LOS ANGELES CITY

EMPLOYEES' RETIREMENT SYSTEM

DECEMBER 31, 2006

ALTERNATIVE INVESTMENT REVIEW

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PORTFOLIO UPDATE

PORTFOLIO OVERVIEW

Hamilton Lane was engaged by the Los Angeles City Employees' Retirement System ("LACERS") in January 2005 to select new investments, monitor, and provide advice in accordance with the investment objectives for the alternative portfolio (the "Portfolio") of LACERS. This report represents the review by Hamilton Lane of LACERS' portfolio investments as of December 31, 2006, *with highlights through March 31, 2007.*

As of December 31, 2006, the Portfolio managed by Hamilton Lane consisted of:

- Active partnerships: 89
- Active managers: 51
- Commitments since inception: $1.3 billion
- Paid-in capital since inception: $840.7 million
- Distributions: $569.4 million
- Net invested capital: $271.3 million
- Market value: $639.6 million
- Total value multiple ("TVM"): 1.4x
- Average age of commitments: 4.1 years

New Commitments

During the fourth quarter, the Hamilton Lane managed Portfolio closed on three new commitments totaling $55 million. Of the three commitments, only CHP III represents a new relationship for the LACERS. The following are descriptions of these investments:

CHP III ($15 million) will make early-stage venture capital investments in life sciences companies, taking ownership positions in excess of 20%, typically in a company's first institutional round of investment. The general partner anticipates maintaining its ownership positions through successive financing rounds, eventually allowing for some dilution with each additional round. Potential investments may operate across the biotechnology, healthcare business solutions, and medical devices sectors. While the fund may also opportunistically pursue later-stage investments, these are expected to comprise less than 10% of the fund portfolio.

Green Equity Investors V ($20 million) will make control-oriented investments in middle-market companies with enterprise values ranging from $400 million to $2 billion. The general partner typically avoids cyclical or highly regulated industries, commodity producers, and companies with high fixed operating cost structures or unpredictable cash flows.

Hellman & Friedman Capital Partners VI ($20 million) implements a somewhat opportunistic investment strategy in which it seeks to invest in portfolio companies characterized by leading and defensible competitive market positions as a result of such attributes as strong brand names, longstanding customer relationships, regulatory, capital, or scale barriers to entry, superior distribution systems and other business processes. The general partner focuses on making large-scale equity-related investments, which has historically resulted in comparably concentrated portfolios.

Subsequent to the fourth quarter the Portfolio closed on three additional investments totaling $70 million in capital commitments. Each partnership described below represents an existing relationship for LACERS.

OCM Opportunities Fund VII - A/B ($10 million/$10 million) will make non-controlling investments in the debt and equity of companies which are undergoing or have undergone reorganization or other transactions including debt restructurings, liquidations, or bankruptcy proceedings. Potential fund investments may include both public and private securities, and up to 50% of fund capital commitments may be invested in foreign entities. The general partner may also deploy up to 35% of aggregate capital commitments in non-distressed investments which the general partner believes are significantly undervalued. Fund B is a separate fund which will be activated should the investment opportunity set warrant additional capital. The general partner has proposed that all commitments be split evenly between the fund A and fund B. Fund B will be invested alongside fund A should there be a significant market for distressed debt investment opportunities during the investment period of the fund A or as a co-investment vehicle for opportunities of sufficient size as to create portfolio diversification concerns. If such opportunities do not arise for investment of fund B, the committed capital will instead become the primary investment vehicle for the general partner in this strategy once fund A is 80% invested. LACERS committed $10 million to each fund.

Providence Equity Partners VI ($30 million) will make private equity investments in large companies, typically requiring between $150 million and $800 million in individual equity commitments. The general partner will focus on opportunities in the United States and Europe, with approximately 10% of the fund being targeted for investments in Asia. The fund will specialize within the media, communications, entertainment, and information industries. Although the general partner will frequently obtain controlling interests in fund transactions, it will also opportunistically pursue non-control positions. In non-control positions, Providence works to align its interests closely with those of the company's management and other shareholders.

TPG STAR ($20 million) will make growth-buyout (45%), expansion-stage (45%) and venture (10%) investments in companies that compete across TPG's 16 targeted industry sectors. The fund's initial key sectors of focus are likely to include consumer internet, software and related services, travel services, consumer/retail, financial services, and clean technology. Between 35% and 40% of the fund's capital will be invested in Asia with the remainder split between the United States and Europe. TPG will seek to leverage its global platform and network to enhance the growth potential of the fund's investments.

PORTFOLIO PERFORMANCE ASSESSMENT

The table below details the overall performance of the Portfolio over the last four quarters ending of December 31, 2006.

Los Angeles City Employees Retirement System Portfolio Summary					
in $ millions	**3/31/2006**	**6/30/2006**	**9/30/2006**	**12/31/2006***	**Year Ending 12/31/06**
Beginning Market Value	465.7	486.9	524.7	556.0	465.7
Paid-in Capital	40.5	43.9	32.1	66.7	183.3
Distributions	37.7	30.6	27.4	62.9	158.5
Total Value Change	18.4	24.5	26.6	79.8	149.1
Ending Market Value	486.9	524.7	556.0	639.6	639.6
Unfunded Commitments	382.7	402.8	480.2	471.8	471.8
Total Exposure	869.6	927.5	1036.2	1111.4	1,111.4
Point to Point IRR	3.93%	4.96%	5.04%	14.21%	31.14%
Since Inception IRR	11.32%	11.68%	12.03%	13.70%	13.70%

* *Including PCA's data, the Portfolio information as of 12/31/06 would be as follows: Beginning MV – 588.0, Ending MV – 672.1, Unfunded Commitments – 544.0, Total Exposure – 1216.1.*

- As of December 31, 2006, the Portfolio has generated a since-inception IRR of 13.70%, an increase of 167 basis points over the Portfolio's IRR one-quarter prior, and a 256 basis point increase over one-year prior.
  - The Portfolio continues to be cash flow negative since-inception, with paid-in totaling $271.4 million more than distributions. This trend is not surprising considering the Portfolio is relatively young, with an average age of commitments of 4.1 years, meaning the Portfolio is still in the capital deployment period of its investment life cycle.
- As seen in the table above, Portfolio performance continues to improve both on an IRR basis and a total market value basis. During each quarter shown, the Portfolio has generated an increase in IRR, as well as market value.

ONE-YEAR PORTFOLIO DRIVERS

The strong one-year performance was driven in part by the partnerships shown below, which accounted for 37.91% of the Portfolio's net value change during the past twelve months. The table below shows the top five performing investments by IRR for the one-year ending December 31, 2006.

Portfolio Drivers
For the One Year Ending December 31, 2006

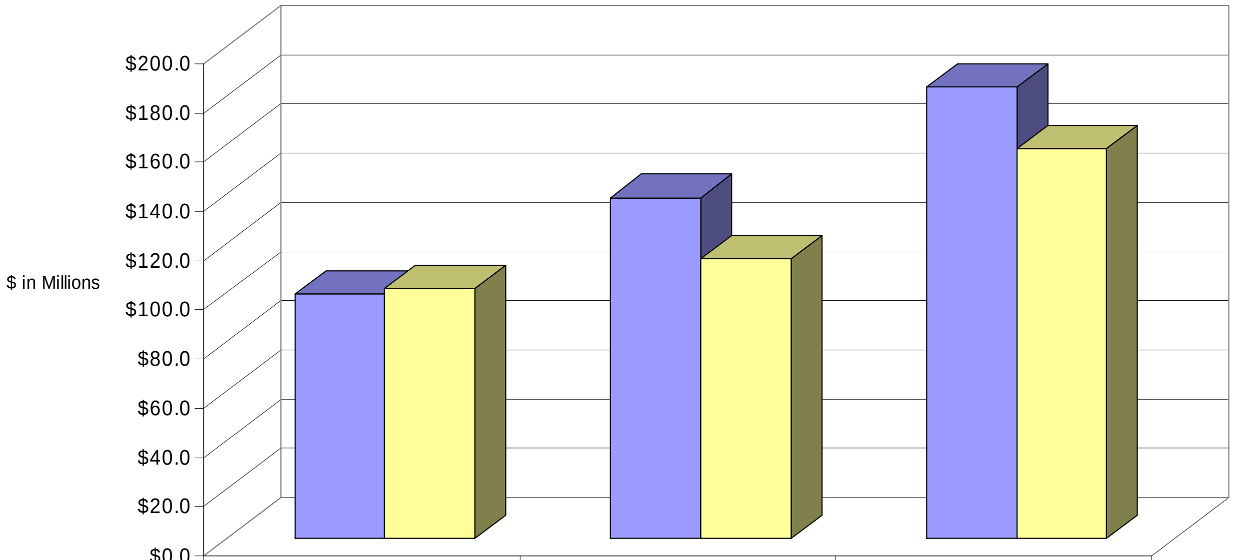
Investment Name	Net Value Change $ 000's	Total Portfolio Value Change	IRR
Onex Partners, L.P.	$19,120	12.81%	152.56%
CVC European Equity Partners III, L.P.	$11,303	7.58%	115.62%
Alchemy Investment Plan (LACERS)	$10,889	7.30%	44.75%
Kelso Investment Associates VII, L.P.	$7,778	5.21%	89.28%
TPG Partners III, L.P.	$7,482	5.01%	50.35%
TOTAL	**$56,571**	**37.91%**	**80.46%**

Onex Partners was the top driver of unrealized value within the Portfolio by a considerable margin during the past one-year, during which time the partnership generated a one-year IRR of 152.56%. This is attributable to both healthy distribution activity ($8.5 million) and a significant increase in the value of the remaining unrealized portfolio companies ($10.6 million).

- Another partnership of note in the table above is Kelso Investment Associates VII, with a one-year IRR of 89.28% as of December 31, 2006.
- Kelso Investment Associates are currently raising their eighth partnership. Hamilton Lane is investing $20 million on behalf of LACERS.

