

FEBRUARY 23, 2011

MINUTES

**Board Members Present:**

Javier Romero, President  
Cindy Coffin, Vice President  
Barry Poole, Board Member  
Michael Moore, Retiree Member  
Mario C. Ignacio, Chief Accounting Employee  
Christina E. Noonan, Commissioner  
Ronald O. Nichols, General Manager

**Board Members Absent:**

None

**Staff Present:**

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

**Others Present:**

Neil Rue, Pension Consulting Alliance, Inc.  
Tad Fergusson, Pension Consulting Alliance, Inc.  
Bill Foster, Courtland Partners  
Alan Manning, Assistant City Attorney  
Marie McTeague, Deputy City Attorney

President Romero called the meeting to order at 10:02 a.m. following the Pledge of Allegiance.

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

**Public Comments**

No public comments were received.

**1. Request for Approval of Minutes:**

- a) December 15, 2010, Special Meeting No. 1
- b) December 15, 2010, Special Meeting No. 2
- c) January 26, 2011, Regular Meeting

**2. Termination from Rolls**

**Termination of Monthly Allowance from the February 2011 Retirement Roll**  
**Termination of Margaret J. Malch from the February 2011 Survivorship Roll**  
**Termination of Albert R. Adams from the February 2011 Family Death Benefit Roll**

*Mr. Moore moved for approval of Items 1 and 2; seconded by Ms. Coffin.*

*Ayes: Coffin, Ignacio, Moore, Nichols, Noonan, Poole, and Romero*

*Nays: None*

THE MOTION CARRIED.

Mr. Romero called for a motion on the following Received and Filed items:

**3. Report of Payment Authorizations for January 2011**

4. **Notice of Deaths for January 2011**
5. **Investment Reports for January 2011**
  - a) **Summary of Investment Returns as of January 2011**
  - b) **Market Value of Investments by Fund and Month as of January 2011**
  - c) **Market Value of the Retirement, Death, and Disability Funds and Retiree Health Care Fund as of January 2011**

In response to Mr. Ignacio's inquiry regarding the decline in the market value for PAAMCO, Mr. Wolfson replied the decline was due to the termination of PAAMCO's contract last year.

6. **Report on Status of Insurance as of February 16, 2011**
7. **Report on Foreign Exchange Transactions Related to Pyramis Global Advisors and Bank of New York Mellon**

In response to questions from Mr. Romero regarding foreign exchange transactions, Mr. Wolfson explained that as of 2010 time stamps are received on the vast majority of the foreign exchange trades. He reported that to ensure investment managers are using negotiated trades as directed, staff currently maintains dialogue with the custodian bank, BNY Mellon, and runs reports from the system. He stated Staff is reliant on the custodian data but can investigate the availability of systems to analyze the foreign exchange trades to analyze transaction costs and ensure best execution. He also noted Staff has directed managers to discontinue utilizing standing instructions and instead use only negotiated trades.

Ms. Noonan asked if Staff could perform the transactions rather than having to rely on the bank to do so, and Mr. Wolfson replied Staff does not have the expertise to perform that function. He added that in 2010, per the Board's direction, Staff addressed risk exposure by sending direction letters to the managers restricting them from using the standing instruction method of trading and requiring negotiated trades.

Mr. Ignacio asked if Pyramis was involved in the lawsuit accusing BNY Mellon of using unfair pricing on foreign exchange transactions, and Mr. Wolfson replied that Pyramis had notified Staff, albeit vaguely, that they would be mentioned in the *Wall Street Journal* article prior to its release.

Mr. Wolfson addressed Ms. Coffin's question of whether the Board should be concerned with using BNY Mellon as its custodian bank. He stated foreign exchange is just one aspect of BNY Mellon's business, and much of this concern was driven by the investment managers who were actually conducting the trades. He added Staff has been monitoring them and so far they have been actively trading foreign currency through negotiated trades. He further added a representative from BNY Mellon was in attendance if the Board had further questions. There were none.

#### **8. Report on Organizational Changes at Prudential Real Estate**

*No further discussion took place regarding Items 3 through 8.*

*Mr. Moore moved to adopt Received and Filed Items 3 through 8; seconded by Ms. Coffin.*

*Ayes: Coffin, Ignacio, Moore, Nichols, Noonan, Poole, and Romero*  
*Nays: None*

*THE MOTION CARRIED.*

**9. Presentation by Pension Consulting Alliance – Fourth Quarter Performance Review for Period Ending December 31, 2010**

Mr. Romero acknowledged Neil Rue from Pension Consulting Alliance, Inc. (PCA).

