

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

MINUTES

DECEMBER 9, 2009

Board Members Present:

Javier Romero, President
Cindy Coffin, Vice President
Michael Moore, Retiree Member
Jeff Peltola, Chief Financial Officer

Board Members Absent:

S. David Freeman, Interim General Manager
Appointed DWP Commissioner - Vacant
Barry Poole, Board Member

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
Kay Ceserani, Pension Consulting Alliance
David Sancewich, Pension Consulting Alliance

President Romero called the meeting to order at 10:06 a.m. following the Pledge of Allegiance.

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

Public Comments

Mr. Bijan Sajadinia, a new DWP employee, addressed the Board regarding his desire to buy back his previous other government service and his inability to do so because he fell short of the minimum length of service. Mr. Sajadinia asked the Board to use its discretion to consider his request. Ms. Bhatia stated the minimum period of prior service time is specified in the Retirement Plan, and the Board is unable to disregard the rules. She noted that staff would look at the specifics of Mr. Sajadinia's case.

Mr. Romero introduced LaShaun McCloud as the new Clerk Typist in the Membership Section of the Retirement Plan Office.

Ms. Lilly Calvache, of I.B.E.W. Local 18, addressed the Board with regard to mandatory overtime. She stated that she is aware that Retirement Management has informed staff that mandatory overtime is required to transition to the new computer system; however, mandatory overtime is not acceptable in any Memoranda of Understanding. She stated she is working with Retirement Management in an effort to avoid any grievances.

1. Approval of Minutes for the October 28, 2009, Regular Retirement Board Meeting and the November 4, 2009, Special Retirement Board Meeting

Mr. Moore had some questions with the summary of The Segal Company's presentation in the October 28, 2009, minutes. Based on his inquiries, Item 8 of the October 28, 2009, minutes will be amended to read as follows:

Page 1a.4: "... the market value of return was -15.53% for the period of July 1, 2008, to June 30, 2009, and the actuarial value after smoothing showed a positive return of 2.28%."

Page 1a.5: "... balance ... 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. . ."

Page 1a.5: “Mr. Angelo reviewed liability management . . .”

Mr. Moore moved for approval of Item 1 as amended; seconded by Ms. Coffin and carried unanimously after the following vote:

Ayes: Romero, Coffin, Moore, and Peltola

Nays: None

2. Memo from Pension Consulting Alliance, Inc., Regarding Complaint Filed Against Members of Galleon Group Hedge Fund

No discussion took place on Item 2.

3. California Association of Public Retirement Systems – Letter and Press Release Regarding Legislation Concerning Placement Agents

Mr. Moore asked if Staff had received anything from investment firms indicating their compliance with the Plan’s policy regarding the use of placement agents. Mr. Wolfson responded Staff had not received any signed documents from existing investment firms. He added that Staff provided the newly hired managers with a copy of the policy, and he noted all prospective managers responding to all Requests for Proposals receive a copy of the policy and are required to disclose any association with placement agencies.

Mr. Moore suggested letters be sent to all investment managers requiring they confirm they have read the policy regarding the use of placement agents and acknowledge they will comply with the policy. Ms. Bhatia indicated Staff would proceed accordingly.

Mr. Moore moved to accept Received and Filed Items 2 and 3; seconded by Ms. Coffin and carried unanimously after the following vote:

Ayes: Romero, Coffin, Peltola, and Moore

Nays: None

4. Presentation by The Segal Company – Annual Actuarial Valuations
a) Disability Fund as of July 1, 2009

John Monroe, Vice President and Associate Actuary of The Segal Company (Segal), reviewed some of the key results of Segal’s review of the Disability Fund for Temporary Disability Benefits, Permanent Total Disability Benefits, and Extended Temporary Disability Benefits. He reported the reserves set aside to pay for these benefits increased from approximately \$40 million in 2008 to approximately \$45 million as of June 30, 2009.

He reported the general reserve for the Temporary Disability Benefits had decreased during most of this decade but began to increase in the past two years and was now up to \$2.7 million, which was over the target reserve level of \$330,000. He attributed the increase to the increase in the Department’s contribution and less claims and expenses paid during 2008-2009 than estimated.

To return to the target reserve over a one-year period, he stated Segal recommended a decrease in the employer contribution from \$1.70 per \$100 covered payroll to \$1.06 per \$100 covered payroll. He stated another option would be to reduce the reserve to the target level over a 10-year period, beginning June 30, 2009. He indicated the contribution rate for that option would be \$1.34

per \$100 covered payroll and would provide a smoother rate and less volatility. Mr. Peltola interjected the \$1.34 for 10 years would make it easier, from the Department's standpoint, to plan over multi-year periods and have less volatility.