CASH FLOW ANALYSIS

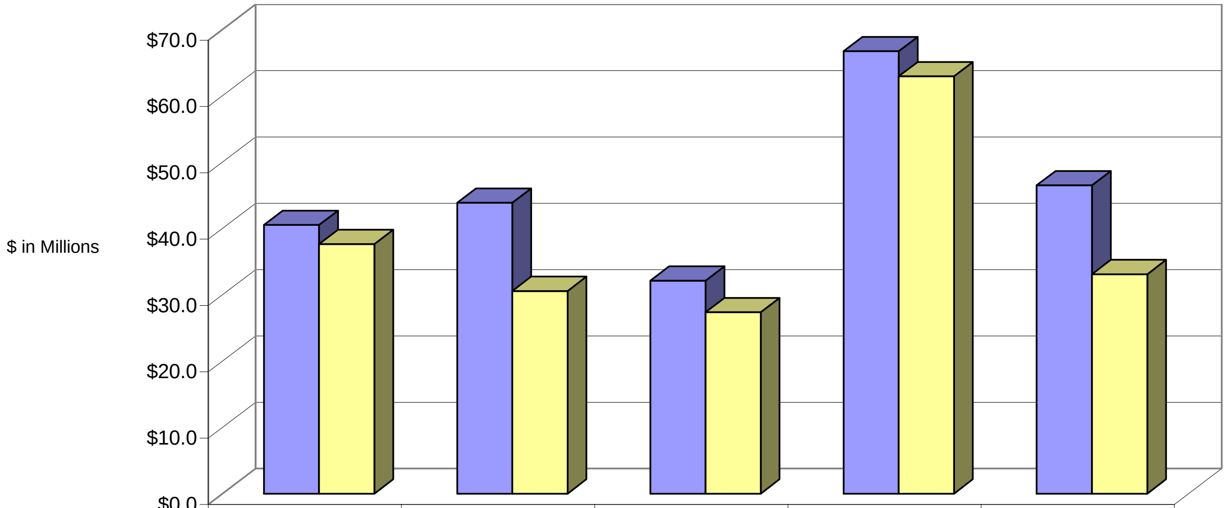
The chart on the next page highlights the Portfolio's cash flow activity over the past three years.



	2004	2005	2006
Paid-In Capital	$99.2	$138.5	$183.3
Capital Distributed	$101.4	$113.5	$158.5

- As shown in the chart above, the Portfolio's cash flow activity has increased each year for the past three years. While paid-in capital has grown relatively steadily, increasing 40% from 2004 to 2005 and then 33% from 2005 to 2006. Distribution activity experienced a much more dramatic increase in the last year, with 40% more in cash received in 2006 as opposed to 2005, compared with only a 12% increase from 2004 to 2005.
    - As the Portfolio continues to increase yearly commitments, paid-in capital will continue to rise steadily. Likewise, as the Portfolio's underlying partnerships begin to mature and enter the realization periods of their respective investment life cycles, distribution activity should increase as well.
- The largest distribution during 2006 was $8.5 million from Onex Partners, which was discussed earlier, while the largest capital call was $4.5 million from CVC European Partners IV.

The chart on the next page highlights the Portfolio's cash flow activity over the past five quarters ending March 31, 2007.



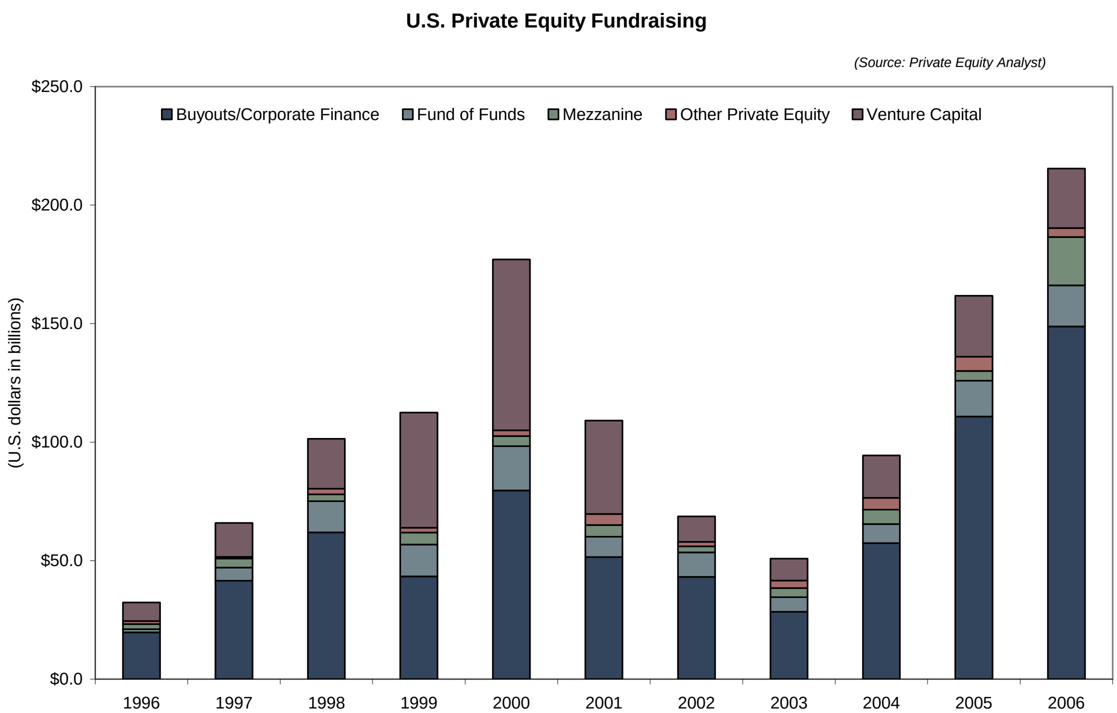
	1st Quarter 2006	2nd Quarter 2006	3rd Quarter 2006	4th Quarter 2006	1st Quarter 2007
Paid-In Capital	$40.5	$43.9	$32.1	$66.7	$46.5
Capital Distributed	$37.7	$30.6	$27.4	$62.9	$33.1

- The fourth quarter of 2006 represents the most active in recent quarters in terms of overall cash flow activity. Both paid-in and distributed were significantly higher than in previous quarters, in fact this was the most active quarter in the program's history.
  - A large distributor of capital during the quarter was CVC European Partners IV, which distributed $6.2 million to LACERS.
- During the first quarter of 2007 the Portfolio continued its cash outflow trend, with paid-in capital exceeding distributions by $13.4 million.
  - The largest cash flow during the quarter was a $2.7 million capital call from Charterhouse Capital Partners VIII.

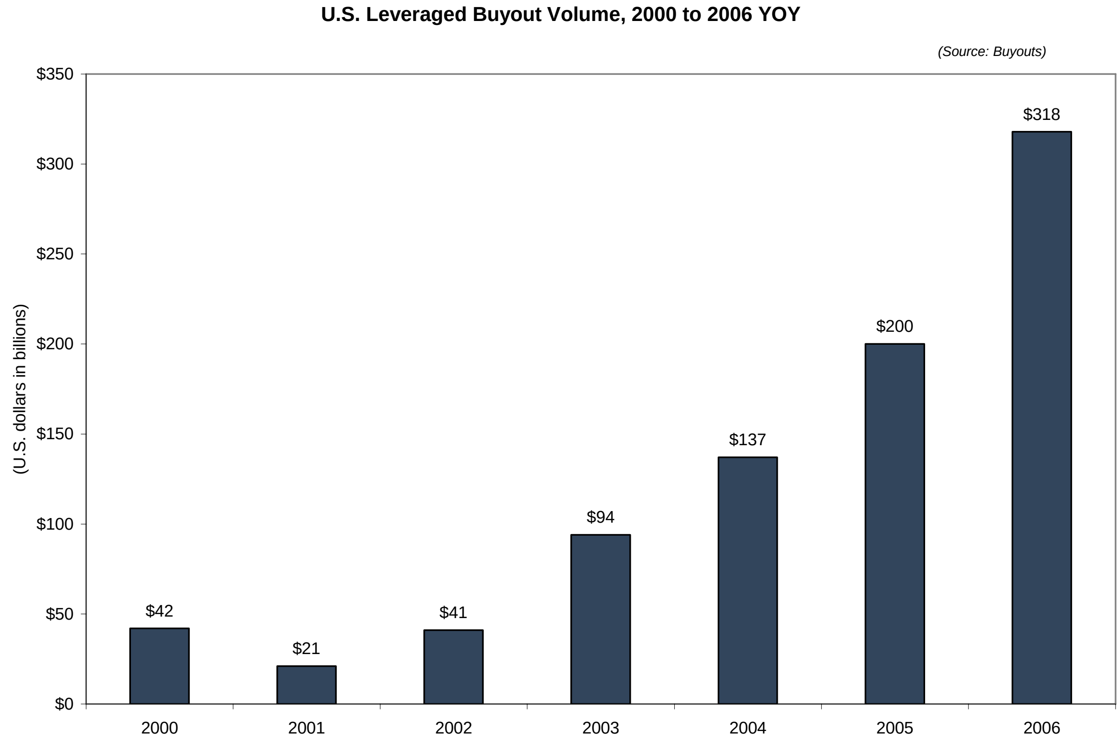
Fourth Quarter 2006 - Market Update

The Year 2006 in Review

U.S. private equity fundraising continued to soar in 2006, topping $215.4 billion, up from $161.8 billion the prior year. In Europe, funds raised totaled $86.3 billion, versus $74.8 billion the prior year. Appetite in buyouts has been unabated. For the third year in a row, U.S. buyouts constituted more than 60 percent of total U.S. private equity fundraising (in fact, buyouts this past year reached almost 70 percent). Of the amount raised in 2006, $148.8 billion and $71.1 billion was raised for U.S. and European buyouts, respectively, according to Private Equity Analyst. Globally, 695 funds raised $434 billion, according to Private Equity Intelligence.

