

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

MINUTES

APRIL 13, 2011

Board Members Present:

Javier Romero, President
Cindy Coffin, Vice President
Michael Moore, Retiree Member
Ronald O. Nichols, General Manager
Barry Poole, Board Member

Board Members Absent:

Mario C. Ignacio, Chief Accounting Employee
Christina E. Noonan, DWP Commissioner

Staff Present:

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

Others Present:

Alan Manning, Assistant City Attorney
Marie McTeague, Deputy City Attorney
Neil Rue, Pension Consulting Alliance
Garret Zdolshek, Courtland Partners
Bill Foster, Courtland Partners

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.

Consent Items

- 1. Request for Approval of Minutes: February 23, 2011, Regular Meeting**

- 2. Termination from Rolls**
Termination of Monthly Allowance from the March 2011 Retirement Roll
Termination of Alora P. O'Reilly from the March 2011 Survivorship Roll

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

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

Nays: None

Absent: Ignacio, Noonan

THE MOTION CARRIED.

Received and Filed

- 3. Report of Payment Authorizations for February 2011**
- 4. Notice of Deaths for February 2011**
- 5. Investment Reports for February 2011**
 - a) Summary of Investment Returns as of February 28, 2011**
 - b) Market Value of Investments by Fund and Month as of February 28, 2011**
 - c) Market Value of the Retirement, Death, and Disability Funds and Retiree Health Care Fund as of February 28, 2011**

6. **Report on Status of Insurance as of March 7, 2011**
7. **Report on Organizational Changes at The Boston Company**
8. **Report on Organizational Changes at Pyramis Global Advisors**

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

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

THE MOTION CARRIED.

Regular Items

9. Presentation by BlackRock Asset Management-Annual Performance Review as of December 31, 2010

Mr. Romero acknowledged BlackRock representatives Vickie Chan (Global Client Group), Edward Corallo (Head of Americas Index Equity), and Sara Shores (Investment Strategist).

(Mr. Nichols entered the meeting at 10:04 a.m.)

Ms. Chan introduced Mr. Corallo and Ms. Shores and handed the presentation over to Mr. Corallo. Mr. Corallo reviewed the management team.

Ms. Shores reviewed the portfolio's performance. She reported the portfolio outperformed the benchmark by one basis point for the year-to-date; five basis points for the trailing 12 months; and one basis point for the nine year since-inception period. She stated the fund in which the Plan is now invested has \$20 billion in total assets. She also noted the top ten holdings and sector weights are in line with the benchmark.

10. Presentation by T. Rowe Price Investment Services (Large Value) - Annual Performance Review as of December 31, 2010

Mr. Romero acknowledged T. Rowe Price representatives John Plowright (Client Service Professional), John Linehan (Large Cap Value Team Head), Mark Finn (Portfolio Manager), and Bill Nolan (Portfolio Specialist).

Mr. Plowright introduced Messrs Linehan, Finn, and Nolan, and turned the presentation over to Mr. Linehan. Mr. Linehan reviewed the team members in more detail.

Mr. Finn explained the team's investment process and philosophy.

Mr. Linehan provided a brief summary of the market outlook and reviewed the portfolio's performance. He reported the portfolio has added value since its inception in 2004. On a calendar year basis, he noted the portfolio underperformed the benchmark in 2010; however, on a rolling three-year basis from 2008 to 2010, it outperformed the index in all but one year.

Mr. Finn reviewed the top ten holdings, portfolio overweights and underweights, and recent portfolio changes. He noted the Russell 1000 Value Index projected 9% earnings growth while the Plan's portfolio projected 10.3%.

11. Presentation by MFS Investment Management (Large Value) - Annual Performance Review as of December 31, 2010

Mr. Romero acknowledged Carolyn Lucey, Relationship Manager; and Kate Mead, Portfolio Manager.

Ms. Lucey reported a change in the firm's organization was made earlier today, and a formal announcement will be forthcoming. She noted Kevin Beatty, former Director of US Equity Research, will now oversee the US equity portfolio managers which includes the Plan's investment team. She stated this change does not affect the Plan's portfolio or its investment team, but only the team's reporting structure. She added Mr. Beatty's promotion is in keeping with the firm's succession plan, and a formal announcement will be provided when it becomes available.

Ms. Lucey handed the presentation over to Ms. Mead to review the portfolio's performance.

Ms. Mead reviewed the market and portfolio performance as of February 28, 2011, by style and sector. She noted the portfolio has underperformed the benchmark net-of-fees but continues to improve each month.