Mr. Rue reported the portfolio was up over \$600 million in value, net of contributions for the calendar year. The portfolio was up 11.6% versus the policy return of 12.3% due to modest allocation differences between the policy portfolio and actual portfolio, and the underperformance of some managers primarily on the international equity side. He reported the Health Plan was up approximately 10.9%.

He noted that through a very difficult investment cycle the portfolio stood up well.

He reviewed the risk adjusted returns for some of the major investment classes and noted they were favorable. He pointed out the international equity portfolio incurred less risk and received lower returns due to the more conservative stance of some of the managers. He noted this class will be reviewed later in the year, at which time the Board might want to re-examine this structure.

Ms. Coffin asked if the Board should be concerned about how the unrest in other parts of the world could affect the international sector. Mr. Rue indicated he believed it could be cause for concern, but for now it was considered another risk event to closely monitor.

Mr. Rue reviewed the actual versus target asset allocations and noted the actuals were slightly out of line with the targets due to new allocation shifts but would eventually come into line.

He reviewed the performance attributions versus the benchmark and the median fund, and he reviewed the performance of the individual asset classes. He also reviewed the universal comparisons for domestic equity, international equity, and fixed income.

He discussed the performance of the individual domestic equity managers as well as the international equity managers. He noted the fixed income managers showed some negative numbers for bonds, but the core managers outperformed the benchmark.

In response to a comment from Mr. Moore, Mr. Rue said PCA would include a risk adjusted return type of ranking in future reports.

Mr. Rue concluded his presentation by reviewing the various markets' performances.

**10. Presentation by Pension Consulting Alliance – Third Quarter Private Equity Performance Report for Period Ending September 30, 2010**

Mr. Romero acknowledged Tad Fergusson from Pension Consulting Alliance, Inc. (PCA).

Mr. Fergusson reported the Plan invested \$176 million in committed capital allocated across seven private equity partnerships and had drawn down \$91.7 million in capital, redistributed \$17.1 million to the program, and reported a market value of \$78.7 million as of September 30, 2010. He added the Program generated a net since-inception internal rate of return of 2.3% as of the third quarter of 2010, and the firms continue to generate positive results.

He reported the Program's total exposure was approximately 2.9% of the total Plan assets, and the Plan continued to make progress toward meeting its long-term allocation goal of 5% for private equity.

*(Mr. Nichols left the room at 10:42 a.m.)*

Mr. Fergusson provided a brief market overview and stated the private market returns outperformed the broad public market with a 15.3% return over the latest year.

He reviewed the portfolio's investment structure diversification and geographic diversification, and noted emphasis will be placed more on secondary fund-of-funds going forward.

Mr. Fergusson concluded by stating PCA was notified the previous day of significant distributions from underlying managers which resolved the over-commitment status of HRJ Capital (now Capital Dynamics). He added the Plan will receive \$2 million, which represents 10% of the total commitment.

*(Mr. Nichols returned at 10:49 a.m.)*

## **11. Discussion of General, Alternative and Real Estate Consulting Services**

Mr. Wolfson reported this item was presented for discussion and direction on whether to extend the existing contracts for the General, Alternative, and Real Estate Consultants or proceed with the Request for Proposal (RFP) process. He summarized the services provided by each consultant and stated that, because the General Consultant (Pension Consulting Alliance [PCA]) and the Real Estate Consultant (Courtland Partners [Courtland]) were in the midst of implementing changes to their respective portfolio strategies, Staff recommended extending the existing contracts for all three consultants.

Ms. Bhatia provided background stating initially the Board had hired PCA for all three contracts and in 2008 selected Courtland as the Real Estate consultant to separate that function. She added that as part of their due diligence, Staff pointed out other pension systems utilized different consultants for different functions.

Discussion ensued with respect to the RFP and the contract extension processes, the service provided and fees charged by the current consultants, the existing contracts, and the previous RFP activity.

It was the consensus of the Board that, prior to moving forward, it would be beneficial to have a comparison with the fees charged by other consultants and the services they provide. Staff said they would come back to the Board with the requested information and provide copies of the current contracts to Ms. Noonan.

