



**LACERS**  
LOS ANGELES CITY EMPLOYEES'  
RETIREMENT SYSTEM

# Portfolio Performance Review

Quarter Ending June 30, 2011

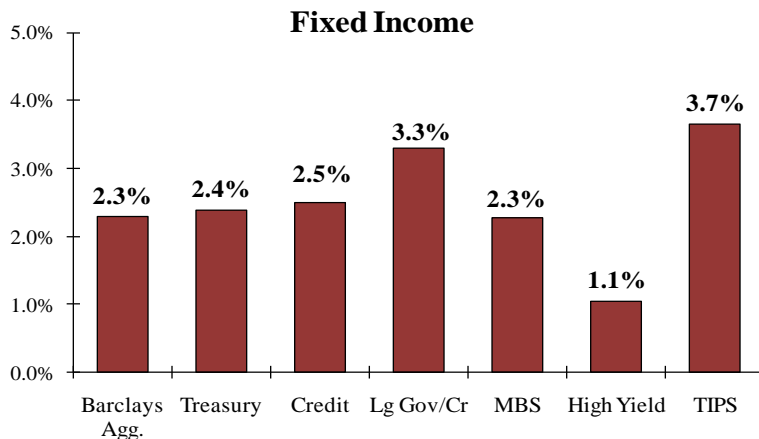
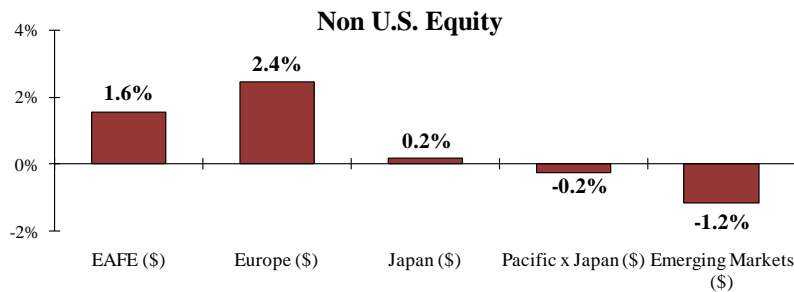
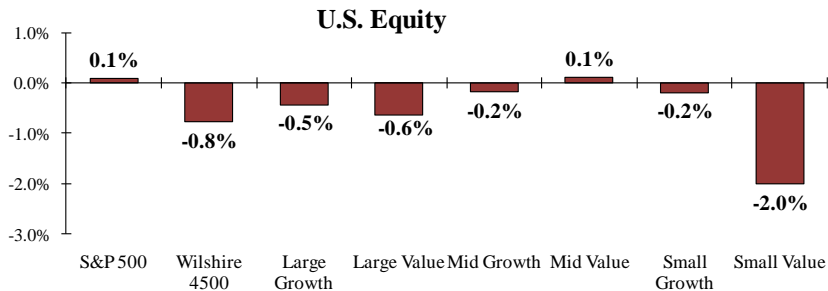


LACERS

LOS ANGELES CITY EMPLOYEES'  
RETIREMENT SYSTEM

# Executive Summary

# Market and Economic Review



- Equity markets ended the quarter with essentially flat returns, despite unfolding debt crisis in Europe, political uprisings in the Middle East and Africa, and continued volatility in commodities.
- U.S. GDP posted annualized growth rate of 1.0% in the 2Q/11, an increase from 0.4% annual rate seen in 1Q/11.
- As private sector hiring lagged, the 2Q unemployment rate climbed to 9.2% from 1Q level of 8.8%.
- Consumer Price Index subsided to 1.01% for the quarter from 1.96% in 1Q, helped by the decline in crude oil prices .
- Fed Funds Rate remained unchanged at the range of 0% to 0.25%.
- All major non-U.S. markets had positive returns for the quarter in USD terms, with the exception of Emerging Markets. Weak USD increased the returns for U.S. investors.
- Emerging markets were the worst performers for the quarter as concerns of slowing growth in China's economy dominated the markets.
- European markets outperformed all other markets in USD terms.
- U.S. dollar continued to lose ground against the Euro and Japanese Yen.
- U.S. yield curve dropped for all maturities and steepened compared to 1Q/11.
- The Fed ended with the second phase of quantitative easing (QE2), a liquidity-enhancing policy.
- Fueled by investors flight to safety, Treasury yields fell for the quarter. Yield spreads reversed course from previous quarter and widened during 2Q.
- High Yield was the weakest sector of the bond market.