Mr. Monroe suggested that because the reserve of \$330,000 is small, compared to approximately \$9 million to \$10 million which the Department pays in claims and expenses each year, the Board may want to consider having Segal perform another review of the reserve target level.

Mr. Monroe reported on the Permanent Total Disability (PTD) fund and indicated the rate for PTD benefits has been suspended for over 10 year because the reserve continues to exceed the target level. He stated that, as a result, Segal was recommending no changes to the PTD benefits.

(Mr. Moore left the room at 10:25 a.m.)

b) Death Benefit Fund as of July 1, 2009

Mr. Monroe summarized the four components of the Death Benefits Fund: Family Death Benefit, Supplemental Family Death Benefit, Insured Lives-Contributing, and Insured Lives Non-Contributing.

(Mr. Moore returned at 10:29 a.m.)

Mr. Monroe explained the Family Death Benefit currently pays \$416 per month to each surviving child and surviving spouse with a maximum of \$1,170 per family per month. He reported the Department's contribution rate has been suspended since 1993 because the reserve has stayed above the target level. He indicated the current reserve is approximately \$6 million, and Segal recommended the Department's contribution rate continue to be suspended.

He stated the Supplemental Death Benefit is an optional program and provides an additional \$520 per month to each surviving child and spouse with a maximum monthly amount of \$1,066. Mr. Monroe pointed out the Department does not contribute to the Supplemental Family Death Benefit because it is a voluntary, optional program. He stated participating members pay \$2.25 bi-weekly for active members and \$4.90 monthly for retired and disabled members, and Segal recommended no change. In response to a question from Mr. Peltola, Mr. Monroe reported the Supplemental Family Death Benefit program currently has approximately 1,500 participants.

Mr. Monroe reported the Insured Lives Contributing Death Benefit is a pre-retirement benefit and beneficiaries of contributing (active) members receive the deceased member's accumulated contribution plus 14 times the employee's monthly salary. He indicated members participating in the Insured Lives-Contributing program contribute \$1.00 bi-weekly. He noted the Department currently does not contribute to the Insured Lives Contributing Death Benefit because the reserve is above the target level; however, the reserve has begun to drop. As a result, he indicated Segal recommended the Department's contribution be suspended for one more year; however, the Department would most likely need to resume contributions within the next year or two. He noted the resumed contribution would probably be at a rate of approximately 30 cents per \$100 payroll or \$2.4 million per year.

He explained that beneficiaries of non-contributing (retired) members receive 14 times the deceased member's retirement allowance with a maximum post-retirement benefit of \$20,000. He noted the Department is the sole depositor for the Insured Lives Non-Contributing members. He stated the Department's current contribution rate is \$1.64 per \$100 monthly retirement benefit and maintaining that rate will bring the reserve up to the target level in approximately two years; therefore, Segal recommended the current rate be maintained.

Mr. Monroe segued to the Governmental Accounting Standards Board (GASB) Actuarial Valuation and Review of the Insured Lives Death Benefit Fund for Non-Contributing Members as of July 1, 2009. He explained GASB requires all benefits paid from the Insured Lives Death Benefit Fund for Non-Contributing Members be disclosed on the Plan's financial statements. He stated this report was for financial reporting purposes only and was used to document the calculations of the information required by GASB and was not used to determine the contribution rate.

He stated the Annual Required Contribution (ARC) was approximately \$10.7 million, and he explained how the ARC was calculated. He stated the expected contributions are approximately \$5 million resulting in a \$5 million difference, and the \$5 million difference is reported as a Net Pension Obligation (NPO) on the employer's financial statements. He indicated the NPO for the Plan is approximately \$10 million as of June 30, 2009, and is expected to increase by another \$5 million during 2009-2010. He noted as long as the ARC continues at \$10 million and the expected contributions are \$5 million, the NPO will increase by \$5 million per year.

He stated the Annual Required Contribution (ARC) was approximately \$10.7 million, and he explained how the ARC was calculated. He stated approximately \$5 million were expected in contributions which would leave a \$5 million difference that would be reported as a Net Pension Obligation (NPO) on the employer's financial statements. He indicated the NPO for the Plan is approximately \$10 million as of June 30, 2009, and is expected to increase by another \$5 million during 2009-2010. He noted as long as the ARC continues at \$10 million and the expected contributions are \$5 million, the NPO will increase by \$5 million per year.

