

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

MINUTES

August 18, 2010

Board Members Present:

Javier Romero, President
Cindy Coffin, Vice President
Barry Poole, Board Member
Ann Santilli, Chief Accounting Employee

Board Members Absent:

Austin Beutner, Interim General Manager
Lee Kanon Alpert, Commissioner
Michael Moore, Retiree Member

Staff Present:

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

Others Present:

Alan Manning, Assistant City Attorney
Neil Rue, Pension Consulting Alliance
Tad Fergusson, Pension Consulting Alliance

President Romero called the meeting to order at 10:08 a.m.

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

Public Comments

Mr. Romero welcomed Ann Santilli to the Board. He also introduced new employees Devin Billingsley and Alexander Lee. Messrs. Billingsley and Lee are Investment Officers assigned to the Investment Section.

Mr. Romero called for approval of Consent Items 1 and 2:

- 1. Approval of Minutes for June 23, 2010, Regular Meeting; June 23, 2010, Special Meeting; and July 14, 2010, Regular Meeting**
- 2. Termination of Rolls**

Ms. Coffin moved for approval of Items 1 and 2; seconded by Mr. Poole, and carried after the following vote:

Ayes: Romero, Coffin, Poole, and Santilli

Nays: None

- 3. Report of Payment Authorizations for June 2010**

No discussion.

- 4. Notice of Deaths for June 2010**

No discussion.

5.
 - a) **Summary of Investment Returns as of June 30, 2010**
 - b) **Market Value of Investments by Fund and Month as of June 30, 2010**
 - c) **Market Value of the Retirement, Death, and Disability Funds and Retiree Health Care Fund as of June 30, 2010**

Mr. Wolfson noted updated information was received for CB Richard Ellis on Page 5a.4 and copies of the updated information were distributed to the Board.

6. **Report on Status of Insurance as of July 15, 2010**
No discussion.

Mr. Romero called for approval of Received and Filed Items 3 through 6:

Ms. Coffin moved for approval of Items 3 through 6 with the updated information for Item 5a; seconded by Mr. Poole, and carried after the following vote:

Ayes: Romero, Coffin, Poole, and Santilli

Nays: None

17. **Discussion of Exception to Retirement Plan Provision with Respect to Retirement Applications (OUT OF ORDER)**

Ms. Bhatia presented the background for this item which concerned an application for early retirement which was received in the Retirement Office after the required deadline of thirty days prior to the effective retirement date, through no fault of the member. She explained the Retirement Office was unable to accept the application due to City Charter and Retirement Plan provisions which do not allow the Retirement Office to accept applications submitted after the thirty day deadline. She stated this item was brought before the Board at the request of Department management, and it was the position of Department management that an exception to the 30-day deadline should be made in this instance.

Assistant City Attorney Alan Manning stated Staff did not have the discretion or authority to make an exception to the 30-day requirement; however, since the state constitution gave the Retirement Board the sole and exclusive responsibility to administer the system, the Board had the authority to exercise its discretion and decide whether or not to provide an exception. He stated any such exemption would set a precedent, and if the Board chose to allow an exception, the City Attorney's recommendation would be to base such an exception on as narrow grounds as possible, with the following circumstances to be considered: 1) whether the applicant has complied with the requirements and instructions, 2) whether a compelling reason for an exception has been demonstrated, and 3) whether it is still feasible for Staff to process the application in the time remaining.

Mr. Romero acknowledged William David Blazer, the applicant, and his union representative Russ Butow. Mr. Blazer stated he submitted his application to his supervisor 68 days prior to his intended retirement date of September 1, but it was not delivered to the Retirement Office until after the deadline. He stated his house was in escrow closing on September 1, his children were already signed up for school, and he had a moving van coming the next day to load his furnishings to take his furnishings to Texas, so delaying his retirement would create both a personal and financial hardship for him.

Mr. Romero acknowledged Michael Coia, Assistant General Manager for Power Operations and Maintenance. Mr. Coia explained the delay in submitting Mr. Blazer's application was due to

training deficiencies on the part of his staff, and he was working on educating staff to expedite these as quickly as possible to avoid any recurrences in the future.

Ms. Higgins stated as soon as Mr. Blazer's application was received in the Retirement Office, Retirement Office staff would expedite processing his case with other September 1 retirees; Mr. Coia stated the application could be submitted before the end of the day.

Mr. Manning stated this was a unique type of case and if the Board granted an exception in this instance, it would set a precedent where any employee in the future presenting this type of a similar factual situation would have a case; however, he added that did not mean the Board would have to grant an exception for each case brought before them. He added that if an exception were granted based on the specific facts of Mr. Blazer's case, that would be a narrow enough guideline on which to base any future requests.