## Performance Overview

- *LACERS investment portfolio ended the 2<sup>nd</sup> quarter with a market value of \$10.8 billion, unchanged from the previous quarter. The Fund posted a positive net return of 1.3% (1.4% gross) for the quarter and 22.3% (22.6% gross) for the year.*
- *The Total Fund outperformed its policy benchmark by 0.3% for the quarter and underperformed by 1.0% for the one-year period.*
- *With the exception of U.S. Equity, all asset classes produced positive returns in the 2<sup>nd</sup> quarter of 2011.*
- *All publicly traded portfolios underperformed their respective benchmarks for the quarter.*
- *Alternative Investments significantly outperformed its benchmark and Real Estate showed an improvement.*

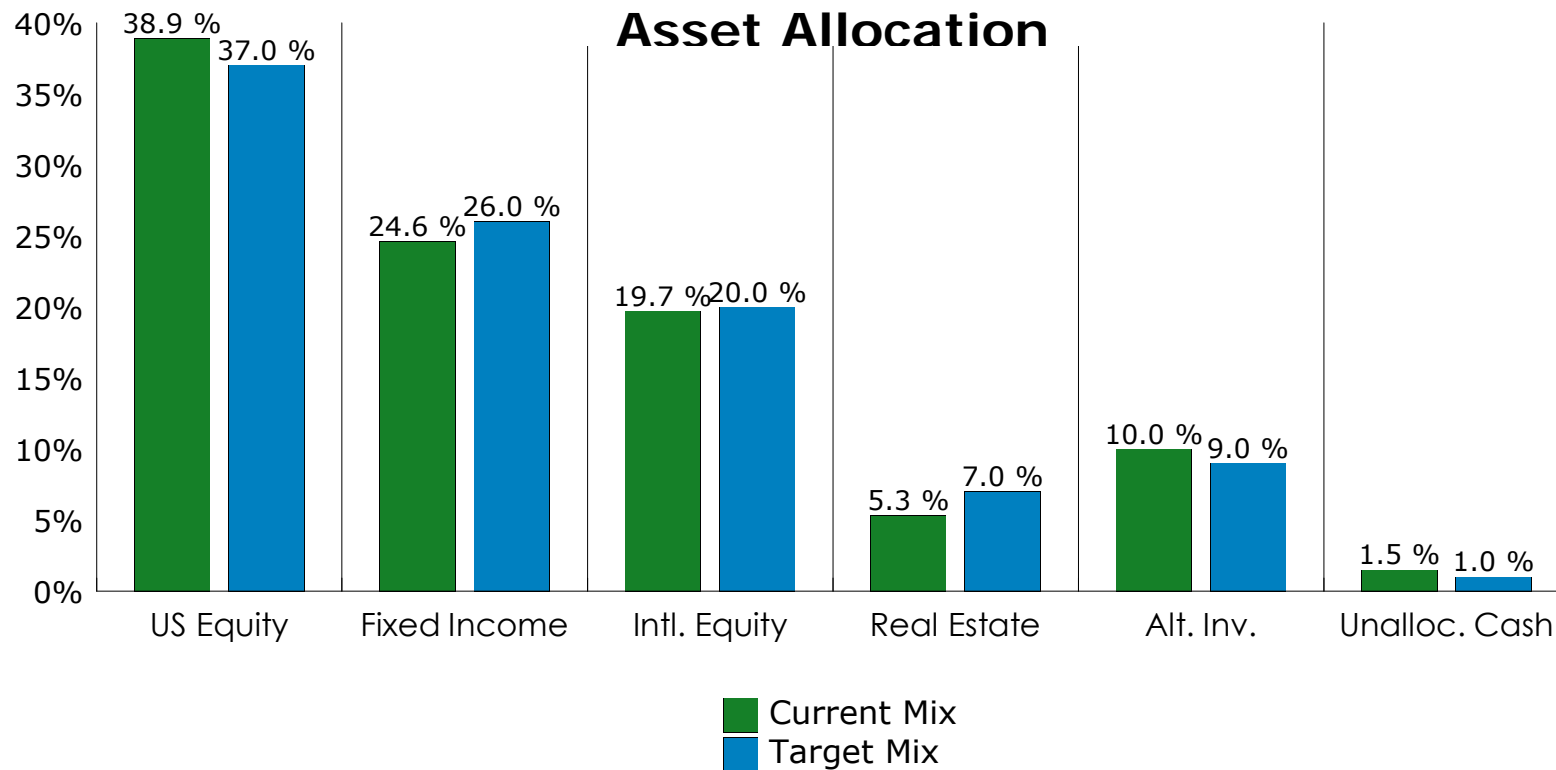
*Note: Due to the J-curve effect in early stages of a fund's life, returns may lag prior to realization of proceeds in later years.*



