

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

**MINUTES**

**AUGUST 25, 2010**

**Board Members Present:**

Javier Romero, President  
Cindy Coffin, Vice President  
Michael Moore, Retiree Member  
Ann Santilli, Chief Accounting Employee

**Board Members Absent:**

Austin Beutner, Interim General Manager  
Barry Poole, Board Member  
DWP Commissioner - Vacant

**Staff Present:**

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

**Others Present:**

Allan Emkin, Pension Consulting Alliance  
Tad Fergusson, Pension Consulting Alliance  
Marie McTeague, Deputy City Attorney  
Lourdes Canlas, Courtland Partners  
Garrett Zdolshek, Courtland Partners  
Lou Paletta, Lone Star Funds  
Len Allen, Lone Star Funds

President Romero called the meeting to order at 10:03 a.m. following the Pledge of Allegiance.

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

**Public Comments**

There were no public comments.

**1. Termination of Rolls**

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

*Ayes: Romero, Coffin, Santilli, and Moore*

*Nays: None*

Mr. Romero called for approval of the following Items 2 through 5:

**2. Report of Payment Authorizations for July 2010**

**3. Notice of Deaths for July 2010**

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

## **5. Report on Status of Insurance as of August 12, 2010**

*Mr. Moore moved for approval of Items 2 through 5; seconded by Ms. Coffin, and carried after the following vote:*

*Ayes: Romero, Coffin, Santilli, and Moore*

*Nays: None*

## **6. Presentation by Pension Consulting Alliance, Inc. – Second Quarter Performance Review as of June 30, 2010**

Mr. Romero acknowledged Allan Emkin from Pension Consulting Alliance, Inc (PCA).

Mr. Emkin reported the Plan's portfolio gained over \$560 million in value for the period ending June 30, 2010, and the portfolio's performance exceeded benchmark for WPERP relative to its peers due to its conservative structure.

Mr. Emkin reviewed the charts for the broad markets and discussed the ups and downs of the economy. He briefly discussed the fixed income market and the challenges of getting a 7.5% to 8% rate of return going forward. He provided his opinion of deflation and inflation and what governments have previously done to pay off their debt and how that compared to the Plan's portfolio.

He reviewed the foreign markets and indicated the emerging markets were performing well, however, they also have risks and the difference in their valuation has narrowed dramatically.

He reviewed the current and actual asset allocation and noted Staff and PCA will be working to rebalance the portfolio in that area.

He pointed out the investment return for the second quarter of 2010 was incorrectly shown as \$341.3 million, and he reported the correct figure should be negative \$341.3 million.

He reported the domestic and international equity and real estate portfolios underperformed for the one-year mark, but the fixed income portfolio added almost 1% to their total returns, and private equity added significant value over the year.

Mr. Emkin reviewed the investment managers and stated that overall the managers performed reasonably well.

He reported the disability plan outperformed benchmark, both over the long term and short term period.

He reviewed the portfolio's performance compared to its peers and he reported the Plan's portfolio ranked in the middle range with significantly less risk

Mr. Moore asked if it was possible to show how the Plan performed compared to its peers on a risk adjusted basis and related to volatility, and Mr. Emkin stated he could provide that information for the Board.

## **7. Presentation by Pension Consulting Alliance – First Quarter Private Equity Performance Report for Period Ending March 31, 2010**

Mr. Romero acknowledged Tad Fergusson from Pension Consulting Alliance.

Mr. Ferguson recapped the highlights of the quarter and reported little changed in the private equity market. He reported that \$176 million in capital had been committed for the first quarter across seven partnership's, \$79 million had been drawn down and invested, with \$14 million returned to the fund in the form of distributions, with a remaining market value of approximately \$65 million. This translated to a net, since-inception, Internal Rate of Return (I.R.R.) of 0.1%.

Mr. Fergusson reported the market value was \$64.5 million, the unfunded commitments were approximately \$97.3 million, and the program's total exposure was approximately 2.6% of total assets. He added additional commitments would be needed to reach the long term target of 5%.

Mr. Fergusson reviewed the private equity market overview, updated as of midyear, and indicated commitment activity had dropped below the 2009 level and only 45 billion had been raised in domestic commitments year to date

He added the investment activity continued to be very slow also and the buyout market remained minimal. He noted the venture capital activity was still below the 2004-2008 levels but was improving.

Mr. Fergusson reviewed the broad market performance and stated it contributed to the total performance portfolio in a positive way.

He pointed out a new chart was included which represented the quarterly cash flows and the net-since inception I.R.R. at various points during the development of the program.

Mr. Fergusson reported the portfolio generated a 21.7% return over the latest year and significantly underperformed the public market proxy the Russell 3000 index plus 300 basis point, but outperformed the private market industry benchmark.

He indicated the secondary fund-of-funds performed well. The stated the portfolio was highly diversified and the program will continue to evolve as capital commitments are drawn down.

