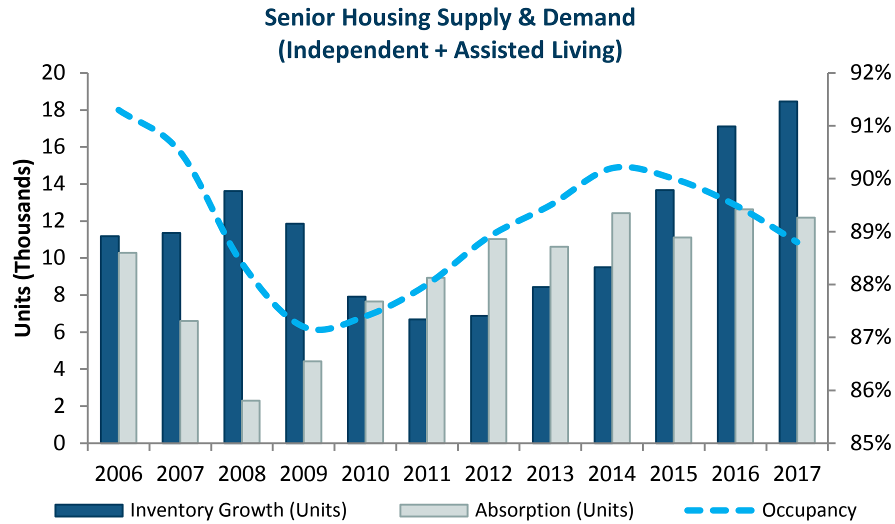
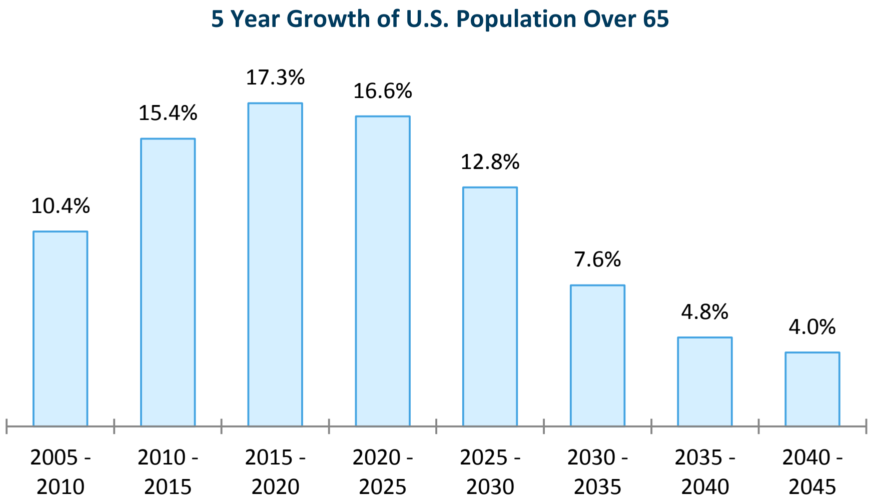
- The senior population growth rate in the U.S. will continue to remain high in the coming years, providing a very attractive demand tailwind
- There has been considerable innovation in the product for seniors with locations near town centers and a number of age-appropriate amenities
- A good economic outlook continues to allow seniors to achieve the change in lifestyle that they desire especially by being able to sell their existing houses
- The rising demand has attracted a lot of supply; therefore, investors need to carefully select the right locations and product, as we expect older product and new developments in less desirable locations to underperform





Source: Bloomberg, NIC, U.S. Census Bureau
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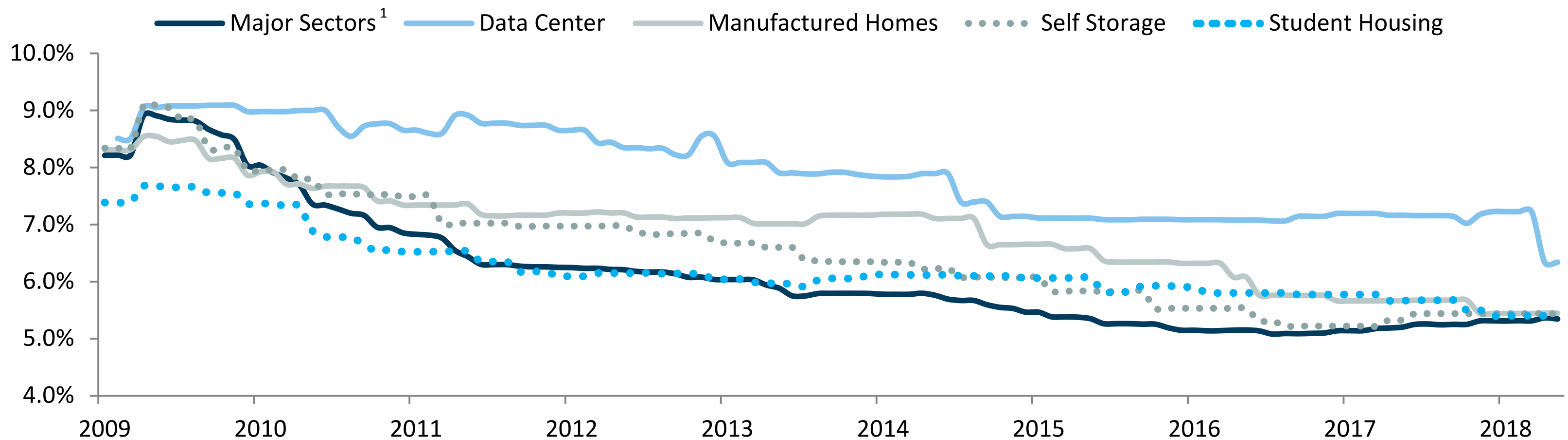
Additional Alternative Sector Themes

Alternative Sector Cap Rates Converging Towards Traditional Property Types



- **Self storage** is facing supply headwinds in select markets. Townsend's preference has shifted to outside of the U.S., investing in less developed self-storage markets with strong demand growth and limited supply, such as Singapore, Japan, and Australia
- **Data Centers** are benefiting from the strong demand tailwind supported by the digitalization of the economy. Valuations have risen, as in other property types, but total return expectations are above traditional property types. Overall, there are limited execution options
- **Student Housing's** yield premium to multifamily has compressed over this cycle. With pockets of temporary over-supply, there are significant fundamental divergences across universities
- **Manufactured Housing** is an emerging sector in the institutional space, with limited deal flow and execution opportunities to date

[1]Apartments, Industrial, Office, and Retail
Source: Green Street
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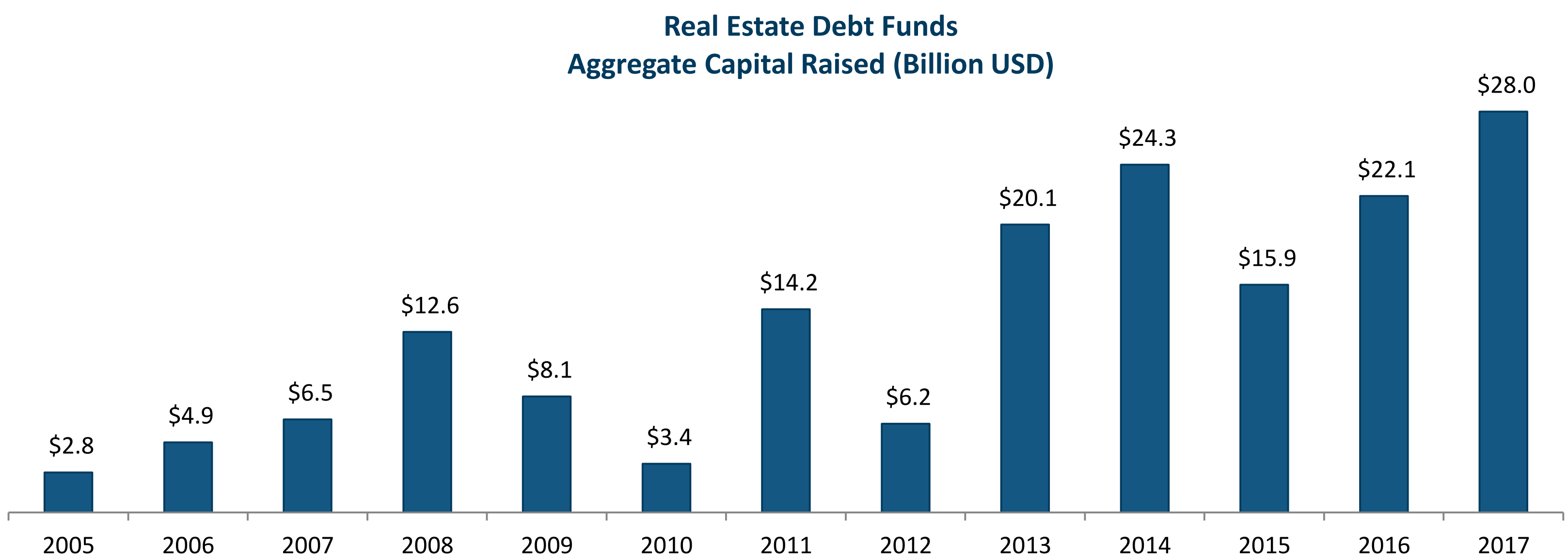
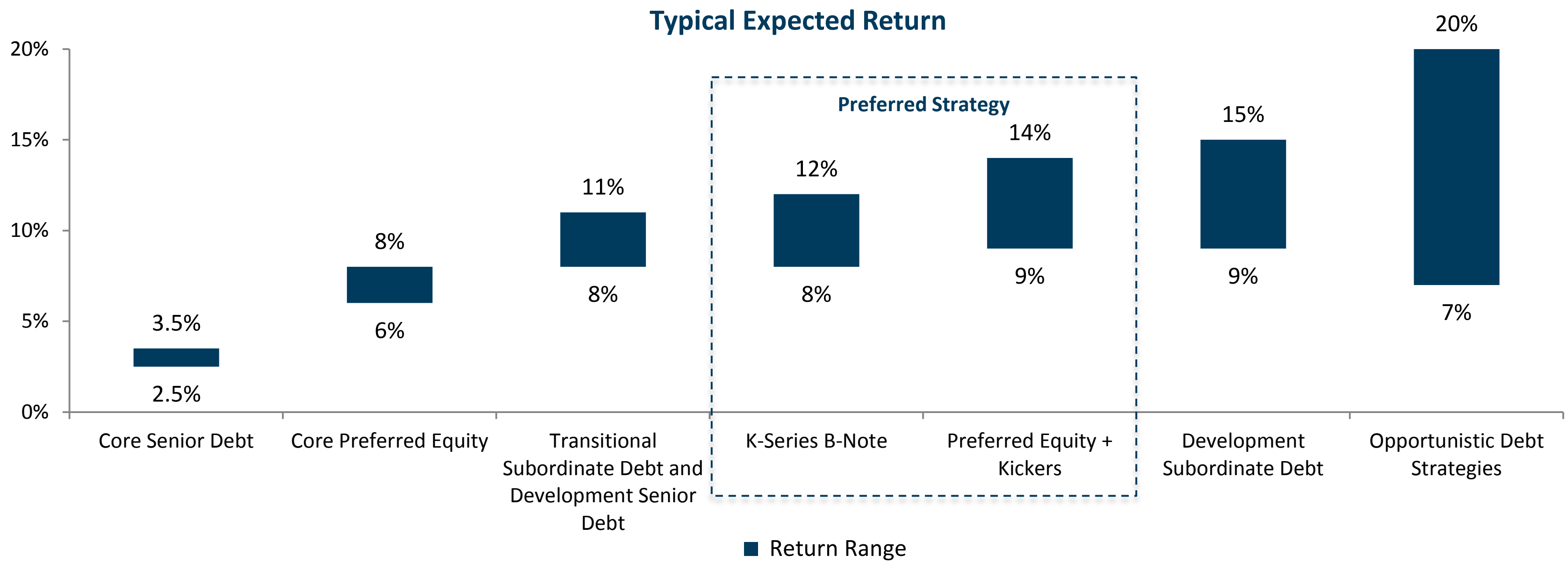
Proliferation of Debt Strategies Late in the Cycle



- The market has witnessed a proliferation of debt strategies in the real estate universe competing for two separate pools of capital:
  - Senior debt strategies offering downside protection
  - High-yield debt strategies offering higher return expectations
- The market perception of debt strategies seems to downplay the inherent risk of leveraged debt strategies, e.g., putting fund-level leverage on transitional debt, as investors have grown more yield-focused in an environment with abundant cheap capital
- Volatility negatively impacts the implied value of debt strategies, given limited participation in the upside, with partial to full participation in downturns; investors must recognize there is a narrow range of scenarios in which debt strategies are optimal
  - The optimal scenario involves low growth, low inflation, and low volatility
- While debt strategies have their place within a portfolio, Core equity positions will continue to be the favored strategy long term

Source: Preqin, The Townsend Group

Hybrid Strategies Offers Attractive Risk Return Tradeoff

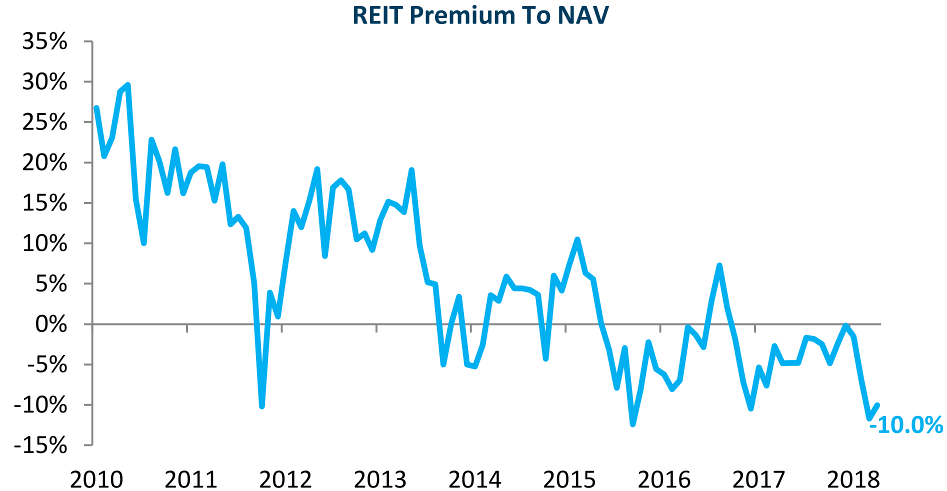


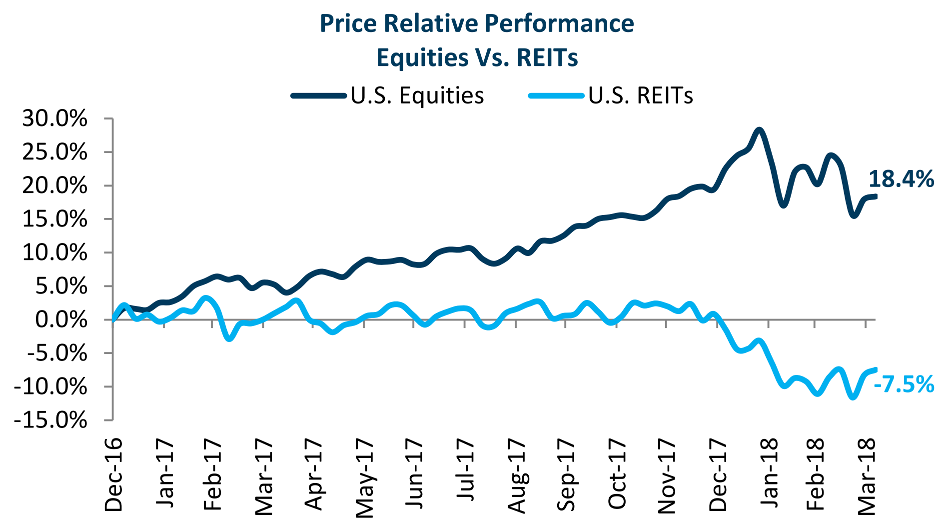
- In a low interest rate environment, real estate debt offers attractive alternatives with reasonable risk given that U.S. real estate is experiencing an upward cycle of rent growth
- Debt for transitional assets offers attractive returns given that CMBS issuance is scaling back amid very high levels of expiries and banks are unwilling or unable to increase real estate exposure; however, poor asset selection could result in downside in the event of an unexpected slowdown
- Senior debt for development also offers attractive returns as banks are not that active, but caution is needed to avoid good assets in poor locations with elevated leasing risk
- Preferred equity with kickers is a good way to enhance returns without full equity risk, but such options are typically only possible on transitional assets or assets that require major renovations
- Opportunistic debt strategies could have a wide range of outcomes; execution options could be very limited

Source: The Townsend Group (based on various manager interactions)

REITs Downtrodden by Rising Interest Rates

- Rising interests rates have negatively impacted sentiment amongst public REIT investors
- REITs are trading at a discount to NAV estimates made by analysts; this discount/premium varies across sectors e.g., the retail sector is trading at a discount in the public market, while the senior housing sector is trading at a premium
- The REIT sector continues to be volatile despite aggregate leverage on the MSCI US REIT index now closer to 30%; which, is much lower than the pre-GFC period
- REITs have also underperformed the broader equities market
- Investors looking to add exposure to REITs should take into account continued volatility in the sector on account of further interest rate rises
- Private real estate investors will benefit from select managers who are likely to focus efforts on taking REITs private and/or making asset purchases from the public REITs





Source: Green Street (April 2018), Bloomberg (4.6.2018)

Europe: Investment Themes

Europe Execution Strategies

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United Kingdom

- Brexit-related concerns coupled with elevated supply have tempered U.K. investment opportunities
- Valuations remain elevated and do not fully reflect the uncertainty surrounding Brexit

Continental Europe

- Demographic trends across developed continental Europe remain weak and result in lower long-term interest rate expectations
- Low cost of debt provides a strong positive leverage effect to equity; unlevered yields have compressed, but levered income return is very attractive
- Core properties are experiencing high interest from domestic and international investors and, therefore, are priced in line with core U.S. properties
- The office sector is witnessing healthy fundamentals, with growth expected to be in 1-3% p.a. and limited supply on the horizon, creating attractive value-add opportunities
- The industrial sector continues to be very attractive, considering yields are higher relative to office or retail assets, and e-commerce and positive economic growth are providing rent growth tailwinds
- Rental housing offers attractive alternative low-risk investment, as most major European cities continue to suffer from chronic undersupply of housing
- Emerging real estate sectors like senior housing and student housing are becoming institutionalized and offer attractive returns, but execution opportunities remain limited

Positive Gradual Real GDP Recovery in Europe Expected to Continue

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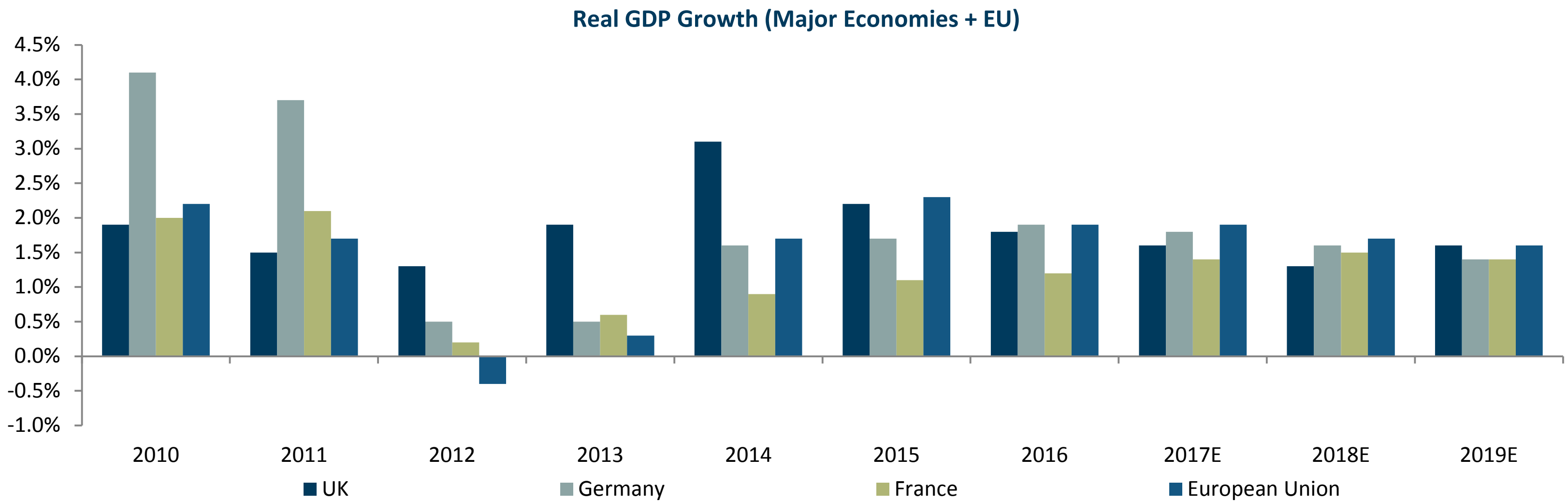

- Growth in the UK, continues to be weighed down by Brexit concerns with 2018 expected to witness another pull back in growth
  - Concerns of a sharp decline in growth rate have subsided, but Townsend continues to remain cautious due to economic uncertainty

- Continental Europe has been experiencing low but steady growth which is expected to continue; a few economists also expect this growth to pick up slightly

- Inflation is expected to rise slightly but remain low keeping the interest rates low despite ECB scaling back its program

- Long-term demographic trends of an aging society is likely to keep overall long-term growth expectations and interest rates low; however, major cities across Europe will do better due to continued urbanization trend

Source: Bloomberg (as of 6/21/2017)

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Office: London Faces Elevated Risk from Brexit, but No Signs of Distress

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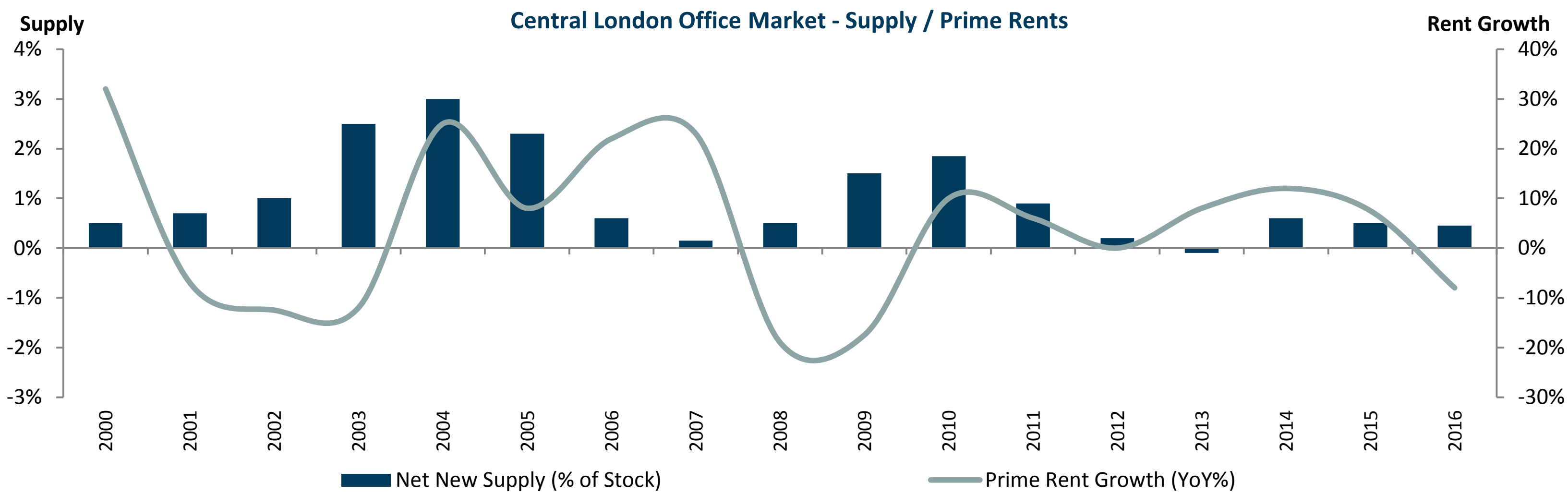

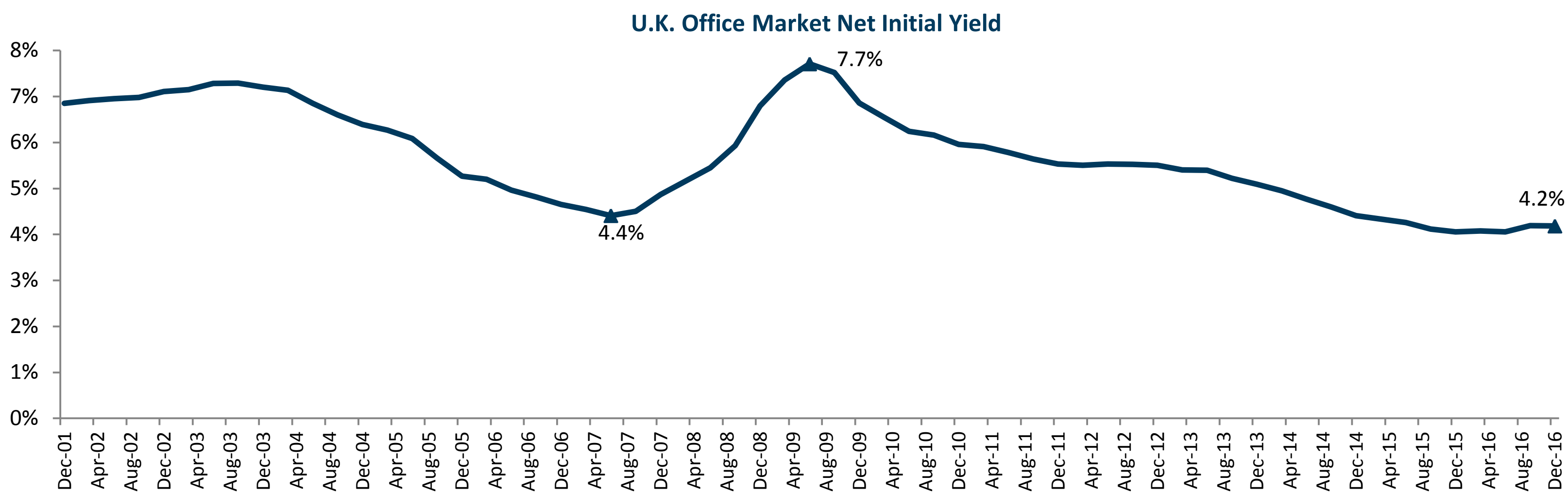

Source: Green Street, CBRE, Townsend

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On the Contrary, Continental European Office Fundamentals Healthy

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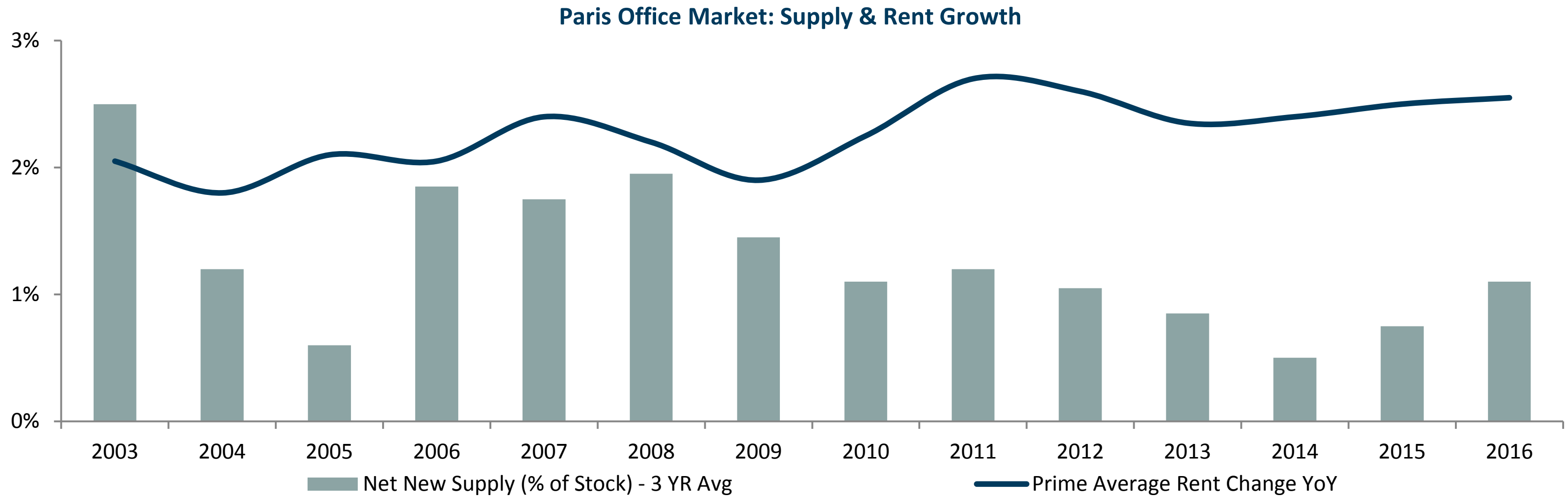
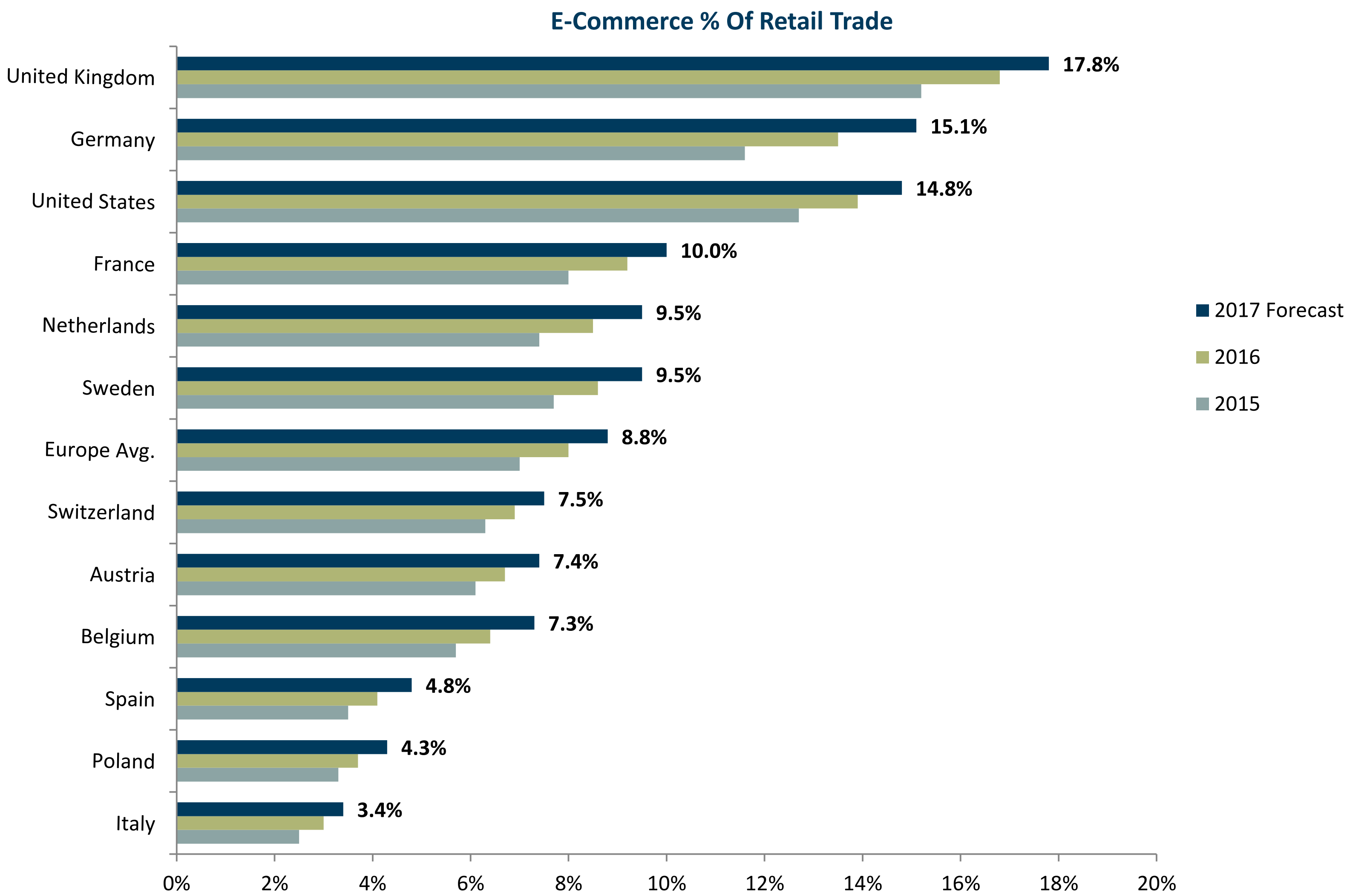