She reported the portfolio's return on equity is almost double that of the benchmark. She explained the portfolio trades at a slight discount to the market and because of the market interest in lower quality companies, there have been more opportunities to increase the quality of the companies in the portfolio at cheaper than average valuations.

With respect to the long-term historical results, Ms. Mead reported the portfolio underperformed the benchmark by approximately 30 basis points on a year-to-date basis through March. She stated on a one-year basis, it was approximately 140 basis points behind the benchmark; for the three-year period it was approximately 170 basis points ahead of the benchmark through March; and since inception in February of 2004, it has outperformed the benchmark on a net-of-fees basis by approximately 200 basis points per year. She added the rolling five year returns of implementing a strategy focused on quality and valuation has added significant relative value versus the benchmark.

Ms. Mead reviewed the portfolio's current positioning by sectors, and she noted the return on equity is over 24% compared to the benchmark's 11%.

In response to a question from Ms. Coffin on the impact on the portfolio from the recent earthquake in Japan, Ms. Mead indicated that the ultimate impact remains to be seen.

12. Presentation by Courtland Partners and Madison Realty Group on New Real Estate Investment Opportunity

Mr. Romero acknowledged Garret Zdolshek from Courtland Partners (Courtland).

Mr. Zdolshek explained the Madison Realty Group (Madison) is a debt fund that lends first mortgages to property owners and buys loans at a discount. He stated Courtland was impressed with Madison, whose first fund (Madison Realty Capital LP) had a 7% net return since inception in 2005 and who placed in the top quartile compared to Courtland's internal benchmarks. He stated Madison has only been in existence since 2005, which presents some concern, but he added Courtland believes six years of performance is appropriate.

In response to a question from Ms. Coffin, discussion ensued regarding Courtland's process in determining which opportunities to bring before the Board. Board Members requested that, in addition to the information they receive pertaining to the recommended opportunity, they also be provided with information on the other choices that were considered.

Mr. Zdolshek provided information on the other groups with a similar strategy.

Discussion ensued with respect to Madison's track record, staffing, the Madison Realty Capital Sullivan Debt Fund, and the partnership the Plan would obtain if the Board chose to invest in Madison's Sullivan Debt Fund.

Mr. Romero recognized Brian Shatz and Josh Zegan, co-founders of Madison Realty Capital.

Mr. Shatz provided a background and history of the firm which was launched in 2004. He described the background of the members of the firm who focus on debt as well as real estate equity ownership.

Mr. Shatz stated Madison is currently in the process of returning capital to the limited partners in the first fund. He indicated the first fund focused exclusively on originating first mortgage commercial loans, and he pointed out that will continue with the Sullivan Debt Fund, which will also take advantage of purchasing non-performing commercial loans in the sub-\$30 million market space.

Mr. Moore interjected that the Executive Summary, which Mr. Shatz was citing, referred to pages that were missing from the material provided to the Board. He added he could not see from the material provided where Madison would be making their money. Mr. Shatz responded they had consolidated their report from a more extensive one and the page references should have been removed. He said he did not have the missing material with him but could provide them for the Board.

Mr. Shatz spoke about the market return of the first fund versus the return targets of the Sullivan Debt Fund.

Mr. Zegan described the current market opportunities and the overall market strategy. He explained the type of transactions Madison conducted during the past year, and he noted their average loan to value was 65%. Mr. Shatz added the fact they were lending on a 65% loan to value allowed them to absorb the impact of lower property values without taking a substantial hit to principal on the asset, and that would be the focus of the Sullivan Debt Fund as well.

Mr. Shatz spoke more about the Sullivan Debt Fund which would diversify Madison's holdings to further align the employees with management and enable some of their investment professionals to share in the equity of the firm.

Following Madison's presentation, it was the consensus of the Board Members to decline the opportunity to invest in this fund. Several Board Members expressed concern with the firm's brief track record and lack of sufficient information. Mr. Nichols added he was unconvinced this was the type of investment in which a government fund should be investing.

(The Board recessed at 11:33 a.m. and reconvened at 11:40 a.m.)

(Assistant City Attorney Alan Manning joined the meeting following the break.)

13. Presentation by Courtland Partners – Real Estate Financial Model

Mr. Romero recognized Garrett Zdolshek and Bill Foster from Courtland Partners (Courtland).

Mr. Zdolshek stated an important part of the Plan's portfolio planning was to discuss the current portfolio and where they would like to take the portfolio over the next three or four years.

