

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

MINUTES

April 28, 2010

Board Members Present:

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

Board Members Absent:

Austin Beutner, Interim General Manager
Appointed DWP Commissioner - Vacant

Staff Present:

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

Others Present:

Neil Rue, Pension Consulting Alliance
Tad Fergusson Pension Consulting Alliance
Mike Moy, Pension Consulting Alliance
Alan Manning, Asst. City Attorney
Michael Wilkinson, Deputy City Attorney

President Romero called the meeting to order at 10:00 a.m. following the Pledge of Allegiance.

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

Public Comments

Jack Humphreville, from the Greater Wilshire Neighborhood Council and president of the DWP Advocacy Committee, urged the Board to adopt Financial Accounting Standard Board (FASB) rules to provide greater transparency to the Plan. He said he believed using the 7% rate of return would benefit the City and the ratepayers.

1. Termination from Rolls

Termination from April 2010 Retirement Roll

Termination of Christina Anderson from April 2010 Family Death Benefit Roll

Termination of Mary T. Hagihara from April 2010 Survivorship Roll

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

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

Nays: None

Mr. Romero called for approval of Consent Items 2 through 7.

2. Report of Payment Authorizations for March 2010

3. Notice of Deaths for March 2010

4.
 - a) **Summary of Investment Returns as of March 31, 2010**
 - b) **Market Value of Investments by Fund and Month as of March 31, 2010**
 - c) **Market Value of the Retirement, Death, and Disability Funds and Retiree Health Care Fund as of March 31, 2010**
5. **Report on Status of Insurance as of April 20, 2010**
6. **Report on Organizational Changes at JP Morgan Asset Management**
7. **Report from Aetos Capital Management regarding Organizational Changes with Respect to Underlying Fund**

Mr. Moore moved for approval of items 2 through 7; seconded by Ms. Coffin and carried after the following vote:

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

Nays: None

8. Presentation by Courtland Partners, Ltd. – Fourth Quarter 2009 Real Estate Portfolio Performance

Mr. Romero acknowledged Garrett Zdolshek, Lourdes Canlas, and William Foster from Courtland Partners.

Mr. Zdolshek reviewed the major fundamentals of real estate and provided the status of the current housing market condition and the NCREIF cap rates. He also provided an update on the Plan's portfolio investment activity since inception through the fourth quarter of 2009.

Ms. Canlas reviewed the Plan's real estate portfolio as of December 2009, valued at approximately \$82 million which represents 1% of the 5% allocation of the total Plan assets. She noted 80% of the Plan's real estate investments were in Core with JP Morgan and PRISA. She reviewed the risk/return profile, the property type, and geographical diversifications, and she noted the manager concentration was within the policy range. She also stated the leverage in the PRISA investments exceeded the policy's limit of 40% but was still within the policy range of under 50%.

Mr. Foster discussed PRISA I and PRISA II in more detail and stated they were the two biggest underperformers largely due to the amount of leverage. He stated the 2009 one-year return for PRISA I was down 35% with a 7.2% income return and a decline in value of 39.2%. For PRISA II, the returns were trending upward.

Mr. Moore asked if problems could occur when rolling over the loans creating the leverage, and Mr. Foster explained the banks were not anticipating any issues in rolling over any debt when it was due. Mr. Moore asked what the market value of PRISA would be in a normal economy, and Mr. Zdolshek indicated Core investments normally earn a 7% to 8% rate of return.

Mr. Peltola asked what was recommended going forward, and Mr. Wolfson responded the Board had adopted a Core Plus strategy. Mr. Foster added they were completing a study of Core open-ended funds and encouraged the Board not to abandon real estate which is a slow moving asset class.

9. Discussion of Investment Performance of T. Rowe Price Emerging Markets Manager

Mr. Wolfson explained this item concerned the recommendation to extend the watch status for T. Rowe Price for another six months for failing to meet the Plan's medium and long-term performance criteria.

Mr. Moore moved for approval to extend the watch status for T. Rowe Price for an additional six months; seconded by Ms. Coffin and carried after the following vote:

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

(Mr. Peltola left the meeting at 10:38 a.m.)

10. Discussion of Investment Performance of Loomis Sayles High Yield Fixed Income Manager

Mr. Wolfson provided background on this item which recommended removing Loomis Sayles from watch status after meeting the Plan's short-term investment performance criteria for the quarter ending March 31, 2010, and additionally adding value to the Plan's investments during that period.

