

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

MINUTES

JULY 14, 2010

Board Members Present:

Javier Romero, President
Cindy Coffin, Vice President
Barry Poole, Board Member
Michael Moore, Retiree Member

Board Members Absent:

Chief Financial Officer
Lee Alpert, DWP Commissioner
Austin Beutner, Interim General Manager

Staff Present:

Sangeeta Bhatia, Retirement Plan Manager
Mary 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
Marie McTeague, Deputy City Attorney

President Romero called the meeting to order at 10:01 a.m. following the Pledge of Allegiance.

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

Public Comments

Mr. Romero acknowledged the birthday of Reggie Brewer, Audio Visual Technician.

1. Approval of Minutes for June 9, 2010, Regular Retirement Board Meeting

Mr. Moore moved for approval of the minutes for June 9, 2010; seconded by Ms. Coffin, and carried after the following vote:

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

2. The Public Trust Newsletter – Summer 2010

Mr. Moore moved for approval of Item 2 as Received and Filed, seconded by Ms. Coffin, and carried after the following vote:

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

3. Presentation by Pension Consulting Alliance – Fourth Quarter Private Equity Performance Report for Period Ending December 31, 2009

Mr. Romero acknowledged Tad Fergusson and Mike Moy from Pension Consulting Alliance (PCA).

Mr. Ferguson reminded the Board that Private Equity performances were reported on a lag basis and that the audited year-end financial data were not received until June 30, 2010. He provided a program overview and reported that as of December 31, 2009, \$176 million in committed capital had been allocated across seven partnerships. He reported \$78 million in capital had been drawn down

and \$12.6 million had been distributed back to the program. The remaining market value of \$65 million resulted in a net since-inception internal rate of return of minus 0.5% as of December 31, 2009. He added the program was 44% drawn with approximately \$98 million remaining of unfunded committed capital. He noted the program was currently at approximately 2.5% of the Plan's total target allocation.

Mr. Fergusson provided a market overview and indicated fundraising activity had declined through the first quarter of 2010, and transaction activity in buy-out segments remained very low throughout the 2009 calendar year.

Mr. Fergusson reviewed the purchase price multiple for buy-outs which increased from 2009. Mr. Moy added this was due, in part, to increased credit availability.

Mr. Ferguson reviewed performance results from a variety of viewpoints, including since-inception internal rate of return (IRR), horizon IRR, contributions versus reported values plus distributions, and current payback. With respect to portfolio construction, he stated 96% consisted of fund-of-funds, of which 63% were secondary fund-of-funds, with the remaining 4% being direct partnerships.

4. Discussion to Change Investment Policy for the International Developed Equity Markets and Emerging Markets Mandates

Mr. Wolfson reported this item was brought back to the Board for consideration for a possible change to the investment policy with regard to the international and emerging market mandates. He stated on May 12, 2010, the Retirement Board approved a temporary policy exception for the Plan's international, domestic, and developed market mandates to avoid potential volatility and market impact associated with rebalancing the portfolio by purchasing securities in Israel before the country was reclassified. He added PCA and Staff recommended changing the current investment policy to address future index reconstitutions.

Mr. Moore moved to approve a change in the investment policy for the International Developed Equity Markets and Emerging Markets Mandates; seconded by Ms. Coffin, and carried after the following vote:

Ayes: Romero, Coffin, Poole, and Moore

Nays: None

5. Discussion of Wells Capital Request to Further Extend Investment Policy Exception Regarding Equity Exposure

Mr. Romero acknowledged Steve Scharre from Wells Capital.

Mr. Scharre stated Wells Capital Management received 2,500 shares in Tropicana Las Vegas as part of a bankruptcy restructuring. He requested the Board extend the six-month maximum holding period for an additional six months to enable them to liquidate the holdings in the most efficient manner as possible.

Mr. Wolfson stated PCA and Staff were recommending the Board approve the extension and allow Wells Capital to continue holding the 2,500 equity shares for an additional six months to enable them to sell the stock at a fair price.