It was the consensus of the Board members present that steps should be taken to ensure Department management takes care of the administrative side of this process to prevent this from happening again.

Mr. Poole moved that the Board grant an exception in this instance, and waive the 30-day deadline to allow Mr. Blazer's application for an early retirement to be accepted; seconded by Ms. Coffin, and approved after the following vote:

Ayes: Romero, Coffin, Poole, and Santilli

Nays: None

(The Special Board meeting recessed at 10:28 a.m. to convene the Benefits Committee meeting; the Special meeting reconvened at 11:18 a.m.)

9. Presentation by The Segal Company on the Financial Impact of Recent Transfers from the Los Angeles City Employees' Retirement System to the Water and Power Employees' Retirement Plan, and Related Matters

Mr. Romero acknowledged Paul Angelo from The Segal Company who presented an analysis of the cumulative impact on the Water and Power Employees' Retirement Plan (Plan) as a result of the reciprocal arrangement between the Department of Water and Power (Department) and the Los Angeles City Employees' Retirement System (LACERS).

Mr. Angelo acknowledged the main issue: the unfunded actuarial accrued liability currently created when former LACERS members transfer to the Department and become members of the Plan. He explained the members' contributions are transferred to the Plan along with the entire liability, and because the liability is larger than the money transferred, it results in an actuarial loss.

Mr. Angelo explained the process for the analysis, which covered the six-year period from April 1, 2004, through March 31, 2010, and he stated the unfunded liability accrued for this period and recorded as of July 1, 2010, was \$183 million. He stated a portion of this increase was funded by the Department's 110% match (\$54 million per year), and the remaining that was not covered by the initial 110% match would be paid as part of the Department's contribution of approximately \$11.7 million per year.

Mr. Angelo reviewed the demographic information of the 1,623 members who transferred into the Plan from LACERS during the period of the study, and he reviewed how the members' contributions fit in.

Mr. Romero asked how the Department's cost would differ if the Department hired the same number of individuals "off the street" without the years of service being brought with them, and Mr. Angelo replied the liability would be smaller by \$183 million. He added Segal has not studied the impact of transfers going from the Department to LACERS, but approximately 270 employees transferred to LACERS from the Department over the same six-year period of the study, or approximately six transfers to the Plan for every one transfer to LACERS.

Ms. Santilli asked if the decrease in the assumed interest rate of return from 8% to 7.75% would increase the Plan's unfunded liability, and Mr. Angelo said it would be slightly higher. He also reaffirmed Ms. Santilli's comment that the current liability for the Retirement Health Benefits Fund (RHBF) also increased when LACERS members transferred to the Department because the RHBF is only funded by the Department.

Mr. Romero commented on the City Council addressing this issue before the Retirement Board had presented it to the DWP Commission. Ms. Bhatia added the City Council instructed the City's Chief Administrative Officer (CAO) to provide a report on this topic, and Staff was requested to provide information for the CAO's report. Ms. Bhatia noted that at the time the Council requested the information, the actuarial report had not yet been provided to the DWP Commission. She stated the Reciprocity Suspension Plan Amendment Board Letter was scheduled for the September 7, 2010, DWP Commission meeting, and the actuarial report had been provided with the Board Letter.

Mr. Romero thanked Mr. Angelo for his report and stated the three items that need to be discussed as a result were the suspension, the new Plan design going forward, and how the Plan can be made whole. He added a study might be needed regarding the cost of Department transfers to LACERS in order to redeem those funds as well. He added he would also like the DWP Commissioners to know how the Plan's liability would be affected if the Department hired employees from outside the City structure.

10. Presentation by Courtland Partners, Ltd. – First Quarter 2010 Real Estate Portfolio Performance

Mr. Romero acknowledged Lourdes Canlas and Garrett Zdolshek of Courtland Partners.

Mr. Zdolshek gave an overview of the first quarter for 2010. He discussed the appreciation and depreciation in returns and provided examples to the Board how real estate differs in each state. He stated the real estate market was slowly improving but still had some areas of concern.

He reviewed the risk returns, the portfolio composition, and geographic diversification. He indicated the amount of leverage has decreased and was expected to decrease more, to which Ms. Canlas added the amount of leverage was still within the policy range.

Mr. Romero asked how Courtland kept track of the real estate markets.

Mr. Zdolshek explained how the residential and commercial real estate market was currently performing and where they saw it going. He discussed the current trends and the process in which

a buyer defaults on a loans, and he briefly reviewed the delinquency rates and how he suspected they would increase over time.

11. Discussion of Proposed Changes to the Real Estate Investment Policy; and Possible Action

Mr. Romero acknowledged Lourdes Canlas, Garrett Zdolshek, and Bill Foster of Courtland Partners.

Ms. Canlas stated Courtland representatives had worked closely with Retirement staff on the proposed changes to the Real Estate policy.