Ms. Bhatia explained that PCA's Asset Liability Study allocated 5% of the Plan's portfolio to Real Estate and of that 5%, the Board had adopted Courtland's recommendation to invest 70% in Core,

20% in Value, and 10% in Opportunistic. She stated the objective today was to assess what further investments need to be made to achieve that recommended ratio.

Mr. Foster reviewed the model beginning with the portfolio's growth rate from 2010 through 2014. He stated their recommended funding over the next four to five years would be \$260 million to Core, \$57 million to Value, and \$44 million to Opportunistic; for a total of \$361 million funded and \$380 million committed.

He reported for 2011, they proposed funding \$50 million in Core, \$20 million to \$25 million in Value, and \$20 million to \$25 million in Opportunistic. He indicated they would monitor this internally and discuss it during their quarterly reviews to decide whether it makes sense to continue this strategy.

Several Board Members indicated they would like to have Courtland's evaluation of the opportunity in the broad classes on a more frequent basis and it should be an ongoing conversation.

Mr. Zdolshek stated the model focused on pacing over time. He said they can review the portfolio to determine if it is overfunded or underfunded in the various categories to monitor the level of risk, and if they determine a specific category is too pricey, they can come back to the Board to review the policy and strategy. He said this would help determine what would need to be done to meet the policy and strategy over a multi-year period.

Mr. Nichols said he would like a better understanding of the types of opportunistic investments and what is available.

Mr. Zdolshek apologized for bringing in the Madison opportunity on the opportunistic side without giving a better explanation of how they fit. He said the opportunistic space is complicated and wide-ranging and to explain all of the different categories would be lengthy. He suggested that Courtland make a presentation at a future meeting to explain the different strategies and how certain firms fit in with certain categories.

Mr. Zdolshek thanked the Board for retaining Courtland and renewing their contract. He said it has been an honor to work with the Board and that Courtland appreciated their support.

Mr. Romero asked if the Board's Placement Agent Policy affected Courtland's ability to bring in certain managers and if it affected their recommendations to the Board. Mr. Zdolshek shared that Courtland strongly encouraged managers to sign the policy; however, they have met with some hesitation. The example he gave of an area that could be modified was a manager's ability to release the Plan out of a commitment to a private partnership. He said in the way the policy is currently worded, the managers do not necessarily have that authority.

14. Discussion of Plan Amendment to Change the Regular Interest Rate

Mr. Moore moved to adopt Resolution No. 11-81 to amend the Retirement Plan to change the Regular interest rate; seconded by Ms. Coffin.

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

Nays: None

Absent: Ignacio, Noonan

THE MOTION CARRIED.

15. Discussion of Investment Guideline Exception for T. Rowe Price Associates, Inc.

Mr. Wolfson explained the Investment Guidelines prohibit investment managers from purchasing stock in a company in which the investment firm owns more than 10% of outstanding shares across all of its accounts. He stated because of this guideline, T. Rowe Price Associates, Inc. (T. Rowe) has not been able to purchase stock in higher performing companies and, as a result, has underperformed their benchmark by approximately 4% since inception in 2010.

Mr. Moore asked if other firms face the same problem. Mr. Wolfson responded this has occurred for other mandates. He said this policy exception is specific to the large cap growth space and, given the size of T. Rowe Price across all strategies, they tend to purchase more than 10% of a single stock from time to time.

Neil Rue from Pension Consulting Alliance added for a large firm with a significant amount of domestic equity and a portfolio that is relatively concentrated in its holdings, it can result in a few holdings with big positions.

In response to a question from Ms. Coffin, John Plowright from T. Rowe stated this issue recently became evident. He explained T. Rowe noticed the growth account was consistently below their representative accounts, and their analysis revealed that 80% of the problem was focused around this one rule. He said this same rule is also present with the Plan's value account but has not had a negative impact because T. Rowe has been able to find appropriate alternatives.

Mr. Moore moved to adopt Resolution No. 11-82 to approve the exception to the investment guidelines for T. Rowe Price, Large Cap Growth; seconded by Mr. Nichols.

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

Nays: None

Absent: Ignacio, Noonan

THE MOTION CARRIED.

16. Discussion of Possible Extension of Contract with Simpson & Simpson, CPA

Ms. Carranceja provided the background for this item which recommended the Board approve extending the contract with Simpson & Simpson, Certified Public Accountants, for three years.

Mr. Moore moved for approval of Resolution No. 11-83 to extend the contract with Simpson & Simpson; seconded by Mr. Nichols.