LACERS

LOS ANGELES CITY EMPLOYEES'  
RETIREMENT SYSTEM

# Fund Overview



	As of 6/30/2011	Target *	Minimum	Maximum
US Equity	38.9%	37.0%	33.0%	42.0%
Fixed Income	24.6%	26.0%	23.0%	29.0%
Intl Equity	19.7%	20.0%	17.0%	24.0%
Real Estate	5.3%	7.0%	4.0%	10.0%
Alternative Inv.	10.0%	9.0%	6.0%	12.0%
Unallocated Cash	1.5%	1.0%	0.0%	3.0%

\* Revised 4th Qtr 2009 - decrease US Equity from 42% to 37%; increase Fixed Income from 22% to 26%; increase Alternative Inv. from 8% to 9%.

## Fund Overview

LACERS' total portfolio was valued at \$10.8 billion at the end of the 2<sup>nd</sup> quarter. Its net of fees return of 1.3% outperformed the policy benchmark by 0.3% for the quarter; however, the one-year return of 22.3% lagged the policy benchmark by 1.0%. In a comparison to other public funds with market values greater than \$1 billion in TUCS (Trust Universe Comparison Service), LACERS ranked in the 47<sup>th</sup> percentile for the quarter and in the 32<sup>nd</sup> percentile for the one-year period.

The U.S. equity portfolio lagged its policy benchmark by 0.5% for the quarter with a -0.5% return. The composite outperformed its policy benchmark by 0.9% for the one-year period with a 33.3% return.

The Non-U.S. equity portfolio underperformed for the quarter with a return of 0.3% versus 0.4% for the policy benchmark. For the one-year period, it underperformed its policy benchmark by 0.8%, returning 28.9%.

The fixed income portfolio returned 2.1% for the quarter, underperforming its policy benchmark by 0.1%. The composite returned 7.2% for the one-year period, besting its policy benchmark by 2.4%.

The real estate portfolio reversed the trend of previous quarterly losses, returning 5.1% for the quarter versus a return of 3.4% for its benchmark. For the one-year period, the portfolio underperformed by 3.4%, returning 12.6%.

The alternative investments portfolio significantly outperformed its policy benchmark by 6.0% for the quarter with a 7.0% return. Despite the impressive 2Q return, the portfolio underperformed its benchmark by 15.1% for the one-year period.

## LACERS Total Fund

(Returns are Gross of Fees)

	Market Value (\$million)	Current Quarter	One Year	Three Years	Five Years	5 Year Tracking Error
<b>LACERS Master Trust</b>	<b>\$ 10,816</b>	<b>1.4</b>	<b>22.6</b>	<b>3.7</b>	<b>4.7</b>	<b>2.5</b>
<i>Policy Benchmark</i>		<i>1.0</i>	<i>23.3</i>	<i>3.9</i>	<i>4.7</i>	
Excess Return		0.4	-0.7	-0.2	0.0	
<b>U.S. Equity</b>	<b>\$ 4,211</b>	<b>-0.4</b>	<b>33.6</b>	<b>4.7</b>	<b>3.4</b>	<b>1.2</b>
<i>Russell 3000</i>		<i>0.0</i>	<i>32.4</i>	<i>4.0</i>	<i>3.4</i>	
Excess Return		-0.4	1.2	0.7	0.0	
<b>Non-U.S. Equity</b>	<b>\$ 2,130</b>	<b>0.4</b>	<b>29.4</b>	<b>1.0</b>	<b>4.0</b>	<b>1.8</b>
<i>MSCI ACWI ex US *</i>		<i>0.4</i>	<i>29.7</i>	<i>-0.3</i>	<i>3.7</i>	
Excess Return		0.0	-0.3	1.3	0.3	
<b>Total Fixed Income</b>	<b>\$ 2,665</b>	<b>2.2</b>	<b>7.3</b>	<b>9.0</b>	<b>7.7</b>	<b>2.5</b>
<i>BC US Universal *</i>		<i>2.2</i>	<i>4.8</i>	<i>6.7</i>	<i>6.6</i>	
Excess Return		0.0	2.5	2.3	1.1	
<b>Real Estate**</b>	<b>\$ 577</b>	<b>5.2</b>	<b>12.7</b>	<b>-16.8</b>	<b>-6.1</b>	<b>10.3</b>
<i>NCREIF Property (Lagged)</i>		<i>3.4</i>	<i>16.0</i>	<i>-3.6</i>	<i>3.5</i>	
Excess Return		1.8	-3.3	-13.2	-9.6	
<b>Alternative Investments**</b>	<b>\$ 1,082</b>	<b>7.0</b>	<b>21.3</b>	<b>4.4</b>	<b>10.9</b>	<b>18.7</b>
<i>Russell 3000 + 400 bps</i>		<i>1.0</i>	<i>36.4</i>	<i>8.0</i>	<i>7.4</i>	
Excess Return		6.0	-15.1	-3.6	3.5	