Source: Green Street, CBRE

Retail: E-Commerce Gaining Ground in Europe



Source: Statista

Retail: Leading to Shopping Center Footfall Reduction Across Most Countries

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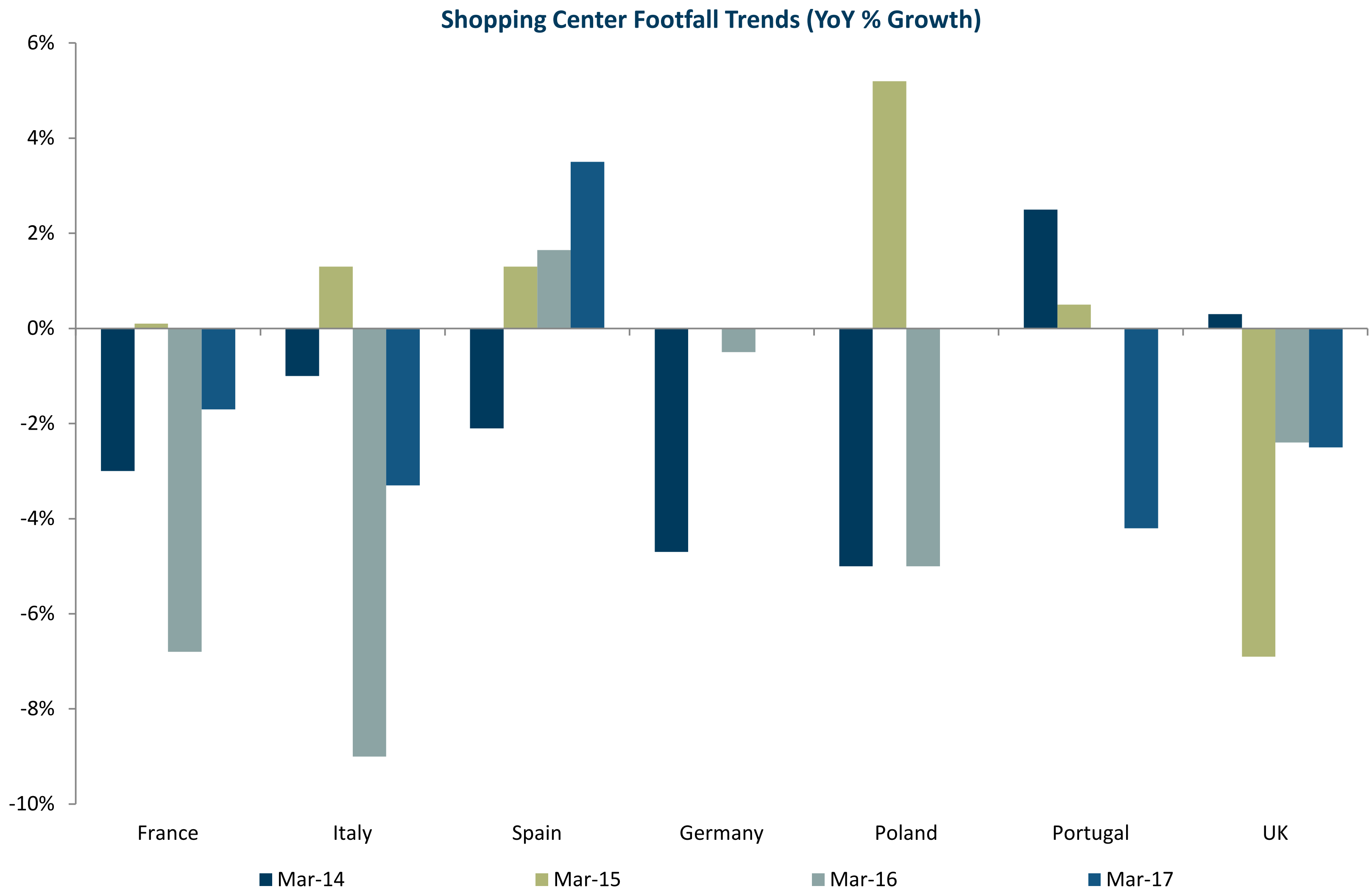
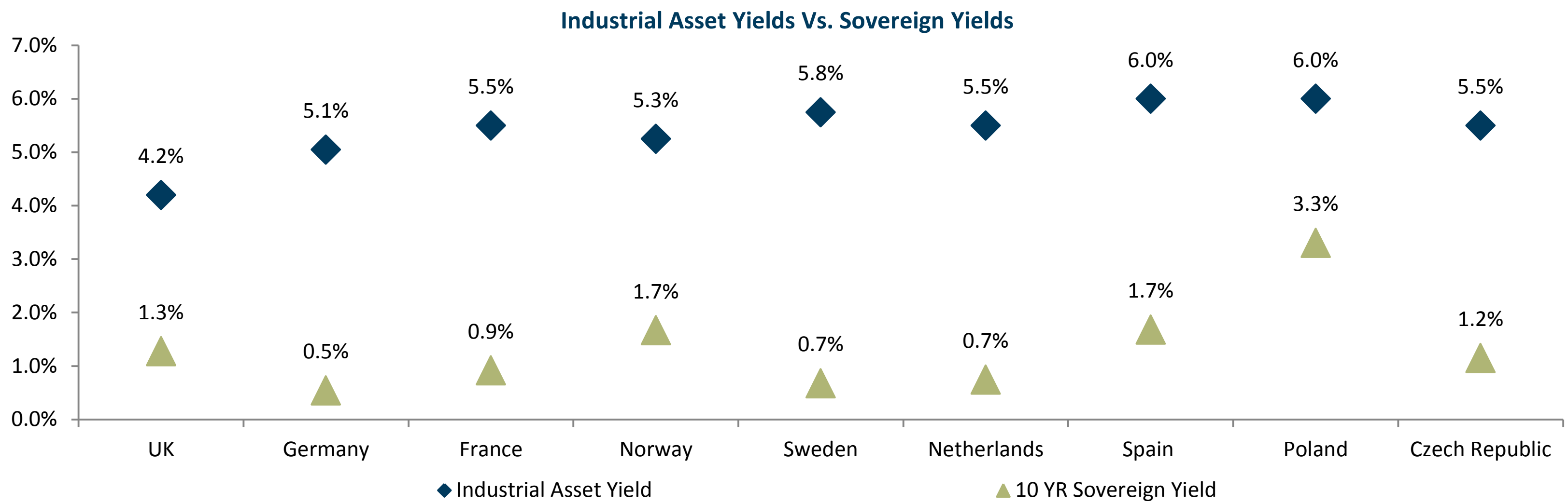
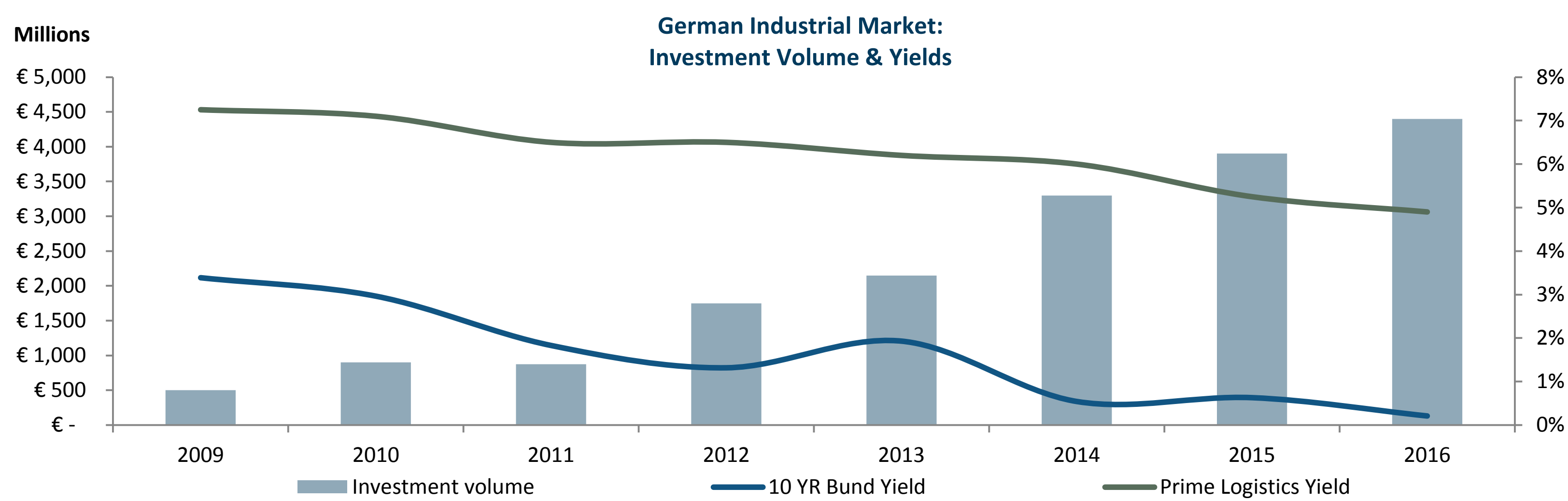


Source: Experian, Green Street Advisors

Industrial Sector is Offering an Attractive Premium to Interest Rates





Source: USAA, Square Mile Capital, Bloomberg

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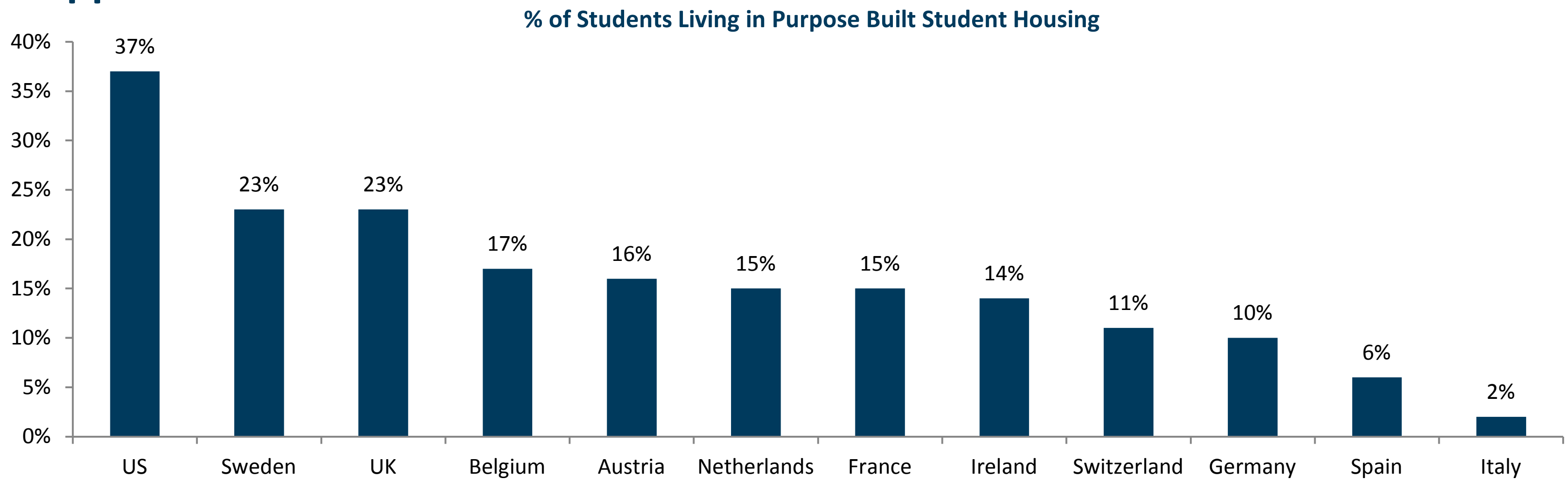
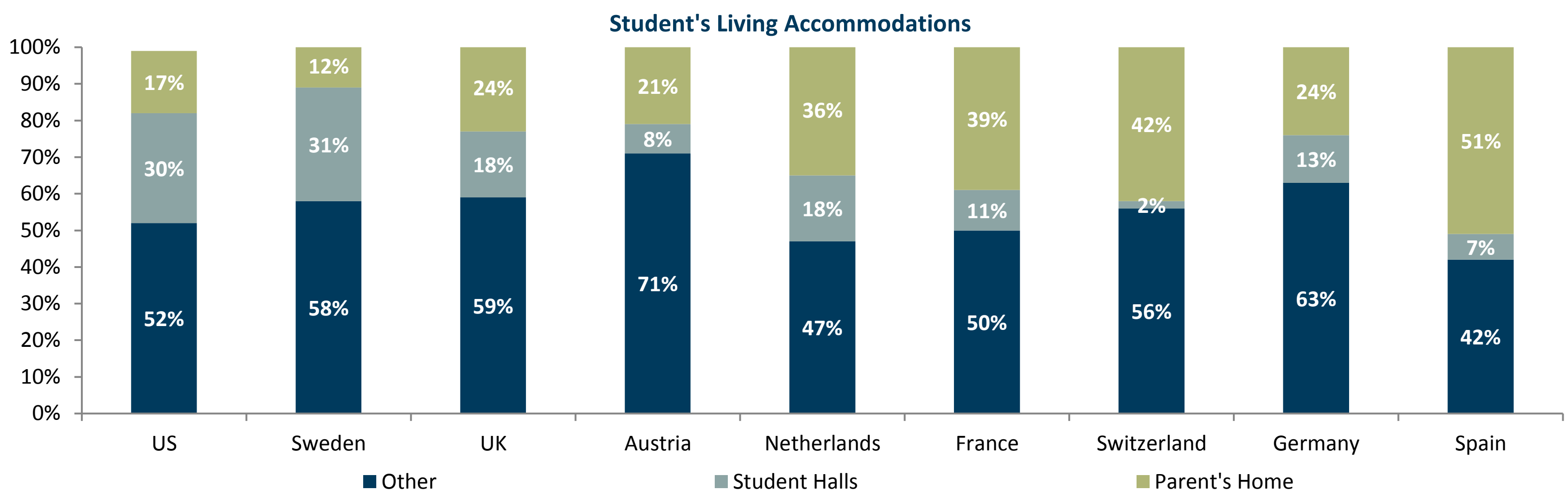
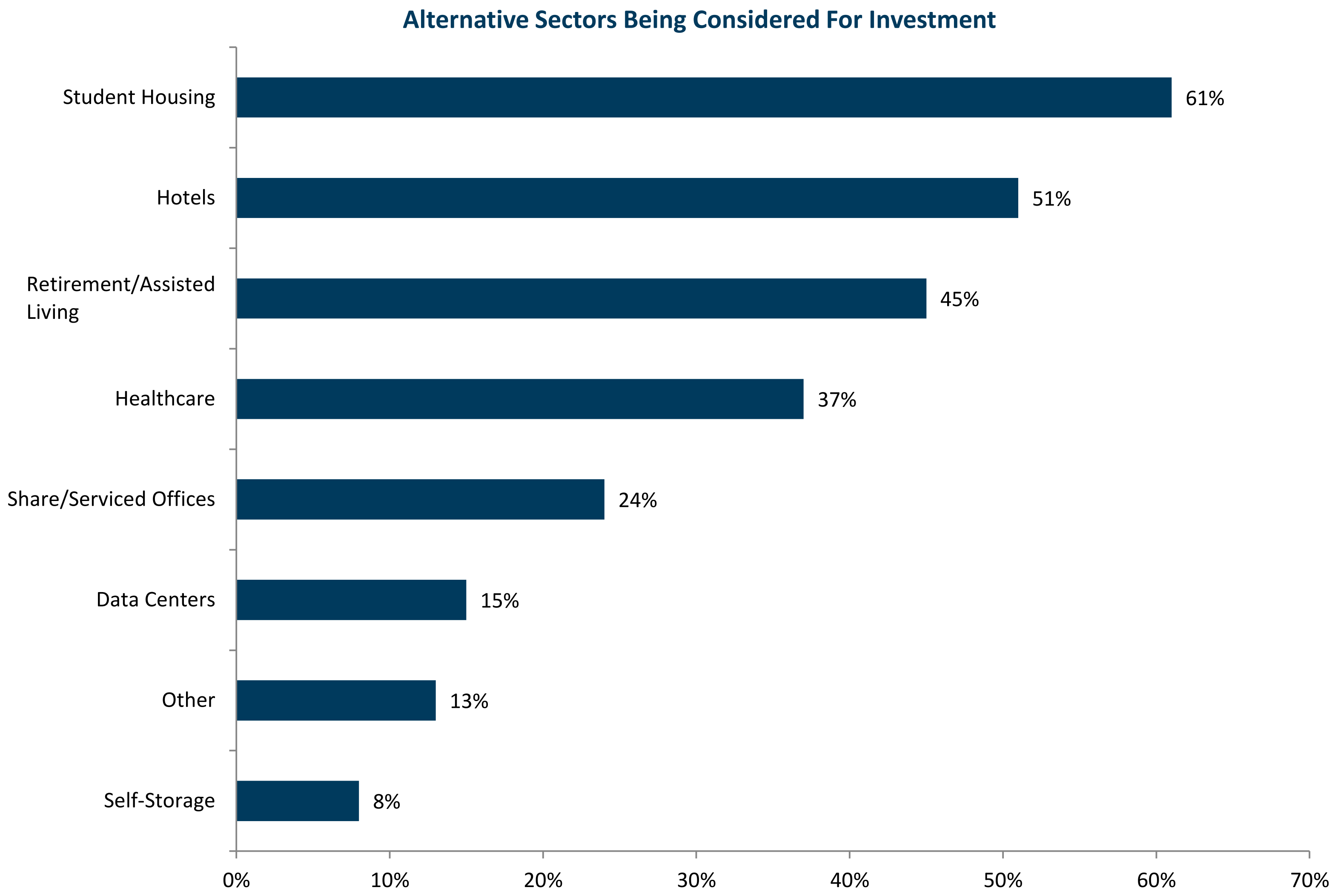
Across Most Markets in Europe, Student Housing Remains Under-Supplied





Source: Harrison Street, Eurostudent IV, Savills

Student Housing: Investor Interest in this Sector is Growing



Source: PwC – Emerging Trends Europe 2017

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German Residential Market, Though Regulated, Offers Reliable Returns

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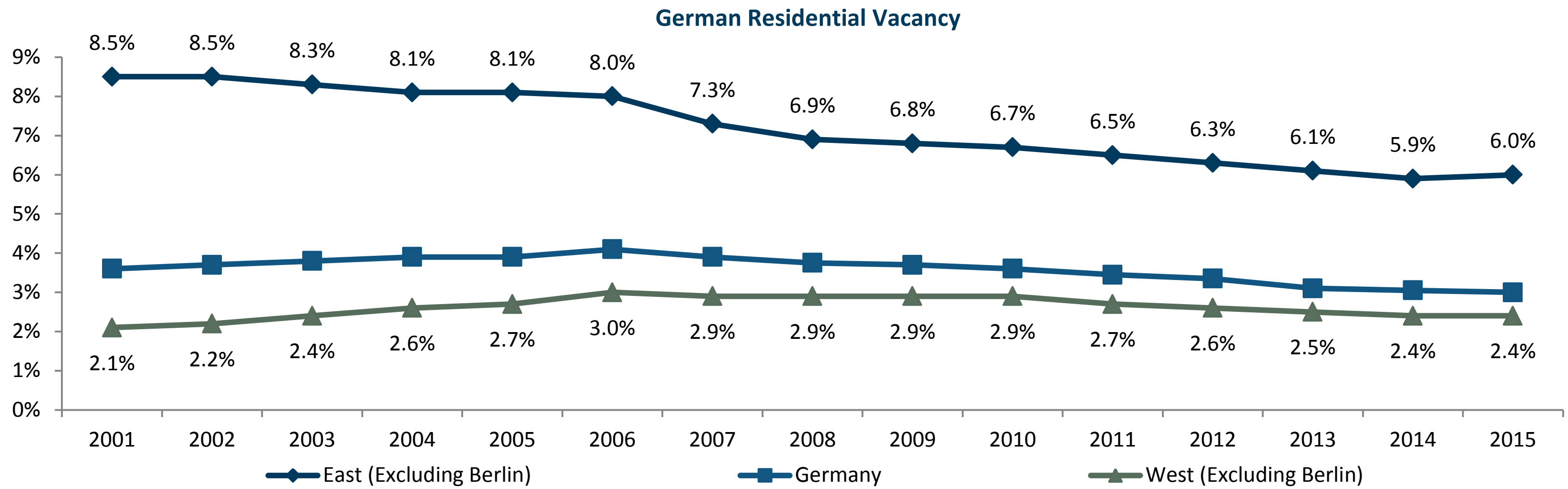

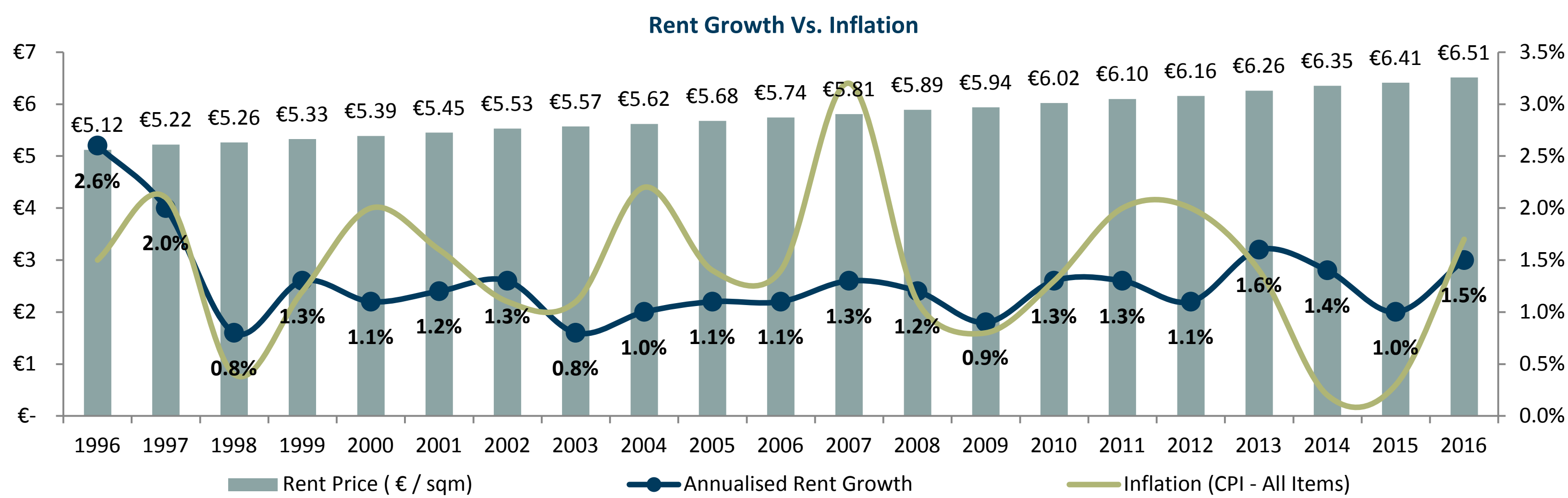

Source: Green Street

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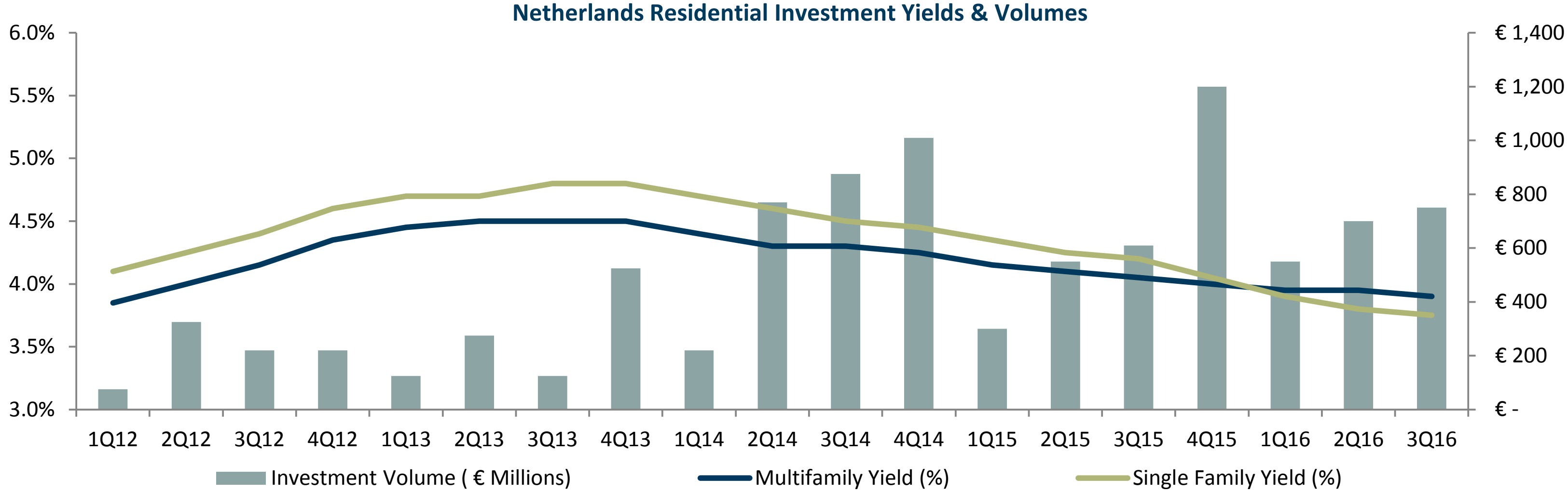
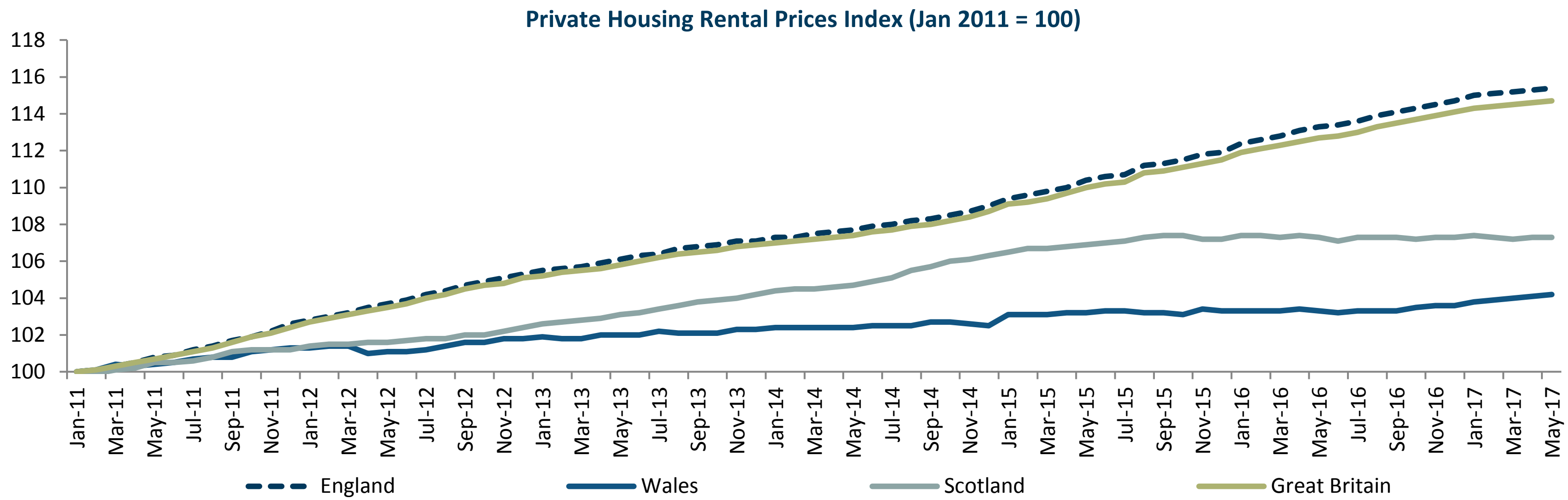
Likewise, Healthy Fundamentals Exist in Netherlands and U.K. Residential Sectors





Source: CBRE, U.K. Office for National Statistics

Spain Residential Experiencing Gradual Recovery In Market Fundamentals

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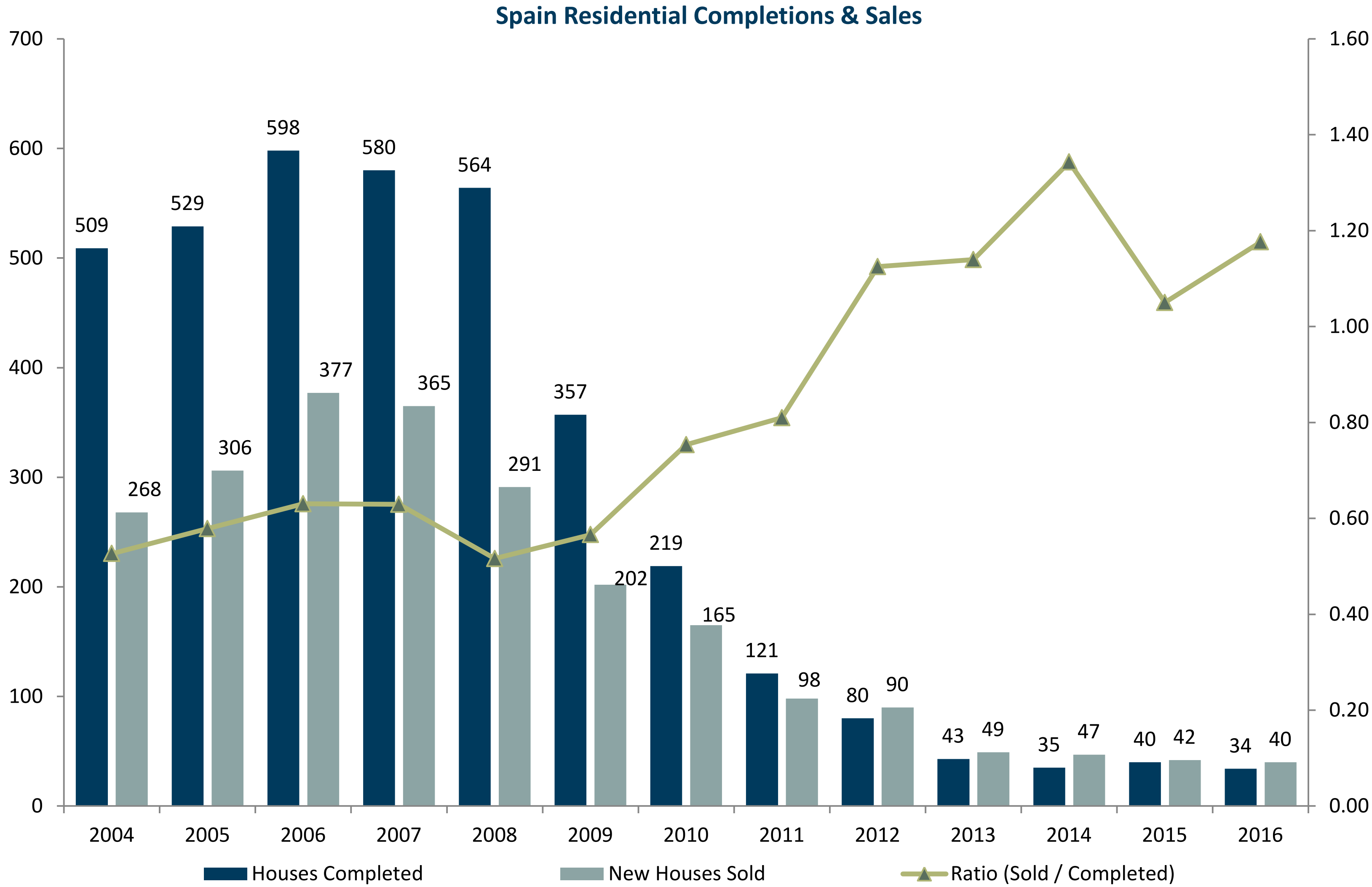

Source: Colliers International, Housing Ministry
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Asia Pacific: Investment Themes

Japan: Positive Growth Promoted by Monetary Policy

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an Aon company

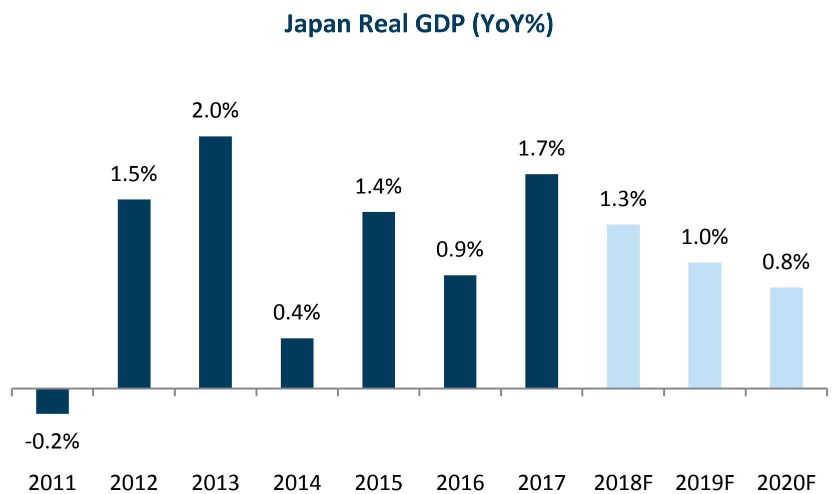
- Japan's economy has benefitted from continued loose monetary policy, but growth forecasts going forward are moderating

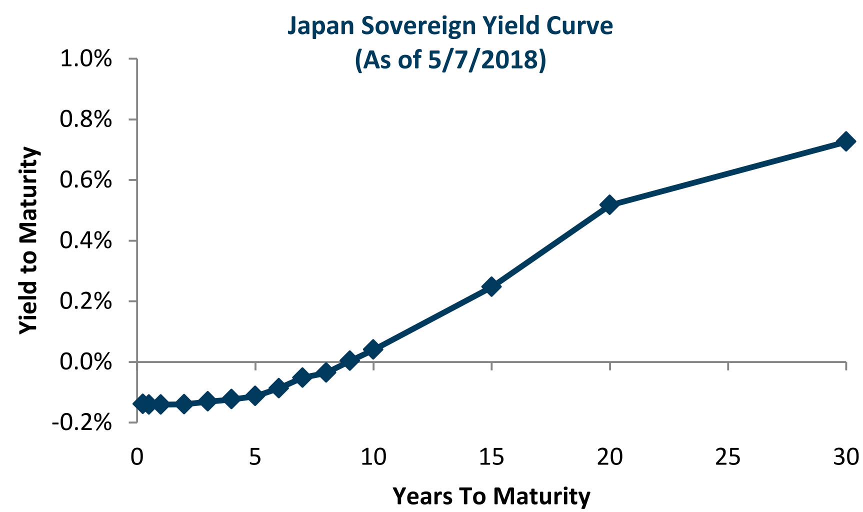
- The long end of the yield curve and real GDP growth prospects are driven by population growth, which continues to be the limiting factor

- Low unemployment (~3%) should lead to moderate real wage growth, assuming the economy continues to expand

- 3-month JPY Libor is below 0%, and financing may be available for L + 175 bps or less for good quality real estate, providing a very attractive boost to equity returns

- Given limited growth prospects, preference should be to execute on transactions which primarily derive returns from the income component of the real estate, with modest value-add component

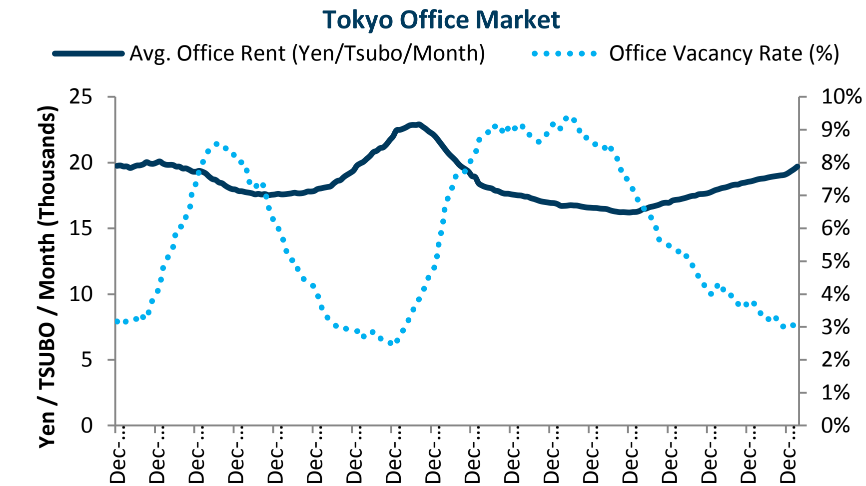


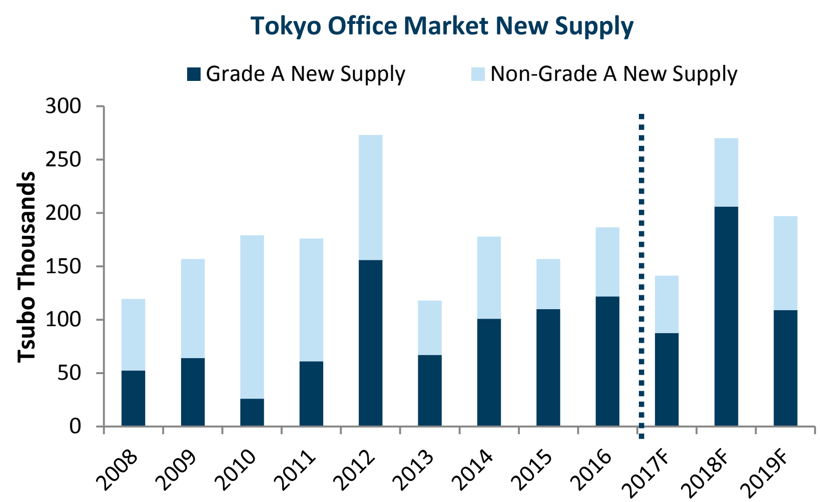


Source: Bloomberg

Japan: Tokyo Office Market Faces Rising Supply

- Given an improving economic back drop and a moderate urbanization trend, Tokyo's office market fundamentals have improved, with vacancy reaching the low single digits and rent trending upwards since late 2013
- Prime office assets currently trade around 3.5-4.0%; although these asset valuations have recently begun showing softness, given similar assets were trading below 3.5% in 2016
- Going forward, new supply is forecasted to outpace demand and limit rent growth, particularly in the higher-quality space
  - Despite low vacancy rates, the wave of new supply in 2018 is expected to limit or even decrease effective rent growth year over year
  - Grade A minus and B office assets will likely see a limited impact from the new supply
- The labor market is becoming increasingly tight in Japan, with employment dropping below 3%, which has the possibility of translating to real wage growth and higher rates of inflation
- Regional cities have also witnessed limited new supply and compressing yields, but lack the liquidity and breadth of opportunity that Tokyo provides and require more experienced managers