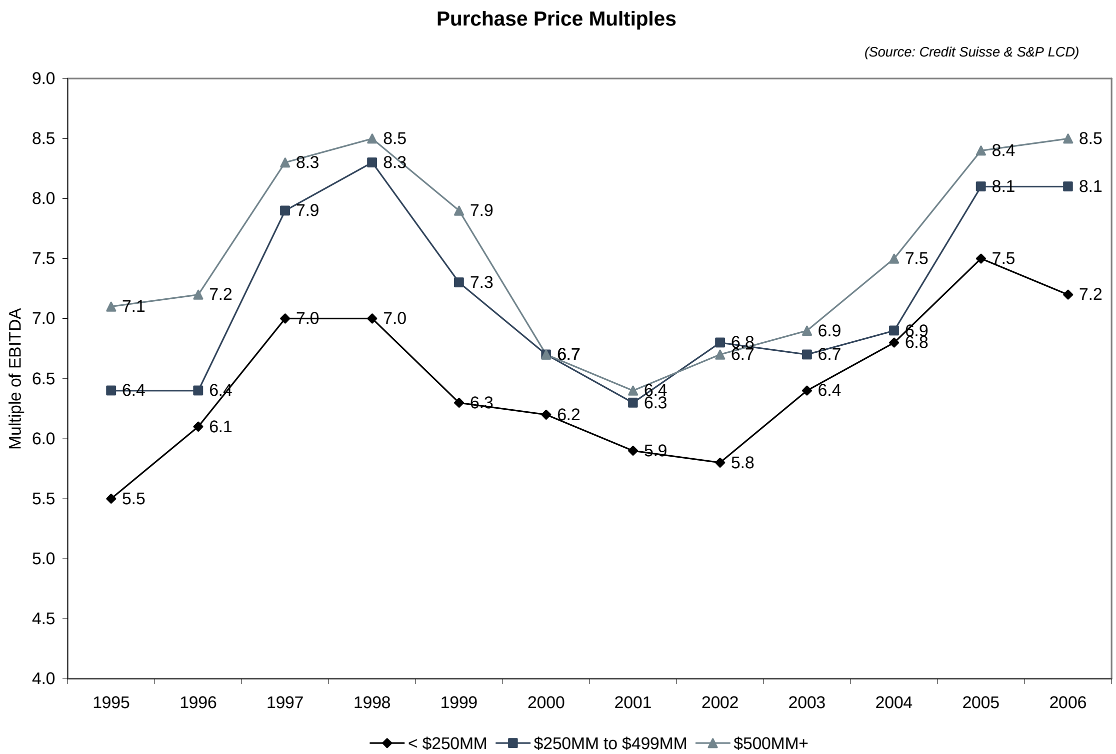


Mirroring the fundraising pace, firms are likewise finding a way to deploy capital at historically high rates. The amount of "capital overhang" in private equity has been declining dramatically. The ratio of un-invested capital to current transaction value pacing has dropped to 1.7x in 2006 from 6.6x in 2001, according to Citigroup. In the United States, the volume of leveraged buyouts reached $318 billion versus $200 billion the year prior, according to Buyouts, which noted that more than half of the volume of deals with disclosed values had transaction values over $3 billion. Private equity deal flow for Continental Europe reached €104 billion in value in 2006 compared to €93 billion in 2005, according to Deloitte & Touche.



Institutional investor interest in private equity continues to be high. Foundations and endowments (with assets greater than $1.0 billion) now have 13.5 percent of their assets allocated to alternative investments, while non-profits (with assets greater than $1.0 billion) weigh in at 19.4 percent, reports Wilshire Associates. Public and corporate pension fund allocation to private equity rose to 4.3 percent and 4.4 percent from 4.0 percent and 4.3 percent, respectively, according to Greenwich Associates.

Continued Access to Inexpensive Liquidity, More Leverage – From 2000 to 2006, the cost of financing a leveraged buyout dropped by 50 percent, according to Citigroup. The recycling of dollars back into the United States from petroleum-exporting countries and emerging Asian economies has helped keep interest rates low and liquidity plentiful. Meanwhile, an inflation conscious U.S. Federal Reserve has held the wheel steady on short-term interest rates. In this competitive environment, lenders have been providing capital on more generous terms than they might have in the past (so called "covenant lite loans"). Loans without financial maintenance covenants reached a record $29 billion in first quarter 2007, according to Reuters. In turn, those dynamics have helped keep the leverage spigot on for private equity firms. Total debt / EBITDA leverage levels of leveraged buyouts hit 7.2x in 2006, while purchase multiples ranged from 7.2x to 8.5x, depending on the transaction size segment in which they occurred. However, equity contribution to leveraged buyouts in 2006 averaged 31 percent, well above the equity contribution levels seen during the more aggressive lending of the 1980s and early 1990s.



Buyout Returns Lead the Way – Buoyed by favorable access to leverage, a long consecutive string of corporate profits (through February 2007, S&P 500 companies had posted 18 consecutive quarters of double digit earnings growth), and rising world equity indices, buyout funds continue to turn in strong performances. Buyouts garnered one-year and three-year average returns of 23.6 percent and 15.6 percent, respectively, compared to 9.7 percent and 9.9 percent for the S&P 500. Venture capital returns continue to return to health after the bursting of the dot.com bubble—three-year average returns are now 9.4 percent—five-year returns are still negative at (1.0 percent).

Private Equity Performance
Investment Horizon Performance through September 30, 2006

Fund Type	1 Year	3 Years	5 Years	10 Years	20 Years
All Venture	10.8%	9.4%	(1.0%)	20.5%	16.5%
All Buyouts	23.6%	15.6%	9.2%	8.8%	13.2%
All Private Equity	19.0%	13.2%	5.9%	11.2%	14.0%
NASDAQ	5.5%	7.8%	8.7%	7.1%	11.4%
S&P 500	9.7%	9.9%	5.2%	7.5%	9.7%

Source: Thomson Financial

Deals Get Even Larger

Kohlberg Kravis Roberts' (KKR) 1989 buyout of RJR Nabisco had long stood in the record books as one of the largest buyouts of all time. However, with private equity fundraising at a fevered pitch, interest rates low and the debt markets still easy to access, the mega funds continue to fill the headlines with news of ever larger deals. Including the $29 billion First Data Corp. deal announced in April 2007, KKR has led or participated in $107.4 billion of this year's announced deals. Of the five largest LBOs of all time, four were announced since mid-year 2006; the two largest were announced in 2007. Even with all this activity, the volume of buyouts does not account for anywhere near the amount of U.S. market capitalization as it did in the mid- to late-1980s. Buyout activity has become even more global (with Europe and other regions accounting for a larger share than in the past), and market capitalizations on exchanges throughout the world continue to grow.

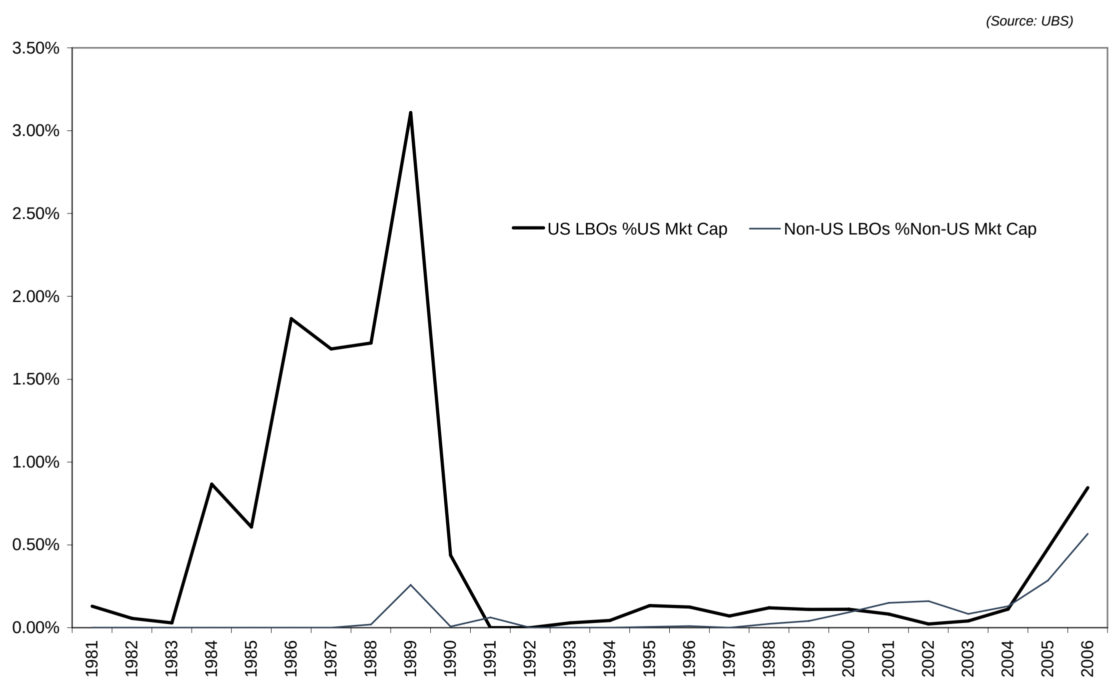
Five Largest Leveraged Buyouts - As of March 2007
(U.S. dollars in billions)

Company	Transaction Size [1]	Investors	Announcement Date
TXU Corp. [2]	$45	Texas Pacific Group, KKR, Goldman Sachs	March 2007
Equity Office Properties Trust [3]	36	Blackstone Group	February 2007
HCA Inc.	32	KKR, Bain Capital, Merrill Lynch	July 2006
RJR Nabisco	31	KKR	October 1989
BAA plc	29	Grupo Ferrovial	June 2006

(1) Transaction size includes assumption of debt
(2) KKR's $45BN announced acquisition of TXU includes $13BN for assumption of debt
(3) Transaction announced for $23 billion plus assumption of debt

(Source: news reports)

Private Equity Deals as Percent Market Capitalization



Blackstone's announced acquisition earlier this year of Equity Office Properties now ranks as the second largest (announced) buyout ever. While a bidding war with Vornado Realty Trust pushed the buyout premium and leverage well above Blackstone's initial bid for the company, Blackstone also signaled to the markets that it had already inked upfront deals to sell off many of EOP's properties, bringing the debt to more manageable levels.

Private equity firms have been fueled by the debt markets. Federal Reserve Chairman Ben Bernanke and others have so far been effective in convincing investors that the recent downturn in the $1.3 trillion (in loans outstanding) subprime mortgage market will stay contained. Despite the fact that market participants such as the Federal Home Loan Mortgage Corporation ("Freddie Mac") have announced tighter credit standards, appetite in the credit markets overall remains strong.

Going Public

Asset manager Fortress Investment Group went public in early February 2007. Immediately, the news stirred discussion on what other private equity firms and hedge funds might be considering similar moves (According to Bloomberg, Fortress in mid-April was trading at a market capitalization of approximately $13.5 billion on 406.7 million outstanding shares). Though Steven Schwarzman has a reputation as one of the more visible 'private market over the public market' cheerleaders, clearly he and Blackstone's other partners saw something in the public markets they liked. The firm filed an S-1 with the Securities Exchange Commission in March. Publicly-traded shares would give Blackstone an additional form of "currency" in which to pay its partners and employees, while the public equity would give the firm access to more "permanent" capital. Will Blackstone be able to make the transition successfully from a private partnership to a public entity as Goldman Sachs did?