Mr. Moore moved to approve the request by Wells Capital to further extend the holding period for the 2,500 Tropicana shares for an additional six months; seconded by Ms. Coffin, and carried after the following vote:

Ayes: Romero, Coffin, Poole, and Moore

Nays: None

6. Ratification of the Board's Action Regarding the Overall Asset Allocation Structure and the Investment Options for the Retiree Health Benefits Fund

Mr. Wolfson reported this item was brought back to the Board to ratify the action taken by the Board on June 23, 2010. At that time, the Board adopted PCA's recommendation to change the implementation date for the next phase of the Retirement Plan's evolving investment policy allocation schedule from the original date of July 1, 2010, to the new date of October 1, 2010; the Board also adopted the new evolving investment policy allocation structure for the Retiree Health Benefits Fund, and approved the allocation of the Department's \$100 million contribution according to the new targets.

He added it was also necessary to move \$40 million, which was over allocated in the Plan's passive domestic equity mandate, to the three international developed managers. He noted the \$40 million would be reallocated pro-rata and would attempt to bring the portfolio up to the July 1, 2010, target level.

Mr. Moore moved to approve Resolution No. 11-03 to ratify the Board's action regarding the overall asset allocation structure and the investment options for the Retiree Health Benefits Fund, with the amendment to incorporate the reallocation of \$40 million from the passive domestic equity mandate to the three international developed managers as discussed, seconded by Ms. Coffin, and carried after the following vote:

Ayes: Romero, Coffin, Poole, and Moore

Nays: None

7. Discussion of Governance Report from City Attorney

Pete Echeverria, Chief Assistant City Attorney, introduced himself and Fred Merkin, a former attorney with the City Attorney's Office now working under contract with the City Attorney's Office.

Ms. Bhatia reported that on May 12, 2010, Mr. Echeverria provided a report to the Retirement Board Members regarding the budgetary authority of the Retirement Board and also presented a brief verbal account. The Retirement Board Members requested an opportunity to review the report, and this item was now being brought back for discussion.

Mr. Echeverria summarized the report and explained that the Board of Water and Power Commissioners (DWP Board) does not have an unfettered discretion in considering staffing requests from the Retirement Board for the Retirement Plan Office, and the Retirement Board does not have the power to establish and to fund positions without the approval of the DWP Board. He stated the governance structure that the Charter sets forth reflects that the two boards work together and maintain communication; that the Retirement Board is obligated to communicate to the DWP Board the needs of the Plan; and the DWP Board is obligated to deal with the requests from the Retirement Board with a heightened level of attention so as not to act in an arbitrary manner. He added the DWP Board would be held to a standard of not abusing the discretion they are given. He further added that he believed communication between both boards should be ongoing.

Mr. Echeverria stated the City Attorney's analysis of the Retirement Board's authority differed from that presented in the Klausner and Kauffman report because the City Attorneys have a different

degree of understanding and experience in dealing with the City Charter and the governance of the City of Los Angeles, and were better equipped to analyze the Charter and City governance issues than the Klausner firm was. Mr. Echeverria explained the Charter language was often unclear when first read and unless readers were familiar with it and understood it, they might reach different conclusions. He added that because there was little litigation in this area, the courts have not provided an absolutely on-point ruling on this particular issue.

Mr. Echeverria stated the Retirement Board has a fiduciary obligation to meet, administer, and invest the retirement funds and manage the Plan. He stated that is a heightened and special obligation that differs from the obligations of other sections of the Department; therefore, the DWP Board must take special care, both to understand and to ask questions, when considering the Retirement budget requests and in dealing with the reasonableness of their actions. He added that by adopting the Retirement budget; however, the Retirement Board does not have the authority to establish positions and their funding; and that is the responsibility of the DWP Board.

Regarding the Retirement Board's authority to appoint and, if necessary, dismiss the Retirement Plan Manager, Messrs. Echeverria and Merkin indicated the Retirement Board could interview and select a Plan Manager, but the General Manager, working through staff, has the non-delegable authority to make the appointment.

Regarding amendments to the Retirement Plan, Mr. Merkin stated that Plan amendments are approved by the DWP Board and adopted by the Retirement Board.

Discussion ensued regarding the budget decisions approved by the Retirement Board that have yet to be acted on by the DWP Board and the Department; what recourse the Retirement Board could take if it disagrees with advice given by the City Attorney; communication between the two boards; the administrative expenses for the Plan; various provisions of the Charter, and the rules of the Department.