Michael Moore asked if there was any overlap in the distressed positioning and, if so, how was it being monitored.

Mr. Fergusson explained the exposure in the private equity portfolio was through the HRJ fund-of-funds and the underlying managers have varying strategies that emphasize corporate distressed debt.

Javier Romero asked if more opportunities for buyouts were available now as compared to 2008. Mr. Fergusson replied that pricing had improved, and he believes there were more opportunities now and less downside risk.

## **8. Presentation of Report by Courtland Partners on Direct Investment; Discussion and Possible Action**

Ms. Bhatia clarified that, this item was a presentation for discussion and no resolution was attached.

Mr. Romero acknowledged Lourdes Canlas and Garrett Zdolshek from Courtland Partners. Ms. Canlas recalled that in 2009, the Board requested Courtland to look into the viability of purchasing an office building in downtown Los Angeles with the possibility of the Retirement Office being one of the tenants. She stated that was not possible at that time because the policy required a separate account structure, and the market was on a declining trend. However, the recent revision to the policy now allows a separate account, and the market has become more attractive, so Courtland was asking how the Board would like them to proceed.

Mr. Zdolshek discussed about the pros and cons of acquiring a building as an investment.

He stated that Courtland did not recommend using more than 10% of the real estate portfolio for a single asset. He said they did recommend that the Plan enforce a core asset mandate that required a well leased building with long term credit tenants, and believed a \$38 million building or less would not be burdensome to the portfolio.

Mr. Zdolshek stated Courtland could research potential account managers to act on the Board's behalf for the acquisition and guidance with matters concerning the building.

Mr. Romero asked if the City of Los Angeles was still in the market for purchasing property, and said he would be interested in seeing a joint venture among the City's three pension systems.

Jacinta de Rivera, from Courtland Partners, responded that the City of Los Angeles was revisiting purchasing a property it's own, however, no details were available yet since it was still in the early stages.

Mr. Romero stated he was interested in knowing the outlines and budget that the City of LA had.

Ms. Coffin and Mr. Romero suggested to Courtland to inquire if LACERS would be interested in purchasing a property together.

Mr. Moore asked for clarification of the revised real estate policy and requested further explanation of the separate accounts that would be required to purchase a building.

Mr. Zdolshek and Mr. Moore discussed Mr. Moore's political concerns. Mr. Moore advised Courtland to be cautious before proceeding.

Mr. Zdolshek and Mrs. Canlas spoke how a fiduciary representative would be chosen who would keep the Board's interests in mind at all times.

Ann Santilli and Mr. Zdolshek discussed possible tax breaks could affect WPERP if the building would be owner occupied.

Mr. Romero reiterated that he would like to know LACERS' viewpoint on a joint venture.

Ms. Bhatia stated the LACERS' agenda items on this topic could be provided to the Board members, and she cautioned the Board that pursuing a joint venture might impact the City Council's stand on consolidating the City's three pension systems.

Mr. Zdolshek indicated Courtland will research LACERS' interest and report back to the Board.

#### **9. Presentation of New Investment Opportunity by Courtland Partners; Discussion and Possible Action**

Garrett Zdolshek of Courtland Partners gave a brief description of the strategies for the two Lone Star Funds. He explained that Lone Star VII focused on residential debt whereas Lone Star II focused on commercial debt. He stated Courtland Partners was recommending that the Plan invest in Lone Star VII and Lone Star II.

Mrs. Canlas further stated that Courtland Partners felt that Lone Star was a good fit because they are opportunistic and WPERP has budgeted for opportunistic funding.

Mr. Romero voiced his concern about the risk mitigation reference in Lone Star VII.

Mr. Zdolshek explained Lone Star's process to minimize client risks and reviewed their strategy for large scale transactions. He then turned the presentation over to Director of Investor Relations Lou Paletta and Senior Managing Director Lou Allen from Lone Star Funds.

Mr. Paletta provided a background overview for himself and Mr. Allen, and explained how Lone Star got its start. He explained that they started in the savings and loan business and have expanded overseas to the foreign markets. He reviewed their strategies, explained how they calculate fees, and reported the balance of their funds.

Ms. Coffin asked for clarification of Lone Star's legal issues in Korea and requested information on the firm's diversity.

Mr. Paletta described the legal issues Lone Star encountered in acquiring a bank in South Korea, and pointed out that Lone Star was acquitted of all charges.

He further briefly explained the diversity in their company and stated would provide more detailed information.

Mr. Moore asked what percentage of properties Lone Star acquired through foreclosures or legal means.

Mr. Allen responded on less than 20% of the properties they had taken title and the remaining 80% were worked out with the borrower. He also explained how their securitized loans are serviced by a third party.