\* Both the MS ACWI ex US and Barclays US Universal indices are historically blended with other indices.

\*\* Due to the J-Curve effect in early stages of a fund's life, returns may lag prior to realization of proceeds in later years.



## LACERS Total Fund

(Returns are Net of Fees)

	Market Value (\$million)	Current Quarter	One Year	Three Years	Five Years	5 Year Tracking Error
<b>LACERS Master Trust</b>	<b>\$ 10,816</b>	<b>1.3</b>	<b>22.3</b>	<b>3.5</b>	<b>4.5</b>	<b>2.5</b>
<i>Policy Benchmark</i>		<i>1.0</i>	<i>23.3</i>	<i>3.9</i>	<i>4.7</i>	
Excess Return		0.3	-1.0	-0.4	-0.2	
<b>U.S. Equity</b>	<b>\$ 4,211</b>	<b>-0.5</b>	<b>33.3</b>	<b>4.5</b>	<b>3.2</b>	<b>1.2</b>
<i>Russell 3000</i>		<i>0.0</i>	<i>32.4</i>	<i>4.0</i>	<i>3.4</i>	
Excess Return		-0.5	0.9	0.5	-0.2	
<b>Non-U.S. Equity</b>	<b>\$ 2,130</b>	<b>0.3</b>	<b>28.9</b>	<b>0.6</b>	<b>3.7</b>	<b>1.8</b>
<i>MSCI ACWI ex U.S.*</i>		<i>0.4</i>	<i>29.7</i>	<i>-0.3</i>	<i>3.7</i>	
Excess Return		-0.1	-0.8	0.9	0.0	
<b>Total Fixed Income</b>	<b>\$ 2,665</b>	<b>2.1</b>	<b>7.2</b>	<b>8.9</b>	<b>7.5</b>	<b>2.5</b>
<i>BC U.S. Universal</i>		<i>2.2</i>	<i>4.8</i>	<i>6.7</i>	<i>6.6</i>	
Excess Return		-0.1	2.4	2.2	0.9	
<b>Real Estate **</b>	<b>\$ 577</b>	<b>5.1</b>	<b>12.6</b>	<b>-16.9</b>	<b>-6.3</b>	<b>10.3</b>
<i>NCREIF Property (Lagged)</i>		<i>3.4</i>	<i>16.0</i>	<i>-3.6</i>	<i>3.5</i>	
Excess Return		1.7	-3.4	-13.3	-9.8	
<b>Alternative Investments **</b>	<b>\$ 1,082</b>	<b>7.0</b>	<b>21.3</b>	<b>4.4</b>	<b>10.8</b>	<b>18.7</b>
<i>Russell 3000 + 400 bps</i>		<i>1.0</i>	<i>36.4</i>	<i>8.0</i>	<i>7.4</i>	
Excess Return		6.0	-15.1	-3.6	3.4	

\* Both the MS ACWI ex US and Barclays US Universal indices are historically blended with other indices.

\*\* Due to the J-Curve effect in early stages of a fund's life, returns may lag prior to realization of proceeds in later years.