Compared to some of its peers, Blackstone has a wider product line, running the gamut from traditional buyouts to debt trading to real estate, a diversity that some analysts credit for the keen interest in the firm's potential new equity issue, said to be targeted at $4.0 billion. Though other private equity firms have listed publicly before, the planned Blackstone IPO will be the first to make an offering in the management entity of a private equity firm, rather than of a specific investment vehicle (for instance, the May 2006 Kohlberg Kravis Roberts Private Equity Investors listing in Amsterdam). Blackstone is expected to list about 10 percent of the equity of the firm. Investors expect the firm to be valued at $40 billion.

The Court of Opinion

When KKR and Texas Pacific Group (TPG) acquired TXU Corp, the private equity consortium also announced it would reduce electricity prices by 10 percent by 2008 and scrap plans to build eight of 11 coal-fired plants. The Financial Times called the price reduction an attempt to "curry favor" with electricity consumers. Other media outlets thought the move was significant for responding to calls from environmentalists to shut down plans for the plants. In response to more public scrutiny of private equity transactions, are moves like these designed to put a kinder, gentler face on private equity for consumers and shareholders?

Speaking of concerns about shareholders, "go shop provisions"—which allow companies to continue entertaining offers from other bidders even post-signing of an agreement—have notably crept into recent mega deals like HCA, Inc., Freescale Semiconductor, Inc., Lear Corp., Maytag Corporation, TXU Corp. and First Data Corp. According to Debevoise & Plimpton, the provisions have not been that overwhelmingly popular in the recent past. Of the more than 100 going private transactions in the first nine months of 1996, private equity firms sponsored nine with go shop provisions.

Companies worried about shareholder lawsuits hoped that such provisions might preempt some of the litigation. Private equity firms have faced recent criticism over club deals and the belief that companies might be leaving too much value on the table in 'going private' transactions.

There are those who argue that such provisions help take the teeth out of such criticisms. Additionally, private equity firms might be more willing to entertain go shop provisions in mega buyouts given that far fewer firms have the financial and analytic weight to get involved in the initial bidding in the first place. The buyout space, however, has become more competitive, not less, according to Dealogic. Approximately 29 percent of private equity-led buyouts had multiple bids in 2006, up from 4 percent in 2005.

SECTION 2

PORTFOLIO ASSESSMENT

LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM
PERFORMANCE SUMMARY BY INVESTMENT
AS OF DECEMBER 31, 2006

INVESTMENT NAME	VINTAGE YEAR	INVESTMENT STRATEGY	CAPITAL COMMITTED	PAID-IN CAPITAL	CAPITAL DISTRIBUTED [1]	REPORTED MARKET VALUE	NET IRR
Acon-Bastion Partners II, L.P.	2006	Corporate Finance/Buyout	$ 5,000,000	$ 826,273	-	$ 718,869	(58.85%)
Alchemy Investment Plan (LACERS)	1999	Special Situation	42,955,946	35,339,046	$ 23,405,019	34,395,103	18.68%
Apollo Investment Fund IV, L.P.	1998	Corporate Finance/Buyout	5,000,000	4,962,140	4,910,620	3,040,110	9.00%
Apollo Investment Fund VI, L.P.	2006	Corporate Finance/Buyout	15,000,000	2,574,694	-	2,482,227	(7.52%)
Austin Ventures VII, L.P.	1999	Venture Capital	17,000,000	16,175,762	3,606,369	9,038,792	(6.04%)
Austin Ventures VIII, L.P.	2001	Venture Capital	8,300,000	7,700,000	1,023,965	6,843,351	0.99%
Avenue Special Situations Fund IV, L.P.	2006	Special Situation	10,000,000	7,937,360	-	9,130,641	21.55%
Blackstone Capital Partners V, L.P.	2006	Corporate Finance/Buyout	20,000,000	5,314,063	-	5,865,257	38.07%
Carlyle Partners IV, L.P.	2005	Corporate Finance/Buyout	20,000,000	11,737,391	1,000,766	12,061,546	16.17%
CGW Southeast Partners III, L.P.	1996	Corporate Finance/Buyout	9,000,000	8,645,139	10,847,045	1,060,486	6.26%
CGW Southeast Partners IV, L.P.	1999	Corporate Finance/Buyout	10,000,000	8,536,566	7,103,704	4,566,534	7.11%
Charterhouse Capital Partners VIII, L.P.	2006	Corporate Finance/Buyout	20,973,814	2,947,196	-	3,059,942	7.90%
Chisholm Partners IV, L.P.	1999	Special Situation	9,000,000	8,459,623	1,996,994	4,751,754	(4.09%)
CHP III, L.P.	2007	Venture Capital	15,000,000	-	-	-	N/A
CHS Private Equity V, L.P.	2005	Corporate Finance/Buyout	20,000,000	6,686,444	-	6,595,086	(2.22%)
CVC European Equity Partners II, L.P.	1998	Corporate Finance/Buyout	10,000,000	9,138,376	17,711,953	3,139,731	19.47%
CVC European Equity Partners III, L.P.	2001	Corporate Finance/Buyout	15,000,000	13,864,985	19,806,367	14,117,566	44.25%
CVC European Equity Partners IV, L.P.	2005	Corporate Finance/Buyout	25,672,666	11,846,103	6,738,101	9,108,154	53.46%
CVC European Equity Partners, LP	1996	Corporate Finance/Buyout	10,000,000	9,736,644	24,069,239	2,282,290	23.99%
Enhanced Equity Fund, L.P.	2006	Corporate Finance/Buyout	10,000,000	1,743,850	-	1,504,833	(21.87%)
Essex Woodlands Health Ventures Fund IV, L.P.	1998	Venture Capital	4,000,000	4,000,000	4,320,522	1,398,067	10.41%
Essex Woodlands Health Ventures Fund V, L.P.	2000	Venture Capital	10,000,000	8,625,000	4,532,315	9,078,370	14.73%
Essex Woodlands Health Ventures Fund VI, L.P.	2004	Venture Capital	15,000,000	8,850,000	-	8,294,438	(4.73%)
First Reserve Fund X, L.P. [2]	2004	Special Situation	20,000,000	16,227,950	9,625,325	14,049,387	51.62%
First Reserve Fund XI, L.P.	2006	Special Situation	30,000,000	705,079	-	665,000	(6.77%)
Golder, Thoma, Cressey & Rauner Fund IX, L.P.	2006	Corporate Finance/Buyout	15,000,000	846,504	-	809,992	(4.31%)
Golder, Thoma, Cressey & Rauner Fund V, LP	1997	Corporate Finance/Buyout	10,000,000	10,000,000	15,038,946	2,632,510	10.76%
Golder, Thoma, Cressey & Rauner Fund VI, L.P.	1998	Corporate Finance/Buyout	10,000,000	10,000,000	8,048,375	3,006,719	3.26%
Golder, Thoma, Cressey & Rauner Fund VII, L.P.	2000	Corporate Finance/Buyout	18,750,000	18,046,875	23,346,364	13,465,529	20.37%
Golder, Thoma, Cressey & Rauner Fund VII-A, L.P.	2001	Corporate Finance/Buyout	6,250,000	3,546,875	5,208,132	5,090,555	86.28%
Golder, Thoma, Cressey & Rauner Fund VIII, L.P.	2003	Corporate Finance/Buyout	20,000,000	17,850,000	12,107,050	13,399,148	35.21%
Green Equity Investors V, L.P.	2006	Corporate Finance/Buyout	20,000,000	-	-	-	N/A
Halifax Capital Partners II, L.P.	2006	Corporate Finance/Buyout	10,000,000	1,796,645	212,420	1,302,338	(21.37%)
Hellman & Friedman Capital Partners V, L.P.	2004	Corporate Finance/Buyout	11,000,000	9,445,014	348,961	11,050,131	27.94%
Hellman & Friedman Capital Partners VI, L.P.	2007	Corporate Finance/Buyout	20,000,000	-	-	-	N/A
InterWest Partners VI, L.P.	1997	Venture Capital	5,000,000	5,000,000	14,128,445	392,895	49.00%
J.H. Whitney IV, L.P.	2000	Venture Capital	25,000,000	22,448,463	4,068,591	2,271,836	(22.16%)