Mr. Zdolshek gave an overview of the policy previously in place and reviewed the proposed risk guidelines.

Mr. Wolfson reviewed that in September 2008 the Board approved a real estate policy with Pension Consulting Alliance that was based on a Core only strategy and the purpose of this item was to change that policy, now with Courtland, to move away from a Core-only strategy to a Core-plus strategy, as recently approved by the Board.

Mr. Foster reviewed the handout materials and objectives of the proposed changes. He also reviewed the risk return guidelines and noted they may not necessarily apply at this time since the portfolio is still young.

He stated Courtland believed many opportunities were available in the global market, and the addition of an international allocation was one of the major changes being proposed.

He described the roles and responsibilities of them as consultants.

Mr. Romero requested clarification of Staff's role in terms of working with the consultant.

Messrs. Foster and Zdolshek explained that staff's opinion, albeit important, was not the ultimate decision maker, and they discussed ideas and recommendations with Staff, but the Retirement Board made the final decision.

Mr. Romero emphasized that the Board made the final decision.

Ms. Santilli asked if a report that monitored risk was provided, and Mr. Foster indicated that the quarterly evaluation included that information. Ms. Bhatia added staff also receives information on an ongoing basis which they provide to the Board.

Mr. Romero reiterates that the Board made the final decisions.

Mr. Wolfson pointed out the date in the second paragraph of Resolution No. 11-09 should read "Special Retirement Board meeting held on August 18, 2010."

Mr. Poole moved for approval of Resolution 11-09 as corrected; seconded by Ms. Coffin, and carried after the following vote:

*Ayes: Romero, Poole, Coffin, Santilli
Nays: None*

12. Discussion of Request to Extend the Contract with Ernest Partners LLC; and Possible Action

Mr. Wolfson provided the background on this item which recommended extending the contract with Ernest Partners LLC from September 1, 2010 to August 31, 2013. He reviewed their performance record and strategy and noted there have been no significant changes in the company.

In response to Mr. Romero's question regarding any changes with respect to fees, Mr. Wolfson and Ms. Bhatia both stated existing fees and terms will apply to the extended contract.

In response to Mr. Romero's inquiry about the insurance, Mr. Wolfson stated the maximum limits will apply and will be applicable when the language is determined.

Ms. Coffin moved for approval of Item 12; seconded by Mr. Poole, and carried after the following vote:

*Ayes: Romero, Poole, Coffin, Santilli
Nays: None*

13. Discussion of Request for Approval of Consent Issued by Landmark Equity Partners Fund XIV; and Possible Action

Mr. Wolfson reviewed that in August 20, 2008, the Board approved a \$35 million commitment to Landmark Equity Partners Fund XIV, and in February 2010, the Board approved consent to accommodate late investors. He stated the current consent involved a few New York pension funds that have requested to increase their investment and as a result, Landmark Equity extended their admission date to accommodate that increase. Mr. Wolfson reported the consent was more for record keeping purposes since Landmark already received the necessary two thirds of the vote.

Ms. Coffin asked why the Board received this consent form so late, and Mr. Wolfson explained the consent forms were received in a timely manner but were delayed due to due diligence procedures, such as legal analysis, required to bring an item to the Board.

Ms. Bhatia added this was the first Board meeting held since the document was received.

Ms. Coffin moved for approval of Item 13, seconded by Mr. Poole, and carried after the following vote:

*Ayes: Romero, Coffin, Poole, Santilli
Nays: None*

14. Discussion of Request to Change the Time for the Retirement Board Meetings; and Possible Action

This item was deferred to the next meeting to provide Mr. Moore an opportunity to speak.

15. Discussion of the Status of the Approved Budgeted Positions for the Retirement Office; and Possible Action

Ms. Bhatia announced no new information was available for this item. Mr. Poole stated he requested this item remain on the agenda until it is resolved since it was the consensus of the Board that these positions are necessary. He stated that because the budget can be amended, he felt it was necessary to meet with management and determine the best approach regarding amending the Retirement Office budget. He pointed out that according to best practices, the Retirement Office is severely understaffed, and he stressed the need to amend the budget to add the previously approved positions added.

Ms. Coffin suggested the Board and Staff meet with Commissioner Alpert to resolve this matter, and Ms. Bhatia explained that suggestion related to the Governance Issues in the next agenda item.

16. Discussion of City Attorney's Report on Governance Issues; and Possible Action

Ms. Bhatia explained Chief Assistant City Attorney Pete Echeverria had recommended that members of the Retirement Board meet with Commissioner Alpert to discuss the governance issue relative to the Board's authority. She stated three Retirement Board Members expressed an interest in meeting with Commissioner Alpert, and Staff had attempted to arrange a meeting; however, because Commissioner Alpert was also a member of the Retirement Board, it would constitute a quorum if four members met. Commissioner Alpert also asked for specific agenda items for that meeting. She stated several members of the Board indicated they would get together to discuss the next steps with respect to this meeting, and she said once it was decided which members of this Board would meet with Commissioner Alpert, Staff would try again to schedule a meeting.