Ms. Bhatia asked if it was the conclusion of the City Attorney that the DWP Board is ultimately responsible for the responsibilities charged to the Retirement Board. Mr. Echeverria replied that the Retirement Board has the fiduciary responsibility of the Plan and it is their obligation to make the DWP Board aware of that fact.

It was the consensus of those present that this item be kept on the agenda to continue with the discussion of the direction the Retirement Board decides to pursue to reach a resolution, and that all alternatives stay on the table. Mr. Echeverria stated he would participate in those discussions to the extent the Retirement Board believed they would be of benefit.

8. Discussion of the Status of the Approved Additional Positions for the Retirement Office

Mr. Romero stated Mr. Poole had previously requested this item be placed on the agenda for an update from the Chief Financial Officer. In the absence of the Chief Financial Officer, Ms. Bhatia explained no new information was available at this time, and the budgeted positions previously approved by the Retirement Board had yet to be included in the Department's Annual Personnel Resolution.

Mr. Poole requested this item remain on future agendas until this issue is resolved.

9. "New SEC Rules Crack Down on Pension Fund Investment Advisers" - Council of Institutional Investors Governance Alert

This item was presented only as an article of interest and includes no discussion.

- 10. a) Summary of Investment Returns as of May 31, 2010**
b) Market Value of Investments by Fund and Month as of May 31, 2010
c) Market Value of the Retirement, Death, and Disability Funds and Retiree Health Care Fund as of May 31, 2010

In response to an inquiry from Mr. Romero, Mr. Wolfson explained the chart on Page 10b.1 reflected the actual allocations based on the market values as listed, whereas the chart on Page 10a.7 reflected Staff's best estimate on a long term basis.

In response to an inquiry from Mr. Moore, Mr. Wolfson estimated the June returns would be approximately 12.2%, and the actual numbers would be provided at the next meeting. He also explained the private equity blended index amounts differed because they were reported on a lagged basis.

11. Retirement Plan Manager's Comments

Ms. Bhatia reported that the Plan amendment on the reciprocity provision was scheduled for the July 22, 2010, meeting of the Board of Water and Power Commissioners. She stated the Plan amendment on interest crediting for member accounts would be brought back to the Board some time in August. She stated she notified Assistant General Manager of Employee Services Michele Nagin, and the Department would be contacting the unions with respect to the meet and confer process.

Ms. Bhatia reported the draft report on the reciprocity program from The Segal Company estimated the increase in the unfunded actuarial accrued liability over a period of six years was approximately \$159 million.

She stated that at future meetings the Plan's real estate consultant Courtland Partners would be recommending changes to the Plan's real estate policy, and their proposed changes, along with a new investment opportunity, would be brought before the Board.

Ms. Bhatia reported she held a Safety and Communication meeting with staff on July 7, 2010, and among the items discussed were the proposed Plan amendments.

Regarding Systems, Ms. Bhatia stated parallel testing continued. She further stated over one thousand closed disability files have been scanned to date, and the contract would be revisited to enable the scanning of all closed retirement files to be completed.

Ms. Bhatia stated the cost of living adjustments letters to the retirees had been mailed, and the same information was also placed on the data mailers.

She reported that Jeff Peltola was no longer on the Retirement Board, and it was expected that Ann Santilli from the Finance Division would be recommended to the position of Chief Accounting Employee at the next Board of Water and Power Commissioners' meeting as Mr. Peltola's replacement on the Retirement Board.


In response to Mr. Moore's inquiry regarding the approval of the reciprocity Plan amendment by the Board of Water and Power Commissioners, Ms. Bhatia stated some language had been modified but it did not affect what was approved by the Retirement Board.

12. Future Agenda Items

Ms. Coffin requested discussion of changing the starting time of the Retirement Board meetings be scheduled for the next meeting.

Discussion of the proposed changes to the Real Estate Policy and the new investment opportunity alluded to during the Plan Manager's comments will also be scheduled for the next meeting.

There being no further business, the meeting adjourned at 11:56 a.m.



Javier Romero
Board President

8/18/10
Date



Sangeeta Bhatia
Retirement Plan Manager

8/23/10
Date



Julie Escudero
Utility Executive Secretary

8.23.10
Date