Mr. Moore asked Mr. Peltola for feedback from the Department's standpoint. Mr. Peltola stated the Department may try to overfund the NPO to keep the volatility down going forward to cover additional funding requirements.

Ann Santilli, the Department's Controller and Assistant Chief Financial Officer, interjected the Department would like to work with the Retirement Office staff to see if the Department can contribute an additional \$5 million to meet the ARC minimum of \$10.7 million or possibly create a surplus.

Mr. Moore asked if a more fully funded approach would be advantageous. Ms. Santilli indicated the obligation will continue to grow, and the Department would be taking a proactive approach by funding at a higher contribution rate.

Mr. Moore moved to adopt Resolution No. 10-41 to approve the actuarial valuation report of the Death Benefits Fund and the related Governmental Accounting Standards Board Actuarial Valuation and Review; seconded by Cindy Coffin and carried unanimously after the following vote:

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

Mr. Peltola moved to adopt Resolution No. 10-40 to approve the actuarial valuation report of the Disability Fund and to approve an employer contribution rate of \$1.34 per \$100 of compensation; seconded by Mr. Moore and carried unanimously after the following vote:

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

5. Presentation by Glass Lewis – Annual Proxy Season Review

Mr. Romero acknowledged Bob McCormick from Glass Lewis.

Mr. McCormick provided an update on the Troubled Asset Relief Program (TARP) which was enacted by Congress in October 2008. He stated proxies were usually concentrated in the spring when most annual meetings occurred. With the recent global financial crisis, he noted the TARP program would be extended to October of 2010 to allow another year of obligations to be paid. He stated Glass Lewis would continue to monitor companies participating in TARP including the risk control measures. He indicated TARP placed significant restrictions on companies particularly regarding compensation, and companies were trying to get out of the program. He added bonuses for executives were limited to one-third of their total compensation

In response to a question from Ms. Coffin, Mr. McCormick indicated bonus restrictions would also be applied to senior executives.

Mr. McCormick reviewed the regulatory developments affecting TARP companies. He identified various regulatory measures that will be eliminated in the future. He indicated the Securities and Exchange Commission (SEC) has proposed a higher threshold for proxy access of between 3% and 5% for mid-cap and small-cap companies with the lowest proposal being 1%. He further added an advisory vote on compensation was required at over 300 TARP companies.

Mr. Moore asked if the Plan's proxy voting policies were still adequate, and Mr. McCormick responded he believed they are still good, but he will re-examine them. Mr. Moore asked if Glass Lewis has ever sponsored a measure or reacted to a measure sponsored by others. Mr. McCormick responded that Glass Lewis is not a shareholder and has no voting rights. Mr. Moore asked if Glass Lewis staff speaks to parties involved with legislation being considered on the national level. Mr. McCormick responded they usually send out a common letter to SEC proposals, especially those specific to proxy voting.

(The Board recessed at 11:16 a.m. and reconvened at 11:25 a.m.)

6. Presentation by Capital Dynamics, Inc. – Performance Review as of June 30, 2009

Mr. Romero acknowledged Chris Slinger and Cynthia Duda from Capital Dynamics.

Mr. Slinger provided an update of Capital Dynamic's assumption of HRJ Capital and stated the transaction was finalized in July 2009. He added four solutions were addressed during the transition process in the first half of 2009 such as raising new money, making secondary sales, talking with banks about liquidity facilities, and deferring some of Capital Dynamics's (CD) management fees. He further added that 13 members of the HRJ Capital team were added to CD when CD assumed management of HRJ's fund-of-funds product. Mr. Slinger also provided background and history of CD.

Mr. Moore asked for clarification on the last two columns of page 10 of the presentation material regarding the relationship between the internal rate of return (IRR) and the public market values. Ms. Duda explained these were the benchmarks used to compare every single generation of private equity cash flow return to the return that would have been generated if the money was invested in the public markets.

Mr. Peltola asked if the total net IRR of 11.6% was a simple average or weighted average calculation, and Ms. Duda confirmed it was a weighted average.

Ms. Duda reviewed the special opportunities during September 2008 and September 2009. She added the unique market condition provided many opportunities in distressed strategies and commented uncertainties remained for 2010. She explained the relationships and opportunities between the level of debt and average buyouts based on market conditions, and indicated the last quarter of 2008 was the most phenomenal opportunity to buy.