In response to questions from Mr. Moore, Mr. Paletta spoke briefly about the company's employee turnover rate and the profit margin for Hudson Advisors.

Mr. Allen explained the time frame for buying and selling the loans they purchase, and Mr. Paletta reviewed the General Partnership Commitment and the co-investment and closing schedule.

Mrs. Bhatia requests clarification about the GP co-investment and closing schedule.

Mr. Romero called for a motion to approve Resolution No. 11-16 to invest in Lone Star fund VII and Resolution No. 11-17 to invest in Lone Star fund II.

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

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

#### **10. Discussion of MFS Performance**

Jeremy Wolfson provided the background for this item which recommended MFS be placed on organizational watch status for a period of six to twelve months for failing to meet the Plan's short term watch criteria due to stock selection and the trailing off of the rolling 12 month period. He reported MFS has been providing good value to the fund on a long term basis and expects to see improvements as the end of last year rolls off.

Mr. Romero asked if MFS has explained why they underperformed.

*Mr. Romero moved for approval of Resolution No. 11-18 to place MFS on watch status for six to twelve months; seconded by Ms. Coffin, and carried after the following vote:*

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

#### **11. Discussion of Organizational Changes at Invesco: and Possible Action**

Mr. Wolfson provided the background for this item which recommended Invesco be placed on organizational watch for a period of six to twelve months as a result of the departure of the firm's Chief Investment Officer (CIO). Mr. Wolfson explained the CIO left Invesco after the firm changed to a more collaborative approach for selecting stock. He explained the change was gradual and began a few years ago, but Invesco was still using a bottom-up strategy.

*Mr. Romero moved for approval of Resolution No. 11-19 to place Invesco on watch status; seconded by Ms. Coffin, and carried after the following vote:*

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

#### **12. Discussion of the Status of the Approved Budgeted Positions for the Retirement Office; and Possible Action**

Tabled

#### **13. Discussion of City Attorney's Report on Governance Issues; and Possible Action**

Mr. Romero stated nothing has changed.

Mr. Moore questioned the need to keep this item on the agenda now that the Board has received the City Attorney's report. He said the Board should now focus on what was needed to proceed.

It was noted that Barry Poole requested this item remain on the agenda in the hopes that the new Commission representative, after being appointed, would attend a Retirement Board meeting and discussion could be renewed.

Mrs. Bhatia reported the new Commissioner was expected to be announced at the September 7 meeting.

Mrs. Bhatia pointed out the City Attorney's advice was to determine the process the Plan needed to follow to get approval and move forward.

#### **14. Discussion of Request to Change the Time for the Retirement Board Meetings**

The Board discussed the background of the original request to change the meeting time to 10:00 a.m. Following a brief discussion, it was decided the starting time of the Retirement Board meeting will remain at 10:00 a.m.

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

Ms. Bhatia reported that the member's annual statements for employees were distributed through the new system. They were distributed earlier than previous years, and Ms. Bhatia thanked staff. She noted the retirement booklets would still be distributed.

Ms. Bhatia reported testing continued regarding the payroll component of the new system. She stated this year's 1099's would be processed using both the old and new system until the new system was fully accepted.

She announced the auditors from Simpson & Simpson have begun their field work with respect to the audit for the fiscal year ending June 30, 2010, and a meeting of the Audit committee would be scheduled soon to go over goals, etc.

She reiterated that DWP Commissioner and representative on the Retirement Board will be appointed on September 7, 2010.

She also indicated Staff has developed a new early and mid-year career retirement seminar.

She reported the active employee newsletter has been drafted and will be sent to the Board President for feedback.

Ms. Bhatia announced the meet and discuss process with respect to interest crediting on member accounts was currently taking place and a Plan amendment will be brought to the Board for review. In addition, the City Attorney was drafting Plan amendment language for additional annuity distribution options which will be brought to the Board when available.

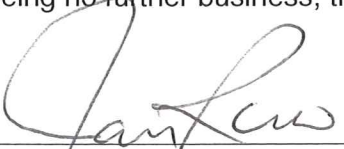

Ms. Bhatia reported the Reciprocity suspension item was scheduled for September 7, 2010, Board of Water and Power Commissioners meeting, if approved it would be brought back to the Retirement Board for adoption.

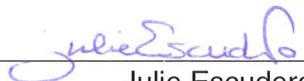
With respect to the reciprocity program, Ms. Bhatia explained the effect of current transfers from the City to the Department and she noted the next steps if the DWP Board of Commissioner's approved the suspension of the program.

**16. Future Agenda Items**

No items were requested at this time.

There being no further business, the meeting adjourned at 12:07pm.

 _____ Javier Romero Board President	<u>10/13/10</u> Date	 _____ Sangeeta Bhatia Retirement Plan Manager	<u>10/13/10</u> Date
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 _____ Julie Escudero Utility Executive Secretary	<u>10.13.10</u> Date
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