

**REGULAR MEETING OF THE RETIREMENT BOARD OF ADMINISTRATION  
WATER AND POWER EMPLOYEES' RETIREMENT PLAN**

**MINUTES**

**October 28, 2009**

**Board Members Present:**

Cindy Coffin, Vice President  
Barry Poole, Board Member  
Jeff Peltola, Chief Financial Officer  
Michael Moore, Retiree Member

**Board Members Absent:**

Javier Romero, President  
S. David Freeman, Interim General Manager  
Appointed DWP Commissioner - Vacant

**Staff Present:**

Sangeeta Bhatia, Retirement Plan Manager  
Monette Carranceja, Asst. Retirement Plan Mgr.  
Mary Higgins, Asst. Retirement Plan Mgr.  
Jeremy Wolfson, Chief Investment Officer  
Julie Escudero, Utility Executive Secretary

**Others Present:**

Michael Wilkinson, Deputy City Attorney  
Neil Rue, Pension Consulting Alliance, Inc.

Vice President Coffin called the meeting to order at 10:12 a.m. following the Pledge of Allegiance.

Ms. Bhatia indicated a quorum of the Board was present.

**Public Comments**

Ms. Coffin recognized Mr. Rob Harkins who, on behalf of the Neighborhood Youth Association, invited the Board Members to the 11<sup>th</sup> Annual Investors and Education Event on November 5, 2009, at the California Club in downtown Los Angeles. He stated the Association was founded over one hundred years ago and has been providing a safe place for youth in low income and high risk areas to improve their economic skills, arts, and athletics.

**1. Recommendation for Approval of Minutes for September 23, 2009, Regular Meeting**

**2. Termination from Monthly Rolls**

**Termination from October 2009 Retirement Roll**

**Termination of Thelma J. Garrett from the September 2009 Permanent Total Disability Roll – Deceased**

**Termination of Mary J. Pyles from the October 2009 Survivorship Roll - Deceased**

**Termination of Dorothy G. Tibben from the October 2009 Survivorship Roll – Deceased**

**Termination of Casaundra J. Alcantar from the November 2009 Family Death Benefit Roll – Attained Legal Age**

**Termination of Wyatt Kopanski from the November 2009 Family Death Benefit Roll – Attained Legal Age**

**Termination of Joshua T. Rosenthal from the November 2009 Family Death Benefit Roll – Attained Legal Age**

*Mr. Moore moved for approval of Consent Items 1 and 2; seconded by Mr. Poole and carried unanimously after the following vote:*

*Ayes: Coffin, Poole, Moore, and Peltola*

*Nays: None*

3. **Report of Payment Authorizations for September 2009**
4. **Notice of Deaths for September 2009**
5.
  - a) **Summary of Investment Returns as of September 30, 2009**
  - b) **Market Value of Investments by Fund and Month as of September 30, 2009**
  - c) **Market Value of the Retirement, Death, and Disability Funds and Retiree Health Care Fund as of September 30, 2009**
6. **Report on Status of Insurance as of September 30, 2009**

With regard to Item 5, Mr. Moore asked where the funds were being held during the transition phase, and Mr. Wolfson replied the temporary accounts were with Russell Investments.

Mr. Moore also asked why the blended index for Lexington and Landmark, with reference to Alternative Investments from July 1, 2009, to September 30, 2009, were -3.16% on two different levels, and Mr. Wolfson explained it was a timing issue.

*Mr. Moore moved for approval of Items 3 through 6 as Received and File; seconded by Mr. Poole and carried unanimously after the following vote:*

*Ayes: Coffin, Poole, Moore, and Peltola  
Nays: None*

**12. (OUT OF ORDER ) Update on Discussion of the Presentation by Simpson & Simpson, CPAs, of the Annual Audit Report and Related Financial Statements, as of June 30, 2009, as Discussed at the October 28, 2009, Audit Committee Meeting**

Ms. Bhatia stated that Simpson & Simpson presented the annual audit report at the Audit Committee meeting held this morning prior to the regular meeting. She stated this item was brought before the Board for approval of the Audit Report, but a question was raised during the Committee meeting regarding the actuarial valuation of the Retiree Health Benefits Fund and the timeframe covered in that valuation.

Mr. Peltola acknowledged Ann Santilli, Assistant Chief Financial Officer and Controller, who was called to provide her input.

Ms. Santilli indicated the funding status of the Retirement Fund referenced in the audit report was as of June 2009, but the funding status for the Retiree Health Benefit Fund was as of June 2008. She stated the Department's actuary, The Segal Company, has separate actuarial services contracts with both the Department and the Retirement Board, and she asked that the June 2009 numbers, which had been provided to the Department by Segal, also be reflected in the Retirement Plan's Financial Statement. Ms. Santilli indicated the new numbers from the 2009 study would also be relayed to the rating agencies.