With respect to the current fund's status, Ms. Duda noted the fund was 90% drawn and valuations improved from their lows in December 2008 and were recovering in 2009.

Mr. Moore asked about Staff's reconciliation process. Mr. Wolfson explained all private equity performance was calculated by the custodian bank BNY Mellon, the Plan's book of record, which was reconciled to the manager's statements each month.

7. Presentation by Pension Consulting Alliance, Inc. – Third Quarter Performance Review

Mr. Romero acknowledged David Sancewich and Kay Ceserani from Pension Consulting Alliance, Inc. (PCA).

Mr. Sancewich summarized the Plan's portfolio for the third quarter of 2009. He reported that, based on the one-year performance ending September 30, 2009, the portfolio had an excess return of 1.4% gross of fees over the benchmark, and 1.2% net of fees. He added the portfolio has outperformed over the latest 12-month period and has continuously outperformed the benchmark over a 10-year period. He also reviewed the market conditions in both U.S. Equity and non-U.S. Equity which had returns of 16.3% and 19.5%, respectively. Mr. Sancewich noted public real estate was up by 31.5%, and private real estate was down by minus 3.3%, although the overall performance for the various asset classes was strong. He then provided highlights on U.S. Fixed Income and non-U.S. Equity which provided positive returns. On the credit side, he noted High Yield had a positive return of 14.2% and Credit had a return of 7.5% which indicates strong overall quarterly performance.

Mr. Sancewich stated the Plan exceeded the actuarial rate of 8% for 2005 through 2007, which was in line with the benchmark during that time; however, the Plan suffered a setback in 2008 when it lost value due to the prevailing market conditions. He noted the Plan was in line in 2009 over the previous four years through September, with a 1.4% excess return. Mr. Sancewich indicated the investment return for the portfolio's valuation for the third quarter was 10.8%.

Mr. Sancewich noted the strategic allocation targets for the portfolio were in line with the allocation targets for the 2009-2010 fiscal year, and he acknowledged Plan Staff for the great job of transitioning the portfolio to its new allocation. He reviewed the performance attribution, strategic class performance, and manager performance. He stated that for the past twelve months all managers have added value to the portfolio except Paradigm whose performance was a disappointment. He added PCA will be looking into Paradigm's year-end performance results and report to the Board in January 2010 to address the firm's performance and provide any possible recommendation(s). Mr. Sancewich reported that for the Plan's Fixed Income portfolio, Wells High Yield failed to outperform the Barclays High Yield Index.

Mr. Sancewich also reviewed the Health Plan, Disability Plan, and Death Plan portfolio performance.

Ms. Ceserani provided an update on the seven managers currently on watch status. She noted that six of the seven managers exceeded their benchmark since being placed on watch except for ING which was being replaced by JP Morgan. She added that updates on Paradigm, T. Rowe Price, Loomis, and BlackRock would be provided to the Board in January 2010, followed by updates on Aetos and PAAMCO in February. Mr. Wolfson clarified that Paradigm had

underperformed so only five managers outperformed their benchmark. Ms. Coffin asked if the percentage of managers on watch was considered high, and Ms. Ceserani commented that the percentage appeared to be normal. In response to a question from Ms. Coffin regarding Paradigm's performance, Ms. Ceserani indicated that, although Paradigm was able to outperform the Russell 2000 Value Index for the third quarter of 2009, their since-inception numbers still showed they have severely underperformed.

Mr. Wolfson noted the preliminary performance for Paradigm through November 2009 was the worst trailing 12-month performance since inception.

8. Discussion of Recommendation to Extend the Contract with INVESCO Global Asset Management, Inc.

Mr. Moore moved for approval of Resolution No. 10-42 to approve the contract extension for INVESCO Global Asset Management Inc.; seconded by Ms. Coffin and carried unanimously after the following vote:

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

9. Discussion of Resolution to Ratify the Board's Decision to Hire JP Morgan Asset Management, Inc., to Manage the Active Core Fixed Income Mandate

Mr. Moore moved for approval of Resolution No. 10-43 to ratify the selection of JP Morgan Asset Management, Inc., as active Core Fixed Income Manager; seconded by Ms. Coffin and carried unanimously after the following vote:

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

10. Discussion of Resolution to Ratify the Board's Decision to Hire Western Asset Management Company to Manage the Active Global Inflation Linked Securities Mandate