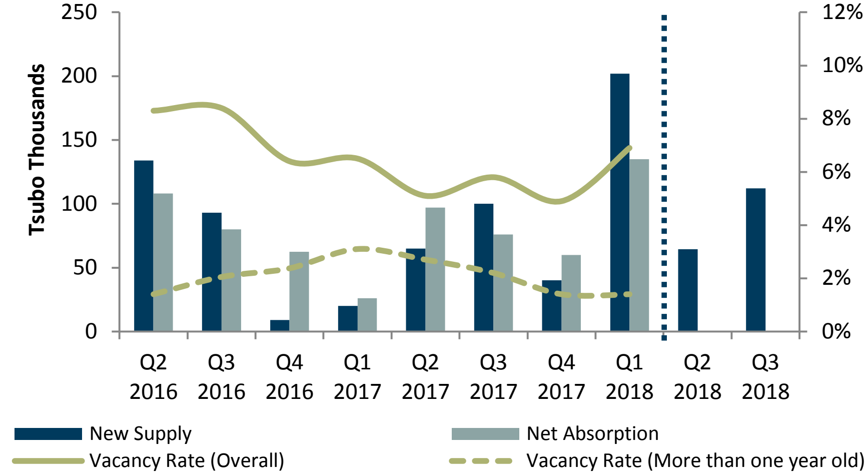


Source: Bloomberg, Miki Shoji, Colliers, CBRE

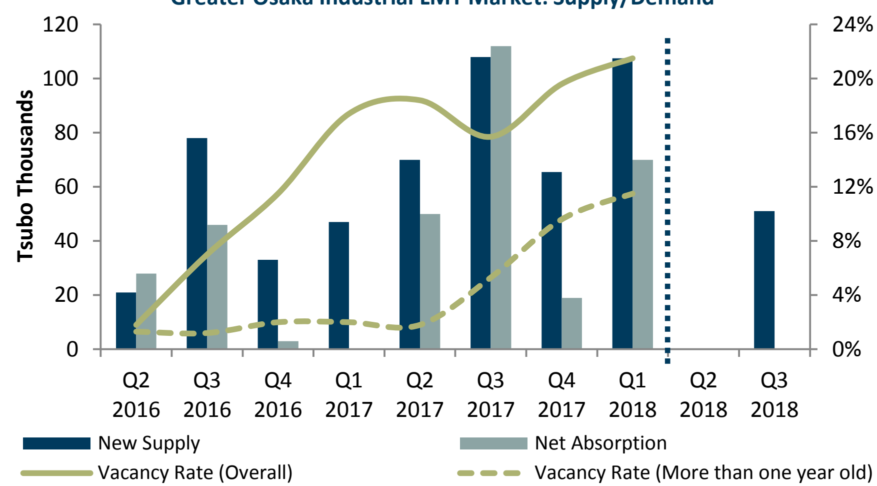
Japan: Industrial Market Experiencing Wave of New Supply

- Japan's industrial sector has benefitted from strong e-commerce and trade-driven take-up, but continues to experience elevated levels of supply
- Industrial cap rates have compressed to 4.5-5.0% in Tokyo and 5.0-5.5% in Osaka
- Osaka is at the forefront of the oversupply issue, with vacancy rates for the general market rising above 20%, which translated to a 3.5% rental decline year-over-year
- Low cost of financing will continue to fuel new supply and has already begun softening rent growth forecasts
- Old spec buildings, which don't meet the requirements of the third-party logistics companies, are at the highest risk of obsolescence
- Given market conditions, Townsend favors acquiring properties where rents are still below market and have the ability to grow rents through value add activities and taking re-leasing risk

Greater Tokyo Industrial LMT Market: Supply/Demand

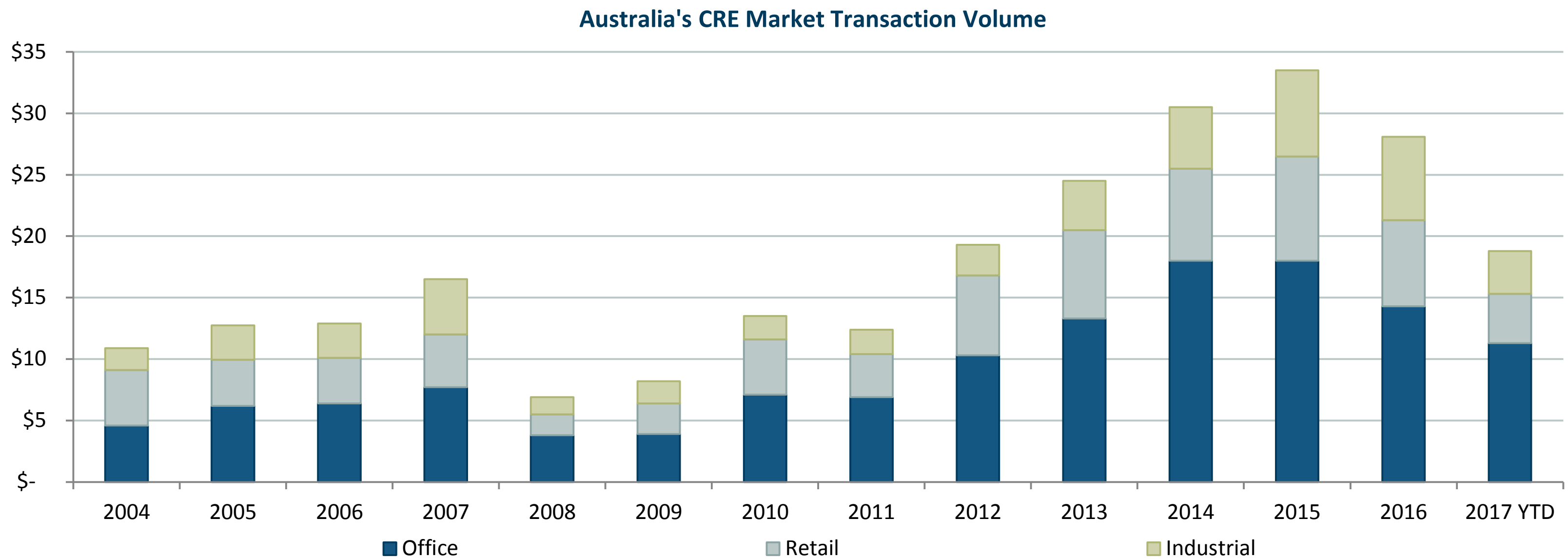


Greater Osaka Industrial LMT Market: Supply/Demand



Source: Bloomberg, CBRE, Savillis, JREI

Australia: Real Estate Transaction Markets Remain Robust

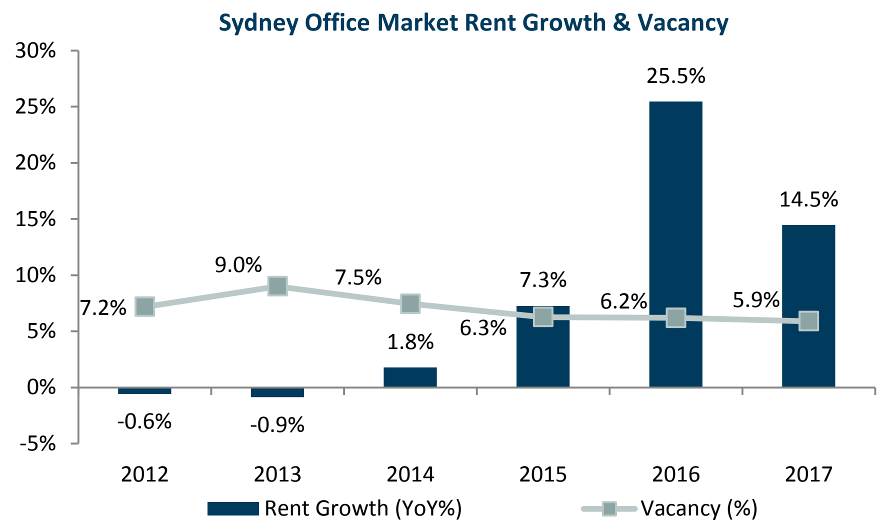


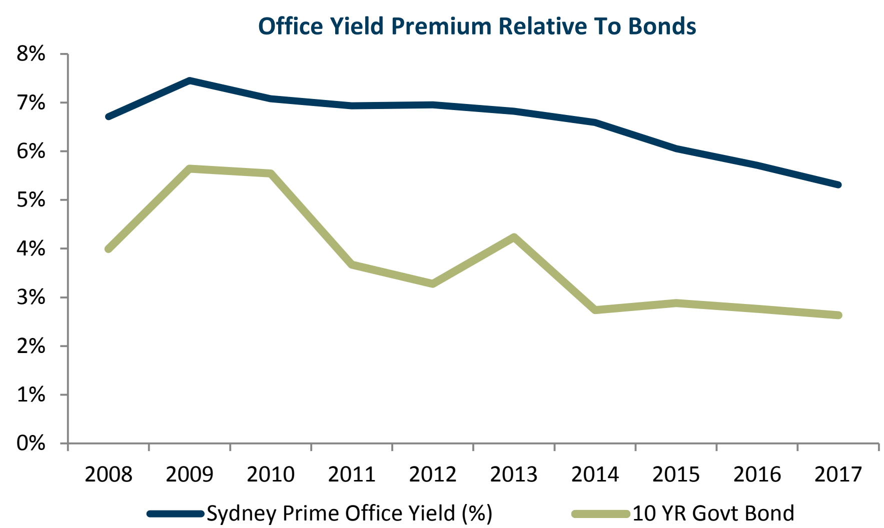
- Foreign investor share of transaction volume in Australia is 37%, despite the incremental tax burden of investing in Australia, which typically reduces total returns by a minimum of 15% (even with the most efficiently managed investment trust vehicles)
- Similar to many developed economies, property and bond yields have declined significantly in tandem, at least in part driven down by foreign investors seeking to harvest the attractive yield premium Australia presented relative to other developed economies
- Near term, property yields are expected to remain flat with the potential for yield spreads over bonds to temporarily tighten, as the Reserve Bank of Australia may raise rates to temper asset pricing in the midst of the global economic upswing
- Office markets, especially in the CBD of Sydney and Melbourne, continue to harbor much of the liquidity within Australia's commercial real estate market

Source: JLL

Australia: Rent Growth Driven Office Market (Sydney)

- The Sydney office market has come roaring back, featuring double-digit rental rate growth for the last two years
- Double-digit rent growth is expected to continue in the near term, driven by very limited product coming online until 2020-2021 and an already low vacancy rate in the single digits (~6.0%)
- Healthy vacancy rates, economic growth, and population growth will continue to support fundamentals of an already boisterous office market
- Given a story supporting the underwriting of such high growth rates, prime Sydney office has transacted more recently within the low 4.0% cap rate range
- Office yields remain at a healthy premium over government bond yields, indicating asset pricing remains reasonable
- Planned substantial investment in infrastructure is occurring in Sydney, leading to up-and-coming markets such as the Parramatta submarket, located outside of the downtown CBD

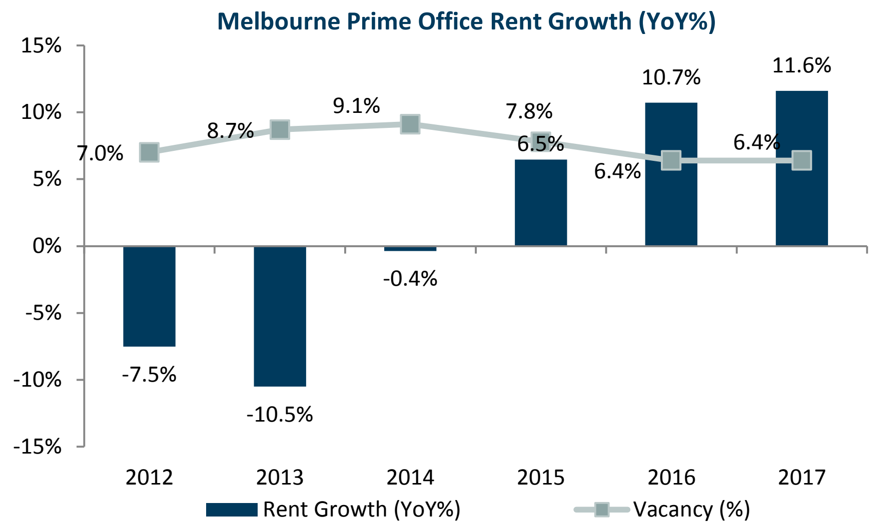


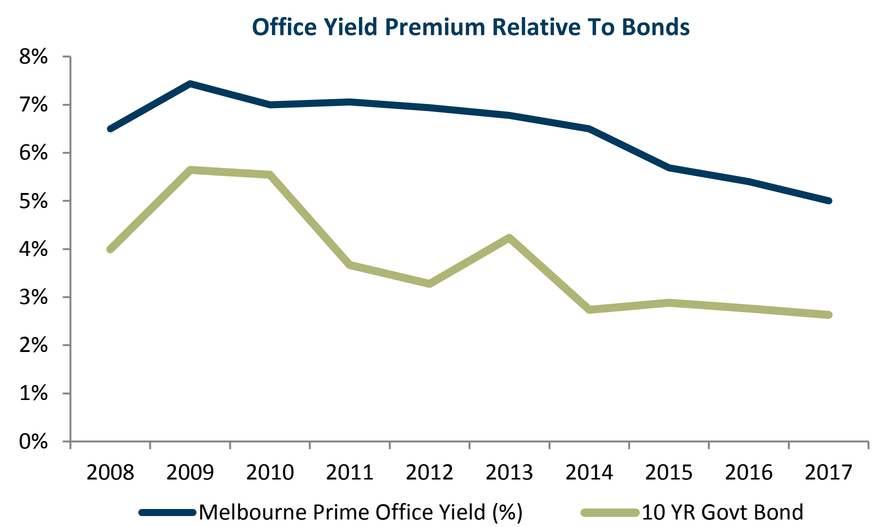


Source: Colliers, Bloomberg, JLL

Australia: Rent Growth Driven Office Market (Melbourne)

- Similar to Sydney, Melbourne has more recently posted double-digit rental growth on the back of a tightening office market, indicated by single-digit vacancy rates
- While Melbourne has more near-term supply in its pipeline and vacancy rates are expected to rise 3-4% over the next few years, the city has a few enhanced demand factors relative to Sydney:
  - Higher population growth rate (+2.4% p.a.)
  - Higher job growth rate (+3.2% p.a.)
- Melbourne has also planned substantial investment in infrastructure to support the rapidly growing population
- The University of Melbourne, the second-highest rated university in Australia, provides a continuous source of economic stimulus for the local economy with over 40,000 enrolled students
- While office yields have tightened similar to Sydney, the yield premium remains healthy over government bond yields
- Both cities are supported by additional intangibles such as beautiful weather and English as a first language, both of which are particularly attractive to international students



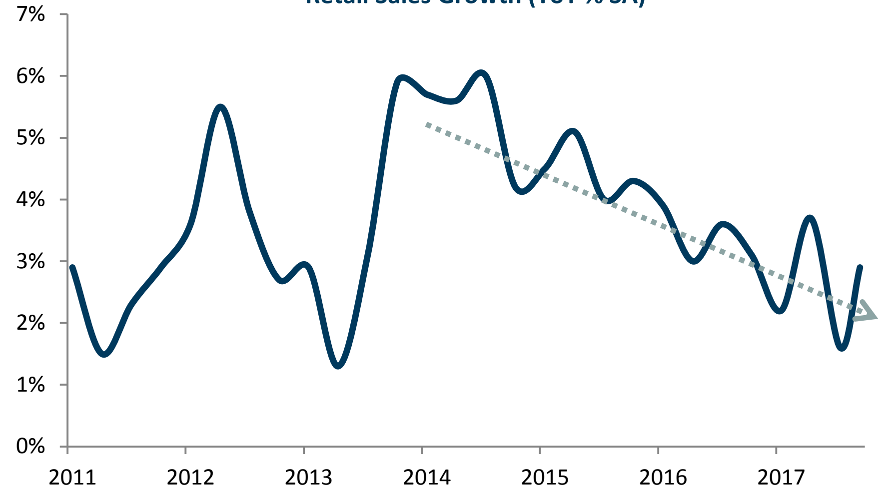


Source: Colliers, Bloomberg, Dexus, JLL, QS World University Rankings
Townsend's views are as of the date of this publication and may be changed or modified at any time and without notice. Past performance is not indicative of future results.

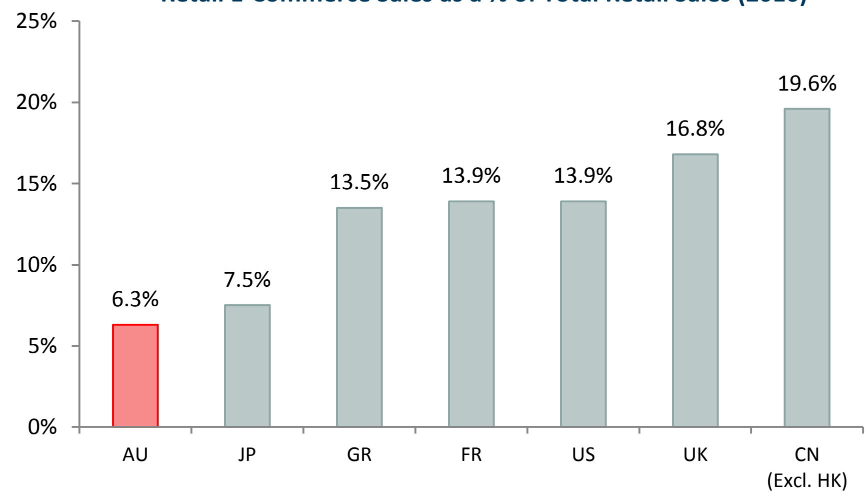
Australia: Retail Yields Tight, Despite Muted Growth Expectations

- On the surface, strong GDP growth and elevated population growth would historically provide an exciting back drop for retail, but…
- Retail asset yields remain tight, recently trading between 4-5% in Sydney and Melbourne
- Broadly speaking, retail sales growth in Australia has already begun moderating, which is not a promising trend given limited e-commerce competition
- E-commerce continues to be a relatively small force in the retail market (~6% of sales), but we expect this to trend more inline with other developed economies long term
- Amazon announced in the summer of 2017 that it will be opening its first logistics warehouse in Australia, with an expansion of its service in Australia expected to follow suit
- As we've witnessed in the U.S., a repricing of retail assets will need to take place as managers underwrite elevated capital expenditures to stay competitive in the shifting retail landscape

Retail Sales Growth (YoY % SA)



Retail E-Commerce Sales as a % of Total Retail Sales (2016)*

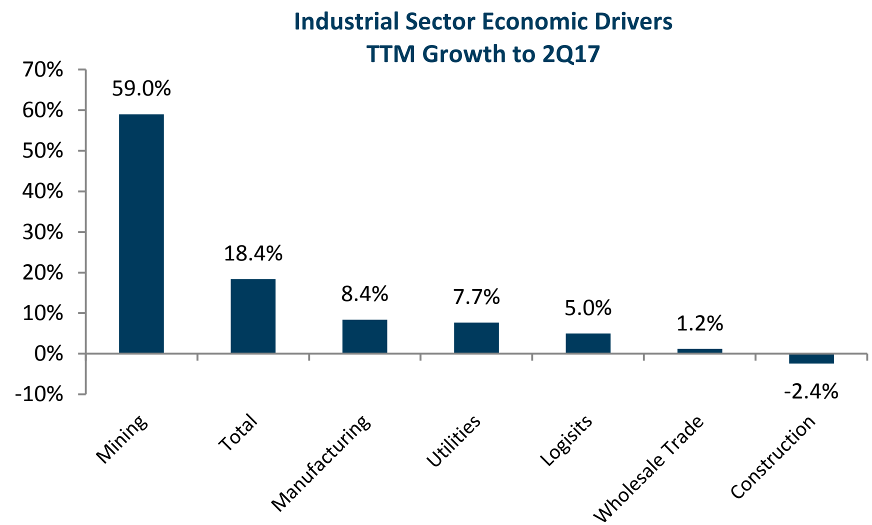


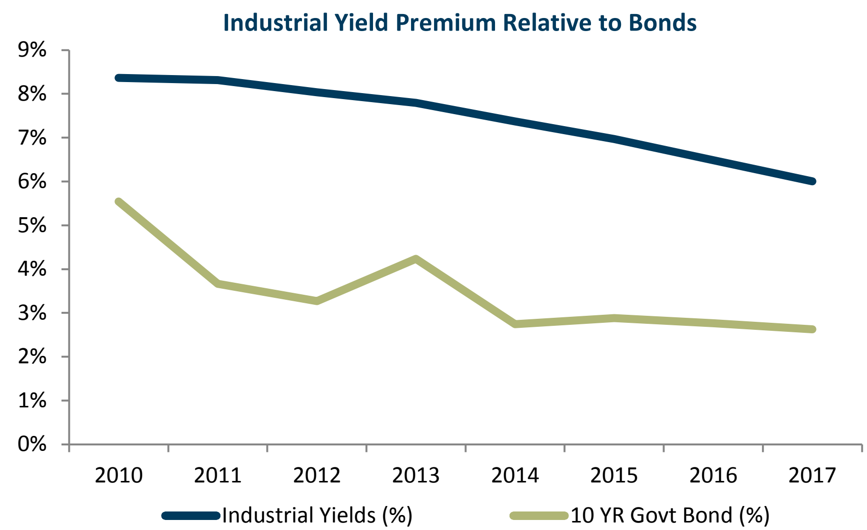
Source: Bloomberg, Colliers, RCA, Statista, Emarketer

Townsend's views are as of the date of this publication and may be changed or modified at any time and without notice. Past performance is not indicative of future results.

Australia: Industrial Cap Rate Compression with Continued Strong Demand

- Significant cap rate compression has occurred in industrial assets, equaling nearly 250 bps on average in Sydney and Melbourne to 6.0%
- Given sufficient land available for development on the outside of the downtown metros, barriers to entry for industrial are weak and supply is more likely able to meet demand
- There is very limited opportunity in the Core space for industrial assets, given competition from superannuation funds that are more tax efficient and heavily favor assets with long WALEs
- Opportunity to create higher returns exists by taking the lease-up risk of assets with near-term rollover and then exiting to Core or superannuation funds
- Rent growth has historically been moderate to flat in areas such as West Melbourne or South Brisbane, with areas like West Sydney, where growth is stronger, being the exception
- While Amazon's entrance into the industrial market in Australia is a negative for the retail industry, it could create stronger demand in the industrial and warehouse sectors

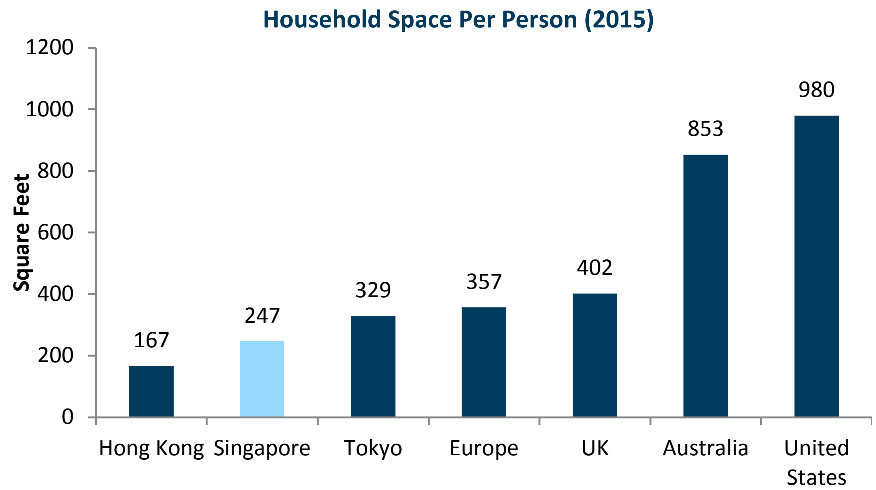


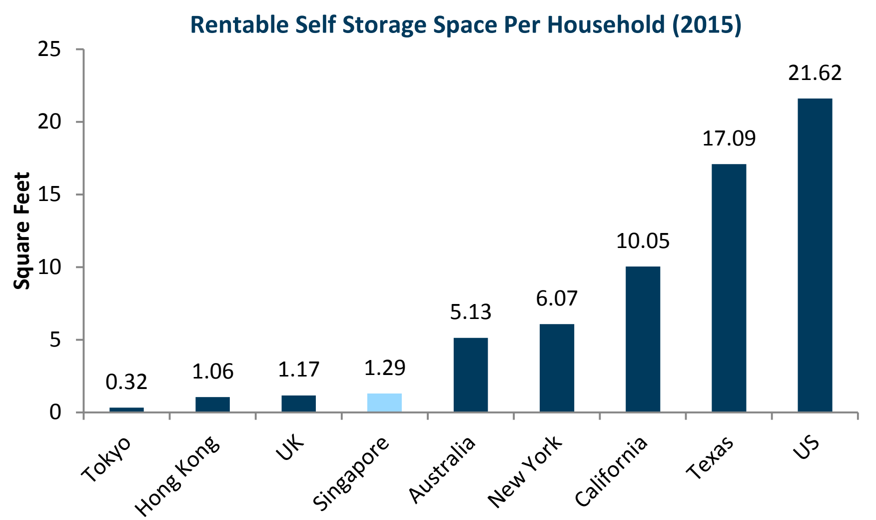


Source: Bloomberg, Colliers, JLL Research, Savillis

Singapore: Self-Storage an Emerging Investment Opportunity

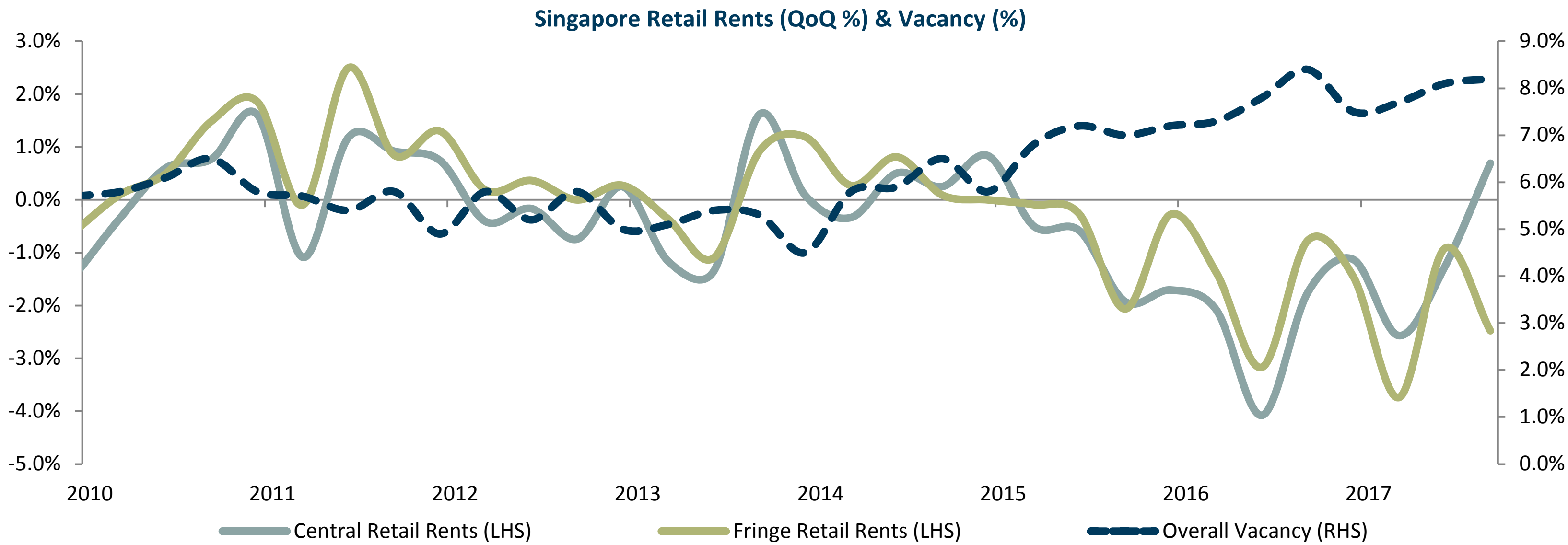
- Self-storage in Singapore remains an emerging product type, with limited supply in circulation
- Given the complete lack of affordable residential space, economic circumstances force consumers to seek out temporary storage primarily due to three major life events:
  - Divorce: Becoming more commonplace
  - Death: Aging population will drive rates upward
  - Relocation: Naturally in transitional periods of life
- Economically, self-storage presents a higher and better use than industrial, thus industrial assets present an economically attractive acquisition
- Development of self-storage space is structurally simple, with limited lead time to finished product; initial j-curve of investment period with no cash yield minimized





Source: Heitman, CBRE, Hong Kong Census and Statistics Department, Japan Ministry of Internal Affairs and Communications, Singapore Department of Statistics, Demographia, Japan Property Central, Eurostat, Australia Institute of Family Studies, U.S. Census Bureau, REIT Disclosures, Quraz, Self Storage Association Asia

Singapore: Retail Continues To Struggle



- Singapore retail continues to struggle with the shifting landscape, where consumer preferences and spending habits have tilted towards experiential retail (e.g. food, beverage, gyms, etc.)
- Retailers' struggle to adapt has been amplified by Singapore's history as a luxury shopping destination, particularly wealthy Chinese whose personal preference has shifted more towards domestic consumption
- In recent years, increasing retail vacancy rates have placed additional stress on rental rates, which have consistently decreased quarter over quarter since early 2015
- Given Singapore's retail is trading at yields in the low 5% range, even with negative rent growth and increasing vacancy, the pricing of these assets continues to be unattractive; Super Core assets rarely, if ever, trade in these markets

Source: Bloomberg, Urban Development Authority, Colliers

Disclosures

Disclosures

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Disclosures and Definitions

The NFI-ODCE Index is a capitalization-weighted, gross of fees, time-weighted return index with an inception date of 1/1/1978. Published reports may also contain equal-weighted and net of fees information. Open-end funds are generally defined as infinite-life vehicles consisting of multiple investors who have the ability to enter or exit the fund on a periodic basis, subject to contribution and/or redemption requests, thereby providing a degree of potential investment liquidity. The term Diversified Core Equity style typically reflects lower risk investment strategies utilizing low leverage and generally represented by equity ownership positions in stable U.S. operating properties (as defined herein). The NFI-ODCE is a quasi-managed index based on the periodic review by the Index Policy Committee ("IPC") of the index's criteria thresholds.

The S&P 500 Index is an unmanaged market capitalization weighted index of 500 common stocks chosen for market size, liquidity, and industry group representation to represent U.S. equity performance.

The Barclays U.S. Aggregate Bond Index is a broad-based benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate and hybrid ARM pass-throughs), ABS and CMBS (agency and non-agency).

Index figures do not reflect deduction of fees, expenses, or taxes. One cannot invest directly in an index.

Value-Added: Funds that generally include a mix of core investments and others that will have less reliable income streams. The portfolio as a whole is likely to have moderate lease exposure and moderate leverage. As a result, such portfolios should achieve a significant portion of the return from appreciation and are expected to exhibit moderate volatility.

Opportunistic: Funds of preponderantly non-core investments that are expected to derive most of their returns from appreciation and/or which may exhibit significant volatility in returns. This may be due to a variety of characteristics such as exposure to development, significant leasing risk, high leverage, or a combination of risk factors.

May 31, 2018

TO: Each Member
Real Estate Committee

FROM: Mike Romero
Senior Investment Analyst

FOR: June 13, 2018 Real Estate Committee Meeting

SUBJECT: **REAL ESTATE PERFORMANCE MEASUREMENT REPORT 4th QUARTER 2017**

The Real Estate Performance Measurement Report for the period ending December 31, 2017 is attached herewith (**Attachment 1**). The report was prepared by the Board's real estate consultant, The Townsend Group. As a reminder, performance is reported quarterly to staff for review. In addition, performance reports and verbal updates are delivered every six months to the Board with the consultant presenting calendar year-end and staff addressing fiscal year-end results. Both staff and The Townsend Group will be available to answer any questions you may have about the quarterly report.

Staff's observations and comments about the results appear below.

The market value of the Fund's real estate portfolio increased by approximately $177 million during the second half of 2017. This change reflects the net impact of contributions, distributions, sales proceeds and appreciation. As illustrated in **TABLE 1** below, 88% of the portfolio is held in separate account vehicles, and 75% of the portfolio remains invested in core assets.

TABLE 1
LACERA REAL ESTATE PORTFOLIO COMPOSITION
(As of December 31, 2017, $ in Millions)

Investment Style	Separate Account	% of Total Fund	Commingled Funds	% of Total Fund	Net Market Value	% of Total Fund
Core	$4,358	69%	$416	7%	$4,773	75%
Value Added	$736	12%	$3	0%	$740	12%
High Return	$482	8%	$337	5%	$819	13%
Total	**$5,575**	**88%**	**$756**	**12%**	**$6,332**	**100%**

TABLE 2 illustrates the net-of-fee, time-weighted returns for the total portfolio for the ten-year period ending December 31, 2017. The portfolio return of 3.1% has under-performed the benchmark return of 6.2% by 310 basis points. The under-performance is attributable primarily to the value-add and high return portions of the portfolio. For example, the net return over ten years from the core portion of the portfolio was 5.2%, which is a more moderate 70 basis points less than the custom benchmark. Additional commentary about each investment type (risk category) appears below. Unless noted otherwise, all returns reflect the ten-year period ending December 2017 and are net of all manager fees.

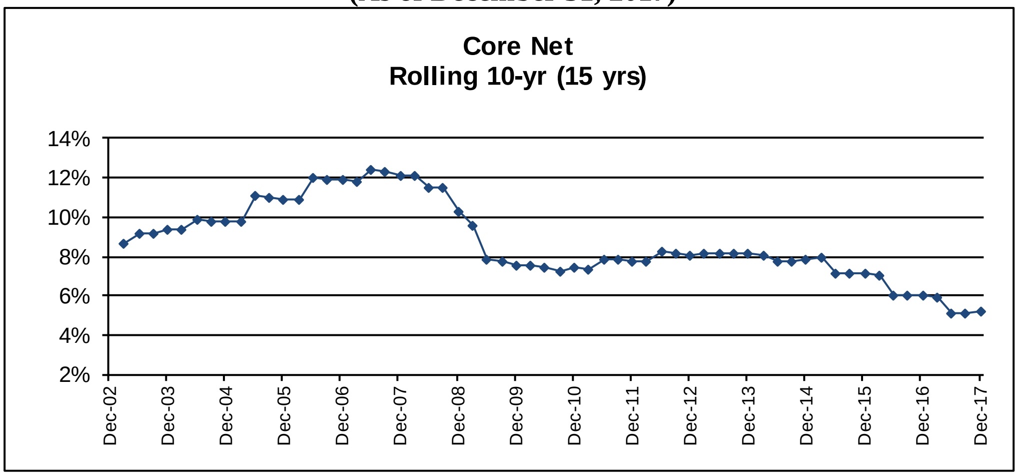
TABLE 2
TEN-YEAR RETURNS BY INVESTMENT TYPE
(As of December 31, 2017, $ in millions)

Investment Type	Net Market Value ($ in millions)	% of Portfolio	Income	Apprec.	Total Gross Return	Total Net Return	Custom Benchmark	Net Return vs. Benchmark
Core	$4,773	75%	6.2%	-0.6%	5.5%	5.2%	5.9%	-0.7%
Value Added	$740	12%	5.1%	-6.6%	-1.8%	-2.8%	6.8%	-9.6%
High Return	$819	13%	2.9%	-13.3%	-10.9%	-15.1%	8.9%	-24.0%
Total	**$6,332**	**100%**	**5.7%**	**-1.8%**	**3.8%**	**3.1%**	**6.2%**	**-3.1%**

Notwithstanding the disappointing net return over the prior ten-year period, the shorter period returns have generated higher returns. Net returns for the total portfolio over shorter periods were 6.8% for one-year, 9.3% for three-years, 9.3% for five-years and 9.0% for seven-years. The income component of these shorter period returns ranged from 4.9% to 5.8%. More details about returns may be viewed in the consultant-prepared Performance Measurement Report.