Mr. Moore asked whether Simpson & Simpson needed to amend the draft report to include the 2009 actuarial valuation for the Retiree Health system. Ms. Bhatia explained the deadline with the Controller's Office was an issue, but Staff would request Simpson & Simpson to amend the report to reflect the new numbers.

Ms. Santilli then provided the following information from the 2009 actuarial valuation:

<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability</u>	<u>Funded Ratio</u>
\$850,000,000	\$1,390,000,000	61%

Mr. Moore requested that in the future, the most recent actuarial valuations be provided to the auditors, Simpson & Simpson, in time to be incorporated into their report. Mr. Peltola and Ms. Santilli concurred and indicated that step would be implemented in the future.

*Mr. Moore moved for approval of the Simpson & Simpson audit report with the recommended amendment; seconded by Mr. Peltola and carried unanimously after the following vote:*

*Ayes: Coffin, Poole, Moore, and Peltola  
Nays: None*

## **7. Presentation by Courtland Partners, Ltd. – Second Quarter 2009 Real Estate Portfolio Performance**

Ms. Coffin acknowledged Lourdes Canlas, Jacinta de Rivera, and Garrett E. Zdolshek from Courtland Partners.

Ms. Canlas presented an overview of the Plan's real estate portfolio and indicated the current portfolio market value is \$87 million, or 1.4% of the total Plan assets. She reported the current exposure is approximately 85% core and 15% value, with the total potential exposure of 58% core and 42% value. She noted the portfolio's property diversification, compared to the NCREIF benchmark, is more heavily weighted in office property and under-weighted in industrial, residential, and retail property. With respect to geographic exposure, she noted the portfolio is under-weighted in the Midwest and slightly over-weighted in the south.

Ms. Canlas explained, per the investment policy, no single organization should have more than 40% of the market value, and PRISA was currently at 55%. She stated it would eventually be trimmed down to 39% as the Plan funds its commitments.

Ms. Canlas reviewed the investment leverage and noted the ratio was approximately 38%. She also went over performance and pointed out the portfolio basically underperformed all of the indices in all time periods.

Ms. de Rivera highlighted the portfolio's acquisitions and dispositions. Ms. de Rivera reported the portfolio includes investments in the JP Morgan Strategic Property Fund and Prudential PRISA, which are core funds; and in Prudential PRISA II, CBRE Strategic Partners V, and Mesa West Real Estate Income Fund II, which are value added funds. She noted an increase in write-downs and attributed the majority of them to the distress in the economy and in the commercial real estate market.

Mr. Wolfson asked for additional information regarding cap rates, in view of the aggressive write downs, and asked what changes have occurred in the trends and operating income, and how the portfolio has been affected. Mr. Zdolshek responded and explained, with the rise in cap rates, the portfolio's managers became more aggressive in writing down property values compared to the indices. He said he expected the trend to stabilize eventually and noted it was one reason why Courtland had been slow to make commitments on behalf of their clients. He said he believed this creates great opportunities going forward, and as capital becomes more valuable each day, Courtland can achieve better risk adjustments by remaining patient.

Mr. Moore asked whether the JP Morgan Strategic Property Fund and PRISA, the two fully committed funds, would see a return of positive values. Ms. Canlas responded by explaining the

relationship between the current state of the real estate market and its effect on the U.S. economy. She stated that as JP Morgan and PRISA invest in the recovering market, more opportunities with better projected returns were expected in the next two or three years.

Mr. Peltola asked about the reduced return rates compared to the benchmark. Ms. de Rivera explained that the Plan's portfolio includes leveraged funds with some development exposure, while the benchmark consists of a core portfolio with no leverage and minimal exposure to development.

Mr. Wolfson asked Courtland to explain to the Board the difference between open and closed funds. Mr. Zdolshek explained that open-ended funds are existing portfolios of assets and are purchased like stock. He stated they are valued quarterly and, because they are liquid, can be purchased and sold freely.

He explained with closed-ended funds, managers raise capital first, based on particular strategies, then begin to acquire assets over a specific period, typically three to four years; they hold them for several years to create value, and then they sell. He indicated over the first one to three years, as assets are being acquired, fees and expenses must still be paid, and the investments typically experience losses. He added that once the capital is raised, investors are locked in for the life of the investment, which is typically eight to ten years.

In response to Mr. Peltola's inquiry as to Courtland's watch status, Mr. Wolfson explained Courtland was not on watch status, but their work was closely monitored.

## **8. Presentation by The Segal Company - Actuarial Valuation for the Retirement Fund**

Ms. Coffin acknowledged Paul Angelo and John Monroe from The Segal Company (Segal).