## **12. Discussion of Global Inflation Linked Securities Watch Criteria Policy Addition**

Mr. Wolfson provided the background on this request to change the Investment Policy to add performance-based watch status criteria with respect to the Global Inflation Linked Securities (GILS) mandate.

*Mr. Moore moved to approve Resolution No. 11-70 to add watch status criteria for GILS managers; seconded by Ms. Coffin.*

*Ayes: Coffin, Ignacio, Moore, Nichols, Noonan, Poole, and Romero*  
*Nays: None*

THE MOTION CARRIED.

**13. Consideration of Designation of “Trustee for Incompetents” for Doris Garcia**

Ms. Higgins reported this item was to seek approval to designate a Trustee for Incompetents for Doris Garcia. She explained the purpose of a trustee designation and provided the case background wherein payment to the nursing facility where Ms. Garcia resides has been held due to Ms. Garcia’s inability to manage her financial affairs. Several Board Members voiced their concern with designating an employee of the nursing facility as the trustee until a court-appointed guardianship or conservatorship could be made and also about any potential conflict of interest issues.

Following discussion regarding precautions to safeguard the interests of Ms. Garcia and her benefits, Ms. Higgins proposed releasing just enough of Ms. Garcia’s benefits to cover her current expenses. Ms. Bhatia added staff could schedule a site visit and would also consult with the City Attorney on their ability to release some of Ms. Garcia’s funds to cover her expenses. She further added staff would conduct more research and provide additional information to the Board in order to make a well-informed decision.

*(Mr. Nichols left the meeting at 11:42 a.m.)*

At the request of Mr. Moore, Deputy City Attorney Marie McTeague indicated she would attempt to contact the court to determine the status of the court documents that were filed.

**14. Consideration of Designation of “Trustee for Incompetents” for Beatrice Gutierrez**

This item was withdrawn with no discussion.

**15. Discussion of Plan Amendment to Change the Regular Interest Rate and Establish a Link Between the Regular Interest Rate and Assumed Investment Return**

Ms. Bhatia provided the background for the Plan amendment to reduce the Regular Interest rate from 8% to 7.75% to match the newly adopted investment return assumption of 7.75%.

She reviewed the discussion held at the February 9, 2011, Retirement Board Meeting regarding the proposed Plan amendment presented at that time to: 1) reduce the current Regular Interest rate to 7.75%, and 2) establish that the Regular Interest rate be automatically reduced to equal any further reductions in the investment return assumption rate in the future. She reported it was also discussed at that time whether the interest rate should automatically be linked to equal both increases and decreases in the investment return assumption.

She further reported that Labor Relations had confirmed receipt of written confirmation from IBEW indicating they had no objections to the proposed amendment. She added Labor Relations had also confirmed that Department staff had held discussions with IBEW as well as the other unions regarding the need to reduce the interest rate immediately. She reported some apparent confusion regarding the Plan amendment to establish an automatic link between the interest rate and the investment return assumption.

Ms. Bhatia explained that Resolution No. 11-73 presented at this meeting addressed only the current situation and proposed a Plan amendment to reduce the Regular Interest rate to 7.75%. She stated any future changes will still require a Plan amendment. She explained the resolution presented on February 9 addressed the Regular Interest rate reduction to 7.75% and added the Regular Interest rate could never exceed the investment return assumption.

She stated discussions held by Labor Relations staff with IBEW and the other unions addressed reducing the interest rate as well as linking it to avoid future amendments; however, linking the interest rate with the investment return assumption both up and down would cause certain complications which require research by the City Attorney's office. She explained that rather than wait for the results of the research, Staff considered it necessary to reduce the interest rate now per the current Plan provisions.

Marie McTeague added that linking the rate to the Investment return assumption in both directions would require another Meet and Discuss session with the unions and would require further actuarial studies which would cause additional delays if the Board decided to forego taking an action until that was discussed.

Mr. Poole stated he received word from the union that they were willing to defer to the employee representatives of the Board at this time if they decided to agree to reduce the rate to 7.75% per Resolution No. 11-73.

*Ms. Noonan moved to approve Resolution No. 11-73 to approve a Plan amendment to change the Regular Interest rate; seconded by Mr. Moore.*

*Ayes: Coffin, Ignacio, Moore, Noonan, Poole, and Romero*

*Nays: None*

*Absent: Nichols*

THE MOTION CARRIED.

## **16. Discussion of Proposed Due Diligence Schedule with Respect to Contracts**

Ms. Coffin acknowledged receipt of Staff's due diligence schedule and asked for the status of the schedule from Pension Consulting Alliance (PCA).