Mr. Moore moved for approval to remove Loomis Sayles from watch status; seconded by Ms. Coffin and carried after the following vote:

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

11. Ratification of the Board's Action to Approve the Experience Study and the Associated Actuarial Assumptions

Under Public Comments, Jack Humphreville, suggested DWP should not use The Segal Company as its actuary because Segal was also the City's actuarial consultant. He also commented that he believed adding \$600 million to the pension deficit was unacceptable and that the Retirement Board countering Segal's recommended 7.75% assumed investment rate of return with a lower rate of 7.5% was unrealistic. He also questioned the impact on the rate payers.

(Mr. Peltola returned at 10:41 a.m.)

Ms. Bhatia reported the purpose of the attached Resolution No. 10-87 was to ratify the Board's action taken at the Special Meeting held on April 7, 2010, when the Segal Company, the Plan's actuary, presented the experience study for the three-year period ending June 30, 2009. The study evaluated the underlying assumptions for mortality rates, inflation, and investment returns. She stated the Board adopted a lower investment rate of return assumption of 7.5% instead of the rate of 7.75% recommended by the actuary.

Mr. Peltola, who was not present at the last meeting when the experience study was discussed, requested this item be deferred until the next meeting to give him an opportunity to listen to the April 7, 2010, meeting tapes and also to enable the new Interim General Manager to participate in the discussion. Mr. Moore commented that he was interested in hearing the Department's view on this matter and he supported deferring this item for discussion at the next meeting.

Mr. Romero tabled this item for the next meeting.

12. Ratification of the Board's Action to Approve the Cost of the Reciprocity Study

Ms. Higgins provided background on this item and stated that Resolution No. 10-88 was attached for Board approval to authorize the Plan Manager to engage The Segal Company to complete a study of the financial impact of the reciprocity program for an amount not to exceed \$30,000.

Mr. Moore moved for approval to authorize the expenditure of funds not to exceed \$30,000 for an actuarial study of the full cost of the reciprocity program with the Los Angeles City Employees' Retirement System; seconded by Ms. Coffin and carried after the following vote:

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

Nays: None

13. Discussion of City Council Request for Report on Consolidating Pension Systems

Ms. Bhatia explained that one of the recommendations of the independent management audit was to combine the City's three pension plans to effect cost savings. She stated the City Council's Budget and Finance Committee had directed each of the three pension plans to report back to the Council's Audits and Governmental Efficiency Committee on the feasibility of implementing that recommendation.

Ms. Bhatia stated that this item was brought before the Board for direction on how to proceed.

Discussion ensued and the following concerns were voiced:

- Did the proposed consolidation only involve the administration of the funds or would the funds be consolidated?
- Would the funds be commingled?
- Would the assets and liabilities be commingled?
- Would the staff be consolidated?
- What were the legal ramifications?
- How would consolidation affect both active members and retirees?
- Did the unions support the proposed consolidation?
- Who would be the authority for overseeing the Plan's investments?
- Would the Plan benefit?
- Would consolidating the systems ultimately affect cost savings?

Ms. Bhatia stated staff would incorporate concerns and comments into a report for the Board's review prior to submitting the final report to the City Council.

Jack Humphreville, from the Greater Wilshire Neighborhood Council, addressed the Board and expressed his opposition to consolidating the three pension systems.

14. Closed Session considered later in the meeting.

15. Discussion of Update on Governance Issues

Ms. Bhatia reported this item was brought back to the Board to discuss the update from the City Attorney's Office concerning the authority of the Retirement Board.

Assistant City Attorney Alan Manning stated that the City Attorney's response was not yet ready but should be ready for the first meeting in May 2010.

16. Blackstone Capital Partners VI L.P. Investment Opportunity – City Attorney Advice

Ms. Bhatia stated this item was brought before the Board for information and to provide the City Attorney's advice. She reported Pension Consulting Alliance (PCA) had conducted due diligence with respect to an investment opportunity with Blackstone Capital Partners, Fund VI; however, because of a potential conflict of interest involving the Interim General Manager for DWP, the opportunity could not be considered. She asked the City Attorney to provide their advice.