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J.H. Whitney VI, L.P.	2005	Corporate Finance/Buyout	15,000,000	6,132,072	-	7,246,838	32.09%
Kelso Investment Associates VI, L.P.	1998	Corporate Finance/Buyout	5,000,000	4,298,360	4,531,068	1,051,935	8.35%
Kelso Investment Associates VII, L.P.	2004	Corporate Finance/Buyout	18,000,000	8,893,515	1,562,529	17,255,162	74.71%
KKR 1996 Fund, LP	1997	Corporate Finance/Buyout	25,000,000	26,263,507	37,638,571	7,305,644	13.30%
KKR 2006 Fund, L.P.	2006	Corporate Finance/Buyout	30,000,000	2,125,000	-	2,125,000	0.00%
KKR European Fund II, L.P.	2005	Corporate Finance/Buyout	15,000,000	8,310,484	18,769	8,570,388	7.01%
Levine Leichtman Capital Partners III, L.P.	2003	Corporate Finance/Buyout	20,000,000	11,920,437	2,904,975	11,133,225	20.14%
Lindsay Goldberg & Bessemer II, L.P.	2006	Corporate Finance/Buyout	20,000,000	1,047,839	-	901,902	(13.93%)
Madison Dearborn Capital Partners III, L.P.	1999	Corporate Finance/Buyout	16,000,000	15,854,153	17,007,824	7,655,913	9.71%
Madison Dearborn Capital Partners IV, L.P.	2000	Corporate Finance/Buyout	25,000,000	21,463,013	7,230,295	25,540,426	21.52%
Menlo Ventures IX, L.P.	2001	Venture Capital	20,000,000	16,000,000	573,609	16,408,353	2.00%
Menlo Ventures VII, L.P.	1997	Venture Capital	5,000,000	5,000,000	22,926,596	849,612	135.82%
Menlo Ventures VIII, L.P.	1999	Venture Capital	18,000,000	17,100,000	5,657,814	3,568,091	(14.40%)
Nautic Partners V, L.P.	2000	Corporate Finance/Buyout	15,000,000	13,751,905	9,882,288	10,386,480	16.88%
Newbridge Asia IV, L.P.	2005	Corporate Finance/Buyout	10,000,000	4,941,851	4,200	5,202,777	8.03%
Nordic Capital V, L.P.	2004	Corporate Finance/Buyout	14,174,376	14,252,698	5,212,552	17,158,333	33.58%
Oak Investment Partners XII, L.P.	2006	Venture Capital	15,000,000	1,757,396	-	1,652,010	(6.93%)
OCM Opportunities Fund II, L.P.	1998	Special Situation	11,000,000	11,000,000	16,130,113	317,561	8.32%
OCM Opportunities Fund III, L.P.	1999	Special Situation	10,000,000	10,500,000	14,379,489	783,170	11.66%
OCM Opportunities Fund IV, L.P.	2001	Special Situation	10,000,000	10,000,000	15,519,771	647,878	28.03%
OCM Opportunities Fund V, L.P.	2004	Special Situation	7,100,000	7,100,000	7,781	10,420,070	20.71%
OCM Opportunities Fund, LP	1996	Special Situation	11,000,000	11,000,000	17,479,420	316,043	10.18%
Olympus Growth Fund IV, L.P.	2003	Corporate Finance/Buyout	7,000,000	3,725,246	925,288	4,519,873	20.13%
Onex Partners, L.P.	2003	Corporate Finance/Buyout	20,000,000	16,902,498	12,422,963	26,522,729	76.62%
Permira Europe III, L.P.	2004	Corporate Finance/Buyout	21,087,686	16,990,976	5,637,539	18,612,555	40.26%
Permira Europe IV, L.P.	2006	Corporate Finance/Buyout	14,514,727	1,130,329	-	1,047,455	(7.33%)
Pharos Capital Partners II-A, L.P.	2006	Special Situation	5,000,000	2,125,000	-	1,801,223	(20.26%)
Polaris Venture Partners V, L.P.	2006	Venture Capital	15,000,000	450,000	-	315,052	(29.99%)
Providence Equity Partners V-A L.P.	2005	Corporate Finance/Buyout	18,000,000	12,684,382	64,208	12,788,974	1.40%
Resolute Fund, L.P.	2002	Corporate Finance/Buyout	20,000,000	14,126,912	507,811	17,277,115	14.51%
Richland Ventures III, L.P.	1999	Venture Capital	18,000,000	18,000,000	7,485,558	8,527,502	(2.45%)
Spark Capital, L.P.	2005	Venture Capital	9,000,000	2,475,000	747,998	1,789,227	5.74%
TA X, L.P.	2006	Corporate Finance/Buyout	6,000,000	1,260,000	-	1,237,610	(3.85%)
TCV V, L.P.	2004	Venture Capital	19,500,000	15,013,050	1,313,650	19,673,928	19.39%
TCW/Crescent Mezzanine Partners IV, L.P.	2006	Mezzanine	10,000,000	5,670,021	2,154	5,632,531	(0.76%)
Thoma Cressey Fund VI, L.P.	1998	Corporate Finance/Buyout	5,000,000	4,845,000	1,237,072	2,158,796	(6.25%)
Thomas H. Lee Equity Fund IV, L.P.	1998	Corporate Finance/Buyout	7,000,000	6,299,892	4,924,033	1,616,307	0.67%

LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM
PERFORMANCE SUMMARY BY INVESTMENT
AS OF DECEMBER 31, 2006

INVESTMENT NAME	VINTAGE YEAR	INVESTMENT STRATEGY	CAPITAL COMMITTED	PAID-IN CAPITAL	CAPITAL DISTRIBUTED [1]	REPORTED MARKET VALUE	NET IRR
Thomas H. Lee Equity Fund V, L.P.	2001	Corporate Finance/Buyout	15,000,000	14,453,555	10,428,050	14,069,625	25.00%
TPG Partners III, L.P.	2000	Corporate Finance/Buyout	25,000,000	22,927,597	34,511,130	16,768,143	26.21%
TPG Partners IV, L.P.	2003	Corporate Finance/Buyout	25,000,000	22,978,956	10,136,478	22,759,611	34.38%
TPG Partners V, L.P.	2006	Corporate Finance/Buyout	30,000,000	3,688,848	-	3,451,561	(22.14%)
Trident Capital Fund V, L.P.	2000	Venture Capital	10,587,999	8,030,272	2,783,187	5,468,318	0.93%
Trident Capital Fund V, L.P. - Secondary	1999	Venture Capital	3,571,652	2,467,701	973,052	1,953,091	8.68%
Trident Capital Fund VI, L.P.	2005	Venture Capital	8,500,000	3,570,000	264,177	2,891,628	(10.60%)
VantagePoint Venture Partners IV, L.P.	2000	Venture Capital	15,000,000	14,250,000	3,809,075	11,499,553	3.07%
Vestar Capital Partners IV, L.P.	1999	Corporate Finance/Buyout	17,000,000	15,788,583	10,463,369	9,539,630	9.53%
Welsh, Carson, Anderson & Stowe IX, L.P.	2000	Corporate Finance/Buyout	15,000,000	13,950,000	8,198,208	13,448,651	14.78%
Welsh, Carson, Anderson & Stowe VII, LP	1995	Corporate Finance/Buyout	15,000,000	15,000,000	29,559,257	2,842,057	17.84%
Welsh, Carson, Anderson & Stowe VIII, L.P.	1998	Corporate Finance/Buyout	15,000,000	15,000,000	6,614,398	11,216,963	2.64%
Weston Presidio Capital IV, L.P.	2000	Corporate Finance/Buyout	15,000,000	13,815,000	5,197,589	8,948,866	0.96%
Weston Presidio Capital IV, L.P. - Secondary	1999	Corporate Finance/Buyout	2,826,000	2,579,022	1,053,552	1,813,920	6.32%
Whitney V, L.P.	2001	Corporate Finance/Buyout	10,000,000	10,279,053	8,243,092	12,233,478	27.83%
TOTAL PORTFOLIO:			**$ 1,300,764,865**	**$ 840,749,182**	**$ 569,376,139**	**$ 639,591,970**	**13.70%**

[1] *Capital distributed includes recallable returns of capital, which will increase the unfunded commitment.*

[2] *An adjusted valuation was used for this investment due to the unavailability of the financial statement from the general partner at the time of completion of this report. The adjusted market value is based on the September 30, 2006, reported market value plus net 4th quarter 2006 cash flow activity.*

LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM
PERFORMANCE SUMMARY BY CATEGORY
AS OF DECEMBER 31, 2006

	CAPITAL COMMITTED	PAID-IN CAPITAL	PERCENTAGE CONTRIBUTED	CAPITAL DISTRIBUTED [1]	PERCENTAGE DISTRIBUTED	REPORTED MARKET VALUE	NET IRR
Investment Strategy							
Corporate Finance/Buyout - Large	$ 460,811,500	$ 338,650,925	73.49%	$ 281,333,698	83.07%	$ 280,105,540	17.58%
Corporate Finance/Buyout - Mega	155,187,393	38,416,429	24.75%	7,738,867	20.14%	36,141,200	29.77%
Corporate Finance/Buyout - Mid	208,040,348	139,156,633	66.89%	85,379,416	61.35%	119,367,695	15.83%
Corporate Finance/Buyout - Small	44,000,000	21,548,473	48.97%	18,163,169	84.29%	9,153,060	16.53%
Mezzanine	10,000,000	5,670,021	56.70%	2,154	0.04%	5,632,531	(0.76%)
Special Situation - Distressed Turnaround	102,055,946	92,876,406	91.01%	86,921,592	93.59%	56,010,466	13.79%
Special Situation - Industry Focused	50,000,000	16,933,029	33.87%	9,625,325	56.84%	14,714,387	51.32%
Special Situation - Multi-Stage	14,000,000	10,584,623	75.60%	1,996,994	18.87%	6,552,977	(4.83%)
Venture Capital - Early Stage	107,300,000	79,825,762	74.39%	52,237,321	65.44%	46,793,599	13.88%
Venture Capital - Late Stage	37,500,000	33,013,050	88.03%	8,799,208	26.65%	28,201,430	3.21%
Venture Capital - Multi-Stage	111,869,679	64,073,832	57.28%	17,178,394	26.81%	36,919,085	(4.96%)
TOTAL PORTFOLIO:	**$ 1,300,764,865**	**$ 840,749,182**	**64.63%**	**$ 569,376,139**	**67.72%**	**$ 639,591,970**	**13.70%**
Vintage Year							
1995	$ 15,000,000	$ 15,000,000	100.00%	$ 29,559,257	197.06%	$ 2,842,057	17.84%
1996	30,000,000	29,381,782	97.94%	52,395,703	178.33%	3,658,819	14.01%
1997	45,000,000	46,263,507	102.81%	89,732,558	193.96%	11,180,661	25.91%
1998	72,000,000	69,543,768	96.59%	68,428,153	98.40%	26,946,189	6.68%
1999	164,563,626	150,800,455	91.64%	93,132,743	61.76%	86,593,500	4.79%
2000	174,337,999	157,308,124	90.23%	103,559,042	65.83%	116,876,172	10.81%
2001	84,550,000	75,844,468	89.70%	60,802,986	80.17%	69,410,806	24.73%
2002	20,000,000	14,126,912	70.63%	507,811	3.59%	17,277,115	14.51%
2003	92,000,000	73,377,137	79.76%	38,496,754	52.46%	78,334,586	43.93%
2004	125,652,034	96,773,203	77.02%	23,708,337	24.50%	116,514,004	31.79%
2005	141,172,666	68,383,727	48.44%	8,838,219	12.92%	66,254,618	14.06%
2006	301,488,540	43,946,097	14.58%	214,574	0.49%	43,703,443	(0.19%)
2007	35,000,000	-	0.00%	-	0.00%	-	N/A
TOTAL PORTFOLIO:	**$ 1,300,764,865**	**$ 840,749,182**	**64.63%**	**$ 569,376,139**	**67.72%**	**$ 639,591,970**	**13.70%**

[1] *Capital distributed includes recallable returns of capital, which will increase the unfunded commitment.*

LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM
PRIVATE EQUITY BENCHMARKS
AS OF DECEMBER 31, 2006

CORPORATE FINANCE/BUYOUT NORTH AMERICA		
VINTAGE YEAR	NET IRR	POOLED AVG IRR [1]
1995	17.84%	7.70%
1996	6.26%	5.50%
1997	12.42%	8.70%
1998	2.81%	2.60%
1999	8.99%	9.10%
2000	19.51%	11.20%
2001	31.51%	17.30%
2002	14.51%	16.10%
2003	43.93%	34.50%
2004	59.35%	26.20%
2005	9.03%	6.40%
2006	(9.84%)	(21.60%)

MEZZANINE NORTH AMERICA		
VINTAGE YEAR	NET IRR	POOLED AVG IRR [1]
1995	N/A	N/A
1996	N/A	3.40%
1997	N/A	10.10%
1998	N/A	5.20%
1999	N/A	7.50%
2000	N/A	6.00%
2001	N/A	N/A
2002	N/A	5.80%
2003	N/A	N/A
2004	N/A	N/A
2005	N/A	4.50%
2006	(0.76%)	N/A

SPECIAL SITUATION NORTH AMERICA		
VINTAGE YEAR	NET IRR	POOLED AVG IRR [1]
1995	N/A	20.10%
1996	10.18%	23.90%
1997	N/A	13.60%
1998	8.32%	6.40%
1999	3.73%	2.10%
2000	N/A	5.20%
2001	28.03%	12.70%
2002	N/A	13.00%
2003	N/A	28.30%
2004	34.98%	17.20%
2005	N/A	6.60%
2006	11.68%	(14.50%)

[1] *Source: Venture Economics, 12/31/2006 Benchmarks. The benchmarks reflect pooled average returns from the vintage year to the latest available reported date in Venture Economics.*

N/A - No investments made in the specified vintage year in the defined investment strategy.

Note: Newbridge Asia IV, L.P. is not included in this analysis because there is no relevant benchmark available for this investments at this time.

LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM
PRIVATE EQUITY BENCHMARKS
AS OF DECEMBER 31, 2006

VENTURE CAPITAL NORTH AMERICA

VINTAGE YEAR	NET IRR	POOLED AVG IRR [1]
1995	N/A	59.90%
1996	N/A	83.70%
1997	90.90%	50.90%
1998	10.41%	20.20%
1999	(6.38%)	(7.20%)
2000	(5.20%)	(0.50%)
2001	1.74%	2.70%
2002	N/A	(0.60%)
2003	N/A	2.60%
2004	12.79%	2.20%
2005	(6.99%)	(0.50%)
2006	(12.58%)	(18.40%)

CORPORATE FINANCE/BUYOUT WESTERN EUROPE

VINTAGE YEAR	NET IRR	POOLED AVG IRR [1]
1995	N/A	36.60%
1996	23.99%	18.90%
1997	N/A	10.60%
1998	19.47%	8.30%
1999	N/A	3.50%
2000	N/A	11.70%
2001	44.25%	17.10%
2002	N/A	11.30%
2003	N/A	23.70%
2004	36.43%	(2.10%)
2005	37.82%	(1.80%)
2006	1.97%	(20.70%)

SPECIAL SITUATION WESTERN EUROPE

VINTAGE YEAR	NET IRR	POOLED AVG IRR [1]
1995	N/A	34.30%
1996	N/A	15.80%
1997	N/A	7.80%
1998	N/A	6.90%
1999	18.68%	1.90%
2000	N/A	4.60%
2001	N/A	14.50%
2002	N/A	15.50%
2003	N/A	17.10%
2004	N/A	(2.40%)
2005	N/A	(1.80%)
2006	N/A	(24.90%)

[1] Source: Venture Economics, 12/31/2006 Benchmarks. The benchmarks reflect pooled average returns from the vintage year to the latest available reported date in Venture Economics.

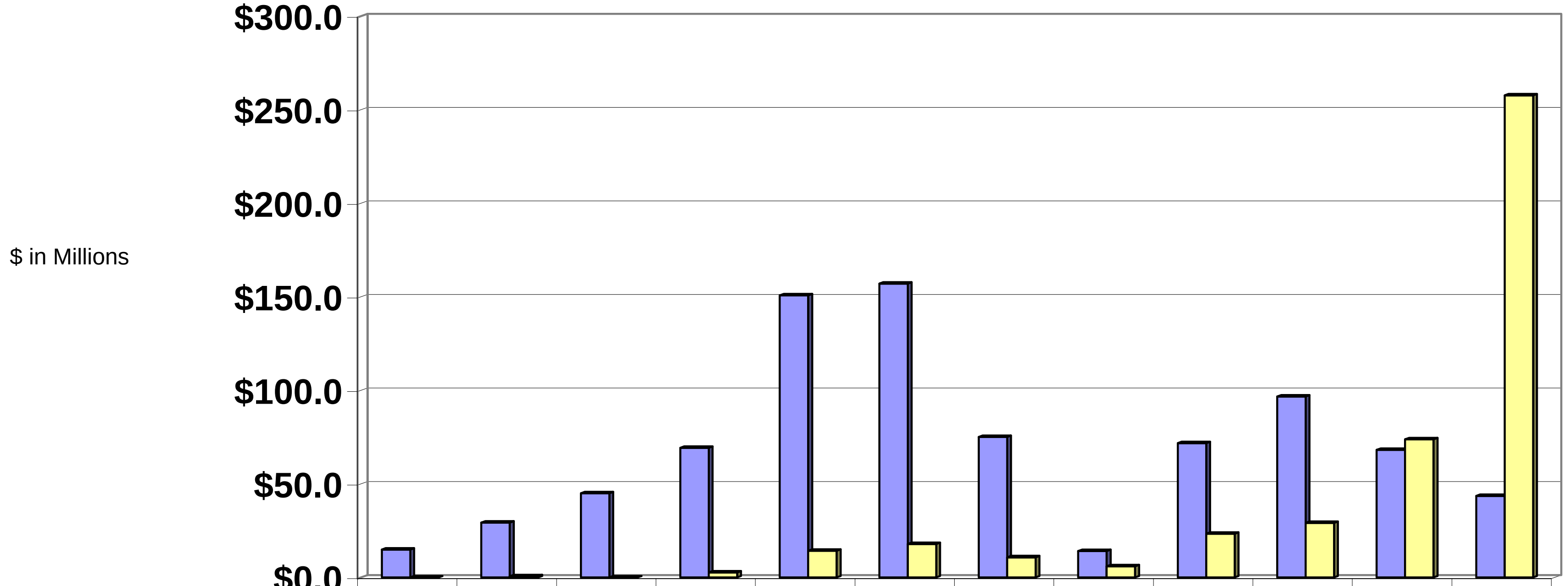
N/A - No investments made in the specified vintage year in the defined investment strategy.

Note: Newbridge Asia IV, L.P. is not included in this analysis because there is no relevant benchmark available for this investments at this time.

SECTION 3

PORTFOLIO ANALYTICS

LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM
COMMITMENTS BY VINTAGE YEAR
AS OF DECEMBER 31, 2006

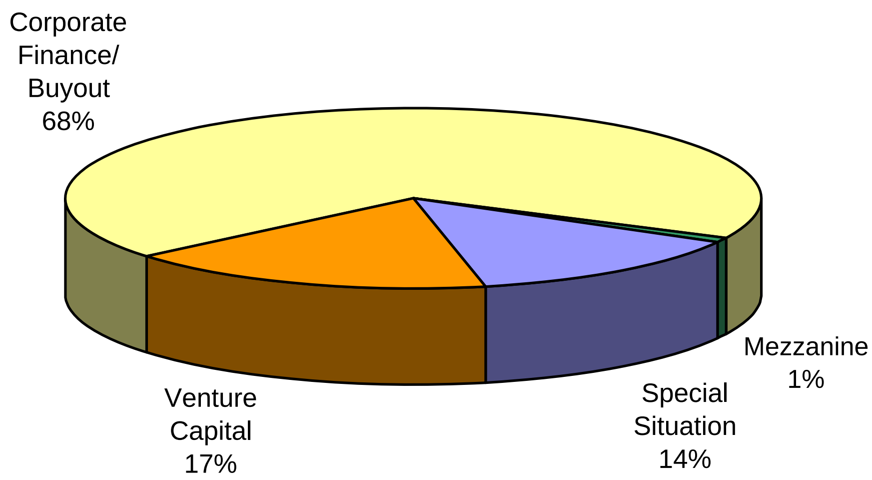


	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Funded Commitments	$15.0	$29.3	$45.0	$69.3	$150.8	$157.2	$75.2	$14.1	$71.9	$96.8	$68.3	$43.7
Unfunded Commitments	$0.0	$0.7	$0.0	$2.8	$14.3	$18.0	$10.8	$6.0	$23.4	$29.2	$73.9	$257.8

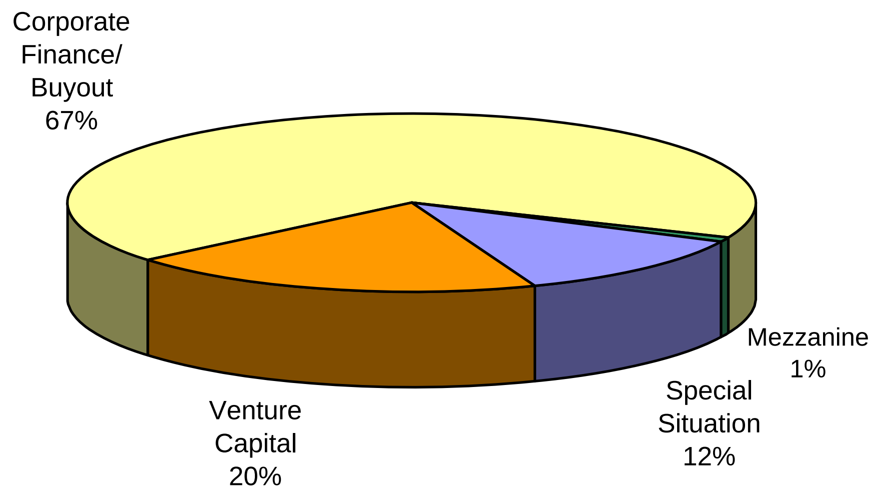
Funded Commitments exclude additional fees.
Unfunded Commitments include recallable returns of capital.