Mr. Angelo began by stating the adoption of the actuarial valuation would set the Department's contribution rates for 2009-2010. He then provided an overview of the valuation summary and noted significant issues during the valuation year.

He reported the market value of ~~assets~~ **return** was -15.53% for the period of July 1, 2008, to June 30, 2009, and the actuarial value of ~~assets~~ **after smoothing showed a positive return of 2.28%**. He noted this resulted in an actuarial loss of \$410 million and increased the Plan's required contribution by 5.73% of pay.

Mr. Angelo noted salaries increased by an average of 6.8% and resulted in an actuarial loss of \$29 million for the current year, and increased the employer contribution by 0.41% to the new rate of 26.12% or \$210.3 million. He reviewed the various factors that contributed to the change.

Mr. Moore asked how the Department's employer contribution rate compared to other employers, and Mr. Angelo explained for general tiers, the Department's rate is highly comparable. He added that the Plan actually had a better year than most of the other systems they had worked with.

Mr. Peltola pointed out the Department's contribution in 2008 was \$145.9 million but the projection for 2009 is \$210 million. Mr. Peltola asked if the five-year projections would be discussed because he believed the Board should recognize how the projections will affect the Department's requirements. Mr. Angelo said they will be updating the projections which they do every year and that can be relayed to the Board.

Mr. Angelo explained the total unrecognized return, which is the difference between the market value and the smoothed value, was \$393 million in 2008 and \$1.6 billion for 2009, and would be recognized over the next few years.

He reported unrecognized investment losses amounted to \$1.6 billion and represented approximately 28% of the market value of assets. He stated that unless they are offset by future investments gains, the future recognition of the \$1.6 billion in past market losses could significantly impact the Plan's future funded ratio and required contribution.

Mr. Peltola asked about the overall percentage of the employee contributions. Mr. Angelo said they were approximately 6.25%, and he reviewed how the cost was calculated.

Mr. Angelo reported the valuation reflected the new Plan amendments, which were the optional survivor death benefit allowances for surviving spouses of members who died while on duty, and the discretionary Cost of Living Allowance for retirees. He added the total cost of these changes was approximately 0.03% of pay.

Mr. Angelo noted the balance in the General Reserve and the Reserve for Investment Gains and Losses decreased from \$2,325 million (**\$2.3 billion**) as of June 30, 2008, to \$1,638 million (**\$1.6 billion**) as of June 30, 2009, and represented approximately one percent of the end of year market value of assets.

He also reviewed the amortization policy and noted the actuarial accrued liability exceeded the actuarial value of assets, which resulted in an unfunded actuarial accrued liability (UAAL) of \$808.3 million. He added the Board's funding policy determines the Department's required contribution as the normal cost increases or is offset by a UAAL amortization charge or credit.

Following Mr. Angelo's explanation of the smoothing process, Mr. Moore asked why smoothing, which occurs over a period of five years, and liability amortization, which occurs over a period of 15 years, are not performed at the same time. Mr. Angelo explained that smoothing involves investments and tends to follow shorter economic or market cycles, and amortization tends to take a longer approach to keep the contribution rate lower and not spread the costs out too far into the future.

Mr. Angelo reviewed ~~liquidity~~ **liability** management, the relationship between actuarial value and market value, the rate of return, contributions and reconciliation of contributions and the funded ratio, the reconciliation of member data, and the reconciliation of unfunded liability.

He reviewed the demographics and noted the Plan has 8,868 active members with an average age of 47.8 and an average of 16.8 years of service. He noted this translates to a larger payroll base over which to spread costs and help keep the employer contribution rate down.

Discussion ensued regarding reciprocity. In response to a question from Mr. Peltola regarding City employees who transferred to DWP, Mr. Angelo commented that one reason for the actuarial loss was due to new hires from the City who brought their service years with them but not their employer contribution.

Mr. Angelo noted that the actuarial valuation report as of July 1, 2009, was based upon information as of the valuation date only.

*Mr. Moore moved for approval of Resolution No. 10-32 to adopt the June 30, 2009, actuarial valuation report of the Retirement Fund and recommendations of the Plan's actuary; seconded by Mr. Poole and carried unanimously after the following vote:*

*Ayes: Coffin, Poole, Moore, and Peltola  
Nays: None*

*(The Board recessed at 12:05 p.m. and reconvened at 12:15 p.m.)*

### **Additional Public Comments (Out of Order)**

Ms. Coffin acknowledged Department employee John Hill, who commented on additional contributions and expressed his concern for the manner in which information was presented, particularly the interest rate, which he believed was misleading. He stated he hoped I.B.E.W. representatives, with the General Manager and all concerned parties, would review the issue and give employees an opportunity to provide their input to protect their money from any losses.