Consecutive ten-year returns present a good illustration of the buildup of returns prior to the Global Financial Crisis ("GFC") and the resultant declines. **CHART 1** illustrates the ten-year returns from LACERA's core real estate. Recall that each data point on the chart reflects the returns from the prior 40 quarters. Each successive point on the chart adds a new quarter of performance and eliminates an observation from 40 quarters prior from the calculation. The December 2017 observation of 5.2% shows a near-stable return from the prior few quarters.

CHART 1
LACERA CORE REAL ESTATE PERFORMANCE
ROLLING TEN-YEAR TIME-WEIGHTED RETURNS
NET OF FEES
(As of December 31, 2017)



The core portion of LACERA's portfolio continues to represent 75% of the net market value. The 5.2% return from the core portfolio under-performed the custom core benchmark of 5.9%. The absence/under-weight of/to central business district office properties as well as regional and super-regional malls continues to contribute to this under-performance. The income component of LACERA's core portfolio return over ten years (6.2%) was strong when compared to the benchmark of 5.2%. The 7.0% total one-year return out-performed the index by 30 basis points.

Long term performance continues to be hampered by investments that were particularly hard hit by the GFC. Chief among these was the single-family housing program. Notably, the last remaining asset held in the single-family housing program was sold during the first quarter of 2017.

Finally, staff notes that the portfolio is 43% invested in the Western region of the U.S., which exceeds the 40% maximum exposure limitation established in the Real Estate Objectives, Policies and Procedures for investment in any single geographic region. The portfolio is 3% over the limit or approximately $211 million. The over-weight position is being addressed in upcoming investment plans.

Noted and Reviewed:

Jonathan Grabel
Chief Investment Officer

Attachment

ATTACHMENT 1

TOWNSEND® GROUP
an Aon company

Los Angeles County Employees Retirement Association

Real Estate Performance Measurement Report

Fourth Quarter 2017

LACERA Los Angeles County Employees Retirement Association

Funding Status

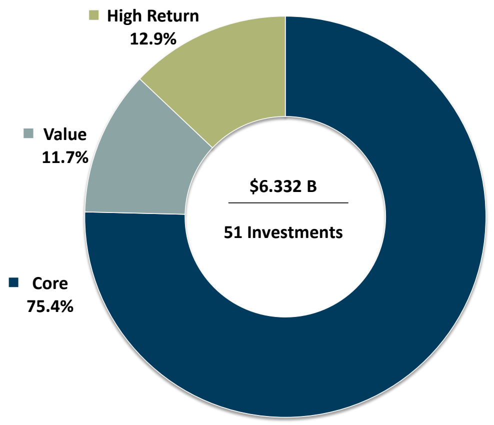
LACERA Portfolio Snapshot As of December 31, 2017	Market Value (in millions of dollars)	% of LACERA Plan
LACERA Total Plan Assets	**55,607**	
Private Portfolio Target	**6,117**	**11.00%**
Private Portfolio Permissible Range		**8.0 - 16.0%**
Private Real Estate		
Core Portfolio	**4,773**	**8.6%**
Non-Core Portfolio	**1,558**	**2.8%**
Total LACERA Private Real Estate Market Value	**6,332**	**11.4%**
Total LACERA Private Real Estate Unfunded Commitments	**870**	**1.6%**

- LACERA's board approved a benchmark transition to the NCREIF Open-end Diversified Core Equity Fund Index (NFI-ODCE) + 40 BPS at the total portfolio and individual investment category level. This transition is reflected throughout this report and a detailed explanation of the composition of each benchmark is included in the appendix.
- As of December 31, 2017, the LACERA Portfolio was in line with its Strategic Plan guidelines, with the exception of the 43.4% exposure to the West Region (compared to its target of <40%), which is anticipated to fall in line with planned liquidations.
- Structural changes to the LACERA Real Estate Program (adopted by the LACERA Board of Investments in April 2018) are not reflected in the Fourth Quarter 2017 Real Estate Performance Measurement Report. Changes will be reflected in future reports.

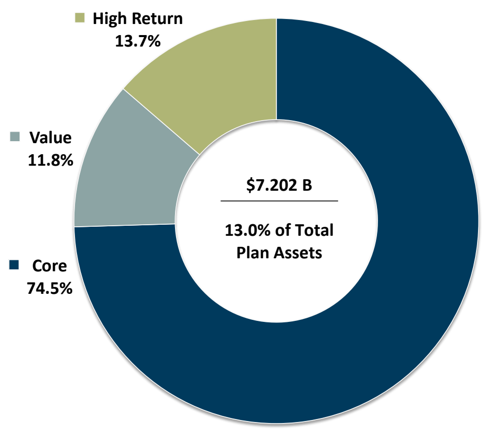
[1] As of December 31, 2017, Real Estate Market Value totaled $6,331,575,966 (11.4% of Total Plan Assets)
[2] As of December 31, 2017, Unfunded Commitments totalled $870,259,825 (1.6% of Total Plan Assets)
*Unfunded commitments is the balance of Client Commitments to Investments which remain to be called for the Investments.

Portfolio Composition

PORTFOLIO COMPOSITION (MARKET VALUE)



PORTFOLIO COMPOSITION (MARKET VALUE & UNFUNDED COMMITMENTS)



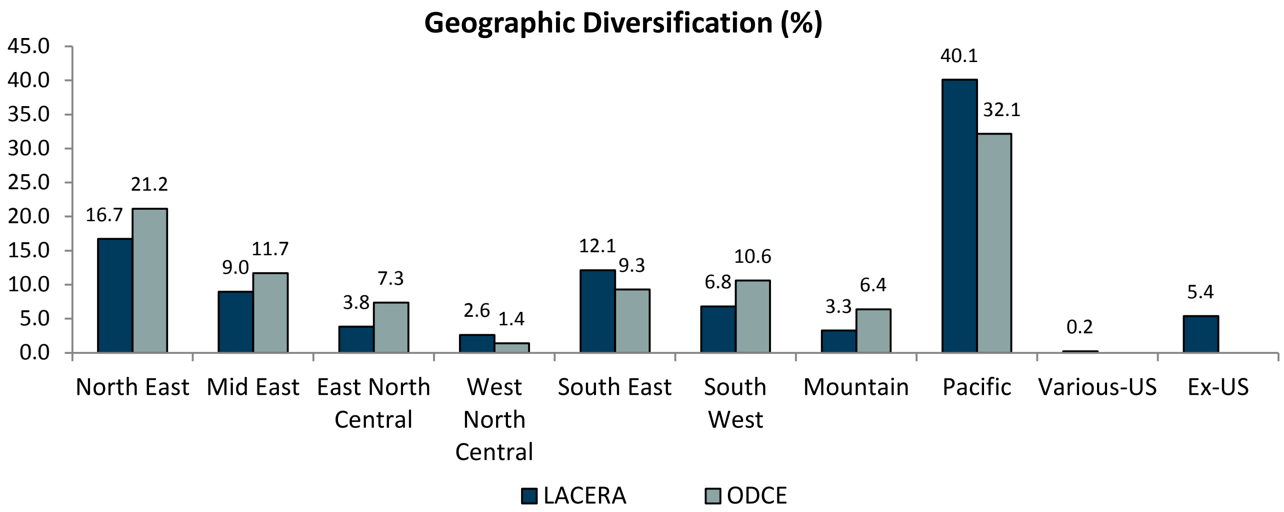
Portfolio Composition	Strategic Limit	Current Status
Core:	**≥ 60%**	75.4%
Non-Core:	**≤ 40%**	24.6%
Value:	**≤ 40%**	11.7%
High Return:	**≤ 20%**	12.9%
Public REITs:	**≤ 15%**	N/A
Total Portfolio:	**N/A**	N/A

Strategic Plan Leverage Limits	Strategic Limit*	Current Status
Core (50% Limit):	**50%**	37%
Non-Core:		
Value:	**65%**	18%
High Return:	**80%**	40%
Public REITs:	**N/A**	N/A
Total Portfolio:	**50%**	36%

The following managers are within 500 bps of LTV limit:	
Core:	
Barings Debt I.M.A.	Clarion I.M.A
CityView I.M.A.	Heitman Core I.M.A.
Value-Added	
CapMan Nordic Real Estate Fund II	

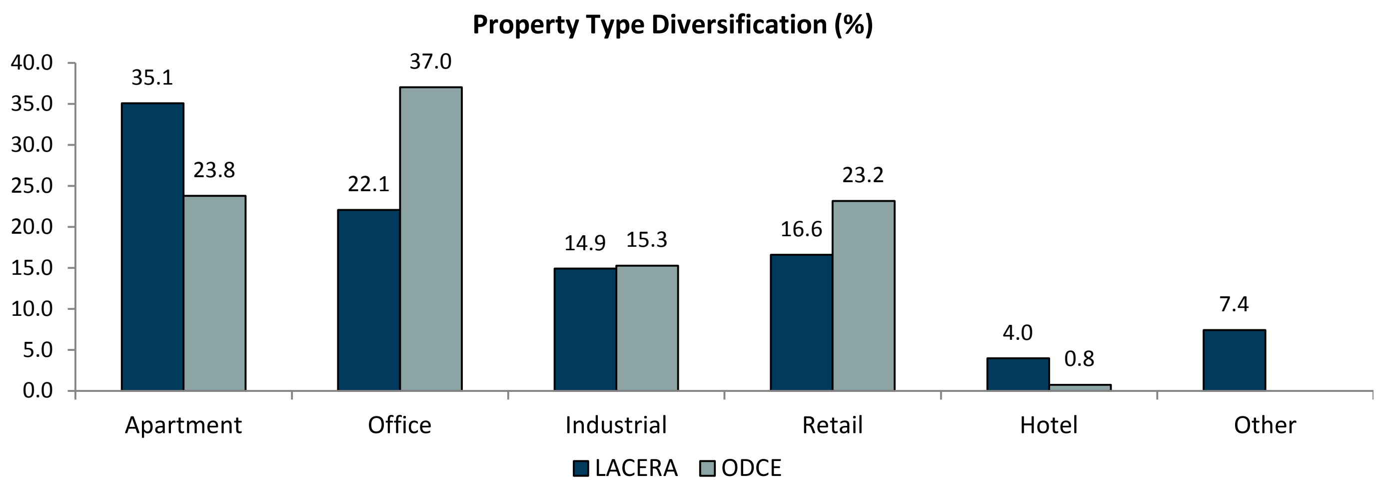
*The Strategic Plan limits leverage on any single investment or manager portfolio, measured on a loan to value (LTV) basis, for the strategies listed.

Portfolio Diversification



International Exposure

Ex-US	5.37%
United Kingdom	0.88%
Germany	0.58%
Australia	0.57%
France	0.52%
Japan	0.51%
Netherlands	0.37%
Poland	0.33%
South Korea	0.30%
China	0.29%
Czech Republic	0.22%
Spain	0.17%
Italy	0.14%
England	0.13%
Sweden	0.10%
Other	0.25%

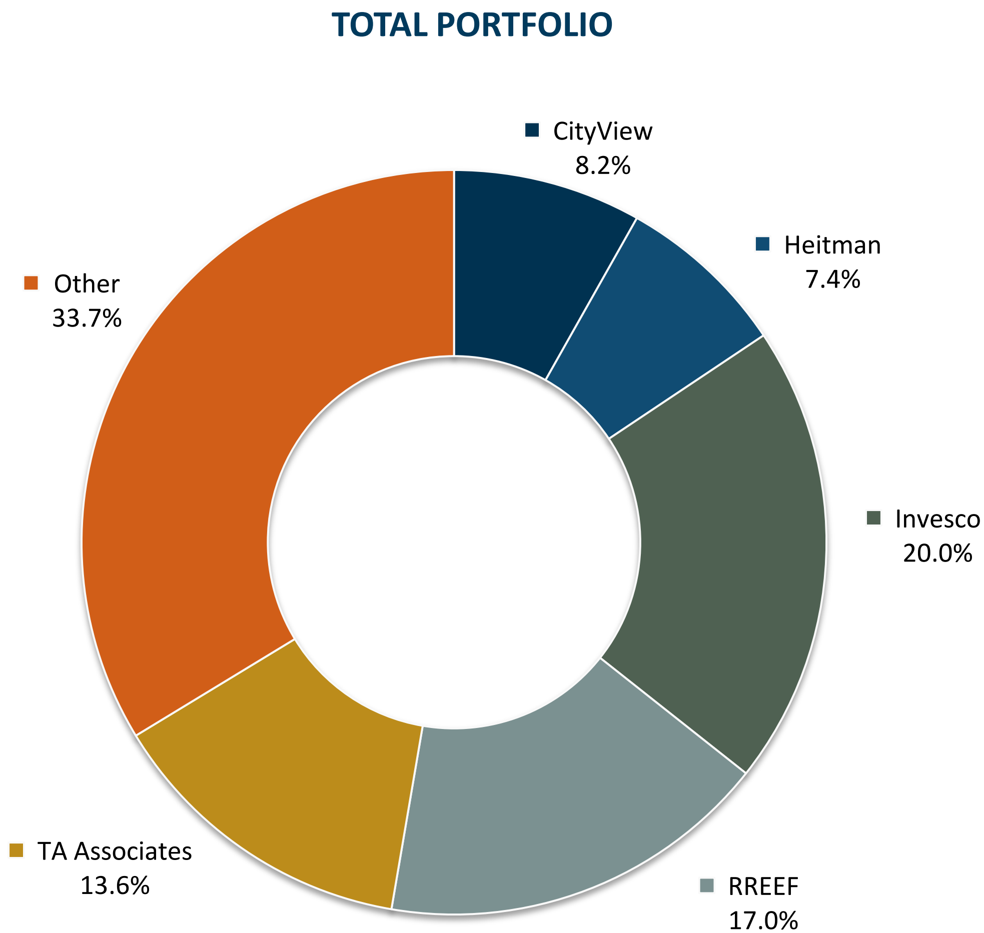


The Property Type 'Other' includes investments in Student Housing, Parking Structures and Land.

*The Strategic Plan limits leverage on any single investment or manager portfolio, measured on a loan to value (LTV) basis, for the strategies listed.

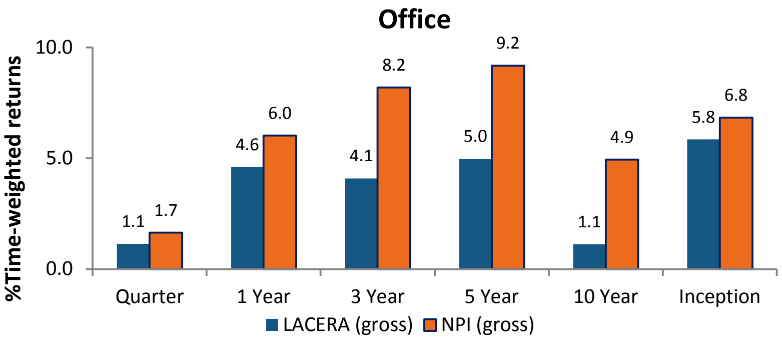
Manager Allocations (based on Market Values)

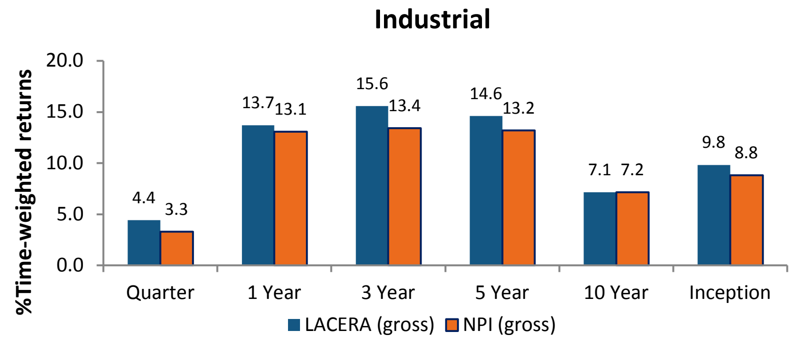
AS OF DECEMBER 31, 2017:

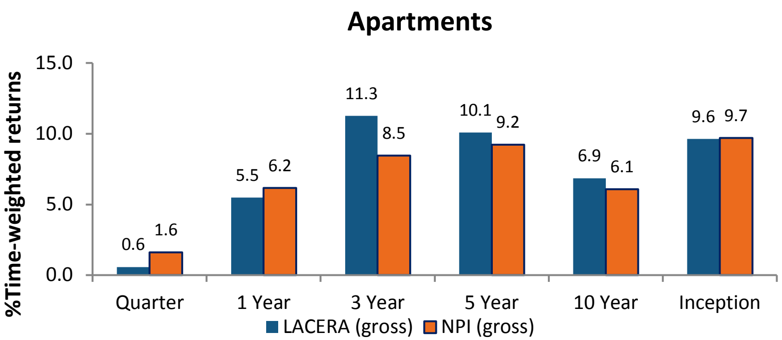


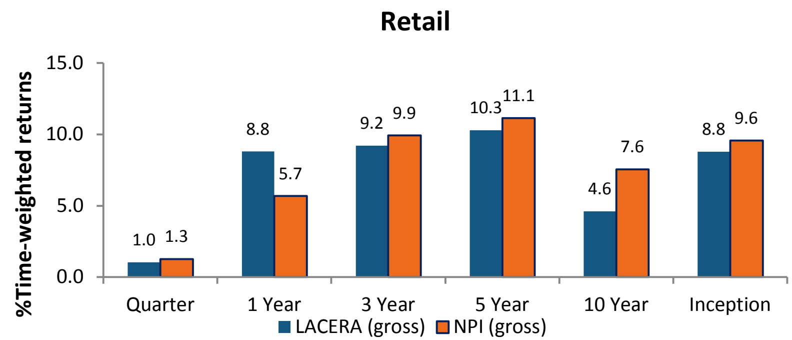
Performance by Property Type (based on Separate Account Assets)

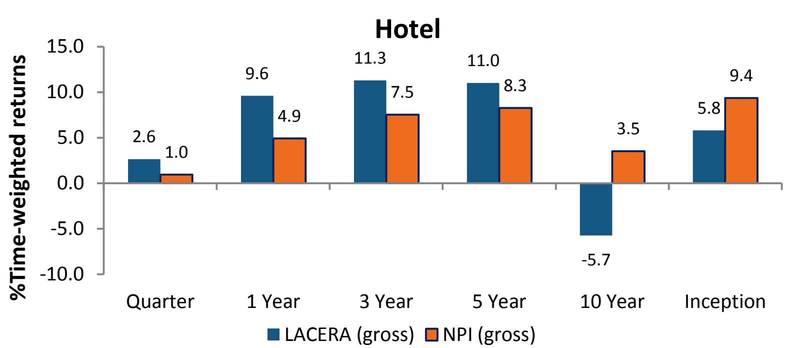
AS OF DECEMBER 31, 2017:









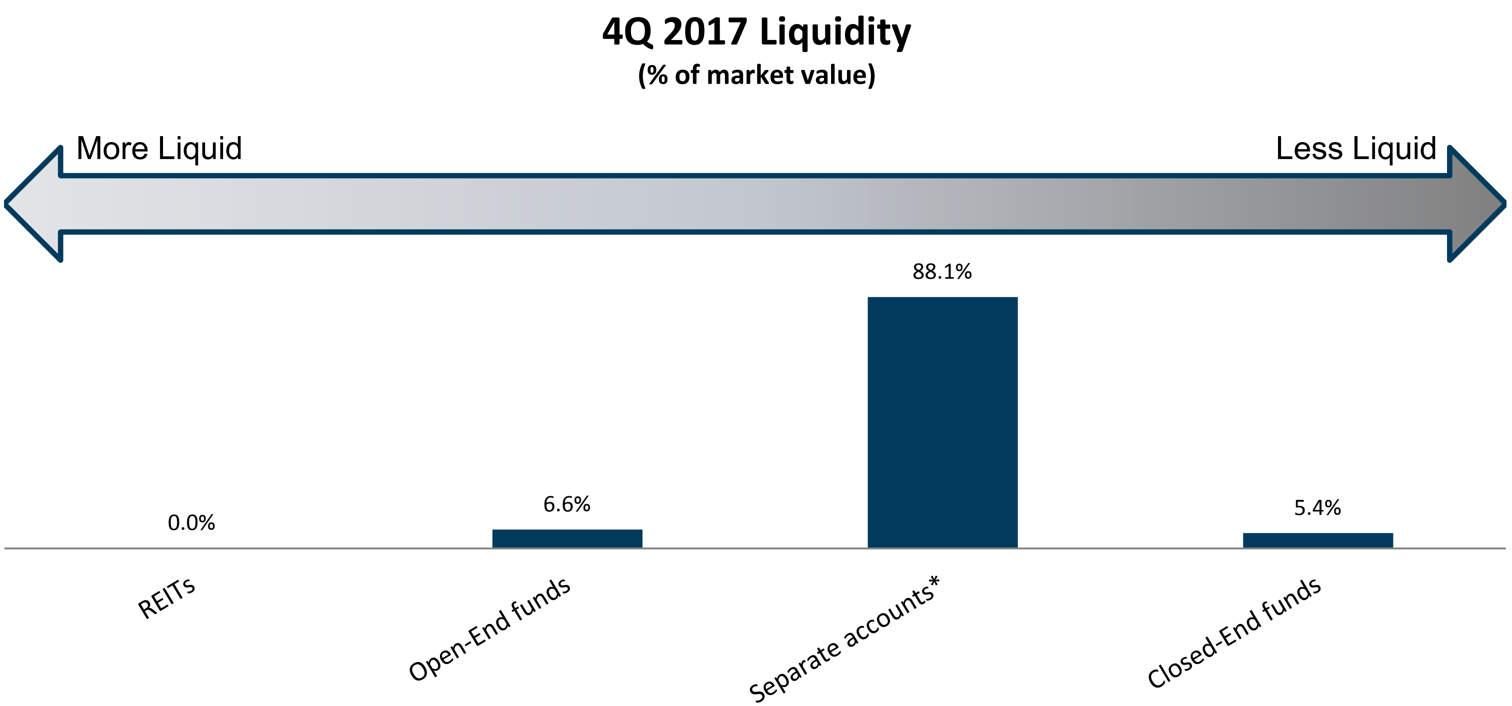


Liquidity of Portfolio

LACERA may exercise rights to exit approximately 94.7% of its real estate investments (separate accounts and open-end funds). Average liquidity is 90 – 180 days (not daily).

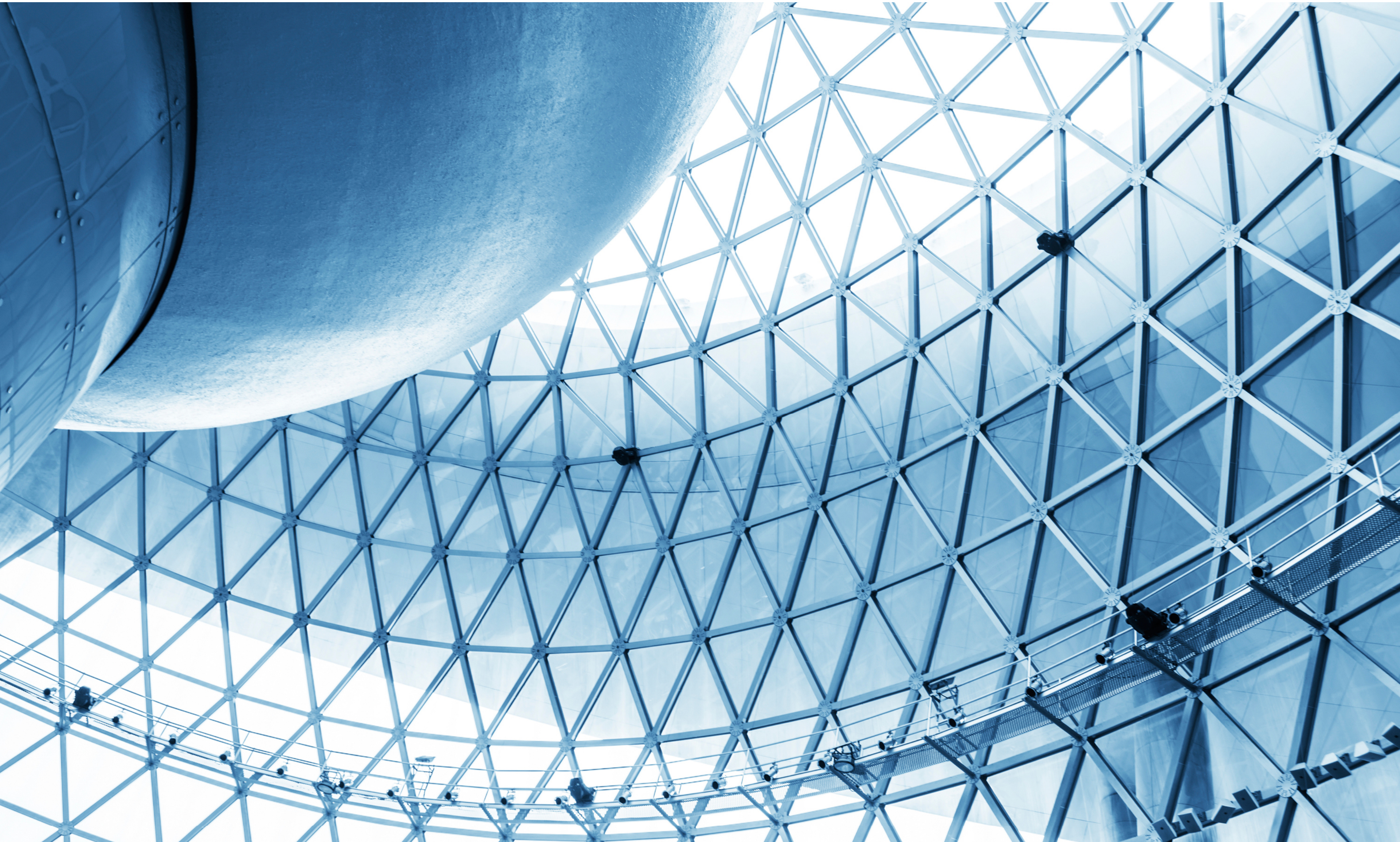
5.4% of LACERA's Real Estate portfolio is in closed-end commingled funds, which offer limited liquidity over an average 10 year lifespan.

AS OF DECEMBER 31, 2017:



*Assets held in separate accounts may be liquidated through a marked sales process at the portfolio or single asset level.

Portfolio Performance



LACERA Private Real Estate Portfolio

CORE PORTFOLIO

$416 MILLION	3 COMMINGLED FUNDS	12 MANAGERS
$4,358 MILLION	12 SEPARATE ACCOUNTS	76 SEPARATE ACCOUNTS ASSETS

VALUE PORTFOLIO

$3 MILLION	8 COMMINGLED FUNDS	11 MANAGERS
$736 MILLION	8 SEPARATE ACCOUNTS	12 SEPARATE ACCOUNTS ASSETS

HIGH RETURN PORTFOLIO

$337 MILLION	12 COMMINGLED FUNDS	12 MANAGERS
$481 MILLION	8 SEPARATE ACCOUNTS	10 SEPARATE ACCOUNTS ASSETS

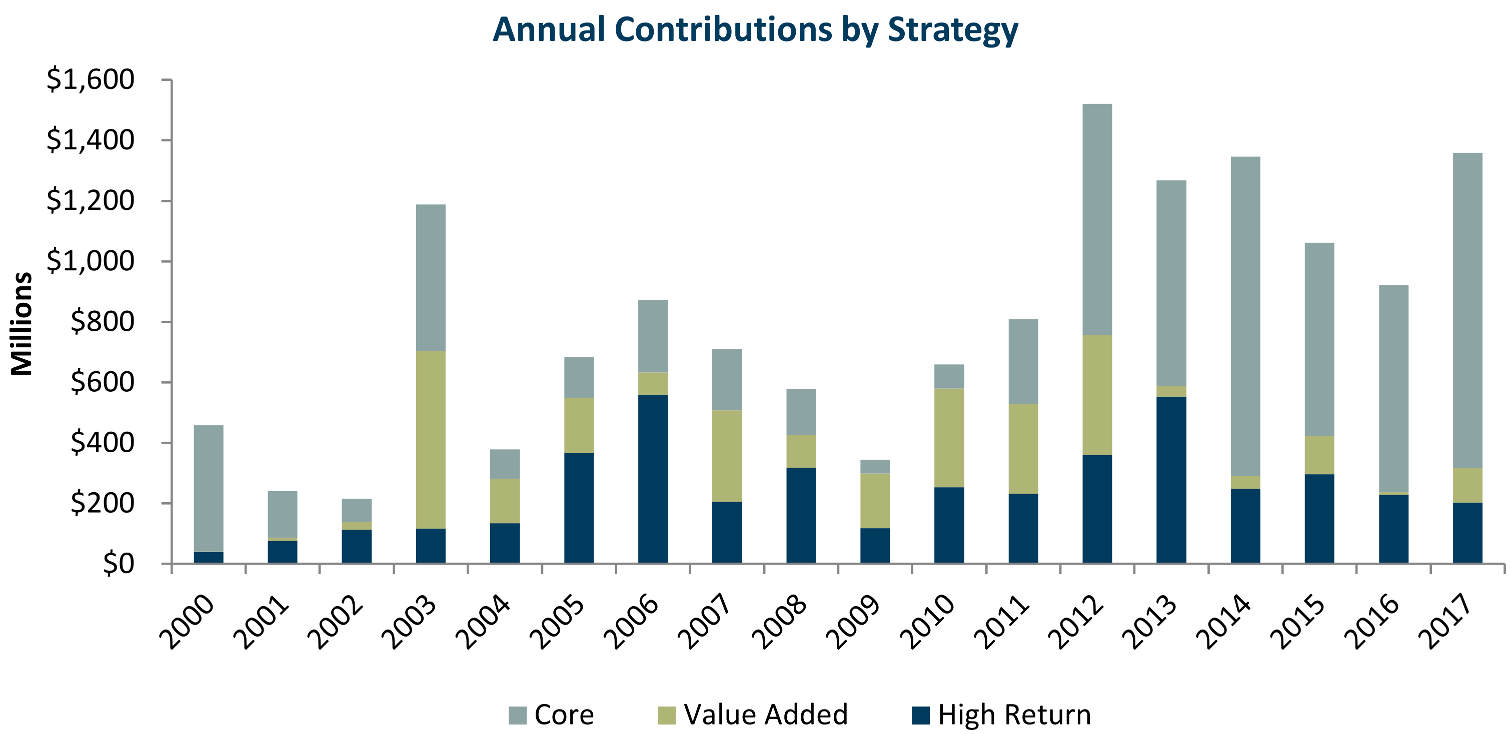
TOTAL PORTFOLIO

$756 MILLION	23 COMMINGLED FUNDS	24 TOTAL MANAGERS
$5,575 MILLION	28 SEPARATE ACCOUNTS	98 SEPARATE ACCOUNTS ASSETS

LACERA Historical Investments by Strategy

LACERA reduced its real estate investment into the downturn, then began to increase investment into the recovery.

Beginning in 2012, LACERA increased its annual commitments to real estate, with a large focus on Core real estate investing, as illustrated in the graph below.



LACERA Total Return vs. Benchmark

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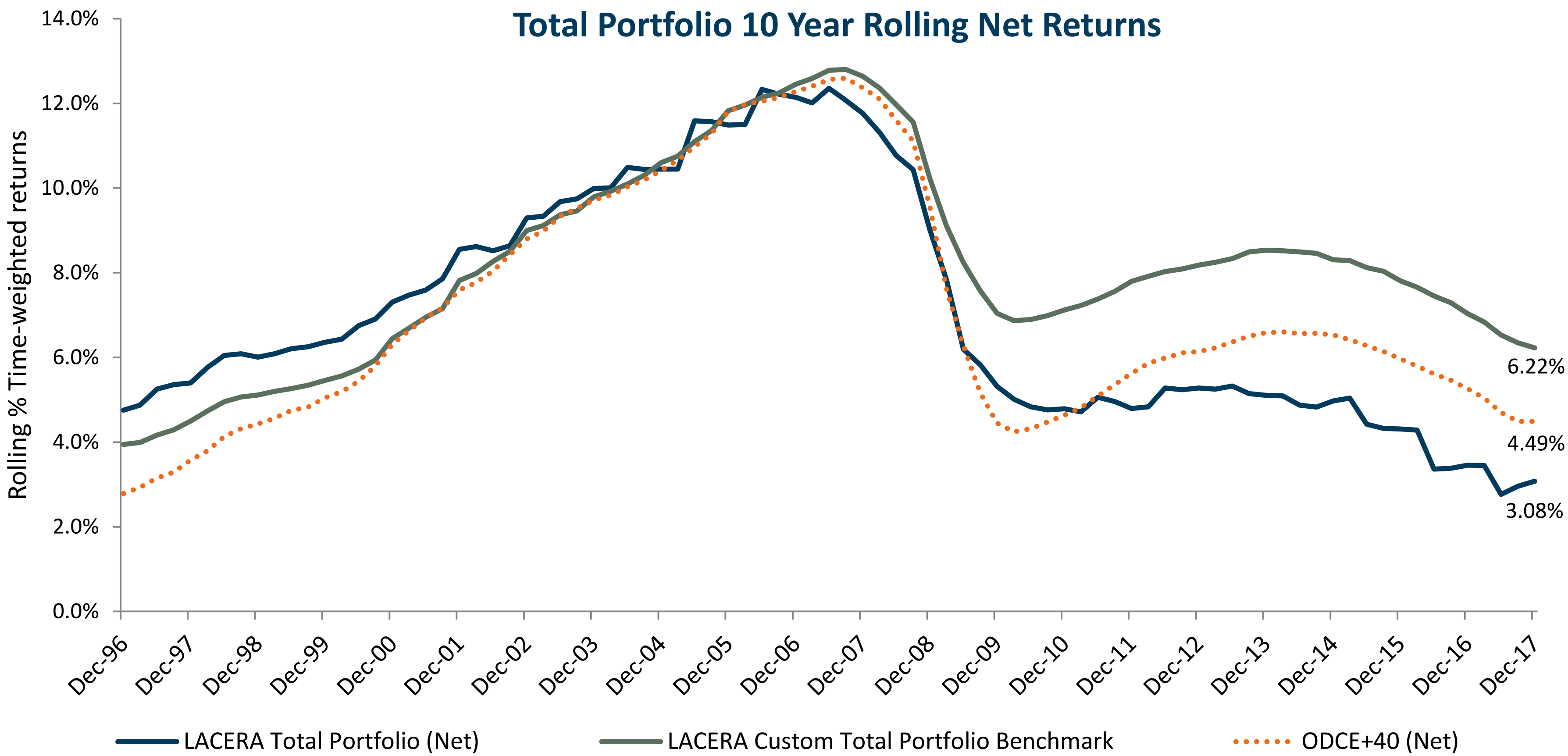
an Aon company

The LACERA Total Portfolio performance is displayed below (net of fees) over the rolling ten year time periods ending December 31, 2017.