Items 15 and 16 will remain on the agenda until they are settled.

17. Discussion of Exception to Retirement Plan Provision with Respect to Retirement Applications

This item was discussed earlier in the Meeting.

19. Retirement Plan Manager's Comments (OUT OF ORDER)

Ms. Bhatia reported the Board had been provided copies of several recent Council motions dealing with pension issues such as reciprocity, sustainability of pensions in the future, and pension reform. She reported she and the heads of the Los Angeles City Employees' Retirement System (LACERS) and the Fire and Police Pension System (FPPS) attended the August 8th City Council meeting where the City's Chief Administrative Officer (CAO) provided a presentation on the City's three pension plans. The CAO's report also referenced issues pertaining to pension design changes. After the presentation, each of the pension representatives answered general questions pertaining to the financial status of their respective pension plans.

Ms. Bhatia stated that Councilmember Alarcon had made a motion asking each of the pension plan representatives to report back to the Council on the impact of adopting social responsibility programs and any possible resulting impact on their investment returns. She added that once the

details of the motion were received, Staff would prepare a response to the Council for President Romero's signature.

Ms. Bhatia reported the DWP Board of Commissioners approved the purchase of the building on Third Street, and Staff was informed the Retirement Office will be one of the divisions to be relocated there. She indicated full details of the move had not yet been provided; however, Retirement management has met with design staff to discuss potential office layout. This information was shared with Staff, and some concerns were voiced regarding transportation, security, parking, etc. She stated she had not yet been provided a specific timeline for the relocation but was told it would be at least six to eight months.

She reported the Plan amendment item regarding the suspension of the reciprocity program was scheduled for the September 7 meeting of the DWP Board of Commissioners. She added the actuarial report had been received and was now attached to the Board letter.

With respect to the Plan amendment item regarding the change in interest crediting to member accounts, Ms. Bhatia stated Labor Relations would be meeting with some of the unions this week and next week, and as soon as this meet and discuss process was completed, the item would be brought back to the Board.

Ms. Bhatia reported the meet and confer process regarding the Plan amendment to provide additional withdrawal options for members' additional contributions has been completed, and Staff was waiting for the Plan amendment to be drafted by the City Attorney. She noted once staff received that language, this item would be brought back before the Retirement Board and then on to the DWP Commission for approval and back to the Retirement Board for adoption.

Ms. Bhatia stated the Health Plans office and the Employees' Association have been involved in the testing of the new computer system regarding the payroll component. She explained the Health Plans office had input in terms of premiums and subsidies, and the Employees' Association was involved in terms of retiree options for some membership-related items.

20. Future Agenda Items (OUT OF ORDER)

Ms. Coffin asked for the status of funding the Plan's two hedge funds, Aetos and PAAMCO. Mr. Wolfson indicated the \$100 million from the Plan sponsor to allocate to the Health Care Fund was received. He stated the funding of \$7.5 million to PAAMCO was completed as of August 1, but the \$7.5 million funding for Aetos was delayed until September 1. He explained that time constraints were in place for this type of funding, and Aetos was unable to provide a final version of their contract in time for Staff to meet the August 1 deadline. In response to a question from Mr. Romero, Mr. Wolfson explained Staff had successfully renegotiated some of the terms of these contracts with regard to insurance and was able to obtain most of what was requested by the Department's Risk Manager. In order to incorporate those benefits into the contracts for Aetos and PAAMCO, Staff had to change some of the language and additional signatures were required. He added the new language included better terms and conditions.

(The Board met in closed session at 12:50 p.m. to discuss the following item.)

18. CLOSED SESSION PURSUANT TO GOVERNMENT CODE SECTION 54956.9(A), to confer with legal counsel and potentially take action regarding pending litigation in which the Board is a claimant, In re: Bankruptcy of Moeller, and Board of Administration v. Moeller

(The Board met back in open session at 1:03 p.m.)

The Board received information from the City Attorney and responded with instructions.


19. Retirement Plan Manager's Comments

This item was previously addressed.

20. Future Agenda Items

This item was previously addressed.

There being no further business, the meeting adjourned at 1:03 p.m.



Javier Romero
Board President

10/13/10

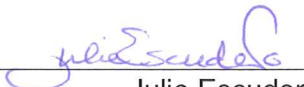
Date



Sangeeta Bhatia
Retirement Plan Manager

10/13/10

Date



Julie Escudero
Utility Executive Secretary

10.13.10

Date