### **9. Discussion of Interest on Additional Contributions**

Ms. Bhatia introduced the item, stating Staff was asked to provide a report on the interest credit rate of 8% for the voluntary additional annuity program, and asked Ms. Higgins to present the report.

Ms. Higgins explained the Plan credits 8% interest on all member accounts including the voluntary additional annuity program. She reported the rate was set by the Retirement Board in order to equal the actuarial assumed rate of return of 8%. She stated the previous rate was 7% in 1991, and that was the last time it had been changed. She noted the Staff report provided a general background and comparative data, and indicated no established guidelines or professional standards were in place in the industry that determined the interest rate.

Mr. Moore asked when participating members could withdraw their contributions. Ms. Higgins responded a member may withdraw his/her additional contribution upon retirement or termination of service. She stated the contribution was converted to an annuity, payable for life, if the annuity amount exceeded \$75 monthly.

Mr. Poole asked what happens with contributions if an employee dies prior to full payout. Ms. Bhatia and Ms. Higgins reviewed the various options available.

Mr. Moore said he believed 8% was a lot to pay for a risk-free investment and he would be more inclined to pay out on the basis of the average rate of return on the Plan's fixed core with a varying interest rate over time based on market conditions. He stated he believed members need to have some certainty of what they will be receiving if they are unable to withdraw their contributions until they cease employment. Ms. Higgins responded the information provided to members indicates that, per the Plan, the interest rate is set by the Retirement Board. She added that the current interest rate is 8% but is not guaranteed for the remainder of the accumulation period. Ms. Bhatia stated the information pertaining to the interest rate is included in the information provided to the members.

Mr. Peltola asked why an annuity was the only way that an employee can receive their money, and Ms. Higgins responded that is how it is worded in the Plan.

Mr. Poole requested information on the options for withdrawal. Ms. Bhatia stated this information could be provided.

Ms. Bhatia reported the issue addressed by Mr. Hill pertaining to change in distribution options was likely a meet-and-confer item. She stated information on this matter had been provided to Labor Relations to pursue as they saw fit. Ms. Bhatia also provided information about the interest crediting rates used by other City retirement systems.

Board members requested this topic be brought back to the Board with further information regarding available distribution options.

#### **10. Discussion of Outside Investment and Fiduciary Counsel**

Ms. Bhatia indicated this item was placed on the agenda at the request of the City Attorney.

Mr. Wilkinson provided background of this item.

*Mr. Moore moved for approval of Resolution No. 10-36 to approve contracts with the outside law firms of:*

*Klausner & Kaufman, PA; Morrison & Foerster, LLP; Reed Smith, LLP; and Olson, Hagel & Fishburn, LLP, to provide legal advice on fiduciary matters; and*

*Nossaman, LLP; Foster Pepper, PLLC; and Cox, Castle & Nicholson, LLP, to provide legal advice on real estate and alternative investment matters*

*The Motion was seconded by Mr. Poole and carried unanimously after the following vote:*

*Ayes: Coffin, Poole, Moore, and Peltola*

*Nays: None*

#### **11. Discussion of Update on Governance Issues**

Ms. Bhatia reminded the Board that this item remained unresolved. Ms. Coffin asked for Mr. Peltola's input, and Mr. Peltola stated he provided the counsel report to the Department's City Attorneys.

Mr. Wilkinson stated he followed up with Alan Manning but has nothing to report at this point.

The Board members requested this item be brought back to the Board in the future.

#### **13. Retirement Plan Manager's Comments**

Ms. Bhatia reported the transition to Wachovia Bank had been completed and this had been reported in the Retiree Newsletter. She explained that Wachovia Bank was used for disbursements of retiree checks and other disbursements including disability payments. She stated Wells Fargo was the bank being used for deposits, but eventually all deposits would be processed through Wachovia.

Ms. Bhatia provided an update regarding control issues involving the system set up with Wells Fargo that were still unresolved. Mr. Peltola stated that concern had been resolved, and he would ask Ann Santilli to update Ms. Bhatia.

Ms. Bhatia stated Staff was close to finalizing the specifications for the next phase of the computer system involving the payment of retiree checks.

Ms. Bhatia reported that a special Retirement Board meeting would be held on November 4 to interview the small-cap investment manager finalists who had responded to the Request for Proposal.

**14. Future Agenda Items**

Ms. Bhatia stated the item regarding additional contributions and options would be brought back to the Board.


The meeting adjourned at 12:45 p.m.

  
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CINDY COFFIN  
Vice -President

12/9/09  
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Date

  
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SANGEETA BHATIA  
Retirement Plan Manager

12/15/09  
\_\_\_\_\_  
Date

  
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JULIE ESCUDERO  
Utility Executive Secretary

12.15.09  
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Date