See appendix for composition of LACERA Custom Benchmarks

- Until 2Q13 the benchmark was NPI+25bps, which does not include the effects of leverage or fees in quarterly returns.
- NPI+25bps was replaced with NFI-ODCE+40bps, which illustrates the effects of leverage and fees on benchmark returns.

LACERA Income Return vs. NFI-ODCE Income Return

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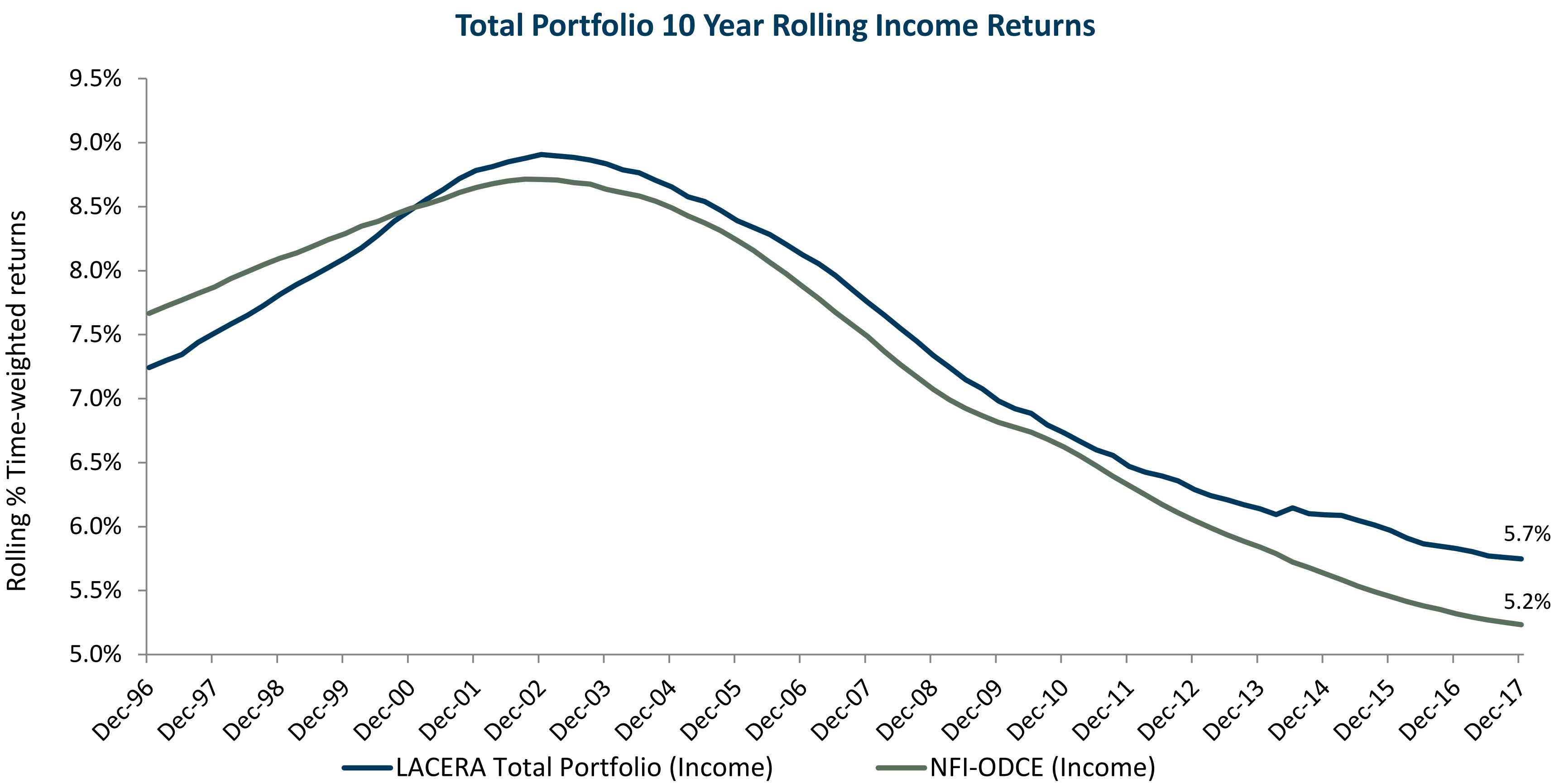
an Aon company

Relative to the NFI-ODCE, LACERA's Total Portfolio income return has outperformed since 2001, as displayed over rolling ten year time periods ending December 31, 2017.



LACERA Core Portfolio vs. Benchmark

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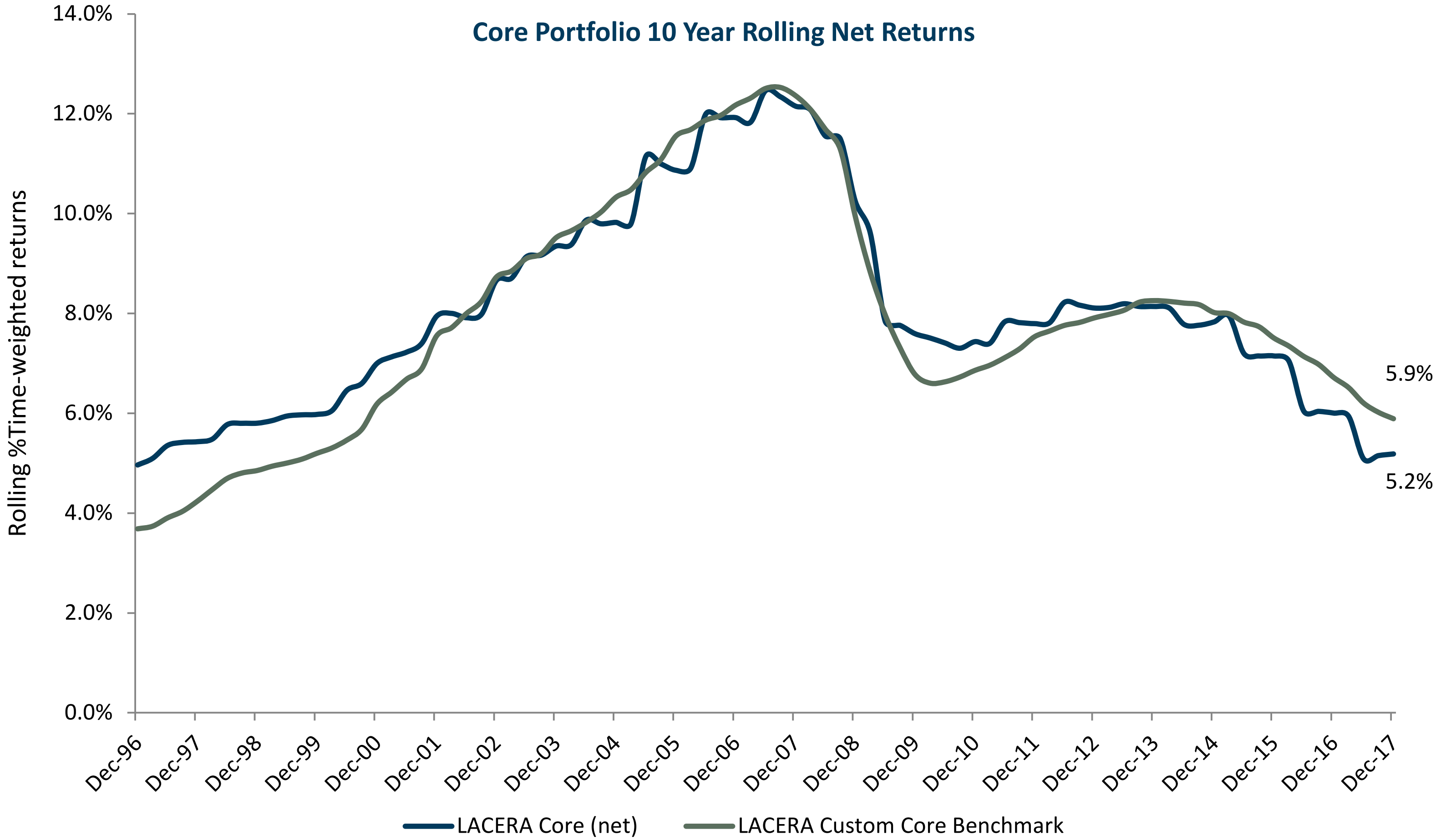
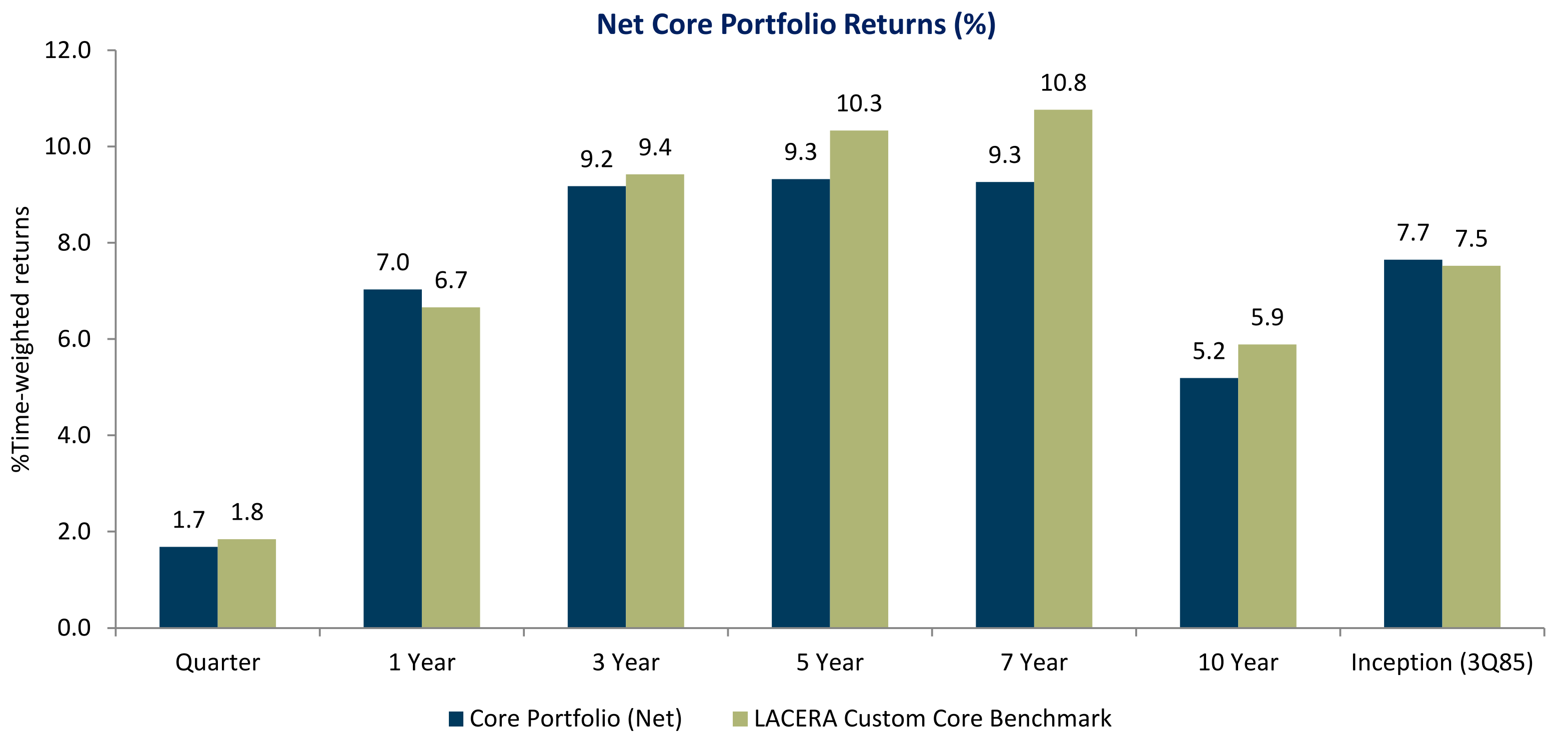
Relative to its respective benchmark, the LACERA Core Portfolio (net of fees) performed as displayed over rolling ten year time periods ending December 31, 2017:



See appendix for composition of LACERA Custom Benchmarks

LACERA Core Portfolio vs. Benchmark

Relative to its respective benchmark, LACERA's Core Portfolio (net of fees) performed as follows for the period ending December 31, 2017:

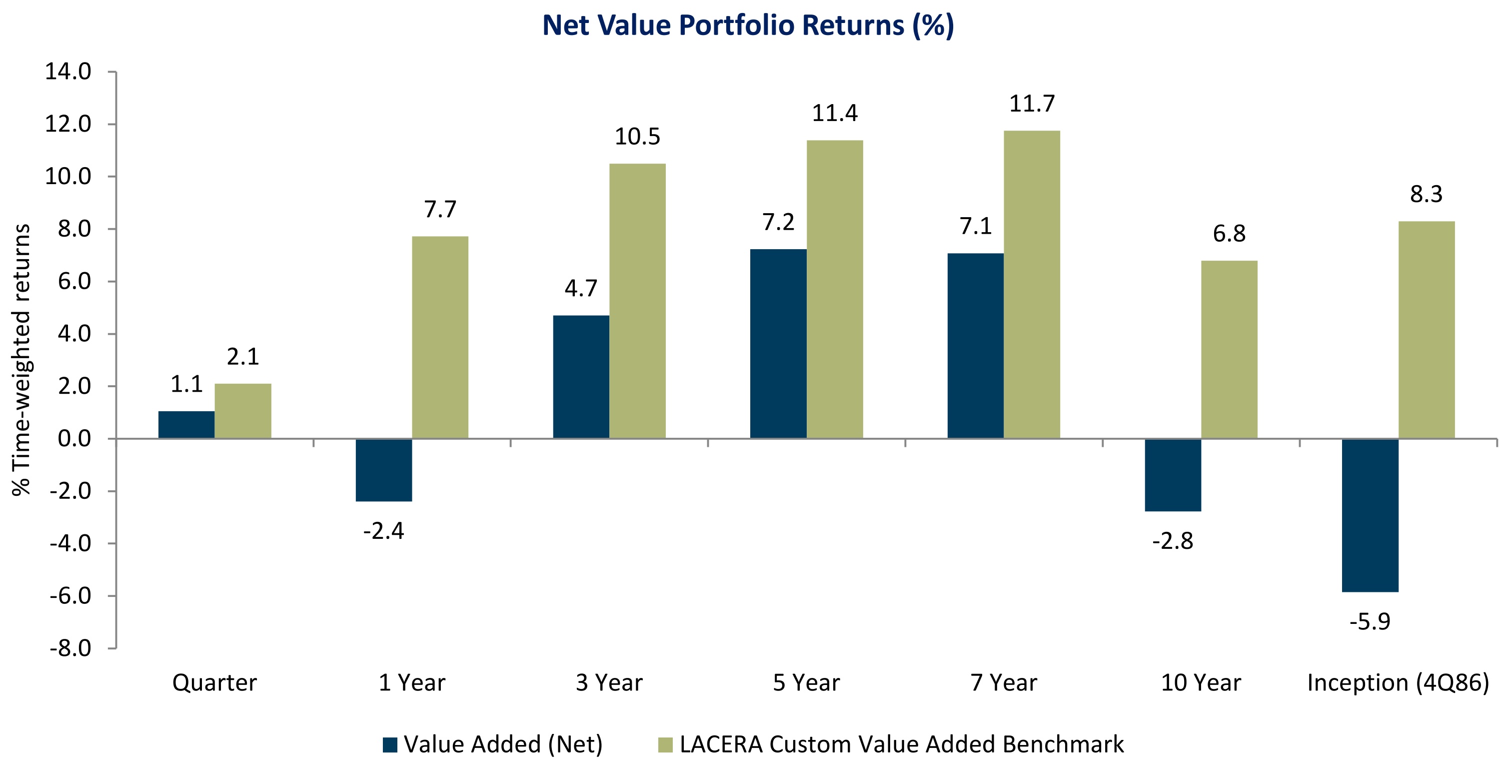


See appendix for composition of LACERA Custom Benchmarks

LACERA Value Portfolio vs. Benchmark

The Value Portfolio's underperformance was heavily impacted by a retail asset experiencing a sizable valuation adjustment.

Relative to its respective benchmark, LACERA's Value Portfolio (net of fees) performed as follows for the period ending December 31, 2017:



See appendix for composition of LACERA Custom Benchmarks

Value IMAs by Manager and Vintage Year

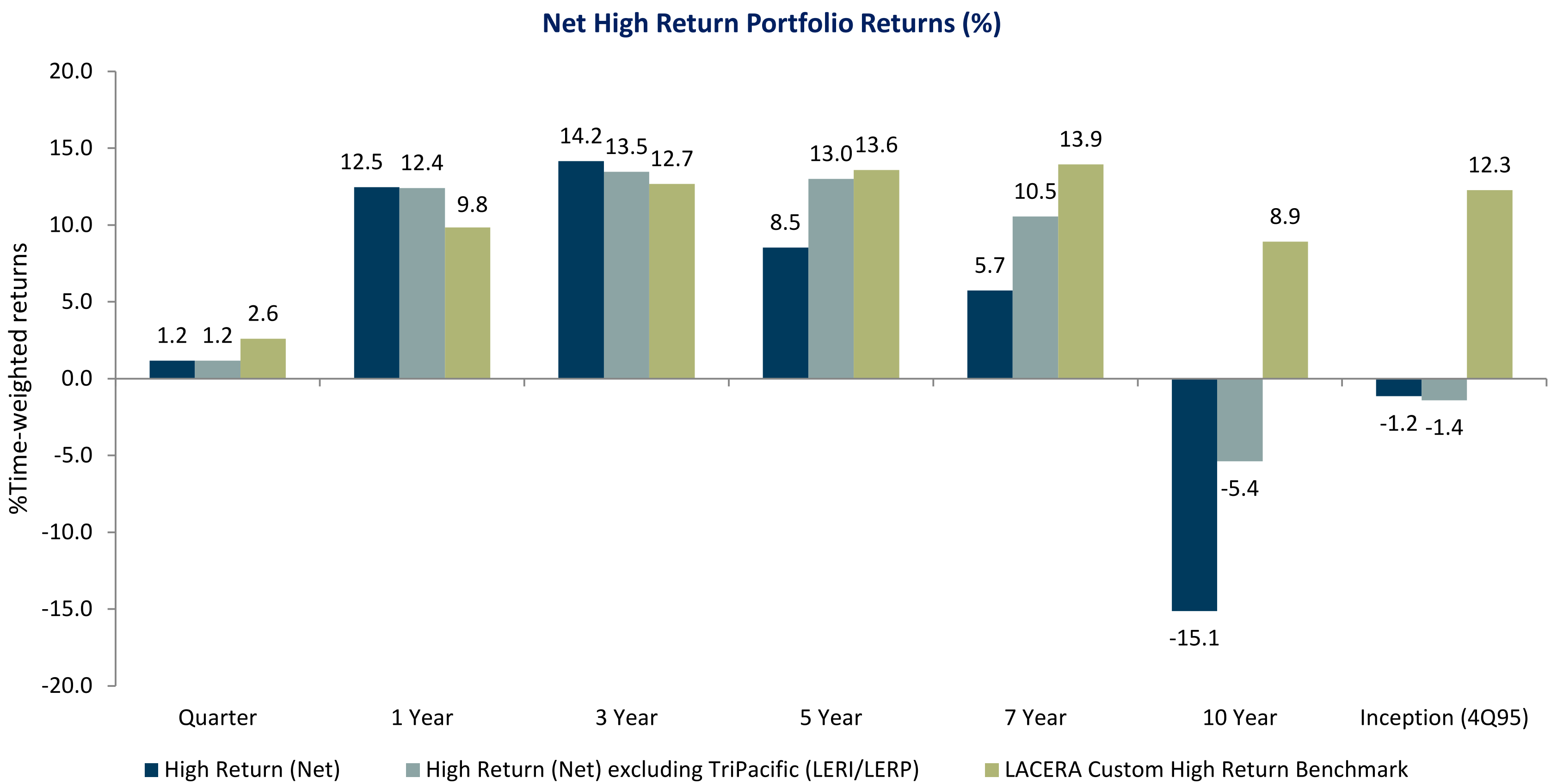
	Peak Market Value	Liquidated	IRR Since Inception[3]	Net TWR Since Inception[3]	Match Period All Value Index[4]	Match Period NPI+25
Barings Value IMA						
Vintage 2003	$340.1m	Active	5.5%	0.8%	9.6%	9.3%
Heitman Value IMA						
Vintage 2013	$13.3m	Active	9.5%	11.3%	11.0%	10.3%
Invesco Value IMA						
Vintage 1998	$14.5m	2001	19.2%	26.3%	10.4%	10.4%
Vintage 2004	$52.0m	2006	7.8%	8.9%	19.0%	19.0%
Vintage 2010	$208.7m	Active	7.3%	6.0%	12.0%	11.4%
Vintage 2012	$170.5 m	Active	7.1%	7.5%	11.4%	10.5%
Stockbridge Value IMA						
Vintage 2014	$60.5m	Active	7.2%	5.9%	11.0%	10.2%
Vanbarton Value IMA						
Vintage 2003	$73.0m	2005	12.9%	9.1%	17.1%	17.1%
Vintage 2006	$214.0m	Active	-0.8%	-1.0%	8.2%	7.8%

[3] Returns displayed for liquidated IMAs represent returns achieved from inception through the time of liquidation of the last asset.
[4] The "Value Index" shown for liquidated investments is the Townsend Value Funds Index, an internally maintained data set of comparable peer funds; active funds are shown relative to the current Value Added benchmark, the NFI-ODCE + 100 bps.

LACERA High Return Portfolio (Net) vs. Benchmark

Several development assets are completing construction and are in the beginning stages of stabilizing, driving recent performance. Appreciation gains upon completion are starting to materialize leading to strong capital creation.

Relative to its respective benchmark, LACERA's High Return Portfolio performed as follows for the period ending December 31, 2017.



See appendix for composition of LACERA Custom Benchmarks

The IMA Portfolios' Annualized Income and Net Total Returns

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AS OF DECEMBER 31, 2017:

VEHICLE	PRIMARY MANDATE	ENDING MARKET VALUE	1-YEAR INCOME RETURN (ODCE 1-YEAR INCOME RETURN = 4.3%)	1-YEAR NET RETURN
Barings Debt I.M.A	Core/Value/High Return	$161,713,448	10.7%	9.8%
Barings I.M.A.	Core	$218,193,529	8.0%	8.3%
Capri Capital I.M.A.	Core/Value/High Return	$368,242,384	2.6%	7.1%
Cityview I.M.A.	Core	$314,920,990	2.2%	-9.2%
Clarion I.M.A.	Core	$329,905,206	2.9%	16.0%
Gateway I.M.A.	Core	$110,746,447	7.1%	5.6%
Heitman I.M.A	Core	$471,638,593	5.2%	2.5%
Invesco I.M.A.	Core	$1,134,708,625	3.7%	0.2%
Quadrant I.M.A	Core	$57,877,867	7.7%	10.0%
RREEF I.M.A.	Core	$943,200,696	4.7%	6.3%
Stockbridge I.M.A.	Core/Value/High Return	$440,092,894	5.6%	7.2%
TA Associates I.M.A.	Core	$862,107,475	7.1%	10.5%
Vanbarton I.M.A.	Value	$161,997,450	4.9%	3.1%

LACERA Total Portfolio income and appreciation returns:

The LACERA Portfolio generated a one-year income return of 4.9% compared to the ODCE income return of 4.3%. Appreciation for the same period was 2.7% for LACERA, 3.2% for the ODCE. LACERA's one-year Core income return was 5.6%.

Strategic Plan Compliance

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AS OF DECEMBER 31, 2017:

POLICY		CURRENT QUARTER COMPLIANCE	DISCUSSION
Property Type Diversification	No property exposure exceeds the 40% maximum	YES	None
Property Location Diversification	No geographic region exceeds 40% maximum exposure	NO	West Region currently at 43.4%; planned liquidations will rebalance regional exposure.
Manager Diversification	No manager exceeds 35% of real estate allocation	YES	None
Public REITs	No more than 15% of real estate allocation	YES	None
Investment Style Allocation	Core – 60% minimum Non-Core – 40% maximum Value Added – 40% maximum High Return – 20% maximum	YES	None
Emerging Managers	Target of 10% of the targeted real estate allocation with a range of 0-20%	YES	None
Leverage	No more than 50% LTV on the total real estate portfolio	YES	None
International	No more than 20% of the total real estate portfolio	YES	None

Leverage Compliance

TOWNSEND® GROUP
an Aon company

AS OF DECEMBER 31, 2017:

CORE	MARKET VALUE	FUND LTV LIMIT	LTV	COMPLIANCE (Y/N)
Individual Managed Accounts				
Barings I.M.A	$30,150	50%	0.0%	Y
Barings Debt I.M.A	$161,713,448	67%	66.0%	Y
Capri Capital I.M.A	$312,830,932	50%	39.2%	Y
Cityview I.M.A.	$314,920,990	50%	46.0%	Y
Clarion I.M.A	$208,528,721	50%	44.9%	Y
Gateway I.M.A	$110,746,447	50%	0.0%	Y
Heitman Core I.M.A.	$458,349,908	50%	48.1%	Y
INVESCO I.M.A	$713,247,226	50%	36.9%	Y
Quadrant Debt I.M.A	$57,877,867	50%	0.0%	Y
RREEFF I.M.A	$803,311,210	50%	32.1%	Y
Stockbridge I.M.A	$353,869,446	50%	41.2%	Y
TA Associates I.M.A	$862,107,475	50%	24.9%	Y
SUB TOTAL	**$4,357,533,820**	**50%**	**38.3%**	**Y**
Commingled Funds				
Invesco Real Estate Asia Fund	$133,829,772	50%	34.2%	Y
Prologis Targeted Europe Logistics Fund	$146,699,521	50%	22.8%	Y
RREEF Core Plus Industrial Fund	$135,063,827	50%	15.6%	Y
SUB TOTAL	**$415,593,120**	**50%**	**24.9%**	**Y**
TOTAL CORE PORTFOLIO	**$4,773,126,940**	**50%**	**37.4%**	**Y**

Leverage Compliance

AS OF DECEMBER 31, 2017:

VALUE ADDED	MARKET VALUE	FUND LTV LIMIT	LTV	COMPLIANCE (Y/N)
Individual Managed Accounts				
Barings Value I.M.A.	$218,159,994	65%	0.0%	Y
Heitman Value I.M.A.	$13,288,685	65%	55.6%	Y
Invesco Value I.M.A. III	$68,558,769	65%	43.9%	Y
Invesco Value I.M.A. IV	$133,817,759	65%	39.5%	Y
Invesco Value I.M.A. V	$103,845,145	65%	0.0%	Y
Stockbridge Value I.M.A.	$36,645,969	65%	0.0%	Y
Vanbarton Value I.M.A. I	-$20,432	65%	0.0%	Y
Vanbarton Value I.M.A. II	$162,017,881	65%	0.0%	Y
SUB TOTAL	**$736,313,770**	**65%**	**17.6%**	**Y**
Commingled Funds				
CapMan Nordic Real Estate Fund II	$684,244	60%	90.3%	N*
CBRE Asia Value Fund L.P.	$0	65%	0.0%	Y
CBRE Strategic Partners European Fund III	$428,782	75%	0.0%	Y
CBRE Strategic Partners UK Fund III	$0	70%	0.0%	Y
Cornerstone Hotel Income Equity Fund II	$220,657	60%	0.0%	Y
Hunt UK Realty Partners LP	$1,952,607	75%	63.4%	Y
LaSalle Medical Office Fund II	$0	65%	0.0%	Y
SUB TOTAL	**$3,286,290**	**65%**	**74.8%**	**N**
TOTAL VALUE ADDED	**$739,600,060**	**65%**	**18.4%**	**Y**

*CapMan Nordic Real Estate Fund II is the process of investing client capital resulting in a smaller, highly leveraged portfolio. Leverage is anticipated to be in compliance next quarter

Leverage Compliance

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AS OF DECEMBER 31, 2017:

HIGH RETURN	MARKET VALUE	FUND LTV LIMIT	LTV	COMPLIANCE (Y/N)
Individual Managed Accounts				
Capri Capital High I.M.A.	$55,411,452	80%	48.4%	Y
Clarion High I.M.A.	$121,376,485	80%	44.7%	Y
Barings High Return I.M.A.	$3,385	80%	0.0%	Y
Invesco High I.M.A. II	$83,482,353	80%	42.8%	Y
Invesco High I.M.A. III	$31,757,373	80%	41.5%	Y
RREEF High Return I.M.A.	$139,889,486	80%	0.0%	Y
Stockbridge High I.M.A. Vintage 2014	$49,577,479	80%	33.8%	Y
TriPacific (LERI/LERP)	$22,328	N/A	0.0%	N/A
SUB TOTAL	**$481,520,341**	**80%**	**35.1%**	**Y**
Commingled Funds				
Capri Urban Investors	$44,942,145	65%	12.4%	Y
Carlyle Europe Real Estate Partners III	$2,712,043	75%	19.0%	Y
CityView Bay Area Fund II	$73,311,169	75%	53.2%	Y
CityView LA Urban Fund I	$535,446	75%	0.0%	Y
CityView Southern California Residential Fund II	$109,692,275	75%	53.5%	Y
CityView Western Fund I	$18,907,312	75%	0.0%	Y
Europa Fund III	$3,085,039	75%	37.0%	Y
Europa Fund IV	$36,078,023	75%	51.0%	Y
Genesis Workforce Housing Fund II	-$66,752	80%	0.0%	Y
INVESCO Asian Real Estate Partners II	$245,838	75%	0.0%	Y
Starwood Brandco	$2,431,059	75%	6.2%	Y
Starwood Capital Hospitality Fund II	$45,455,028	75%	44.4%	Y
SUB TOTAL	**$337,328,625**	**80%**	**46.4%**	**Y**
TOTAL HIGH RETURN	**$818,848,966**	**80%**	**40.3%**	**Y**
TOTAL PORTFOLIO	**$6,331,575,966**	**50%**	**36.0%**	**Y**

Manager Compliance

Effective March 13, 2013 the Board requested that the Barings Equity IMA mandates be placed in Watch List status. The following is provided to assist the Board in monitoring manager progress in implementing corrective measures.

Barings Equity IMA Mandates:

Core – As of December 31, 2017 the Barings core portfolio has no assets remaining.

High Return – As of December 31, 2017 the Barings high return portfolio has no assets remaining.

Value Added – The portfolio includes a dual mandate given to Barings with the takeover of three existing hotel assets and a capital allocation, which Barings used to purchased two additional value-add hotel assets. As of December 31, 2017, only one hotel remains in the portfolio. The tables below present performance through December 31, 2017 or liquidation of sold assets. "NA" indicates time frames or data points not appropriate for analysis. All returns provided below are time-weighted.

Property[5]	Vintage Year	Prior Manager(s) Return through 2003 (Net)	Barings Return Through Liquidation (Net)	Barings Inception Return (Net)	NPI Match Inception
Ritz Carlton (Sold January 2008)	1994/2003	15.9%	14.5%	N/A	11.7%
Oak Brook Hills (Sold July 2005)	1996/2003	9.8%	3.9%	N/A	11.1%
The Salish Lodge (Sold October 2007)	1996/2003	17.1%	21.5%	N/A	16.6%
Hyatt Valencia (Sold May 2008)	2004	N/A	25.6%	N/A	17.4%
Hotel Asset #1	2005	N/A	N/A	1.0%	8.5%
Barings Value Added I.M.A.	2004	N/A	N/A	0.8%	9.0%
Barings Value Added I.M.A. (3Q2017)	2004	N/A	N/A	0.6%	9.1%

[5] Property names are removed from the analysis to protect competitive information from public distribution.

Manager Compliance

Property	Vintage Year	1 Year Return (Net)	5 Year Return (Net)	Inception Return (Net)	NPI - Hotel Match Inception
Hotel Asset #1	2005	8.3%	11.2%	1.0%	7.1%

For the three takeover assets, LACERA invested just over $139 million in equity and received in excess of $209 million in net sales proceeds. This excludes the cash flow received from the assets during the hold period. The single, remaining asset has completed a major renovation conducted during the market slow down. Projections for improved performance are consistent with expectations for value added strategies. Projections also reflect the general expectations for economic recovery which acts as the primary driver of the performance of this asset.

Manager Compliance

Effective 2012 Staff placed the Vanbarton Value IMA mandates in Watch List status. The following is provided to assist the Board in monitoring manager progress in implementing any required corrective measures.

Vanbarton Value IMA Mandates:

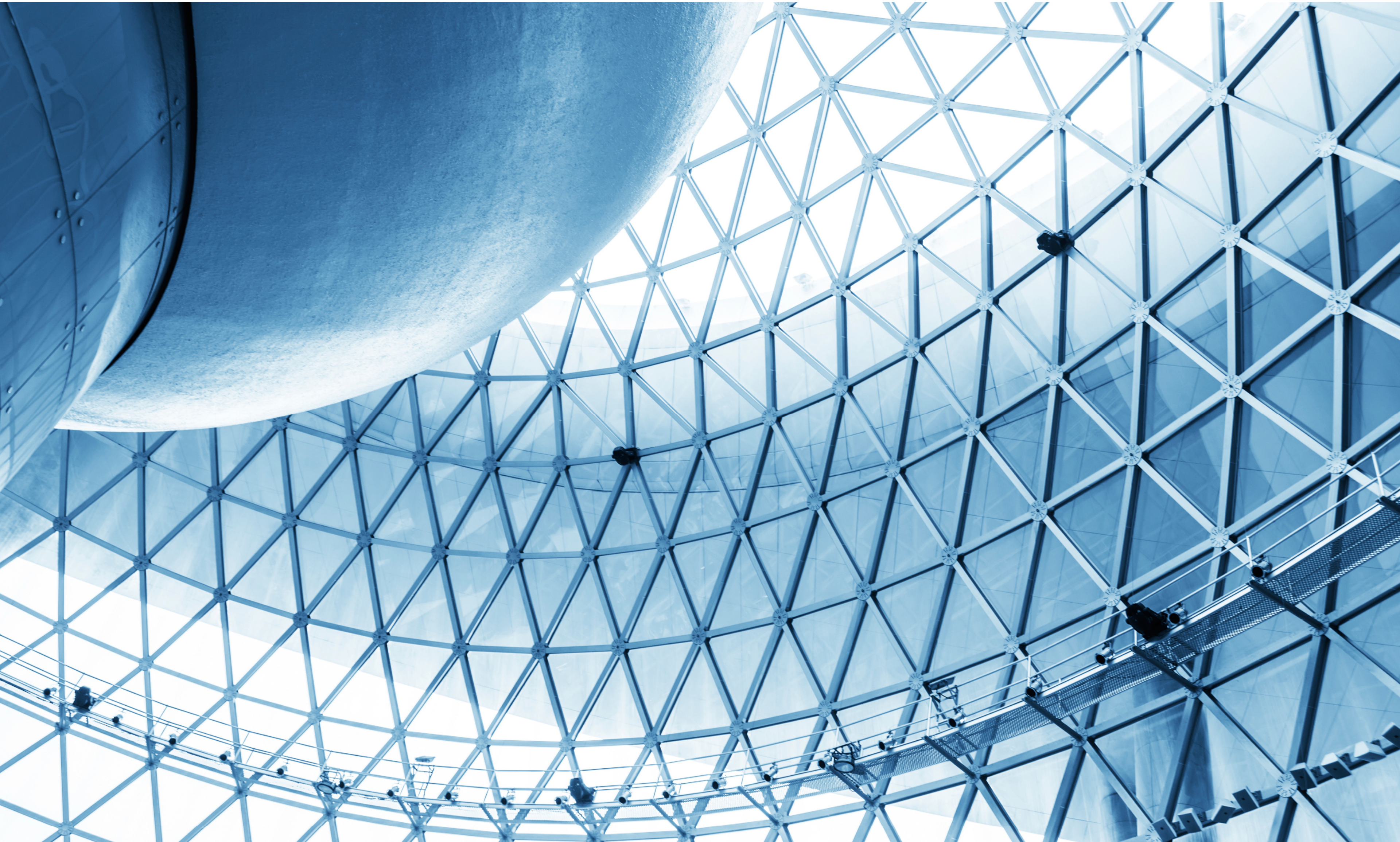
As of December 31, 2017 the portfolio had two retail assets remaining in the portfolio. The table below presents performance through December 31, 2017.