Mr. Moore moved for approval of Resolution No. 10-44 to ratify the selection of Western Asset Management Company, as active Global Inflation Linked Securities Manager; seconded by Ms. Coffin and carried unanimously after the following vote:

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

11. Discussion of Resolution to Ratify the Board's Decision to Hire Frontier Capital Management Company to Manage the Active Small Cap Growth Equity Mandate

Mr. Moore moved for approval of Resolution No. 10-45 to ratify the selection of Frontier Capital Management Co., LLC, as active Small Cap Growth Manager; seconded by Ms. Coffin and carried unanimously after the following vote:

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

12. Consideration of Designation of Trustee for Incompetent for Claude Garrett

Mr. Moore moved for approval of Resolution No. 10-46 to designate Ina Faye Garrett as the trustee for her husband Claude Garrett; seconded by Ms. Coffin and carried unanimously after the following vote:

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

- 13. a) **Summary of Investment Returns as of October 31, 2009**
- b) **Market Value of Investments by Fund and Month as of October 31, 2009**
- c) **Market Value of the Retirement, Death, and Disability Funds and Retiree Health Care Fund as of October 31, 2009**

The above item was submitted for reference only with no discussion.

14. Retirement Plan Manager's Comments

Ms. Bhatia noted the difficulties encountered by Retirement with the delays in filling vacant positions, specifically the Senior Systems Analyst position which was an approved and budgeted position for the Plan. She indicated the importance and urgency of hiring a Senior Systems Analyst in connection with the document imaging project related to the pension system. She stated the delays would have an impact on completing the project timely. In response to Mr. Romero's question pertaining to updates from the City Attorney's Office, Ms. Bhatia noted the City Attorney has indicated a report on the budgetary authority of the Retirement Board would be ready by January 15, 2010.

Ms. Bhatia reported Staff has been working on testing the functionality of the next module, which includes the Retirement, Death and Disability Benefits component. She added the module is expected to be received in the second week of January 2010, and Staff had been required to work approximately 10 hours per pay period to meet the scheduled timeline.

Ms. Coffin voiced her concern with Staff working overtime during the holiday season and wanted to know exactly when the JEA testing must be completed. Ms. Higgins indicated the first round is due to JEA by December 28 and, at the same time, Staff is in the process of preparing data conversion specifications for the next phase. She explained that the Staff familiar with the process were the same employees who were knowledgeable about the Retirees' 1099s and who have the knowledge to prepare for the next round of testing due by February 1, 2010. Ms. Carranceja further added Staff is getting prepared to implement the Retirement, Death and Disability component, and explained more ongoing testing was needed.

With regard to Personnel, Ms. Bhatia reported she met with Mr. Peltola separately regarding the Plan's Annual Personnel Resolution (APR) and Personnel Budget, and she explained Mr. Peltola would be providing the Plan with the three PCU positions that had been previously approved, and these would be reflected in a revised APR. Ms. Bhatia also reported that she received a number of calls from concerned employees regarding the recent *Los Angeles Times* article indicating the recently approved I.B.E.W. contract would have an impact on the pension fund and pension liabilities of the Department in the future. She asked Mr. Peltola for comments.

Mr. Peltola indicated that the *Los Angeles Times* article alleged the recently approved Memorandum of Understanding (MOU) would have a negative impact on the pension plan and that would allegedly cause an increase in member contributions. Mr. Peltola explained, in effect, the 3.25% cash payment in lieu of the 3.25% Cost of Living Allowance increase effective October 2009 would result in savings of approximately \$180 million over a five-year period which would also help to mitigate the impact on ratepayers. He reported discussing with Ms. Bhatia his idea of presenting a financial plan to the Retirement Board for their information, once it was presented to the Board of Commissioners.

Ms. Bhatia reminded the Board about the Special meeting scheduled for December 16, 2009, to interview candidates for the Large-Cap Growth Investment Manager search. She noted six candidates would be interviewed, and the interview material would be provided to the Board by the weekend.

15. Future Agenda Items

Mr. Peltola requested a financial plan presentation be scheduled for a future meeting.

The meeting adjourned at 12:41 p.m.



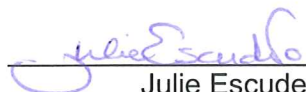
Javier Romero
Board President

1/13/10
Date



Sangeeta Bhatia
Retirement Plan Manager

1/13/10
Date



Julie Escudero
Utility Executive Secretary

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