PORTFOLIO STRATEGIC DIVERSFICATION
AS OF DECEMBER 31, 2006

AS MEASURED BY
MARKET VALUE OF FUNDED COMMITMENTS
(MANAGED BY HL AND PCA)

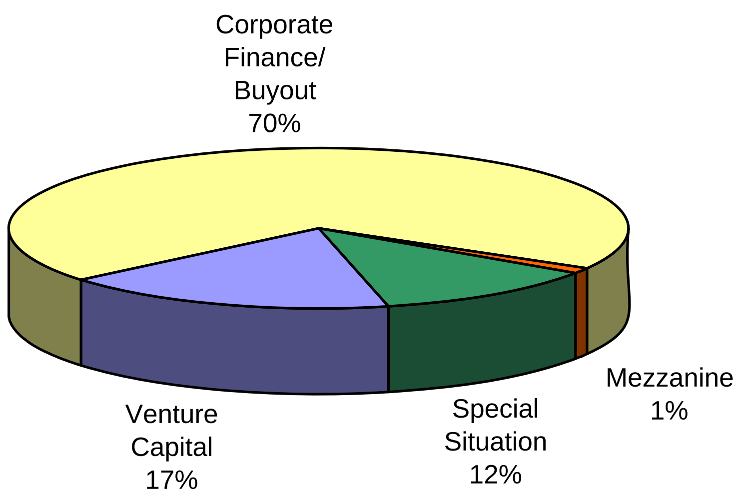


AS MEASURED BY
MARKET VALUE OF FUNDED PLUS UNFUNDED COMMITMENTS
(MANAGED BY HL AND PCA)

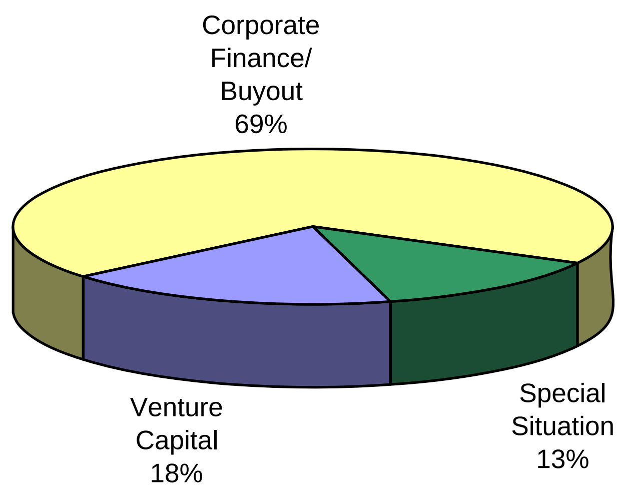


PORTFOLIO STRATEGIC DIVERSFICATION
AS MEASURED BY
MARKET VALUE OF FUNDED COMMITMENTS
AS OF DECEMBER 31, 2006
(MANAGED BY HL)

As of December 31, 2006

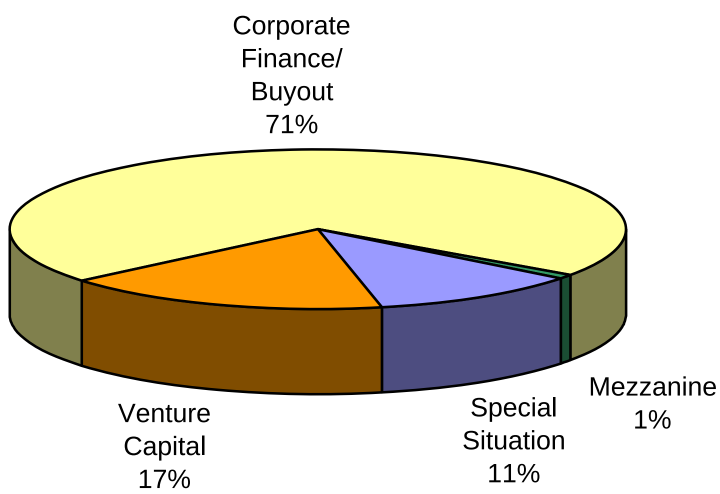


As of December 31, 2005

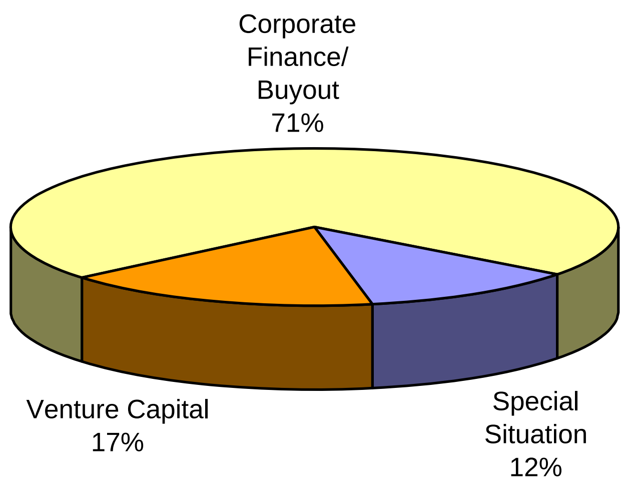


PORTFOLIO STRATEGIC DIVERSFICATION
AS MEASURED BY
MARKET VALUE OF FUNDED PLUS UNFUNDED COMMITMENTS
AS OF DECEMBER 31, 2006
(MANAGED BY HL)

As of December 31, 2006

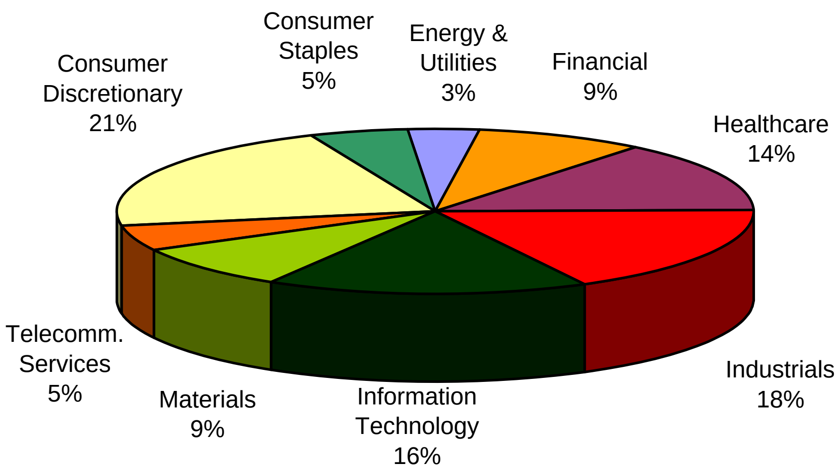


As of December 31, 2005

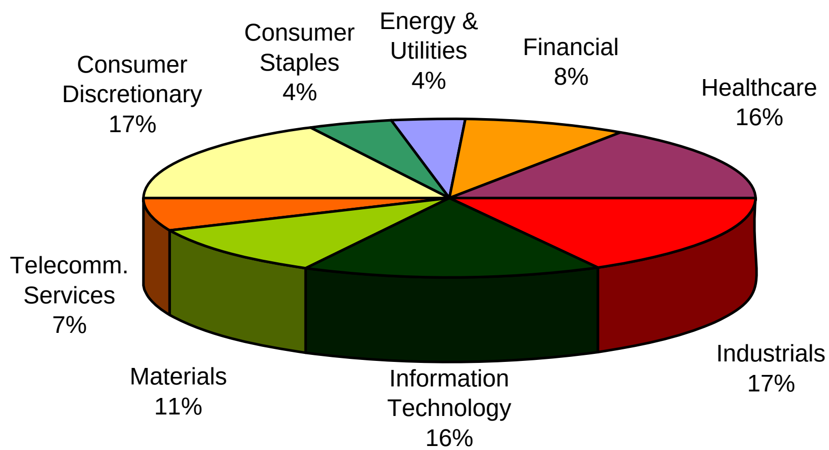


LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM
UNDERLYING INVESTMENT DIVERSIFICATION
BY INDUSTRY CLASSIFICATION

As of December 31, 2006

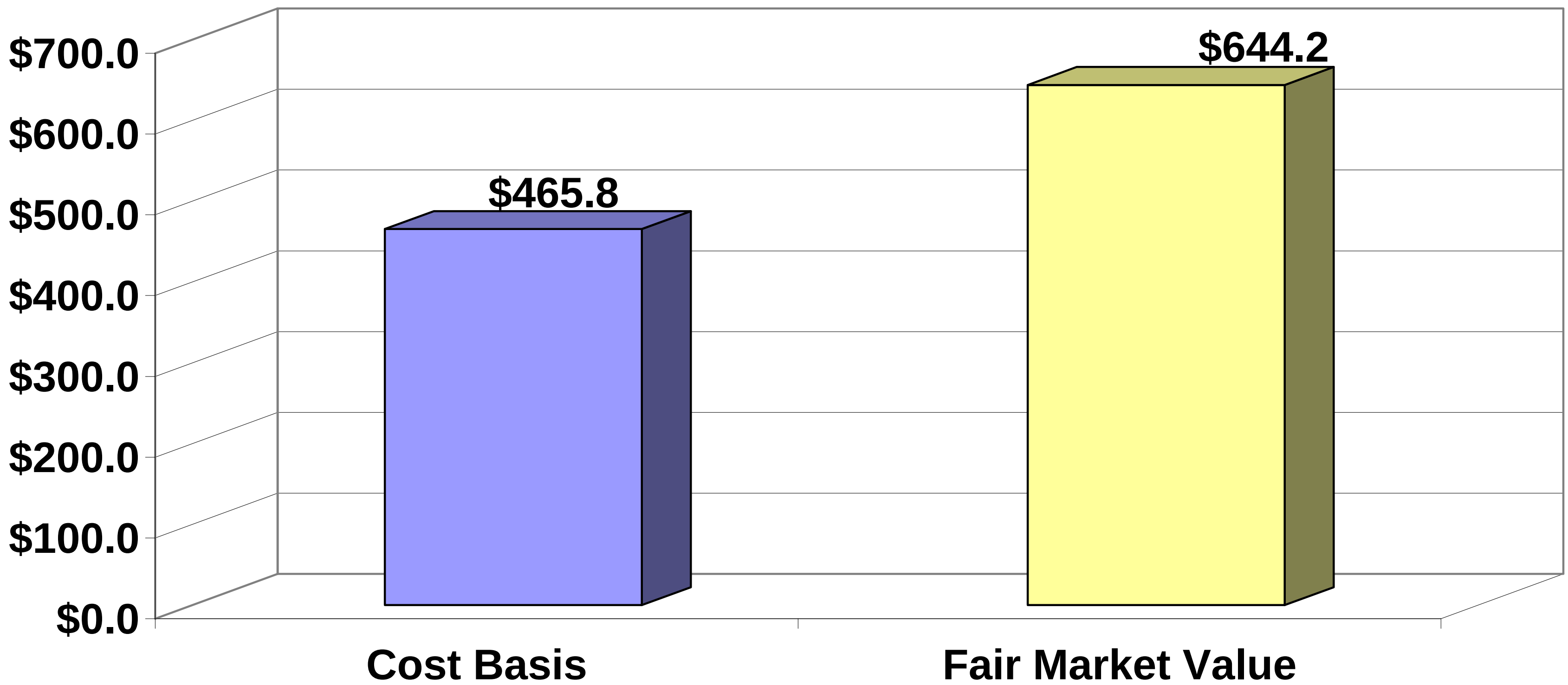


As of December 31, 2005



Note: Based on reported market values provided by the general partners.