Property[8]	Vintage Year	1 Year Return (Net)	5 Year Return (Net)	Inception Return (Net)	ODCE+100 bps Match Inception (Net)	NPI Match Inception for Property Type
Retail Asset #1	2006	-2.8%	1.6%	0.9%	5.5%	8.4%
Retail Asset #2	2007	3.4%	7.1%	-0.1%	5.5%	8.0%
Vanbarton Value IMA[9]	2003	3.1%	6.4%	-1.0%	6.5%	N/A
Vanbarton Value IMA[9] (3Q2017)	2003	2.6%	6.9%	-1.1%	6.6%	N/A

Assets were purchased at what appears to be peak market pricing and have suffered from both market cycle and single asset impact within a small portfolio. Vanbarton's performance was greatly impacted by the 2008 market correction as exit strategies could not be executed as planned. Despite improved performance in recent years, the mandate has not recovered sufficiently to return all capital invested. Through December 31, 2017 LACERA had funded over $450 million to the total Vanbarton Value I.M.A. mandate, has received $284 million in distributions and has a remaining market value of $162 million. An additional $4 million in recovered market values would be required to achieve a full return of capital.

[8] Property names are removed from the analysis to protect competitive information from public distribution.
[9] Value IMA includes all legacy Vanbarton Value Added investments made and managed on behalf of LACERA.

APPENDIX



LACERA Custom Benchmark Composition

Beginning July 1, 2013 the performance of LACERA's Real Estate Portfolio has been compared to the National Council of Real Estate Investment Fiduciaries ('NCREIF') Fund Index ('NFI') Open-end Diversified Core Equity herein referred to as the **NFI-ODCE**. All comparisons utilize LACERA net of fee performance to the net of fee index returns. The use of NFI-ODCE began with 3Q13; prior benchmarks remain in the historical benchmark returns reflecting the appropriate return objectives since inception. The table below shows the composition of each respective investment category custom benchmark:

Investment Category Custom Benchmark	Inception-2Q2013	3Q2013 -Present
LACERA Custom Core Benchmark	NPI -50 basis points	ODCE (Net)
LACERA Custom Value Added Benchmark	NPI +25 basis points	ODCE (Net) +100 basis points
LACERA Custom High Return Benchmark	NPI +225 basis points	ODCE (Net) +300 basis points
LACERA Custom Total Portfolio Benchmark	NPI -25 basis points	ODCE (Net) +40 basis points

Portfolio Composition ($)								
Total Plan Assets	Allocation		Market Value		Unfunded Commitments		Remaining Allocation	
55,607,461,171	6,116,820,729	11.0%	6,331,575,966	11.4%	870,259,825	1.6%	-1,085,015,062	-2.0%

Performance Summary	Quarter (%)		1 Year (%)		5 Year (%)		10 Year (%)	
	TGRS	TNET	TGRS	TNET	TGRS	TNET	TGRS	TNET
LACERA	1.8	1.5	7.6	6.8	10.2	9.3	10.2	9.3
NFI-ODCE + 40 BPS	2.2	1.9	8.0	7.1	10.9	9.9	12.0	11.0

Funding Status ($)	Investment Vintage Year	Commitment Amount	Funded Amount	Unfunded Commitments	Capital Returned	Market Value	Market Value (%)	Market Value + Unfunded Commitments (%)
Core Portfolio								
Barings Core I.M.A.	2007	0	164,022,744	0	141,339,296	30,150	0.0	0.0
Barings Debt I.M.A	2011	500,000,000	928,305,223	352,555,837	886,679,992	161,713,448	2.6	7.1
Capri Capital Core I.M.A.	2011	0	314,316,952	0	145,591,332	312,830,932	4.9	4.3
Cityview Core I.M.A.	2014	0	305,692,733	0	12,390,000	314,920,990	5.0	4.4
Clarion Core I.M.A.	2014	0	200,652,076	0	44,397,096	208,528,721	3.3	2.9
Gateway I.M.A. (Avison Young)	2016	0	97,192,866	0	7,574,559	110,746,447	1.7	1.5
Heitman Core I.M.A.	2014	0	441,211,794	0	24,478,300	458,349,908	7.2	6.4
Invesco Core I.M.A.	1994	0	1,581,984,021	0	1,786,958,744	713,247,226	11.3	9.9
Invesco Real Estate Asia Fund	2014	100,000,000	117,161,728	0	17,896,041	133,829,772	2.1	1.9
Prologis European Logistics Fund (PELF)	2017	118,147,448	140,449,602	0	1,725,459	146,699,521	2.3	2.0
Quadrant I.M.A	2011	300,000,000	88,219,940	242,250,000	41,210,938	57,877,867	0.9	4.2
RREEF Core I.M.A.*	1991	0	1,732,010,576	0	2,790,824,160	803,311,210	12.7	11.2
RREEF Core Plus Industrial Fund L.P.	2017	125,000,000	125,000,000	0	2,631,847	135,063,827	2.1	1.9
Stockbridge Core I.M.A.	2013	0	533,132,312	0	265,665,662	353,869,446	5.6	4.9
TA Associates Core I.M.A.*	1992	0	1,817,695,455	0	2,320,708,200	862,107,475	13.6	12.0
Core Portfolio	**1985**	**1,143,147,448**	**8,710,887,388**	**594,805,837**	**8,650,252,234**	**4,773,126,940**	**75.4**	**74.5**
Total Core Separate Accounts	**1990**	**800,000,000**	**8,204,436,692**	**594,805,837**	**8,467,818,280**	**4,357,533,819**	**68.8**	**68.8**
Value Added								
AEW Value Investors Asia III	2017	50,000,000	0	50,000,000	0	0	0.0	0.7
Barings Value I.M.A. Vintage 2003	2003	0	518,026,377	0	417,469,580	218,159,994	3.4	3.0
CapMan Nordic Real Estate Fund II	2017	59,206,631	421,451	59,598,569	0	684,244	0.0	0.8
CBRE Asia Value Fund L.P.	2011	50,000,000	42,740,803	0	54,253,939	0	0.0	0.0
CBRE Strategic Partners European Fund III	2007	21,488,047	21,523,777	0	5,588,574	428,782	0.0	0.0
CBRE Strategic Partners UK Fund III	2007	29,058,504	17,169,081	0	2,705,062	0	0.0	0.0
Cornerstone Hotel Income Equity Fund II	2008	150,000,000	140,830,910	0	193,192,178	220,657	0.0	0.0
Heitman Value I.M.A. Vintage 2013	2013	0	11,479,310	0	2,526,300	13,288,685	0.2	0.2
Hunt UK Realty Partners LP	2007	29,833,366	30,266,701	0	1,226,453	1,952,607	0.0	0.0
Invesco Value I.M.A. Vintage 2010	2010	0	285,437,163	0	262,607,589	68,558,769	1.1	1.0
Invesco Value I.M.A. Vintage 2012	2012	0	98,639,245	0	2,350,980	133,817,759	2.1	1.9
Invesco Value I.M.A. Vintage 2017	2017	0	104,797,096	0	0	103,845,145	1.6	1.4
LaSalle Medical Office Fund II	2007	25,000,000	21,759,751	0	27,989,188	0	0.0	0.0
Stockbridge Value I.M.A. Vintage 2014	2014	0	56,675,145	0	28,984,323	36,645,969	0.6	0.5
Vanbarton Value I.M.A. Vintage 2003	2003	0	59,914,350	0	73,200,000	-20,432	0.0	0.0
Vanbarton Value I.M.A. Vintage 2006	2006	0	390,796,542	0	210,480,087	162,017,881	2.6	2.2
Value Added	**1986**	**414,586,548**	**1,800,477,702**	**109,598,569**	**1,282,574,253**	**739,600,059**	**11.7**	**11.8**
Total Value Separate Accounts	**1994**	**0**	**1,525,765,228**	**0**	**997,618,859**	**736,313,770**	**11.6**	**10.2**

Portfolio Composition ($)								
Total Plan Assets	Allocation		Market Value		Unfunded Commitments		Remaining Allocation	
55,607,461,171	6,116,820,729	11.0%	6,331,575,966	11.4%	870,259,825	1.6%	-1,085,015,062	-2.0%

Performance Summary	Quarter (%)		1 Year (%)		5 Year (%)		10 Year (%)	
	TGRS	TNET	TGRS	TNET	TGRS	TNET	TGRS	TNET
LACERA	1.8	1.5	7.6	6.8	10.2	9.3	10.2	9.3
NFI-ODCE + 40 BPS	2.2	1.9	8.0	7.1	10.9	9.9	12.0	11.0

Funding Status ($)	Investment Vintage Year	Commitment Amount	Funded Amount	Unfunded Commitments	Capital Returned	Market Value	Market Value (%)	Market Value + Unfunded Commitments (%)
High Return								
Barings High I.M.A. Vintage 2007	2007	0	51,896,815	0	59,596,304	3,385	0.0	0.0
Capri Capital High I.M.A. Vintage 2006	2006	0	201,530,110	0	196,505,714	55,411,452	0.9	0.8
Capri Urban Investors	2008	150,000,000	149,951,767	0	66,767,024	44,942,145	0.7	0.6
Carlyle Europe Real Estate Partners III	2007	24,951,333	26,569,020	0	20,409,491	2,712,043	0.0	0.0
CityView Bay Area Fund II	2012	100,000,000	133,519,505	0	127,465,855	73,311,169	1.2	1.0
CityView LA Urban Fund I	2007	50,000,000	122,556,477	4,535,055	146,769,154	535,446	0.0	0.1
CityView Southern California Fund II	2013	100,000,000	85,554,963	14,445,037	0	109,692,275	1.7	1.7
CityView Western Fund I, L.P.	2016	150,000,000	23,531,168	126,468,832	0	18,907,312	0.3	2.0
Clarion High I.M.A.	2015	0	153,318,530	0	103,766,849	121,376,485	1.9	1.7
Europa Fund III	2009	23,128,342	22,015,787	0	25,370,910	3,085,039	0.0	0.0
Europa Fund IV	2014	64,292,144	52,355,844	16,746,495	27,493,692	36,078,023	0.6	0.7
Genesis Workforce Housing Fund II	2007	30,000,000	29,998,975	0	43,655,413	-66,752	0.0	0.0
INVESCO Asian Real Estate Partners II (USD Vehicle)	2007	25,000,000	11,251,165	0	14,848,936	245,838	0.0	0.0
Invesco High I.M.A. Vintage 2012	2012	0	106,540,336	0	83,721,599	83,482,353	1.3	1.2
Invesco High I.M.A. Vintage 2016	2016	0	33,295,118	0	0	31,757,373	0.5	0.4
RREEF High Return I.M.A. III	2015	0	211,732,748	0	80,208,055	139,889,486	2.2	1.9
Starwood Brandco	2011	2,000,000	1,253,399	0	2,087,071	2,431,059	0.0	0.0
Starwood Capital Hospitality Fund II	2010	100,000,000	96,340,000	3,660,000	100,816,386	45,455,028	0.7	0.7
Stockbridge High I.M.A. Vintage 2014	2014	0	61,708,911	0	18,680,831	49,577,479	0.8	0.7
TriPacific (LERI/LERP) *	1995	250,000,000	2,612,077,514	0	2,440,120,122	22,328	0.0	0.0
High Return	**1995**	**1,069,371,819**	**4,186,998,152**	**165,855,419**	**3,558,283,406**	**818,848,967**	**12.9**	**13.7**
Total High Separate Accounts	**2001**	**0**	**820,022,569**	**0**	**542,479,351**	**481,498,013**	**7.6**	**6.7**
Total Non-Core Portfolio	**1986**	**1,483,958,367**	**5,987,475,854**	**275,453,988**	**4,840,857,659**	**1,558,449,026**	**24.6**	**25.5**
Total Current Portfolio								
Los Angeles County Employees Retirement Association	**1985**	**2,627,105,815**	**14,698,363,242**	**870,259,825**	**13,491,109,893**	**6,331,575,966**	**100.0**	**100.0**

* Hardcoded Data

**Funded amount may be greater than the Commitment Amount due to recallable capital. Some distributions made during the Investment Period may be reinvested by the manager, which increases the Funded Amount to a sum greater than Commited Capital.

Returns (%)	Market Value ($)	Quarter				1 Year				3 Year				5 Year			
		INC	APP	TGRS	TNET	INC	APP	TGRS	TNET	INC	APP	TGRS	TNET	INC	APP	TGRS	TNET
Core Portfolio																	
Barings Core I.M.A. (9)	30,150																
Barings Debt I.M.A	161,713,448	3.0	0.8	3.9	3.6	10.7	0.3	11.0	9.8	10.0	1.0	11.0	9.8	9.5	0.0	9.5	8.4
Capri Capital Core I.M.A.	312,830,932	0.9	0.0	0.9	0.7	3.6	0.0	3.6	3.1	3.8	6.2	10.1	9.5	3.5	6.6	10.3	9.5
Cityview Core I.M.A.	314,920,990	0.3	0.0	0.3	0.3	2.2	-10.9	-8.8	-9.2	3.5	2.1	5.6	5.1				
Clarion Core I.M.A.	208,528,721	1.0	0.2	1.2	1.1	4.1	1.2	5.3	4.8	4.2	4.5	8.9	8.3				
Gateway I.M.A. (Avison Young)	110,746,447	1.7	0.0	1.7	1.7	7.1	-1.2	5.8	5.6								
Heitman Core I.M.A.	458,349,908	1.2	-1.6	-0.4	-0.5	5.1	-2.0	3.1	2.5	4.6	3.2	8.0	7.4				
Invesco Core I.M.A.	713,247,226	1.1	1.2	2.2	2.1	4.6	1.6	6.2	5.8	4.5	4.8	9.4	9.0	4.3	5.1	9.6	9.1
Invesco Real Estate Asia Fund	133,829,772	0.8	2.6	3.5	3.3	3.9	10.8	15.0	14.1	5.3	6.1	11.7	10.9				
Prologis European Logistics Fund (PELF)	146,699,521	1.9	4.8	6.7	5.6	5.9	23.4	30.4	27.5	4.9	8.4	13.7	11.1				
Quadrant I.M.A	57,877,867	2.0	0.5	2.5	2.3	7.7	2.8	10.6	10.0	7.7	-0.5	7.1	6.6	7.6	-0.2	7.3	6.8
RREEF Core I.M.A.*	803,311,210	1.3	-0.1	1.2	1.0	5.3	1.3	6.7	6.2	5.8	5.0	11.0	10.5	6.1	5.4	11.8	11.2
RREEF Core Plus Industrial Fund L.P.	135,063,827	1.1	5.1	6.2	6.2												
Stockbridge Core I.M.A.	353,869,446	1.6	0.5	2.1	2.0	6.5	1.4	8.0	7.3	6.6	4.5	11.3	10.6				
TA Associates Core I.M.A.*	862,107,475	1.6	0.3	2.0	1.8	7.1	3.8	11.1	10.5	6.8	1.3	8.2	7.6	7.0	1.5	8.5	8.0
Core Portfolio	**4,773,126,940**	**1.3**	**0.5**	**1.8**	**1.7**	**5.6**	**1.9**	**7.7**	**7.0**	**5.7**	**3.9**	**9.8**	**9.2**	**5.9**	**3.9**	**10.0**	**9.3**
Total Core Separate Accounts	**4,357,533,819**	**1.3**	**0.2**	**1.5**	**1.4**	**5.7**	**0.9**	**6.6**	**6.1**	**5.8**	**3.6**	**9.5**	**9.0**	**5.9**	**3.8**	**9.8**	**9.3**
Core Commingled Funds	**415,593,121**	**1.3**	**4.2**	**5.5**	**5.0**	**4.6**	**16.5**	**21.6**	**20.2**	**5.0**	**7.3**	**12.6**	**11.0**				
Core Custom Benchmark					*1.8*				*6.7*				*9.4*				*10.3*
NFI-ODCE Value Weight				*2.1*	*1.8*			*7.6*	*6.7*			*10.4*	*9.4*			*11.5*	*10.5*
Value Added																	
Barings Value I.M.A. Vintage 2003	218,159,994	2.3	0.4	2.7	2.6	8.1	0.7	8.8	8.3	7.2	5.3	12.8	12.3	8.1	3.4	11.8	11.2
CapMan Nordic Real Estate Fund II	684,244	0.0	85.3	85.3	67.1												
CBRE Asia Value Fund L.P. (3)	0	0.0	0.0	0.0	0.0	-0.4	0.0	-0.4	-0.4	1.7	3.9	5.8	5.5	1.4	5.6	7.2	6.5
CBRE Strategic Partners European Fund III (9)	428,782																
CBRE Strategic Partners UK Fund III (9)	0																
Cornerstone Hotel Income Equity Fund II (4) (9)	220,657																
Heitman Value I.M.A. Vintage 2013	13,288,685	2.0	1.2	3.2	2.9	7.4	-1.7	5.6	5.0	7.8	3.3	11.3	9.9				
Hunt UK Realty Partners LP	1,952,607	-0.3	2.3	2.0	2.0	-1.9	12.0	9.9	9.9	-2.0	-2.3	-4.3	-4.9	0.6	-7.2	-5.7	-9.1
Invesco Value I.M.A. Vintage 2010	68,558,769	2.3	0.0	2.3	2.1	10.8	-6.9	3.3	2.4	12.5	-4.4	7.7	6.8	11.1	-0.5	10.5	9.6
Invesco Value I.M.A. Vintage 2012	133,817,759	-0.9	0.3	-0.6	-0.8	-1.1	-22.1	-22.9	-23.5	0.4	-5.3	-4.9	-5.6	1.0	7.3	8.3	7.5
Invesco Value I.M.A. Vintage 2017 (10)	103,845,145																
LaSalle Medical Office Fund II (9)	0																
Stockbridge Value I.M.A. Vintage 2014	36,645,969	1.5	0.0	1.5	1.4	5.9	-1.9	3.9	3.3	4.8	3.5	8.3	7.7				
Vanbarton Value I.M.A. Vintage 2003 (9)	-20,432																
Vanbarton Value I.M.A. Vintage 2006	162,017,881	1.0	-0.1	0.9	0.8	4.9	-1.0	3.9	3.1	4.4	1.5	6.0	5.3	5.7	1.3	7.1	6.4
Value Added	**739,600,059**	**1.1**	**0.1**	**1.2**	**1.1**	**5.1**	**-6.6**	**-1.8**	**-2.4**	**5.2**	**0.2**	**5.4**	**4.7**	**6.0**	**1.9**	**8.0**	**7.2**
Value Added Separate Accounts	**736,313,770**	**1.1**	**0.1**	**1.2**	**1.0**	**5.1**	**-6.7**	**-1.9**	**-2.5**	**5.0**	**0.5**	**5.6**	**5.0**	**5.6**	**2.5**	**8.2**	**7.5**
Value Added Commingled Funds	**3,286,289**	**0.3**	**8.1**	**8.3**	**6.6**	**-1.6**	**13.7**	**11.9**	**10.1**	**3.6**	**-10.3**	**-6.9**	**-6.2**	**5.1**	**-5.9**	**-1.1**	**-1.1**
Value Custom Benchmark					*2.1*				*7.7*				*10.5*				*11.4*
NFI-ODCE Value Weight +100 BPS				*2.3*	*2.1*			*8.7*	*7.7*			*11.5*	*10.5*			*12.6*	*11.6*

Returns (%)	Market Value ($)	Quarter				1 Year				3 Year				5 Year			
		INC	APP	TGRS	TNET	INC	APP	TGRS	TNET	INC	APP	TGRS	TNET	INC	APP	TGRS	TNET
High Return																	
Barings High I.M.A. Vintage 2007 (7)(9)	3,385																
Capri Capital High I.M.A. Vintage 2006	55,411,452	-0.9	0.0	-0.9	-0.3	-5.5	62.5	55.5	50.3	-2.4	18.9	16.6	14.2	-2.3	25.5	23.0	19.4
Capri Urban Investors	44,942,145	-1.6	0.5	-1.1	-1.3	-1.1	-26.4	-27.1	-28.7	2.2858	-7.8197	-5.7123	-7.5678	3.2201	-2.5999	0.515	-1.4285
Carlyle Europe Real Estate Partners III (3)	2,712,043	-0.1	9.3	9.2	8.2	-0.3	53.2	52.8	48.6	-0.2	21.4	21.2	19.2	0.9	6.0	7.0	5.3
CityView Bay Area Fund II (4)	73,311,169	-0.1	7.3	7.2	6.8	2.1	7.5	9.6	8.1	0.5	19.2	19.8	17.9				
CityView LA Urban Fund I (9)	535,446																
CityView Southern California Fund II (4)	109,692,275	-0.1	-0.4	-0.5	-0.8	-0.7	19.9	19.0	17.4	-1.6	18.5	16.8	13.5				
CityView Western Fund I, L.P. (12)	18,907,312	-1.9	0.0	-1.9	-4.3	-37.0	-2.5	-38.6	-108.9								
Clarion High I.M.A.	121,376,485	0.8	-0.2	0.6	-3.8	1.5	32.6	34.5	28.1								
Europa Fund III (3)	3,085,039	-0.1	0.1	0.0	3.1	-0.5	16.5	15.9	19.6	-0.4	10.8	10.4	3.7	8.3	2.8	13.4	9.3
Europa Fund IV (3)	36,078,023	-0.1	11.0	10.9	10.9	-0.6	24.9	24.1	25.2	-1.8	12.7	10.6	8.9				
Genesis Workforce Housing Fund II (4)(9)	-66,752																
INVESCO Asian Real Estate Partners II (USD Vehicle) (9)	245,838																
Invesco High I.M.A. Vintage 2012	83,482,353	0.6	1.2	1.7	1.5	1.7	10.3	12.1	10.8	0.4	22.3	22.8	19.9	0.2	15.4	15.6	12.9
Invesco High I.M.A. Vintage 2016	31,757,373	-0.3	0.0	-0.3	-0.8	-0.3	0.0	-0.3	-2.6								
RREEF High Return I.M.A. III (11)	139,889,486	0.0	0.0	0.0	-0.3	0.0	8.6	8.6	7.2								
Starwood Brandco	2,431,059	3.0	3.8	6.8	2.9	13.4	2.0	15.7	8.9	16.3	16.0	34.6	15.7	7.4	16.9	25.6	17.0
Starwood Capital Hospitality Fund II	45,455,028	1.2	-1.1	0.1	1.2	9.2	-10.2	-1.6	3.9	18.0	-14.5	2.4	4.9	12.1	-3.7	8.9	8.0
Stockbridge High I.M.A. Vintage 2014	49,577,479	-1.0	2.5	1.6	1.0	-5.3	14.8	8.9	5.8	-1.7	12.5	10.5	8.5				
TriPacific (LERI/LERP) (4)(6)(9)	22,328																
High Return (5)	**818,848,967**	**0.0**	**2.1**	**2.0**	**1.2**	**0.7**	**13.8**	**14.5**	**12.5**	**3.0**	**13.0**	**16.4**	**14.2**	**5.0**	**6.6**	**11.9**	**8.5**
High Return excluding TriPacific (LERI/LERP)	**818,826,639**	**0.0**	**2.1**	**2.0**	**1.2**	**0.7**	**13.7**	**14.5**	**12.4**	**3.1**	**12.2**	**15.6**	**13.5**	**5.0**	**10.4**	**15.8**	**13.0**
High Return Separate Accounts	**481,498,013**	**0.1**	**0.4**	**0.5**	**-0.9**	**-0.1**	**22.5**	**22.4**	**19.3**	**-0.2**	**21.0**	**20.8**	**18.1**	**-0.4**	**17.3**	**16.8**	**14.2**
High Return Commingled Funds	**337,328,626**	**-0.2**	**3.8**	**3.6**	**3.4**	**1.4**	**4.2**	**5.7**	**4.6**	**4.9**	**5.9**	**11.1**	**9.4**	**7.1**	**6.1**	**13.6**	**10.9**
High Return Custom Benchmark					*2.6*				*9.8*				*12.7*				*13.6*
NFI-ODCE Value Weight + 300 BPS				*2.8*	*2.6*			*10.8*	*9.8*			*13.7*	*12.7*			*14.8*	*13.8*
Total Non-Core Portfolio	**1,558,449,026**	**0.4**	**1.2**	**1.7**	**1.1**	**2.5**	**5.0**	**7.5**	**6.1**	**4.0**	**7.1**	**11.3**	**9.8**	**5.5**	**5.6**	**11.3**	**9.4**
Total Portfolio																	
LACERA	**6,331,575,966**	**1.1**	**0.7**	**1.8**	**1.6**	**4.9**	**2.7**	**7.7**	**6.8**	**5.3**	**4.7**	**10.2**	**9.3**	**5.7**	**4.3**	**10.2**	**9.3**
LACERA Portfolio without LERI & TriPacific	**6,331,553,638**	**1.1**	**0.7**	**1.8**	**1.6**	**4.9**	**2.7**	**7.7**	**6.8**	**5.3**	**4.6**	**10.1**	**9.3**	**5.7**	**4.5**	**10.4**	**9.5**
Indices																	
Total Custom Benchmark					*1.9*				*7.1*				*9.9*				*10.7*
ODCE + 40 BPS				*2.2*	*1.9*			*8.0*	*7.1*			*10.9*	*9.9*			*12.0*	*10.9*

* Hardcoded Data

Returns (%)	Market Value ($)	7 Year INC	7 Year APP	7 Year TGRS	7 Year TNET	10 Year INC	10 Year APP	10 Year TGRS	10 Year TNET	Inception TGRS	Inception TNET	TWR Calculation Inception	Net IRR	Equity Multiple
Core Portfolio														
Barings Core I.M.A. (9)	30,150											4Q07	-2.9	0.9
Barings Debt I.M.A	161,713,448									10.1	8.9	4Q11	8.7	1.1
Capri Capital Core I.M.A.	312,830,932									12.2	11.3	2Q11	8.9	1.5
Cityview Core I.M.A.	314,920,990									4.9	4.4	3Q14	4.2	1.1
Clarion Core I.M.A.	208,528,721									8.3	7.8	2Q14	8.0	1.3
Gateway I.M.A. (Avison Young)	110,746,447									12.3	12.1	2Q16	12.4	1.2
Heitman Core I.M.A.	458,349,908									7.5	6.9	3Q14	6.2	1.1
Invesco Core I.M.A.	713,247,226	4.9	4.4	9.5	9.1	5.4	0.3	5.7	5.5	9.0	8.5	4Q94	8.7	1.6
Invesco Real Estate Asia Fund	133,829,772									8.3	7.5	2Q14	8.8	1.3
Prologis European Logistics Fund (PELF)	146,699,521									12.1	9.2	2Q14	10.5	1.2
Quadrant I.M.A	57,877,867									8.0	7.5	4Q11	7.5	1.1
RREEF Core I.M.A.*	803,311,210	6.2	4.7	11.1	10.5	6.3	0.4	6.7	6.4	11.1	10.2	1Q91	10.6	2.1
RREEF Core Plus Industrial Fund L.P.	135,063,827									10.6	10.5	3Q17	18.7	1.1
Stockbridge Core I.M.A.	353,869,446									11.0	10.3	1Q14	9.6	1.2
TA Associates Core I.M.A.*	862,107,475	6.9	1.9	8.9	8.4	6.8	-1.7	5.0	4.7	9.7	8.9	3Q92	8.8	1.8
Core Portfolio	**4,773,126,940**	**6.0**	**3.7**	**9.9**	**9.3**	**6.2**	**-0.6**	**5.5**	**5.2**	**8.4**	**7.7**	**3Q85**	**8.2**	**1.5**
Total Core Separate Accounts	**4,357,533,819**	**6.0**	**3.6**	**9.8**	**9.2**	**6.2**	**-0.7**	**5.5**	**5.2**	**8.8**	**8.1**	**3Q90**	**8.9**	**1.5**
Core Commingled Funds	**415,593,121**									**9.9**	**8.2**	**2Q14**	**10.3**	**1.2**
Core Custom Benchmark					*10.8*				*5.9*		*7.5*	*3Q85*		
NFI-ODCE Value Weight				*12.1*	*11.0*			*5.0*	*4.1*	*7.3*	*6.3*	*3Q85*		
Value Added														
Barings Value I.M.A. Vintage 2003	218,159,994	5.9	3.1	9.2	8.6	1.9	-6.6	-5.1	-5.6	1.4	0.8	1Q04	5.5	1.2
CapMan Nordic Real Estate Fund II	684,244									85.3	67.1	4Q17	548.6	1.6
CBRE Asia Value Fund L.P. (3)	0									7.7	6.9	3Q11	8.9	1.3
CBRE Strategic Partners European Fund III (9)	428,782											2Q08	-17.2	0.3
CBRE Strategic Partners UK Fund III (9)	0											2Q08	-24.6	0.2
Cornerstone Hotel Income Equity Fund II (4) (9)	220,657											4Q08	9.2	1.4
Heitman Value I.M.A. Vintage 2013	13,288,685									12.7	11.3	1Q14	9.5	1.4
Hunt UK Realty Partners LP	1,952,607	-6.5	-10.1	-13.5	-17.2	-22.3	-10.8	-22.0	-25.1	-22.0	-25.1	1Q08	-23.4	0.1
Invesco Value I.M.A. Vintage 2010	68,558,769	9.8	0.0	9.8	9.0					7.3	6.0	4Q10	7.3	1.2
Invesco Value I.M.A. Vintage 2012	133,817,759									8.3	7.5	1Q13	7.1	1.4
Invesco Value I.M.A. Vintage 2017 (10)	103,845,145											1Q18	-6.1	1.0
LaSalle Medical Office Fund II (9)	0											3Q07	5.8	1.3
Stockbridge Value I.M.A. Vintage 2014	36,645,969									6.5	5.9	2Q14	7.2	1.2
Vanbarton Value I.M.A. Vintage 2003 (9)	-20,432											3Q03	12.9	1.2
Vanbarton Value I.M.A. Vintage 2006	162,017,881	8.0	0.0	8.0	7.1	9.9	-10.3	-1.1	-2.0	-0.1	-1.0	2Q06	-0.8	1.0
Value Added	**739,600,059**	**6.1**	**1.7**	**7.9**	**7.1**	**5.1**	**-6.6**	**-1.8**	**-2.8**	**1.8**	**-5.9**	**4Q86**	**5.8**	**1.1**
Value Added Separate Accounts	**736,313,770**	**5.9**	**2.4**	**8.4**	**7.7**	**5.3**	**-6.4**	**-1.3**	**-2.2**	**7.5**	**6.3**	**3Q94**	**5.9**	**1.1**
Value Added Commingled Funds	**3,286,289**	**5.0**	**-5.0**	**-0.2**	**-0.6**	**2.8**	**-10.8**	**-8.1**	**-9.6**	**-0.1**	**-8.6**	**4Q86**	**3.8**	**1.1**
Value Custom Benchmark					*11.7*				*6.8*		*8.3*	*4Q86*		
NFI-ODCE Value Weight +100 BPS				*13.2*	*12.1*			*6.1*	*5.1*	*8.4*	*7.3*	*4Q86*		

Returns (%)	Market Value ($)	7 Year INC	7 Year APP	7 Year TGRS	7 Year TNET	10 Year INC	10 Year APP	10 Year TGRS	10 Year TNET	Inception TGRS	Inception TNET	TWR Calculation Inception	Net IRR	Equity Multiple
High Return														
Barings High I.M.A. Vintage 2007 (7)(9)	3,385											4Q07	4.7	1.1
Capri Capital High I.M.A. Vintage 2006	55,411,452	-1.7	17.6	15.9	13.4	-3.1	12.9	9.1	7.4	9.1	7.7	2Q06	9.1	1.3
Capri Urban Investors	44,942,145	2.5667	-1.2764	1.2326	-0.8617					-10.7	-13.8	3Q08	-4.4	0.7
Carlyle Europe Real Estate Partners III (3)	2,712,043	0.3	7.6	8.0	6.2					0.8	-2.4	2Q08	-2.9	0.9
CityView Bay Area Fund II (4)	73,311,169									n/a	n/a	1Q13	15.5	1.5
CityView LA Urban Fund I (9)	535,446											4Q07	11.9	1.2
CityView Southern California Fund II (4)	109,692,275									n/a	n/a	1Q14	14.3	1.3
CityView Western Fund I, L.P. (12)	18,907,312									n/a	n/a	1Q17	-31.8	0.8
Clarion High I.M.A.	121,376,485									25.0	21.5	1Q16	24.7	1.5
Europa Fund III (3)	3,085,039	4.2	3.5	9.4	6.5					10.1	8.5	4Q09	8.5	1.3
Europa Fund IV (3)	36,078,023									15.7	20.0	4Q14	11.7	1.2
Genesis Workforce Housing Fund II (4)(9)	-66,752											2Q07	8.6	1.5
INVESCO Asian Real Estate Partners II (USD Vehicle) (9)	245,838											1Q08	7.6	1.3
Invesco High I.M.A. Vintage 2012	83,482,353									15.6	12.9	1Q13	18.8	1.6
Invesco High I.M.A. Vintage 2016	31,757,373									-0.2	-3.1	2Q16	-3.6	1.0
RREEF High Return I.M.A. III (11)	139,889,486									3.4	2.4	3Q15	5.0	1.0
Starwood Brandco	2,431,059									33.0	25.2	2Q11	26.4	3.6
Starwood Capital Hospitality Fund II	45,455,028	10.0	1.1	11.8	10.1					12.2	10.2	3Q10	9.6	1.5
Stockbridge High I.M.A. Vintage 2014	49,577,479									8.9	7.1	2Q14	12.9	1.1
TriPacific (LERI/LERP) (4)(6)(9)	22,328											4Q95	-47.1	0.9
High Return (5)	**818,848,967**	**4.4**	**5.1**	**9.6**	**5.7**	**2.9**	**-13.3**	**-10.9**	**-15.1**	**6.3**	**-1.2**	**4Q95**	**1.9**	**1.0**
High Return excluding TriPacific (LERI/LERP)	**818,826,639**	**4.0**	**9.0**	**13.3**	**10.5**	**2.1**	**-4.3**	**-2.3**	**-5.4**	**0.7**	**-1.4**	**1Q01**	**5.2**	**1.2**
High Return Separate Accounts	**481,498,013**	**-0.6**	**12.8**	**12.1**	**10.2**	**-1.5**	**-5.7**	**-7.4**	**-8.7**	**-2.3**	**-3.3**	**1Q01**	**4.6**	**1.1**
High Return Commingled Funds	**337,328,626**	**5.5**	**6.0**	**11.8**	**9.1**	**0.2**	**-3.1**	**-3.0**	**-34.3**	**-17.0**	**-55.3**	**2Q07**	**5.6**	**1.2**
High Return Custom Benchmark					*13.9*				*8.9*		*12.3*	*4Q95*		
NFI-ODCE Value Weight + 300 BPS				*15.4*	*14.3*			*8.2*	*7.2*	*12.5*	*11.4*	*4Q95*		
Total Non-Core Portfolio	**1,558,449,026**	**5.5**	**4.4**	**10.1**	**8.3**	**4.5**	**-7.1**	**-2.9**	**-4.9**	**2.1**	**-6.4**	**4Q86**	**4.1**	**1.1**
Total Portfolio														
LACERA	**6,331,575,966**	**5.8**	**3.9**	**9.9**	**9.0**	**5.7**	**-1.8**	**3.8**	**3.1**	**7.9**	**6.8**	**3Q85**	**7.6**	**1.3**
LACERA Portfolio without LERI & TriPacific	**6,331,553,638**	**5.8**	**4.1**	**10.0**	**9.2**	**5.7**	**-1.2**	**4.4**	**3.7**	**8.0**	**7.1**	**3Q85**	**7.9**	**1.4**
Indices														
Total Custom Benchmark					*11.1*				*6.2*		*7.8*	*3Q85*		
ODCE + 40 BPS				*12.5*	*11.5*			*5.4*	*4.5*	*7.8*	*6.7*	*3Q85*		