Mr. Manning explained when a Board Member has a financial interest in an organization, the Board cannot enter into the contract with that organization. If a Board Member has a very remote interest falling under the statutory exceptions and can disclose their interest and recuse him/herself, then the Board can act. He said the Blackstone situation does not fall under that exception; therefore, the Board cannot enter into a contract and the matter cannot be delegated to another Board (i.e. Board of Referred Powers).

Mr. Manning clarified that existing contracts are not affected; however, if the Board was required to take action on an existing contract in which a Board Member had an interest, the Member would need to be recused. He added that fund-of-funds would need to be considered on a case-by-case basis.

(Mr. Peltola left the meeting at 11:27 a.m.)

17. Retirement Plan Manager's Comments

Ms. Bhatia reported the Retirement, Disability and Death Benefit component of the new System was implemented on April 12, and she acknowledged Ms. Carranceja and the Benefits staff for their efforts. Ms. Bhatia reported parallel testing was in progress. She also added the Payroll component will be implemented in July, although some of the components that go into the Payroll System will be received by the end of May.

She reported that Labor Relations sent a letter to the unions regarding changes to options with regard to withdrawals of funds for the Additional Contributions program.

With respect to Investments, Ms. Bhatia stated all of the transitions were completed and contracts were fully executed for WAMCO, Frontier Capital, T. Rowe Price, and J.P. Morgan Chase. She noted the post-transition report from PCA would probably be discussed at the next Board meeting.

Ms. Bhatia reported interviews for the Senior System Analyst position were completed. She stated it took almost six months to complete the process of filling the position; however, a hiring freeze was now in place. She noted Staff was completing a request for an exemption in order to fill the position. She added interviews for the Investment Officer position were also completed, and an exemption to the freeze would be requested to fill that position as well.

She reported the Retirement Office budget was sent to the DWP Commission Office to be submitted with the Department's budget to the City Council. She stated the next Retirement Board Meeting will be held on May 12 and the item regarding interest crediting for member accounts will be on the agenda. Ms. Bhatia mentioned copies of the new Retiree Newsletter were distributed to the Board Members. Mr. Moore complimented staff on the nice job and the new format. Ms. Bhatia indicated the information with respect to zero Cost of Living Allowance for members retiring after July 1, 2010, was provided via DWP announcement.

18. Future Agenda Items

No items were requested.

(The Board recessed at 11:33 a.m. and reconvened at 11:39 a.m.)

Item No. 14 – Out of Order

The Board met in closed session at 11:39 a.m. to discuss the following item.

14. CLOSED SESSION PURSUANT TO GOVERNMENT CODE SECTION 54956.9(c), to confer with, and receive advice from, legal counsel in considering whether to initiate litigation in one particular matter.

The Board met back in open session at 12:12 p.m., with no action taken.

(Reopened)

16. Blackstone Capital Partners VI L.P. Investment Opportunity – City Attorney Advice

This item was reopened and discussion continued regarding Mr. Beutner's interest in Blackstone.

Ms. Bhatia stated when Staff learned of the potential conflict of interest with this investment opportunity with Blackstone, Staff told PCA representatives that the Plan could not pursue this opportunity, and asked PCA not to get back to Blackstone until the item was brought to the Board, after which the outcome would be provided to Blackstone.

Mike Moy indicated that when PCA learned this was an open session item and public information, PCA notified Blackstone, as a courtesy, that the item was on the agenda. Given that PCA already contacted Blackstone, Mr. Moy remarked on the awkwardness of the situation and asked how PCA should proceed, considering they told Blackstone everything was a go.

Alan Manning stated if it was determined Mr. Beutner no longer had an interest in Blackstone based on sufficient documentation, he would want to consult with the Public Integrity Division for advice based on changed circumstances before proceeding. If, however, a conflict still existed, he stated the Board could not take action without encountering significant repercussions.

Ms. Bhatia referenced Mr. Moy's earlier comment and clarified that the Board has the final decision making authority with regard to a proposed investment and may choose not to proceed with the consultant's recommendation.

There being no further business, the meeting adjourned at 12:19 p.m.



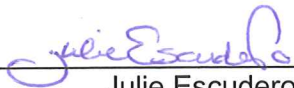
Javier Romero
Board President

6/9/10
Date



Sangeeta Bhatia
Retirement Plan Manager

6/10/10
Date



Julie Escudero
Utility Executive Secretary

6-9-10
Date