Neil Rue from PCA responded their schedule was still under development.

In response to questions from Ms. Coffin, Mr. Wolfson explained what occurs during site visits and explained the due diligence process. He also stated the determination on which staff members travel is based on resources. He also indicated staff would provide the Board with the findings from the visits.

Ms. Bhatia expounded that the Department has budgetary constraints regarding travel expenses, and Department staff was told last year to reduce travel. Ms. Coffin expressed her concern with budget issues interfering with the Board's due diligence and fiduciary responsibility. Ms. Bhatia replied detailed justification was necessary for all travel requests and she would inform the Board if any due diligence travel requests were denied.

## **17. Discussion and Possible Approval of Hearing Device for Board Member**

This item was deferred to a future meeting.

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

Ms. Bhatia provided updates as follows:

- The Los Angeles County Civil Grand Jury has been conducting an assessment of public pension systems in Los Angeles County, and the Department's Retirement Plan was included in the project. Staff met with representatives from two firms involved in the study and provided a variety of information.
- The Plan's financial statements are included in the City's Comprehensive Annual Financial Report for the year ended June 30, 2010, and Staff provided additional information to Simpson and Simpson on subsequent events to include in their report. That report was recently provided to the City Controller's Office.
- Staff has received a number of requests for information under the California Public Records Act. These requests, from individuals as well as companies, have taken a considerable amount of staff time.
- Staff recently interviewed four vendors for the documenting imaging project to scan and index back files and expects to make a selection soon.
- Testing on the new system continues to be focused on its ability to produce information and letters for retirees with respect to Cost of Living Adjustments. Staff is also working with ITS on new processes to print the data mailers allowing the office to use regular paper and standard department envelopes with the system, as opposed to special order paper, and to utilize the printing and mail room services as a means to reduce costs.
- The Retirement Office budget for 2011-2012 will be brought before the Retirement Board at the next meeting. Retirement staff will be meeting with the Department's Budget Director next week.
- Retirement staff, working with The Segal Company and Department staff, has obtained cost estimates for the studies necessary to change the design of the reciprocity program. A new actuarial study must accompany the Plan amendment (to change the Department's Plan) and the Ordinance (to change the Los Angeles City Employees Retirement System [LACERS] plan), and studies must be conducted from both perspectives. The previous study focused only on historical costs. The office of the City Administrative Officer, which has taken the lead for the City, cannot pay for the LACERS' program study due to budget constraints. No answer has been received to date as to whether DWP is willing to pay for both studies.
- The contract with Nossaman, Guthner, Knox & Elliot, LLP, the outside legal counsel used to review the Plan's alternative investment agreements, is not yet fully executed, although the contract is in its second year. The contract has been approved by the City Attorney and signed by the Plan signatories, and is pending signatures by the Chief Deputy and

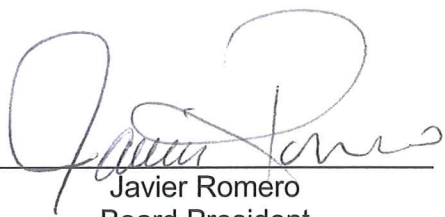
City Clerk. Staff and the City Attorney have done all they can and have received no word to date on the cause of the delay.

- The Securities and Exchange Commission (SEC) has proposed that individuals who are termed municipal advisors and serve on a retirement board must be registered; however, the definition of a municipal advisor needs clarification. The Retirement Board receives advice and makes decisions but does not give municipal advice. Assistant City Attorney Alan Manning stated ex-officio members of the Board do not fall under that category and municipal employees and elected members are excluded. Mr. Ignacio indicated the Department is in touch with the City Attorney on this proposed SEC rule, and the City Attorney has indicated they have raised this issue with the DWP Board of Commissioners in writing. The Department is attempting to comment on this rule as it might apply to appointed members.

#### 19. Future Agenda Items

No items were reported.

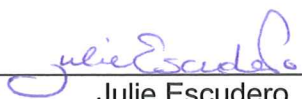
With no further business to discuss at this time, the meeting adjourned at 12:35 p.m.

  
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Javier Romero  
Board President

4/13/11  
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Date

  
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Sangeeta Bhatia  
Retirement Plan Manager

4/13/11  
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Date

  
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Julie Escudero  
Utility Executive Secretary

4.13.11  
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Date