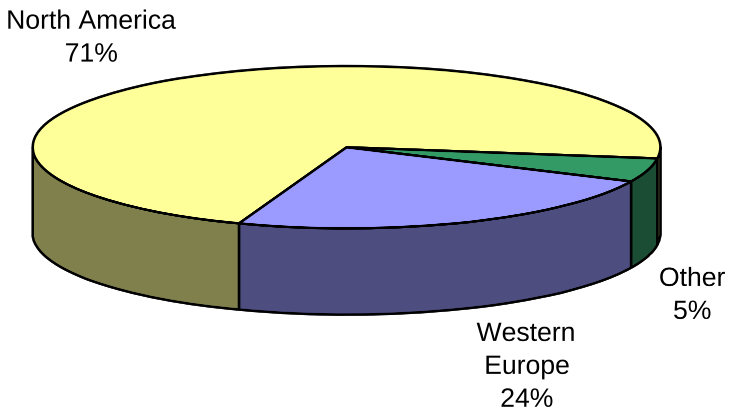
LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM
COST AND FAIR MARKET VALUE (EXPOSED MARKET VALUE) OF PORTFOLIO HOLDINGS
AS OF DECEMBER 31, 2006



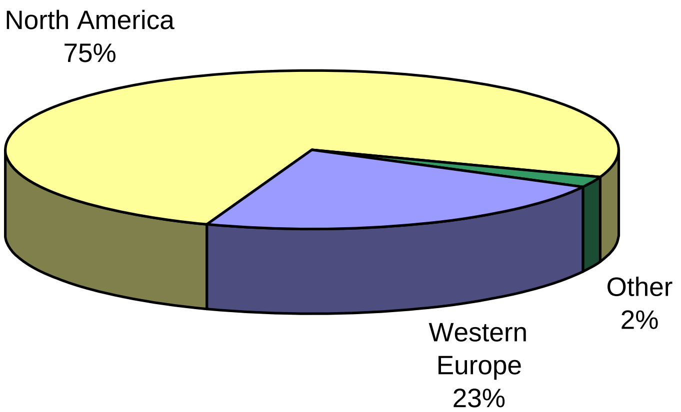
Note: Based on the reported market values provided by the general partners.

LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM
UNDERLYING INVESTMENT DIVERSIFICATION
BY GEOGRAPHIC LOCATION

As of December 31, 2006



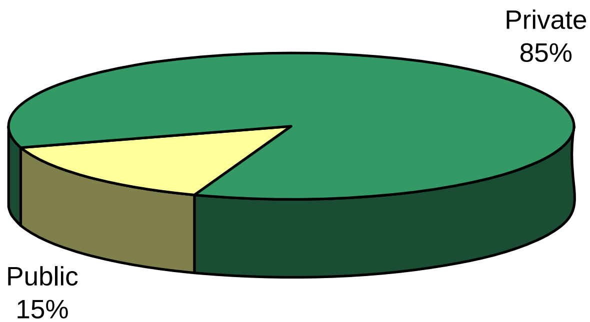
As of December 31, 2005



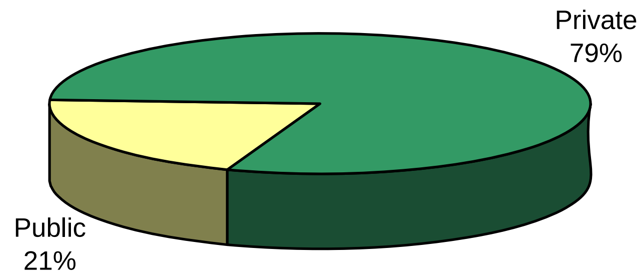
Note: Based on reported market values provided by the general partners.

LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM
PUBLIC VS. PRIVATE HOLDINGS
AS OF DECEMBER 31, 2006

Based on Number of Companies



Based on Reported Market Value



Note: Based on reported market values provided by the general partners.

APPENDIX A

GLOSSARY OF TERMS

ADDITIONAL FEES: The amount of capital an investor pays into a fund/investment that does not count against the investors' commitment. Additional fees typically consist of management fees or late-closing interest expense.

CAPITAL COMMITTED: An investor's financial obligation to provide a set amount of capital to the investment.

CAPITAL CONTRIBUTED: Capital contributed from an investor's capital commitment to fund partnership investments, organizational expenses and management fees.

CAPITAL DISTRIBUTED: Cash or stock disbursed to the investors of an investment.

CO/DIRECT INVESTMENT: A direct investment is a purchased interest of an operating company. A co-investment is a direct investment made alongside a partnership.

CORPORATE FINANCE/BUYOUT: Funds seeking to make controlling and non-controlling investments in established companies which have the potential to achieve greater value through improved performance.

COST BASIS: Capital contributions less return of principal.

FUND-OF-FUNDS: An investment vehicle which invests in other private equity partnerships.

FUND/INVESTMENT SIZE: The total amount of capital committed by investors to a fund.

INVESTMENT CATEGORY: Used to identify investments in one of the following categories: co/direct investments, fund-of-funds, primary funds, secondary fund-of-funds or secondary purchases.

INVESTMENT STRATEGY: A sub-classification of a partnership's investment type, such as Co/Direct Investment, Corporate Finance/Buyout, Mezzanine, Real Estate, Special Situation, Venture Capital.

LIFE CYCLE PERIOD: The current stage of a partnership depending on the percentage contributed to date. Life cycle periods are investment and realization.

MEZZANINE: An investment strategy involving the purchase of subordinated debt. These securities exist between the senior debt and equity of a holding's capital structure. Subordinated debt carries a lower level of risk than pure equity structures because they generate current income and have a more senior position in the company's capital structure.

NET INTERNAL RATE OF RETURN ("IRR"): The discount rate that equates the net present value of the partnership's cash outflows with its inflows and residual value at the time of calculation. The calculation is net of management fees and the general partner's carried interest.

ORIGINATOR: The institution responsible for recommending a client commit to an investment.

OWNERSHIP PERCENTAGE: The investor’s percent of ownership as measured by capital committed divided by fund/investment size.

PAID-IN CAPITAL: The amount of capital an investor has contributed to a partnership, which includes capital contributions and additional fees.

POOLED AVERAGE IRR: An IRR calculation which aggregates cash flows (paid-in capital and capital distributed) and the reported market values of each investment within a portfolio to create one portfolio investmen and return.

PORTFOLIO HOLDING EXPOSURE: The limited partner's pro rata allocation to an underlying investment based on the its ownership percentage of the partnership.

PRIMARY FUND: Defines when the investor acquired an interest in the partnership. Primary fund is the investment category when an investor participates in a closing at the inception of the partnership.

PRIVATE EQUITY PARTNERSHIP: A professionally managed pool of capital that generally invests in unlisted companies or securities. Common investment strategies include corporate finance/buyout, mezzanine, special situations and venture capital.

REALIZED MULTIPLE: Ratio of cumulative distributions to paid-in capital.

RETURN ON INVESTMENT ("ROI"): A calculation based on the total value (market value plus distributions) divided by paid-in capital for an investment.

REPORTED MARKET VALUE: The investment’s capital account balance at quarter end, which includes the general partner’s reported value of the underlying holdings and other assets and liabilities.

SECONDARY FUND-OF-FUNDS: A private equity vehicle formed to purchase active partnership interests from an investor.

SECONDARY PURCHASE: A purchase of an existing partnership interest or pool of partnership interests from an investor.

SPECIAL SITUATION: Partnerships that invest using a unique strategy. Examples include distressed and turnaround, industry focused and multi-stage partnerships.

TOTAL EXPOSURE: Calculated by the summation of market value and unfunded commitments.

VENTURE CAPITAL: An investment strategy that provides start-up or growth capital to companies in the early stages of development. Venture investments generally involve a greater degree of risk, but have the potential for higher returns.

VINTAGE YEAR: The year in which a partnership makes its first capital call for an investment into a portfolio company/holding.

APPENDIX B

DISCLOSURE STATEMENTS

DISCLOSURE STATEMENTS

Non-public information contained in this report is confidential and intended solely for dissemination to Los Angeles City Employees' Retirement System and/or its Affiliates. Hamilton Lane has prepared this report to enable Los Angeles City Employees' Retirement System and/or its Affiliates to assess the performance and status of its alternative investment portfolio. Hamilton Lane hereby disclaims any liability resulting from any unauthorized dissemination of the attached information.

The information contained in this report may include forward-looking statements regarding the funds presented or their portfolio companies. Forward-looking statements include a number of risks, uncertainties and other factors beyond the control of the funds or the portfolio companies, which may result in material differences in actual results, performance or other expectations. The information presented is not a complete analysis of every material fact concerning each fund or each company. The opinions, estimates and analyses reflect our current judgment, which may change in the future.

The past performance information contained in this report is not necessarily indicative of future results and there is no assurance that the funds will achieve comparable results or that they will be able to implement their investment strategy or achieve their investment objectives. The actual realized value of currently unrealized investments will depend on a variety of factors, including future operating results, the value of the assets and market conditions at the time of disposition, any related transaction costs and the timing and manner of sale, all of which may differ from the assumptions and circumstances on which the current unrealized valuations are based.

Any tables, graphs or charts relating to past performance included in this report are intended only to illustrate the performance of the funds or the portfolio companies referred to for the historical periods shown. Such tables, graphs and charts are not intended to predict future performance and should not be used as the basis for an investment decision.