* Hardcoded Data

Returns (%)	Market Value ($)	Quarter				1 Year				3 Year				5 Year			
		INC	APP	TGRS	TNET	INC	APP	TGRS	TNET	INC	APP	TGRS	TNET	INC	APP	TGRS	TNET
Commingled Fund Portfolio																	
CapMan Nordic Real Estate Fund II (10)	684,244																
Capri Urban Investors	44,942,145	-1.6	0.5	-1.1	-1.3	-1.1	-26.4	-27.1	-28.7	2.3	-7.8	-5.7	-7.6	3.2	-2.6	0.5	-1.4
Carlyle Europe Real Estate Partners III (3)	2,712,043	-0.1	9.3	9.2	8.2	-0.3	53.2	52.8	48.6	-0.2	21.4	21.2	19.2	0.9	6.0	7.0	5.3
CBRE Asia Value Fund L.P. (3) (9)	0																
CBRE Strategic Partners European Fund III (9)	428,782																
CBRE Strategic Partners UK Fund III (9)	0																
CityView Bay Area Fund II (4)	73,311,169	-0.1	7.3	7.2	6.8	2.1	7.5	9.6	8.1	0.5	19.2	19.8	17.9				
CityView LA Urban Fund I (9)	535,446																
CityView Southern California Residential Fund II (4)	109,692,275	-0.1	-0.4	-0.5	-0.8	-0.7	19.9	19.0	17.4	-1.6	18.5	16.8	13.5				
CityView Western Fund I, L.P.	18,907,312	-1.9	0.0	-1.9	-4.3												
Cornerstone Hotel Income Equity Fund II (4) (9)	220,657																
Europa Fund III (3)	3,085,039	-0.1	0.1	0.0	3.1	-0.5	16.5	15.9	19.6	-0.4	10.8	10.4	3.7	8.3	2.8	13.4	9.3
Europa Fund IV (3)	36,078,023	-0.1	11.0	10.9	10.9	-0.6	24.9	24.1	25.2	-1.8	12.7	10.6	8.9				
Genesis Workforce Housing Fund II (4)(9)	-66,752																
Hunt UK Realty Partners LP	1,952,607	-0.3	2.3	2.0	2.0	-1.9	12.0	9.9	9.9	-2.0	-2.3	-4.3	-4.9	0.6	-7.2	-5.7	-9.1
INVESCO Asian Real Estate Partners II (USD Vehicle) (9)	245,838																
Invesco Real Estate Asia Fund	133,829,772	0.8	2.6	3.5	3.3	3.9	10.8	15.0	14.1	5.3	6.1	11.7	10.9				
LaSalle Medical Office Fund II (9)	0																
Prologis European Logistics Fund (PELF)	146,699,521	1.9	4.8	6.7	5.6	5.9	23.4	30.4	27.5	4.9	8.4	13.7	11.1				
RREEF Core Plus Industrial Fund L.P.	135,063,827	1.1	5.1	6.2	6.2												
Starwood Brandco	2,431,059	3.0	3.8	6.8	2.9	13.4	2.0	15.7	8.9	16.3	16.0	34.6	15.7	7.4	16.9	25.6	17.0
Starwood Capital Hospitality Fund II	45,455,028	1.2	-1.1	0.1	1.2	9.2	-10.2	-1.6	3.9	18.0	-14.5	2.4	4.9	12.1	-3.7	8.9	8.0
Total Commingled Fund Portfolio	**756,208,035**	**0.5**	**4.0**	**4.5**	**4.2**	**2.8**	**9.0**	**12.0**	**10.8**	**5.0**	**6.4**	**11.7**	**10.0**	**6.8**	**5.5**	**12.6**	**10.4**
Total Separate Account Portfolio																	
Barings Debt I.M.A	161,713,448	3.0	0.8	3.9	3.6	10.7	0.3	11.0	9.8	10.0	1.0	11.0	9.8	9.5	0.0	9.5	8.4
Barings I.M.A.	218,193,529	2.3	0.4	2.7	2.6	8.0	0.7	8.7	8.3	6.5	6.0	12.8	12.3	6.3	4.5	11.1	10.5
Capri Capital I.M.A.	368,242,384	0.6	0.0	0.6	0.6	2.6	5.4	8.1	7.1	3.1	7.3	10.6	9.8	2.9	8.2	11.3	10.2
Cityview Core I.M.A.	314,920,990	0.3	0.0	0.3	0.3	2.2	-10.9	-8.8	-9.2	3.5	2.1	5.6	5.1				
Clarion I.M.A.	329,905,206	0.9	0.1	1.0	-0.9	2.9	15.4	18.6	16.0	3.2	11.2	14.6	13.4				
Gateway I.M.A.	110,746,447	1.7	0.0	1.7	1.7	7.1	-1.2	5.8	5.6	7.1	5.4	12.8	12.7	7.5	3.9	11.6	11.5
Heitman I.M.A.	471,638,593	1.2	-1.5	-0.3	-0.4	5.2	-2.0	3.1	2.5	4.8	3.3	8.2	7.5				
Invesco I.M.A.	1,134,708,625	0.7	0.8	1.5	1.4	3.7	-2.7	0.9	0.2	3.9	4.1	8.2	7.3	3.9	6.1	10.2	9.4
Quadrant I.M.A	57,877,867	2.0	0.5	2.5	2.3	7.7	2.8	10.6	10.0	7.7	-0.5	7.1	6.6	7.6	-0.2	7.3	6.8
RREEF I.M.A.	943,200,696	1.1	-0.1	1.0	0.9	4.7	2.1	6.9	6.3	5.5	5.3	11.0	10.4	6.0	5.5	11.7	11.2
Stockbridge I.M.A.	440,092,894	1.3	0.7	2.0	1.8	5.6	2.3	8.0	7.2	6.0	5.2	11.5	10.7				
TA Associates I.M.A.	862,107,475	1.6	0.3	2.0	1.8	7.1	3.8	11.1	10.5	6.8	1.3	8.2	7.6	6.9	1.0	8.0	7.4
TriPacific (LERI/LERP) (4,6,9)	22,328																
Vanbarton I.M.A.	161,997,450	1.0	-0.1	0.9	0.8	4.9	-1.0	3.9	3.1	4.4	1.5	6.0	5.3	5.7	1.3	7.1	6.3
Total Separate Accounts	**5,575,367,932**	**1.2**	**0.2**	**1.4**	**1.1**	**5.1**	**1.7**	**6.9**	**6.2**	**5.3**	**4.3**	**9.8**	**9.1**	**5.6**	**4.4**	**10.1**	**9.4**
Total Portfolio																	
LACERA	**6,331,575,966**	**1.1**	**0.7**	**1.8**	**1.6**	**4.9**	**2.7**	**7.7**	**6.8**	**5.3**	**4.7**	**10.2**	**9.3**	**5.7**	**4.3**	**10.2**	**9.3**
LACERA Portfolio without LERI & TriPacific	**6,331,553,638**	**1.1**	**0.7**	**1.8**	**1.6**	**4.9**	**2.7**	**7.7**	**6.8**	**5.3**	**4.6**	**10.1**	**9.3**	**5.7**	**4.5**	**10.4**	**9.5**
Indices																	
Total Custom Benchmark					*1.9*				*7.1*				*9.9*				*10.7*
ODCE + 40 BPS				*2.2*	*1.9*			*8.0*	*7.1*			*10.9*	*9.9*			*12.0*	*10.9*

Returns (%)	Market Value ($)	7 Year				10 Year				Inception		TWR Calculation Inception	Net IRR	Equity Multiple
		INC	APP	TGRS	TNET	INC	APP	TGRS	TNET	TGRS	TNET			
Commingled Fund Portfolio														
CapMan Nordic Real Estate Fund II (10)	684,244											4Q17	548.6	1.6
Capri Urban Investors	44,942,145	2.6	-1.3	1.2	-0.9					-10.7	-13.8	3Q08	-4.4	0.7
Carlyle Europe Real Estate Partners III (3)	2,712,043	0.3	7.6	8.0	6.2					0.8	-2.4	2Q08	-2.9	0.9
CBRE Asia Value Fund L.P. (3) (9)	0											3Q11	8.9	1.3
CBRE Strategic Partners European Fund III (9)	428,782											2Q08	-17.2	0.3
CBRE Strategic Partners UK Fund III (9)	0											2Q08	-24.6	0.2
CityView Bay Area Fund II (4)	73,311,169									n/a	n/a	1Q13	15.5	1.5
CityView LA Urban Fund I (9)	535,446											4Q07	11.9	1.2
CityView Southern California Residential Fund II (4)	109,692,275									n/a	n/a	1Q14	14.3	1.3
CityView Western Fund I, L.P.	18,907,312									n/a	n/a	1Q17	-31.8	0.8
Cornerstone Hotel Income Equity Fund II (4) (9)	220,657											4Q08	9.2	1.4
Europa Fund III (3)	3,085,039	4.2	3.5	9.4	6.5					10.1	8.5	4Q09	8.5	1.3
Europa Fund IV (3)	36,078,023									15.7	20.0	4Q14	11.7	1.2
Genesis Workforce Housing Fund II (4)(9)	-66,752											2Q07	8.6	1.5
Hunt UK Realty Partners LP	1,952,607	-6.5	-10.1	-13.5	-17.2	-22.3	-10.8	-22.0	-25.1	-22.0	-25.1	1Q08	-23.4	0.1
INVESCO Asian Real Estate Partners II (USD Vehicle) (9)	245,838											1Q08	7.6	1.3
Invesco Real Estate Asia Fund	133,829,772									8.3	7.5	2Q14	8.8	1.3
LaSalle Medical Office Fund II (9)	0											3Q07	5.8	1.3
Prologis European Logistics Fund (PELF)	146,699,521									12.1	9.2	2Q14	10.5	1.2
RREEF Core Plus Industrial Fund L.P.	135,063,827									10.6	10.5	3Q17	18.7	1.1
Starwood Brandco	2,431,059									33.0	25.2	2Q11	26.4	3.6
Starwood Capital Hospitality Fund II	45,455,028	10.0	1.1	11.8	10.1					12.2	10.2	3Q10	9.6	1.5
Total Commingled Fund Portfolio	**756,208,035**	**5.7**	**4.5**	**10.4**	**8.2**	**3.6**	**-4.8**	**-1.4**	**-4.8**	**1.9**	**-2.2**	**1Q02**	**4.0**	**1.1**
Total Separate Account Portfolio														
Barings Debt I.M.A	161,713,448									10.1	8.9	4Q11	8.7	1.1
Barings I.M.A.	218,193,529	5.1	4.3	9.6	9.0	2.8	-5.2	-2.7	-3.3	3.2	2.5	1Q04	3.4	1.1
Capri Capital I.M.A.	368,242,384	3.2	11.5	15.0	13.8	2.7	2.9	5.5	4.2	7.8	6.3	1Q03	7.1	1.3
Cityview Core I.M.A.	314,920,990									4.9	4.4	3Q14	4.2	1.1
Clarion I.M.A.	329,905,206									12.9	11.8	2Q14	12.8	1.4
Gateway I.M.A.	110,746,447	8.1	1.4	9.6	9.6	7.8	-8.2	-0.9	-1.0	6.2	6.1	3Q90	6.3	1.6
Heitman I.M.A.	471,638,593									9.8	9.0	1Q14	6.4	1.1
Invesco I.M.A.	1,134,708,625	4.6	5.0	9.8	9.1	5.1	-0.1	5.1	4.7	8.7	8.1	4Q94	8.5	1.4
Quadrant I.M.A	57,877,867									8.0	7.5	4Q11	7.5	1.1
RREEF I.M.A.	943,200,696	6.0	4.9	11.2	10.6	6.1	0.1	6.3	6.0	10.9	10.0	1Q91	10.2	1.8
Stockbridge I.M.A.	440,092,894									10.7	10.0	1Q14	9.5	1.2
TA Associates I.M.A.	862,107,475	6.8	1.5	8.3	7.8	6.7	-2.0	4.6	4.3	9.4	8.6	3Q92	8.5	1.6
TriPacific (LERI/LERP) (4,6,9)	22,328											4Q95	-47.1	0.9
Vanbarton I.M.A.	161,997,450	8.0	0.0	8.0	7.1	9.9	-10.3	-1.1	-2.1	1.7	0.8	3Q03	-0.2	1.0
Total Separate Accounts	**5,575,367,932**	**5.8**	**4.0**	**10.0**	**9.3**	**5.9**	**-1.4**	**4.4**	**4.0**	**8.6**	**7.8**	**3Q90**	**8.5**	**1.4**
Total Portfolio														
LACERA	**6,331,575,966**	**5.8**	**3.9**	**9.9**	**9.0**	**5.7**	**-1.8**	**3.8**	**3.1**	**7.9**	**6.8**	**3Q85**	**7.6**	**1.3**
LACERA Portfolio without LERI & TriPacific	**6,331,553,638**	**5.8**	**4.1**	**10.0**	**9.2**	**5.7**	**-1.2**	**4.4**	**3.7**	**8.0**	**7.1**	**3Q85**	**7.9**	**1.4**
Indices														
Total Custom Benchmark					*11.1*				*6.2*		*7.8*	*3Q85*		
ODCE + 40 BPS				*12.5*	*11.5*			*5.4*	*4.5*	*7.8*	*6.7*	*3Q85*		

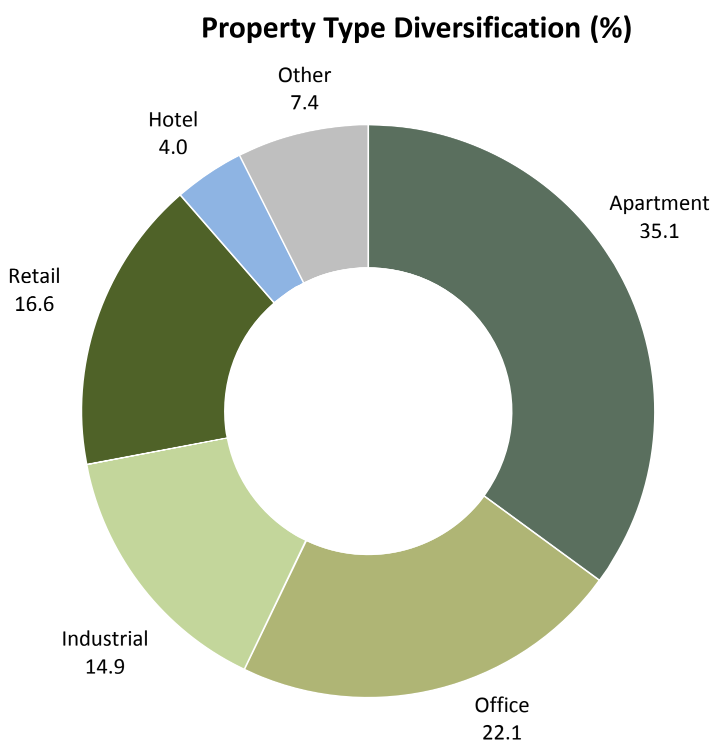
Quarterly Cash Flow Activity ($)	Beginning Market Value	Contributions	Distributions	Withdrawals	Gross Income	Manager Fees	Appreciation	Ending Market Value	LTV (%)
Core Portfolio									
Barings Core I.M.A.	30,190	0	0	0	-40	0	0	30,150	0.0
Barings Debt I.M.A	382,773,414	0	6,447,851	223,706,159	7,734,326	688,847	2,048,565	161,713,448	66.0
Capri Capital Core I.M.A.	312,856,157	435,982	2,760,250	0	2,734,069	399,651	-35,375	312,830,932	39.2
Cityview Core I.M.A.	143,220,953	170,878,357	0	0	999,230	180,199	2,649	314,920,990	46.0
Clarion Core I.M.A.	207,466,610	252,087	1,501,000	0	2,048,652	250,413	512,785	208,528,721	44.9
Gateway I.M.A. (Avison Young)	108,930,992	0	0	0	1,857,877	42,422	0	110,746,447	0.0
Heitman Core I.M.A.	290,981,267	173,352,418	3,654,000	0	5,065,195	632,125	-6,762,847	458,349,908	48.1
Invesco Core I.M.A.	615,878,157	89,277,764	5,248,000	0	6,691,078	678,654	7,326,882	713,247,226	36.9
Invesco Real Estate Asia Fund	128,904,845	1,577,097	962,167	0	1,096,328	220,634	3,434,304	133,829,772	34.2
Prologis European Logistics Fund (PELF)	140,449,602	0	1,725,459	0	2,682,737	1,565,492	6,858,133	146,699,521	22.8
Quadrant I.M.A	26,389,949	31,533,082	881,632	0	699,132	45,164	182,500	57,877,867	0.0
RREEF Core I.M.A.*	870,553,879	7,766,086	83,916,922	0	10,723,796	920,823	-894,806	803,311,210	32.1
RREEF Core Plus Industrial Fund L.P.	128,460,316	0	1,301,859	0	1,453,757	101,811	6,553,425	135,063,827	15.6
Stockbridge Core I.M.A.	361,218,405	708,225	3,413,000	11,722,728	5,802,413	551,181	1,827,312	353,869,446	41.2
TA Associates Core I.M.A.*	913,311,659	39,481,556	107,093,392	0	14,646,202	1,116,166	2,877,615	862,107,475	24.9
Core Portfolio	**4,631,426,395**	**655,712,256**	**218,905,532**	**375,878,488**	**64,234,751**	**7,393,583**	**23,931,141**	**4,773,126,940**	**37.4**
Core Separate Accounts	**4,233,611,632**	**513,685,557**	**214,916,047**	**235,428,887**	**59,001,930**	**5,505,646**	**7,085,279**	**4,357,533,819**	**38.3**
Value Added									
Barings Value I.M.A. Vintage 2003	211,955,199	748,900	0	0	4,809,291	235,469	882,073	218,159,994	0.0
CapMan Nordic Real Estate Fund II	347,492	69,972	0	0	0	72,358	339,137	684,244	90.3
CBRE Asia Value Fund L.P.	1,411,627	0	1,411,617	0	-10	0	0	0	0.0
CBRE Strategic Partners European Fund III	430,710	0	0	0	-8,271	509	6,851	428,782	0.0
CBRE Strategic Partners UK Fund III	151,935	0	0	152,286	455	0	-105	0	0.0
Cornerstone Hotel Income Equity Fund II	245,809	0	0	0	18,798	0	-43,950	220,657	0.0
Heitman Value I.M.A. Vintage 2013	12,949,503	41,297	76,500	0	261,780	41,297	153,902	13,288,685	55.6
Hunt UK Realty Partners LP	1,914,470	0	0	0	-6,020	0	44,157	1,952,607	63.4
Invesco Value I.M.A. Vintage 2010	68,126,335	151,734	1,113,450	0	1,556,265	151,734	-10,381	68,558,769	43.9
Invesco Value I.M.A. Vintage 2012	131,540,853	3,313,921	0	0	-1,162,329	281,219	406,532	133,817,759	39.5
Invesco Value I.M.A. Vintage 2017	0	104,797,096	0	0	-182,586	77,972	-691,393	103,845,145	0.0
LaSalle Medical Office Fund II	368	0	6,229	0	5,862	0	0	0	0.0
Stockbridge Value I.M.A. Vintage 2014	36,095,056	53,098	0	0	550,913	53,098	0	36,645,969	0.0
Vanbarton Value I.M.A. Vintage 2003	-18,314	0	0	0	-2,118	0	0	-20,432	0.0
Vanbarton Value I.M.A. Vintage 2006	160,499,593	295,813	0	0	1,668,058	288,127	-157,456	162,017,881	0.0
Value Added	**625,650,637**	**109,471,832**	**2,607,796**	**152,286**	**7,510,087**	**1,201,782**	**929,368**	**739,600,059**	**18.4**
Value Added Separate Accounts	**621,148,226**	**109,401,859**	**1,189,950**	**0**	**7,499,274**	**1,128,916**	**583,277**	**736,313,770**	**17.6**

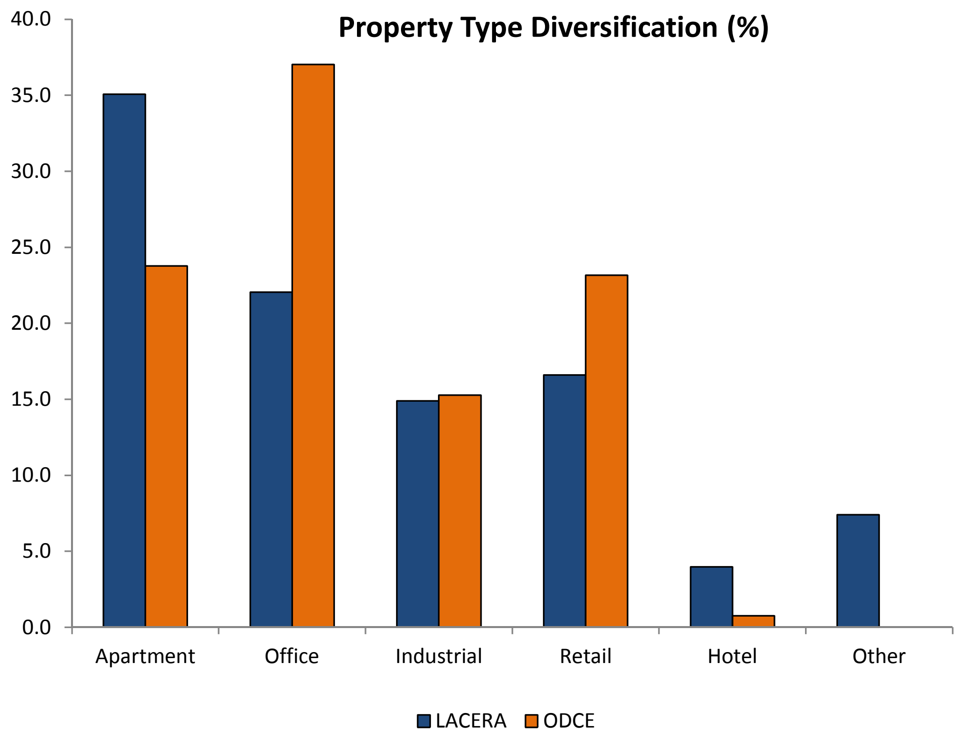
Quarterly Cash Flow Activity ($)	Beginning Market Value	Contributions	Distributions	Withdrawals	Gross Income	Manager Fees	Appreciation	Ending Market Value	LTV (%)
High Return									
Barings High I.M.A. Vintage 2007	8,013	8,000	0	0	-12,628	0	0	3,385	0.0
Capri Capital High I.M.A. Vintage 2006	55,423,911	168,182	0	0	-483,462	-302,821	0	55,411,452	48.4
Capri Urban Investors	45,519,339	0	0	0	-710,490	91,511	224,807	44,942,145	12.4
Carlyle Europe Real Estate Partners III	2,902,511	64,319	229,217	247,031	-1,664	27,538	250,663	2,712,043	19.0
CityView Bay Area Fund II	187,453,957	662,636	127,465,855	0	-253,310	662,636	13,576,378	73,311,169	53.2
CityView LA Urban Fund I	4,909,633	15,339	4,479,576	0	-34,745	15,339	140,135	535,446	0.0
CityView Southern California Fund II	110,236,742	295,296	0	0	-123,473	295,296	-420,993	109,692,275	53.5
CityView Western Fund I, L.P.	19,268,560	468,750	0	0	-361,248	468,750	0	18,907,312	0.0
Clarion High I.M.A.	227,562,253	2,859,878	0	103,766,849	1,102,691	6,130,139	-251,349	121,376,485	44.7
Europa Fund III	4,714,638	223,009	292,055	1,701,779	-5,655	-142,435	4,447	3,085,039	37.0
Europa Fund IV	33,828,584	0	553,354	863,201	-43,042	-2,613	3,706,422	36,078,023	51.0
Genesis Workforce Housing Fund II	209,560	0	273,659	0	-2,653	0	0	-66,752	0.0
INVESCO Asian Real Estate Partners II (USD Vehicle)	247,711	0	0	0	-2,719	0	846	245,838	0.0
Invesco High I.M.A. Vintage 2012	82,332,775	213,716	281,200	0	453,308	213,716	977,470	83,482,353	42.8
Invesco High I.M.A. Vintage 2016	31,816,664	193,233	0	0	-95,308	157,216	0	31,757,373	41.5
RREEF High Return I.M.A. III	110,908,729	29,319,696	0	0	0	338,939	0	139,889,486	0.0
Starwood Brandco	2,362,491	0	0	0	70,636	91,023	88,955	2,431,059	6.2
Starwood Capital Hospitality Fund II	44,908,826	0	0	0	545,165	-479,887	-478,850	45,455,028	44.4
Stockbridge High I.M.A. Vintage 2014	42,966,995	6,159,203	0	0	-433,785	250,536	1,135,601	49,577,479	33.8
TriPacific (LERI/LERP) *	37,681	0	0	0	0	0	-15,353	22,328	0.0
High Return	**1,007,619,575**	**40,651,257**	**133,574,916**	**106,578,861**	**-392,384**	**7,814,882**	**18,939,178**	**818,848,967**	**40.3**
High Return excluding TriPacific (LERI/LERP)	**1,007,581,894**	**40,651,257**	**133,574,916**	**106,578,861**	**-392,384**	**7,814,882**	**18,954,531**	**818,826,639**	**40.3**
High Return Separate Accounts	**551,019,341**	**38,921,908**	**281,200**	**103,766,849**	**530,816**	**6,787,725**	**1,861,722**	**481,498,013**	**35.1**
Total Non-Core Portfolio	**1,633,270,212**	**150,123,089**	**136,182,712**	**106,731,146**	**7,117,703**	**9,016,665**	**19,868,546**	**1,558,449,026**	**36.2**
Total Portfolio									
Los Angeles County Employees Retirement Association	**6,264,696,607**	**805,835,345**	**355,088,244**	**482,609,635**	**71,352,454**	**16,410,248**	**43,799,687**	**6,331,575,966**	**36.0**

Property Type Diversification (%)	Apartment	Office	Industrial	Retail	Hotel	Other
Core Portfolio						
Barings Core I.M.A.	-	-	-	-	-	-
Barings Debt I.M.A	4.3	95.7	-	-	-	-
Capri Capital Core I.M.A.	100.0	-	-	-	-	-
Cityview Core I.M.A.	100.0	-	-	-	-	-
Clarion Core I.M.A.	71.3	13.6	-	-	-	15.1
Gateway I.M.A. (Avison Young)	-	100.0	-	-	-	-
Heitman Core I.M.A.	28.0	-	-	22.2	-	49.8
Invesco Core I.M.A.	52.9	22.7	8.1	16.2	-	-
Invesco Real Estate Asia Fund	-	70.5	21.1	8.5	-	-
Prologis Targeted Europe Logistics Fund	-	-	100.0	-	-	-
Quadrant I.M.A	100.0	-	-	-	-	-
RREEF Core I.M.A.	20.8	32.0	11.1	23.9	-	12.2
RREEF Core Plus Industrial Fund L.P.	-	-	100.0	-	-	-
Stockbridge Core I.M.A.	19.0	29.6	27.2	24.3	-	-
TA Associates Core I.M.A.	15.9	46.9	10.0	27.1	-	-
Core Portfolio	**35.7**	**27.2**	**14.3**	**15.5**	**-**	**7.4**
Total Core Separate Accounts	**39.2**	**28.2**	**7.6**	**16.8**	**-**	**8.1**
Value Added						
Barings Value I.M.A. Vintage 2003	-	-	-	-	100.0	-
CapMan Nordic Real Estate Fund II	0.0	99.3	-	-	-	0.7
CBRE Asia Value Fund L.P.	-	-	-	-	-	-
CBRE Strategic Partners European Fund III	-	-	-	-	-	-
CBRE Strategic Partners UK Fund III	-	-	-	-	-	-
Cornerstone Hotel Income Equity Fund II	-	-	-	-	-	-
Heitman Value I.M.A. Vintage 2013	-	-	-	-	-	100.0
Hunt UK Realty Partners LP	-	-	-	100.0	-	-
Invesco Value I.M.A. Vintage 2010	-	100.0	-	-	-	-
Invesco Value I.M.A. Vintage 2012	-	-	-	100.0	-	-
Invesco Value I.M.A. Vintage 2017	-	-	100.0	-	-	-
LaSalle Medical Office Fund II	-	-	-	-	-	-
Stockbridge Value I.M.A. Vintage 2014	-	-	-	100.0	-	-
Vanbarton Value I.M.A. Vintage 2003	-	-	-	-	-	-
Vanbarton Value I.M.A. Vintage 2006	-	-	-	100.0	-	-
Value Added	**0.0**	**10.5**	**14.2**	**42.1**	**31.1**	**2.1**
Total Value Separate Accounts	**-**	**10.4**	**14.3**	**42.1**	**31.2**	**2.1**

Property Type Diversification (%)	Apartment	Office	Industrial	Retail	Hotel	Other
High Return						
Barings High I.M.A. Vintage 2007	-	-	-	-	-	-
Capri Capital High I.M.A. Vintage 2006	100.0	-	-	-	-	-
Capri Urban Investors	-	5.6	-	88.6	-	5.8
Carlyle Europe Real Estate Partners III	46.4	-	53.6	0.0	-	-
CityView Bay Area Fund II	100.0	-	-	-	-	-
CityView LA Urban Fund I	100.0	-	-	-	-	-
CityView Southern California Fund II	100.0	-	-	-	-	-
CityView Western Fund I, L.P.	100.0	-	-	-	-	-
Clarion High I.M.A.	-	-	100.0	-	-	-
Europa Fund III	51.4	36.5	-	12.1	-	-
Europa Fund IV	25.2	21.7	0.6	26.9	-	25.5
Genesis Workforce Housing Fund II	-	-	-	-	-	-
INVESCO Asian Real Estate Partners II (USD Vehicle)	6.9	91.8	-	-	-	1.3
Invesco High I.M.A. Vintage 2012	100.0	-	-	-	-	-
Invesco High I.M.A. Vintage 2016	-	-	100.0	-	-	-
RREEF High Return I.M.A. III	70.0	-	-	-	-	30.0
Starwood Brandco	-	-	-	-	100.0	-
Starwood Capital Hospitality Fund II	-	-	-	-	100.0	-
Stockbridge High I.M.A. Vintage 2014	-	25.7	-	-	-	74.3
TriPacific (LERI/LERP)	-	-	-	-	-	-
High Return	**56.8**	**3.0**	**18.8**	**4.4**	**5.8**	**11.3**
Total High Separate Accounts	**49.1**	**3.0**	**31.1**	**-**	**-**	**16.8**
Total Non-Core Portfolio	**33.2**	**6.1**	**16.9**	**20.1**	**16.3**	**7.5**

Property Type Diversification (%)	Apartment	Office	Industrial	Retail	Hotel	Other
Total Portfolio						
LACERA	**35.1**	**22.1**	**14.9**	**16.6**	**4.0**	**7.4**
Benchmark						
ODCE	**23.8**	**37.0**	**15.3**	**23.2**	**0.8**	**-**

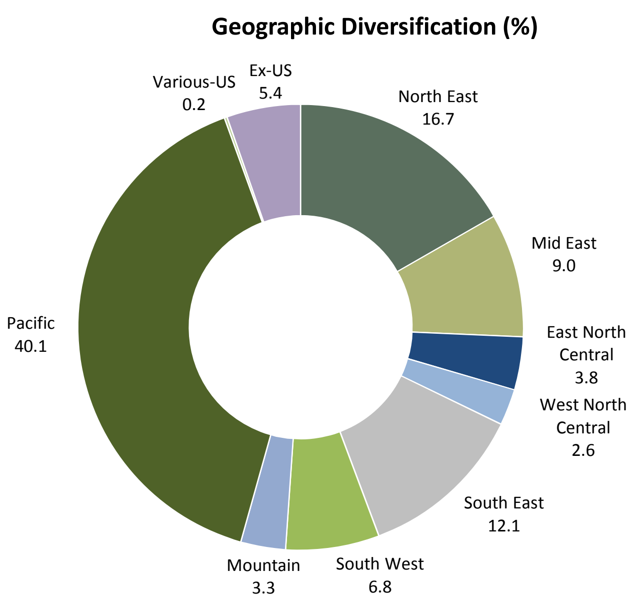


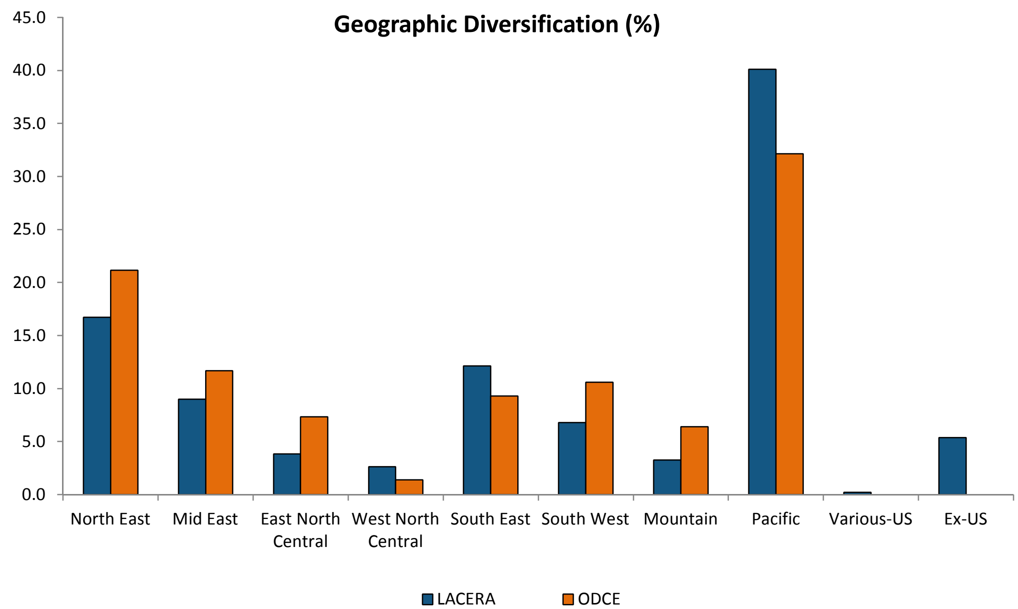


Geographic Diversification (%)	North East	Mid East	East North Central	West North Central	South East	South West	Mountain	Pacific	Various-US	Ex-US
Core Portfolio										
Barings Core I.M.A.	-	-	-	-	-	-	-	-	-	-
Barings Debt I.M.A	-	-	-	-	-	4.3	-	95.7	-	-
Capri Capital Core I.M.A.	-	-	-	-	-	34.5	-	65.5	-	-
Cityview Core I.M.A.	-	-	-	-	-	-	-	100.0	-	-
Clarion Core I.M.A.	-	-	-	-	-	13.6	-	86.4	-	-
Gateway I.M.A. (Avison Young)	-	-	-	-	-	-	-	100.0	-	-
Heitman Core I.M.A.	-	49.6	-	12.6	18.6	7.9	-	11.3	-	-
Invesco Core I.M.A.	52.3	10.9	-	-	7.2	11.9	9.6	8.1	-	-
Invesco Real Estate Asia Fund	-	-	-	-	-	-	-	-	-	100.0
Prologis Targeted Europe Logistics Fund	-	-	-	-	-	-	-	-	-	100.0
Quadrant I.M.A	54.5	45.5	-	-	-	-	-	-	-	-
RREEF Core I.M.A.	20.9	-	21.7	-	-	-	7.9	49.5	-	-
RREEF Core Plus Industrial Fund L.P.	13.4	-	20.3	-	-	-	-	66.3	-	-
Stockbridge Core I.M.A.	-	9.0	-	-	14.9	13.3	19.6	43.2	-	-
TA Associates Core I.M.A.	35.6	12.5	1.6	2.2	42.7	2.0	-	3.3	-	-
Core Portfolio	**18.9**	**9.7**	**4.7**	**1.6**	**11.6**	**6.8**	**4.2**	**36.5**	**-**	**6.0**
Total Core Separate Accounts	**20.4**	**10.7**	**4.5**	**1.7**	**12.8**	**7.5**	**4.6**	**37.9**	**-**	**-**
Value Added										
Barings Value I.M.A. Vintage 2003	-	-	-	-	-	-	-	100.0	-	-
CapMan Nordic Real Estate Fund II	-	-	-	-	-	-	-	-	-	100.0
CBRE Asia Value Fund L.P.	-	-	-	-	-	-	-	-	-	-
CBRE Strategic Partners European Fund III	-	-	-	-	-	-	-	-	-	-
CBRE Strategic Partners UK Fund III	-	-	-	-	-	-	-	-	-	-
Cornerstone Hotel Income Equity Fund II	-	-	-	-	-	-	-	-	-	-
Heitman Value I.M.A. Vintage 2013	-	-	-	-	100.0	-	-	-	-	-
Hunt UK Realty Partners LP	-	-	-	-	-	-	-	-	-	100.0
Invesco Value I.M.A. Vintage 2010	-	-	-	-	-	100.0	-	-	-	-
Invesco Value I.M.A. Vintage 2012	100.0	-	-	-	-	-	-	-	-	-
Invesco Value I.M.A. Vintage 2017	-	-	-	-	-	-	-	100.0	-	-
LaSalle Medical Office Fund II	-	-	-	-	-	-	-	-	-	-
Stockbridge Value I.M.A. Vintage 2014	-	-	-	-	100.0	-	-	-	-	-
Vanbarton Value I.M.A. Vintage 2003	-	-	-	-	-	-	-	-	-	-
Vanbarton Value I.M.A. Vintage 2006	-	-	-	96.3	3.7	-	-	-	-	-
Value Added	**21.9**	**-**	**-**	**14.0**	**8.2**	**10.4**	**-**	**45.3**	**-**	**0.3**
Total Value Separate Accounts	**21.9**	**-**	**-**	**14.0**	**8.2**	**10.4**	**-**	**45.4**	**-**	**-**

Geographic Diversification (%)	North East	Mid East	East North Central	West North Central	South East	South West	Mountain	Pacific	Various-US	Ex-US
High Return										
Barings High I.M.A. Vintage 2007	-	-	-	-	-	-	-	-	-	-
Capri Capital High I.M.A. Vintage 2006	-	-	-	-	-	-	-	100.0	-	-
Capri Urban Investors	-	-	-	-	11.4	-	-	-	-	88.6
Carlyle Europe Real Estate Partners III	-	-	-	-	-	-	-	-	-	100.0
CityView Bay Area Fund II	-	-	-	-	-	-	-	100.0	-	-
CityView LA Urban Fund I	-	-	-	-	-	-	-	100.0	-	-
CityView Southern California Fund II	-	-	-	-	-	-	-	100.0	-	-
CityView Western Fund I, L.P.	-	-	-	-	-	-	-	100.0	-	-
Clarion High I.M.A.	-	-	-	-	-	-	-	100.0	-	-
Europa Fund III	-	-	-	-	-	-	-	-	-	100.0
Europa Fund IV	-	-	-	-	-	-	-	-	-	100.0
Genesis Workforce Housing Fund II	-	-	-	-	-	-	-	-	-	-
INVESCO Asian Real Estate Partners II (USD Vehicle)	-	-	-	-	-	-	-	-	-	100.0
Invesco High I.M.A. Vintage 2012	-	-	-	-	100.0	-	-	-	-	-
Invesco High I.M.A. Vintage 2016	-	-	-	-	-	100.0	-	-	-	-
RREEF High Return I.M.A. III	-	70.0	10.7	-	-	-	-	19.3	-	-
Starwood Brandco	81.1	3.5	-	-	4.5	2.7	-	8.2	-	-
Starwood Capital Hospitality Fund II	12.6	-	-	4.3	31.5	-	8.2	-	24.7	18.7
Stockbridge High I.M.A. Vintage 2014	-	-	-	-	74.3	-	-	25.7	-	-
TriPacific (LERI/LERP)	-	-	-	-	-	-	-	-	-	-
High Return	**1.3**	**11.5**	**2.2**	**0.2**	**17.7**	**4.3**	**0.4**	**55.6**	**1.2**	**5.5**
Total High Separate Accounts	**-**	**19.2**	**2.9**	**-**	**26.8**	**7.2**	**-**	**43.8**	**-**	**-**
Total Non-Core Portfolio	**9.8**	**6.7**	**1.3**	**5.9**	**13.8**	**6.9**	**0.2**	**51.3**	**0.7**	**3.3**

Geographic Diversification (%)	North East	Mid East	East North Central	West North Central	South East	South West	Mountain	Pacific	Various-US	Ex-US
Total Portfolio										
LACERA	16.7	9.0	3.8	2.6	12.1	6.8	3.3	40.1	0.2	5.4
Benchmark										
ODCE	21.2	11.7	7.3	1.4	9.3	10.6	6.4	32.1	-	-





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Advisory Disclosures and Definitions

Disclosures:
Trade Secret and Confidential.

Past performance is not indicative of future results.

Investing involves risk, including the possible loss of principal.

Returns are presented on a time weighted basis and shown both gross and net of underlying third party fees and expenses and may include income, appreciation and/or other earnings. In addition, investment level Net IRR's and equity multiples are reported.

The Townsend Group, on behalf of its client base, collects quarterly limited partner/client level performance data based upon inputs from the underlying investment managers. Data collection is for purposes of calculating investment level performance as well as aggregating and reporting client level total portfolio performance. Quarterly limited partner/client level performance data is collected directly[1] from the investment managers via a secure data collection site.

[1]In select instances where underlying investment managers have ceased reporting limited partner/client level performance data directly to The Townsend Group via a secure data collection site, The Townsend Group may choose to input performance data on behalf of its client based upon the investment managers quarterly capital account statements which are supplied to The Townsend Group and the client alike.

Benchmarks
The potential universe of available real asset benchmarks are infinite. Any one benchmark, or combination thereof, may be utilized on a gross or net of fees basis with or without basis point premiums attached. These benchmarks may also utilize a blended composition with varying weighting methodologies, including market weighted and static weighted approaches.

* Funded amount + unfunded commitments may not aggregate to commitment amount due to, but not limited to, one or more of the following reasons: (1) The reinvestment of distributions/withdrawals, (2) a redistribution of interest made between limited partners after the funds initial closing.

** The Internal Rate of Return (IRR) is the annualized implied discount rate (effective compounded rate) that equates the present value of all the appropriate cash inflows (Paid-in Capital, such as drawdowns for net investments) associated with an investment with the sum of the present value of all the appropriate cash outflows (such as Distributions) accruing from it and the present value of the unrealized residual fund (unliquidated holdings). For an interim cumulative return measurement, any IRR depends on the valuation of the residual assets. The IRR is affected by both the timing and amount of cash flows. The Xirr funcion in excel is used for calculation and liquidation of the whole portfolio is assumed at the end of the quarter.

*** Capital Returned is a sum of distributions and withdrawals. Distributions are further defined as any income or appreciation that is a return on capital. Withdrawals are return of capital.

1,2) The gross to net spread on a since inception basis is due to the statistical impact of two fully liquidated investments (Sarofim I and II, formerly TCEP). Without the inclusion of these funds, since inception returns for the Value Added portfolio are equal to 7.8% gross and 6.4% net, and for the Non-Core portfolio 7.6% gross and 4.8% net.

3) These funds were converted from their currency to USD by Townsend.

4) 'Broken' TWR – In a series of quarterly returns for an investment line item, a single quarter of significant volatility and/or temporary negative market value will 'break' the time weighted calculation and period returns (including since inception) may not accurately reflect performance of the investment line item. Line item data continues to be reflected in the sub-portfolio and portfolio totals, however for the individual line item, the internal rate of return ("IRR") becomes a more appropriate data point for evaluation.

5) Aggregate level returns are distorted by the previous negative market values of specific investments (TriPacific (LERI/LERP)).

6) In 3Q2013, the method to calculate TriPacific (LERI/LERP)'s Market Value was adjusted to reflect the full recourse debt amount.

7) Cornerstone High IMA is a fully liquidated fund. Cash and the transfer of a single property from the Cornerstone Value IMA (Alric) is what makes up the Fund's residual market value.

8) Non Core separate account I.M.A.s are presented by vintage year to mirror closed end commingled funds. The following I.M.As are included in their respective style and total real estate composites, but are not shown separately as they have fully liquidated: Capri Capital Value I.M.A. Vintage 2003; Invesco Value I.M.A. Vintage 1998 & 2004; Invesco Development I.M.A. 2001; LaSalle Value I.M.A. Vintage 2003; Lend Lease Value I.M.A. Vintage 1998; Lowe Value I.M.A. Vintage 1998; RREEF Value I.M.A. Vintage 2001, 2003 & 2005; TA Associates Value I.M.A. 2005; Invesco High I.M.A. Vintage 2008; and RREEF High I.M.A. Vintage 2000 & 2004.

9) Fully liquidated funds/separate accounts left with limited cash positions. Short term time-weighted returns are no longer displayed because they are not meaningful.

10) Partial periods are excluded from since inception return calculations at the investment level, but are included in the calculations of composites and the total portfolio level.

11) This separate account currently only has one asset, which is a new development project. Returns are not displayed as they are not yet meaningful.

12) New Funds early in their investment period may only call capital for management fees, creating negative returns. Short term time-weighted returns are not longer displayed because they are not meaningful.

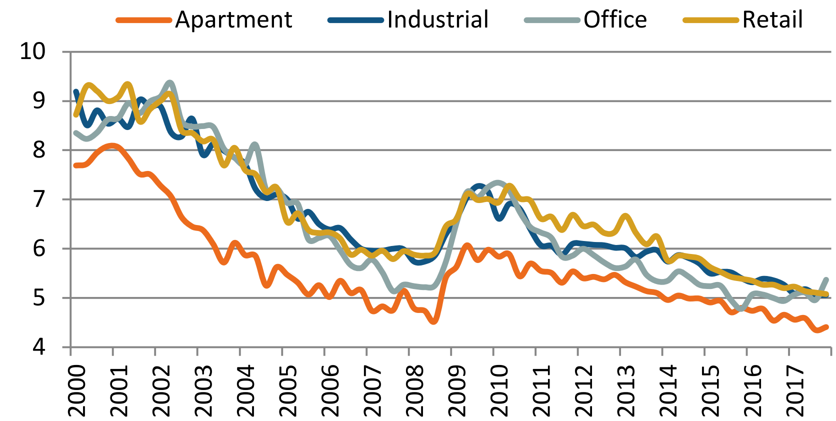
United States Real Estate Market Update (4Q17)

General

- The S&P 500 produced a gross total return of 6.6% during the Quarter, as markets have continued to rally on the back of tax cuts. MSCI US REIT index produced a more moderate return of 1.4%. REITS underperformed the broader equities market by 16.8%. Consumer Sentiment improved during the Quarter, concluding the year at 95.9. US 10 year treasury bond yields expanded 7 bps during the Quarter.

- Macro indicators for U.S. real estate continue to be positive; GDP grew at an annualized rate of 2.6% in the 4th Quarter. With the conclusion of December, the economy has now experienced 87 consecutive months of job growth. For 2017, headline inflation remained healthy at 2.1%, near the Fed's 2% target. The Federal Reserve has continued to tighten their policy, in light of improving economic data, and raised base rates to 1.25-1.5%. In 2018, the consensus expectation is three rate hikes.

Current Value Cap Rates by Property Type



Source: NCREIF

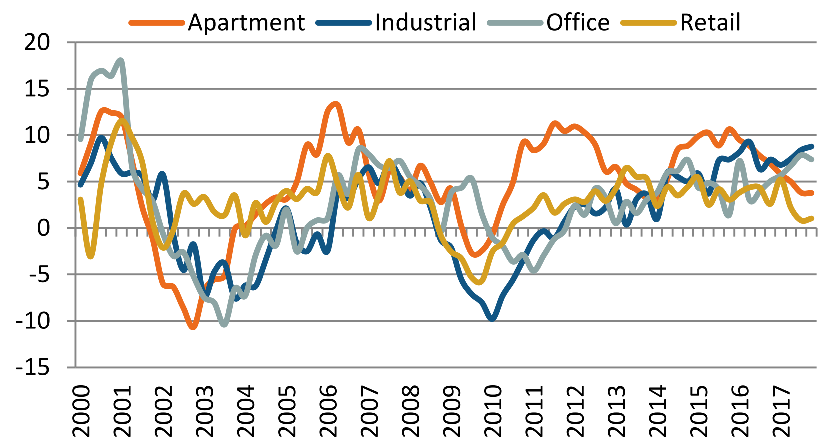
Commercial Real Estate

- In 2016, $124.1bn of aggregate capital was raised by US real estate funds. 2017, Private Equity Real Estate Funds have raised 111.6bn. Continuing on trend since 2012, 2017 has witnessed the largest average fund size at $444m; this trend which has strengthened as capital has concentrated in a small group of established managers.

- Transaction cap rates (5.87%) on average expanded 5 bps during the 4th Quarter of 2017. Office experienced an expansion of current value cap rates of 40 bps; other sectors remained relatively flat.

- 10 year treasury bond yields compressed an expanded 7 bps to 2.4% during the quarter and, subsequent to quarter end, have continued to expand. A combination of fiscal stimulus and tightening from the fed has increased the investor's expectation of inflation.

4-Qtr Rolling NOI Growth By Property Type



Source: NCREIF

Sources: Bureau of Economic Analysis, U.S. Census Bureau, Federal Reserve Board, NCREIF, Cushman and Wakefield, Real Capital Analytics, Bloomberg LP., Preqin, University of Michigan

United States Property Matrix (4Q17)

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INDUSTRIAL

- As of 4Q17, Industrial properties returned 3.3% and outperformed the NPI by 149 bps.
- With nearly 82 million square feet of net absorption in 4Q17 (the highest fourth quarter number on record), 2017 demand reached 245 million square feet. This represents a 6.1% decline from 2016 totals.
- Midsized product (100,000 – 500,000 square feet) significantly increased from 2016 deal volumes, with 73% of transactions falling into this category.
- Construction levels remain elevated, with new deliveries reaching 232.7 million square feet in 2017, with many markets reaching historical highs in new deliveries. Speculative development was 75% of total deliveries for 2017 speaking to continued demand.
- A 20 bps reduction in vacancy has resulted in another all-time low of 5.0%. Strong demand has pushed asking rents up 5.4% year-over-year and now stand at $5.50 PSF.

MULTIFAMILY

- Sales volumes decreased by 8.3% in 2017. Despite the slowdown, multifamily led all other property types in terms of transaction volume for the third straight year, speaking to the strong liquidity that remains in the market.
- Primary market transaction activity represented 40.3% of activity, down from 44.0% in 2016. New supply has continued to drive investors' cautious outlook on primary markets.
- Acquisitions by REITs decreased by 23%, as pricing has made it difficult to underwrite required return hurdles. Meanwhile, foreign investment increased 16%, with Canada and Singapore accounting for 66% of foreign investment.
- Annual rent growth ended the year at 2.3%. Concessions continue to increase in many markets nationally, a product of increased supply coming to market.
- The apartment sector delivered a 1.6% return during the Quarter, underperforming the NPI by 18 bps.

OFFICE

- The Office sector returned 1.7% in 4Q17, 15bps below the NPI.
- For the year, the office market recorded occupancy growth of 36.4 million square feet, 13% less than 2016 numbers, representing a third consecutive year of slowed occupancy growth.
- As a result of slowed expansion activity, vacancy has increased to 14.9%, with levels anticipated to increase through 2018 and 2019.
- Construction starts have dropped sharply in 2017 by 29%, with construction volumes dropping below the 100 million square feet level for the first time in three years.
- New supply has provided some upside for landlords with completions commanding a 43% premium to existing Class A space. Pricing discounts to Core product, as well as increased deliveries, has resulted in suburban office product being able to increase asking rents at a greater pace than urban assets.

RETAIL

- Transaction volumes totaled $51.5 billion for 2017, a 22.5% decrease from the prior year. Secondary markets seeing strong population and job growth experienced growth, but not enough to offset the decline in gateway markets.
- Lifestyle centers and malls had transaction volume declines of 48.5% and 53.5%, respectively. One bright spot was general purpose centers, which experienced a 10.5% increase.
- Growth in rent for 2017 was 5.5%, marking a slowdown from that seen in 2016. Store closure announcements remain a headwind for rent growth going forward.
- Institutional retail investment declined 41.8% in 2017. REIT acquisitions increased by 12.0%, focused primarily on general purpose centers. Foreign investment declined by 56.7%, with core assets remaining the predominate component of activity.
- As of 4Q17, the retail sector delivered a quarterly return of 1.3%, which underperformed the NPI by 52 bps.

Sources: Real Capital Analytics, Bloomberg LP, Green Street, US Census Bureau, NCREIF, Jones Lang LaSalle, REIS, Cushman and Wakefield

Global Real Estate Market Update (4Q17)

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GLOBAL

- Global investment activity during 4Q 2017 totaled $228 billion, marking a 10% increase as compared to 4Q 2016 levels. This brings full-year 2017 volumes to $698 billion, which is 6% higher than last year's total. The strong 4Q 2017 performance demonstrated investors' confidence in the real estate sector despite continued political uncertainty. Overall, 2017 produced record volumes for investment activity in the post-crisis era, driven by broad-based growth, low interest rates, and lack of inflationary pressure. Looking forward, global investment volumes in 2018 are expected to soften by 5% - 10% to around $650 billion due to a relative lack of product combined with continued investor discipline. However, investors are still keen to access the sector and will look for new strategies as the prominence of single-asset transactions has started to decline.

Direct Commercial Real Estate Investment - Regional Volumes, 2016 - 2017

$ US Billions	Q3 2017	Q4 2017	% Change Q3 17 - Q4 17	Q4 2016	% Change Q4 16 - Q4 17	FY 2016	FY 2017	% Change FY 16 - FY 17
Americas	61	66	8%	78	-15%	285	249	-13%
EMEA	73	110	51%	84	31%	245	300	22%
Asia Pacific	35	52	49%	45	16%	131	149	14%
Total	169	228	35%	207	10%	661	698	6%

Source: Jones Lang LaSalle, January 2018

EUROPE

- European investment increased 31% y/y in 4Q 2017, for a full-year volume of $300 billion. This was a 22% increase over full-year 2016 volumes and was the strongest year since 2007. Growth was strong across all regions, with investment volumes up 57% in the Benelux region, 24% in Southern Europe, and 27% in the Nordics as compared to 2016. Central and Eastern Europe rose 3% to $19 billion, surpassing the previous cyclical peak in 2006 by 29%. The U.K. showed continuous recovery following the impact of Brexit, with 4Q volumes up 80% y/y and totaling $79 billion for the full-year, a 37% increase as compared to full-year 2016 volumes. Germany saw volumes rise 8% in 4Q with full-year volumes up 9% compared to 2016. The French market saw a reversal of the 2Q and 3Q slowdown with investment volumes up 61% y/y.

ASIA

- Asia Pacific 4Q 2017 investment activity reached a record $52 billion, up 16% y/y. Full-year volumes were $249 billion, marking a 13% increase as compared to full-year 2016 volumes. Cross-border investment activity accounted for 40% of total transaction volumes, with Singaporeans being the largest cross-border buyers. Japan's transaction volumes totaled $37 billion for 2017, up 10% y/y. Australia's full-year investment volume was $21 billion, up 14% compared to 2016. Investor interest has been shifting towards secondary cities such as Brisbane. Chinese transaction activity marked an all-time record, reaching $36 billion in 2017. This represents a 5% increase compared to 2016. Specifically, Hong Kong volumes came in at $16.4 billion, up 58% y/y.

Global Outlook - GDP (Real) Growth % pa, 2017-2019

	2017	2018	2019
Global	**3.6**	**3.9**	**3.6**
Asia Pacific	**5.5**	**5.5**	**5.2**
Australia	2.2	2.5	2.4
China	6.8	6.4	6.0
India	6.1	7.4	7.1
Japan	1.8	1.7	0.9
North America	**2.0**	**2.6**	**2.2**
US	2.3	2.7	1.9
MENA*	**2.0**	**3.2**	**3.8**
European Union	**2.8**	**2.5**	**2.0**
France	1.8	1.9	1.7
Germany	2.5	2.4	1.8
UK	1.5	1.5	1.6

*Middle East North Africa

Source: Jones Lang LaSalle (Oxford Economics), January 2018

Sources: Jones Lang LaSalle Research, Bloomberg LP

Disclosures

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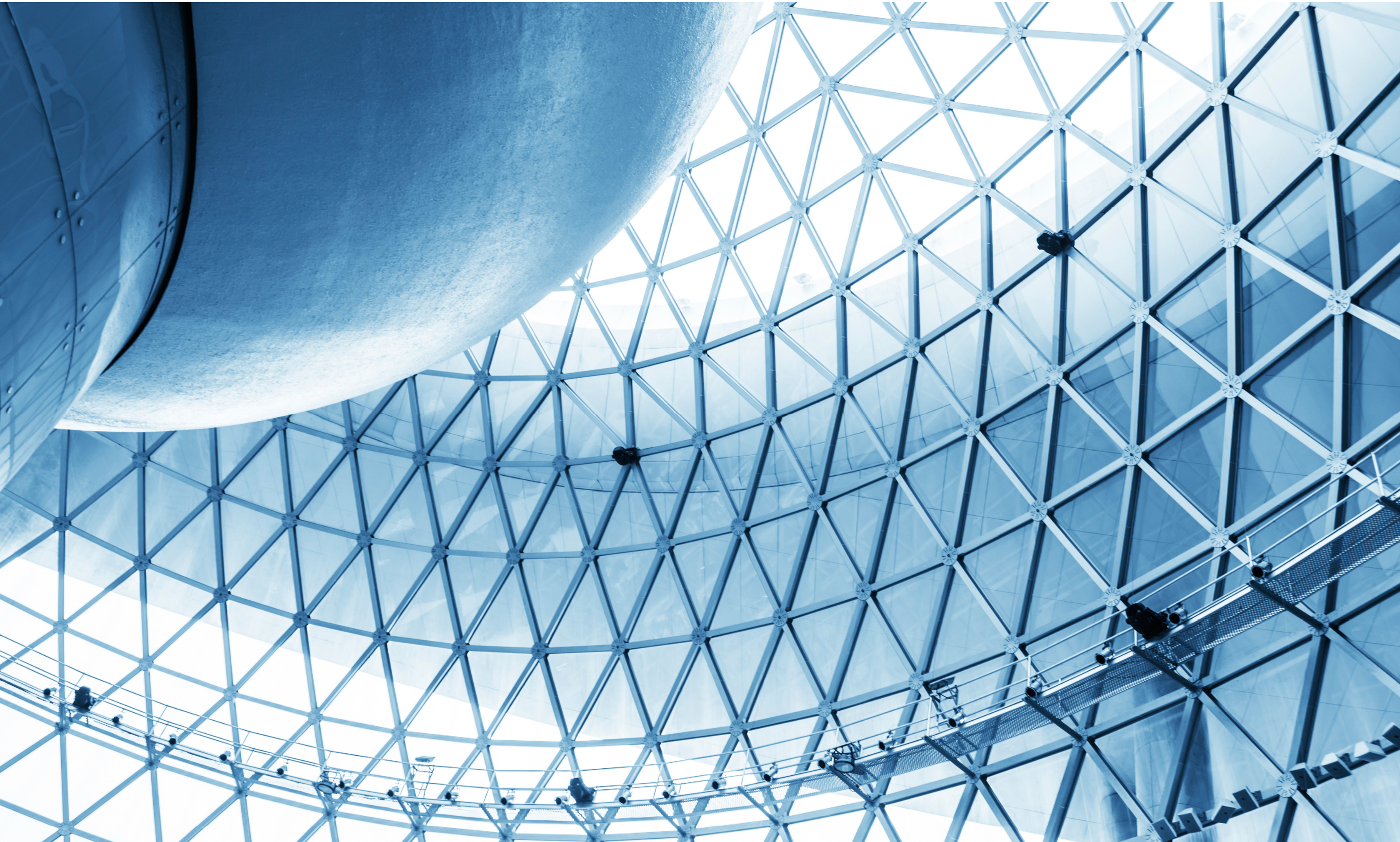
  The potential universe of available real asset benchmarks are infinite. Any one benchmark, or combination thereof, may be utilized on a gross or net of fees basis with or without basis point premiums attached. These benchmarks may also utilize a blended composition with varying weighting methodologies, including market weighted and static weighted approaches.

Glossary of Terms



Cash Flow Statement

Beginning Market Value:	Value of real estate, cash and other holdings from prior period end.
Contributions:	Cash funded to the investment for acquisition and capital items (i.e., initial investment cost or significant capital improvements).
Distributions:	Actual cash returned from the investment, representing distributions of income from operations.
Withdrawals:	Cash returned from the investment, representing returns of capital or net sales proceeds.
Ending Market Value:	The value of an investment as determined by actual sales dollars invested and withdrawn plus the effects of appreciation and reinvestment; market value is equal to the ending cumulative balance of the cash flow statement (NAV).
Unfunded Commitments:	Capital allocated to managers which remains to be called for investment. Amounts are as reported by managers.
Remaining Allocation	The difference between the ending market value + the unfunded commitments and the target allocation. This figure represents dollars available for allocation.

Style Groups

The Style Groups consist of returns from commingled funds with similar risk/return investment strategies. Investor portfolios/investments are compared to comparable style groupings.	
Core:	Direct investments in operating, fully leased, office, retail, industrial, or multifamily properties using little or no leverage (normally less than 30%).
Value-Added:	Core returning investments that take on moderate additional risk from one or more of the following sources: leasing, re-development, exposure to non-traditional property types, the use of leverage.
Opportunistic:	Investments that take on additional risk in order to achieve a higher return. Typical sources of risks are: development, land investing, operating company investing, international exposure, high leverage, distressed properties.

Indices

Stylized Index:	Weights the various style group participants so as to be comparable to the investor portfolio holdings for each period.
Open-End Diversified Core Equity Index (“ODCE”):	A core index that includes only open-end diversified core strategy funds with at least 95% of their investments in U.S. markets. The ODCE is the first of the NCREIF Fund Database products, created in May 2005, and is an index of investment returns reporting on both a historical and current basis (16 active vehicles). The ODCE Index is capitalization-weighted and is reported gross and net of fees. Measurement is time-weighted and includes leverage.
Open-End Diversified Value Equity Index (“ODVE”):	A value-added index that includes only open-end diversified value-added strategy funds with at least 95% of their investments in U.S. markets. The Open-End Diversified Value Equity index is not a published index, but rather maintained internally by The Townsend Group and is an index of investment returns reporting on both a historical and current basis (12 active vehicles). The Open-End Diversified Value Equity Index is capitalization-weighted and is reported gross and net of fees. Measurement is time-weighted and includes leverage.
NCREIF Property Index (“NPI”):	National Property Index comprised of core equity real estate assets owned by institutions.
NAREIT Equity Index:	This is an index of Equity Real Estate Investment Trust returns reflecting the stock value changes of REIT issues as determined through public market transactions.

Performance

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Income Return ("INC"):	Net operating income net of debt service before deduction of capital items (e.g., roof replacement, renovations, etc.)
Appreciation Return ("APP"):	Increase or decrease in investment's value based on internal or third party appraisal, recognition of capital expenditures which did not add value or uncollectible accrued income, or realized gain or loss from sales.
Total Gross Return ("TGRS"):	The sum of the income return and appreciation return before adjusting for fees paid to and/or accrued by the manager.
Total Net Return ("TNET"):	Total gross return less Advisor fees reported. All fees are requested (asset management, accrued incentives, paid incentives). No fee data is verified. May not include any fees paid directly by the investor as opposed to those paid from cash flows.
Inception Returns[1]:	The total net return for an investment or portfolio over the period of time the client has funds invested. Total portfolio Inception Returns may include returns from investments no longer held in the current portfolio.
Net IRR:	IRR after advisory fees, incentive and promote. This includes actual cash flows and a reversion representing the LP Net Assets at market value as of the period end reporting date.
Equity Multiple:	The ratio of Total Value to Paid-in-Capital (TVPIC). It represents the Total Return of the investment to the original investment not taking into consideration the time invested. Total Value is computed by adding the Residual Value and Distributions. It is calculated net of all investment advisory and incentive fees and promote.

[1] Portfolio level returns include historical returns of managers no longer with assets under management.
All returns are calculated on a time-weighted basis.

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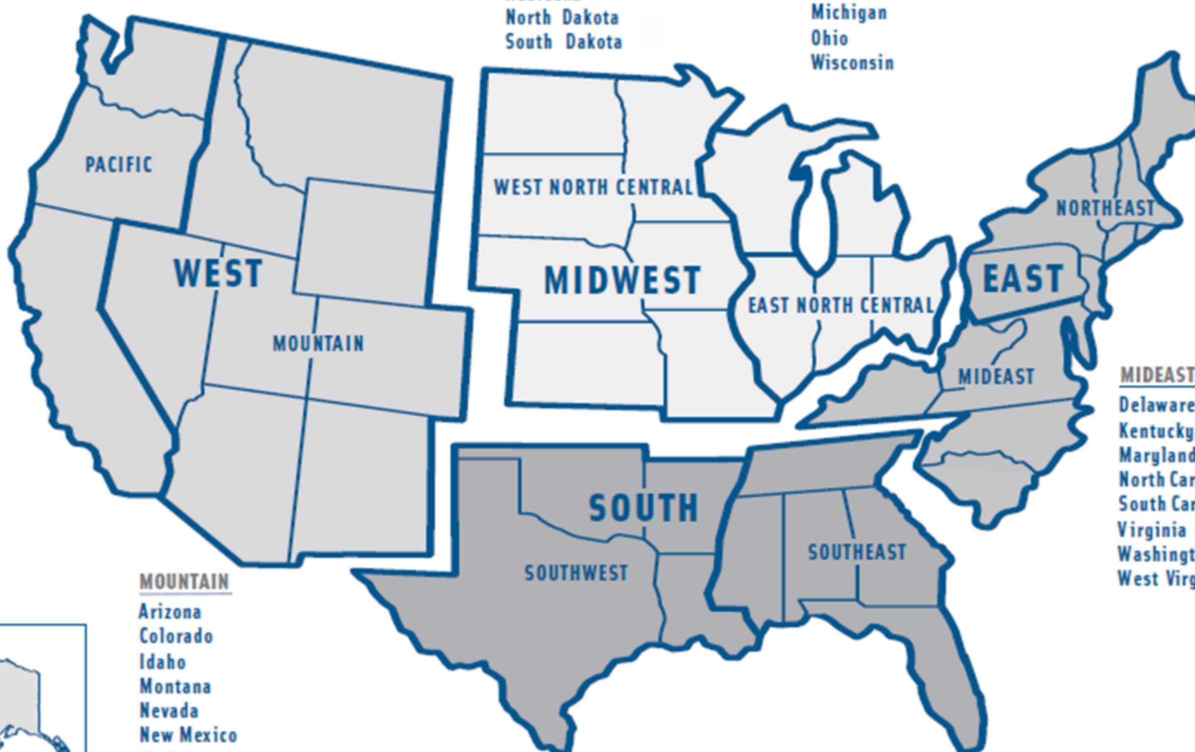
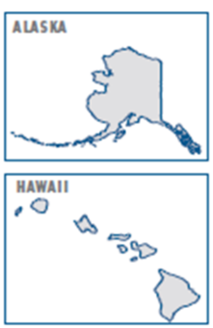
GEOGRAPHIC REGIONS and DIVISIONS





PACIFIC
- Alaska
- California
- Hawaii
- Oregon
- Washington

MOUNTAIN
- Arizona
- Colorado
- Idaho
- Montana
- Nevada
- New Mexico
- Utah
- Wyoming

WEST NO. CENTRAL
- Iowa
- Kansas
- Minnesota
- Missouri
- Nebraska
- North Dakota
- South Dakota

EAST NO. CENTRAL
- Illinois
- Indiana
- Michigan
- Ohio
- Wisconsin

NORTHEAST
- Connecticut
- Maine
- Massachusetts
- New Hampshire
- New Jersey
- New York
- Pennsylvania
- Rhode Island
- Vermont

MIDEAST
- Delaware
- Kentucky
- Maryland
- North Carolina
- South Carolina
- Virginia
- Washington, DC
- West Virginia

SOUTHWEST
- Arkansas
- Louisiana
- Oklahoma
- Texas

SOUTHEAST
- Alabama
- Florida
- Georgia
- Mississippi
- Tennessee

NCREIF

L//CERA

June 1, 2018

TO: Each Member
Real Estate Committee

FROM: John D. McClelland
Principal Investment Officer – Real Estate

FOR: June 13, 2018 Real Estate Committee Meeting

SUBJECT: **REAL ESTATE ECONOMIC STUDY/REVIEW**

Committee member Sanchez has requested the Committee discuss the idea of augmenting the information presented relating to real estate investment strategy and plans with an economic study. Such a study could identify trends and economic factors that impact the supply and demand for real estate. This, in turn, could help form and support a strategic and/or tactical view for the Fund's future investment activity.

The Board's real estate consultant, The Townsend Group, produces a "View of the World" report semi-annually which contains numerous economic factors impacting demand for real estate and investment pricing. The latest version of the View of the World report accompanies the consultant's concurrence memo relating to the Real Estate Investment Plan, (another item on this meeting agenda), and may serve as a helpful reference for this discussion topic.

Noted and Reviewed:

Jonathan Grabel
Chief Investment Officer

Attachment