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

Nays: None

Absent: Ignacio, Noonan

THE MOTION CARRIED.

17. Discussion of Staff's Recommendation on the Selection of a Document Imaging Vendor

Ms. Carranceja provided the background for this item which recommends the selection of the vendor for the document imaging project. She reported this project is related to the Integrated Pension System which is expected to be implemented by December 2011, and it involves scanning 20,000 active and retiree member files (approximately 2,000,000 pages). She also indicated this would be a one-time project for a limited duration of six months. She reported Staff conducted a

Request for Information (RFI) for a vendor to scan the 20,000 files, and after interviewing four vendors, Staff was recommending the selection of DocuTech to provide the document imaging services.

Ms. Bhatia explained the need for contracting out this service was a combination of having no available on-site staff trained to handle the project plus the need to continue with the day forward scanning.

She indicated she regularly meets with Lilly Calvache and Nancy Romero of IBEW Local 18 and, at their meeting held yesterday, Ms. Calvache and Ms. Romero expressed concerns that bargaining unit work would be contracted out.

Mr. Poole asked if Ms. Calvache and Ms. Romero mentioned the 10% contracting provision of the Memorandum of Understanding, and he also asked if this matter had been discussed with the Priority Staffing Committee. Ms. Bhatia replied they had mentioned the overtime provision. She added Staff has explored and offered overtime, however, not everyone wants to work overtime. As for the Priority Staffing Committee, Ms. Bhatia stated Staff followed the exemption process, and she was not aware of such a committee; however, she will look into it.

Ms. Coffin asked what security measures would be taken if the Board decided to proceed with this contract. Ms. Carranceja stated the proposed vendor uses a separate company to perform background checks on their employees, and they have explained the different types of checks they perform.

Ms. Coffin asked for that information to be provided to the Board and also for Staff to contact the Department's security services.

Mr. Romero asked that this item be tabled until the next meeting to allow Staff time to follow up on the overtime issue plus the Priority Staffing Committee and to contact the security office.

18. Continued Discussion of Consideration of Designation of "Trustee for Incompetents" for Doris Garcia

Ms. Higgins reported this item was being brought back to the Board with additional information as requested at the February 23, 2011, Retirement Board meeting.

Ms. Higgins recapped the background of the request. She explained the attached revised resolution, if approved, would designate the Director of Patient Financial Services for the Birch Patrick Convalescent Hospital as Trustee for Ms. Garcia.

Ms. Higgins reported Ms. Garcia's pension check will remain in her name and will be mailed to the convalescent hospital to be deposited into a patient trust account and used only for her needs.

She also reported on her recent site visit to the Birch Patrick Convalescent Hospital where she found everything to be in order. In addition, she noted the City Attorney did not find any recent or pending lawsuit filed against Birch Patrick related to patient trust accounts.

Deputy City Attorney Marie McTeague stated the Plan provides for this type of request, and the City Attorney's Office is very comfortable with it and believed the due diligence requirement had been met.

Mr. Moore moved for approval of Resolution No. 11-71 to designate a Trustee for Incompetents for Doris Garcia; seconded by Mr. Nichols.

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

THE MOTION CARRIED.

19. Discussion of PCA's Due Diligence Site Visits

Neil Rue, Managing Director at Pension Consulting Alliance (PCA), reported PCA has an on-site due diligence visit scheduled in April for Wells Capital High Yield and one in May for T. Rowe Price. He stated PCA will provide reports to the Board with the findings of the visits. He also stated PCA will conduct site visits with the finalists who will be interviewed for the Emerging Markets Manager.

Ms. Coffin asked if Retirement Staff had conducted any visits, and Mr. Wolfson replied one trip to visit two managers was conducted in early April and another is scheduled for later in the month. He said Staff will provide reports to the Board for each of the visits.

20. Discussion of Status of Reciprocity Negotiations

Ms. Bhatia reported the actuary is still waiting for information from the Los Angeles City Employees Retirement System (LACERS). Ms. Higgins added that LACERS is putting together information for the actuary, and upon receipt of the information, the actuary will need six to eight weeks to provide their report.

21. Discussion of Annual Evaluation of City Attorney Services

Ms. Bhatia reported this item was requested by Mr. Romero. She explained the City Attorney is required by City Charter to provide legal services for the City's pension plans. She stated it is the Board's responsibility to evaluate the performance of all of its service providers. She indicated Staff met with representatives from the City's two other pension systems and formed a committee and, as a result, developed the draft evaluation policy for the Board's review and approval.

Mr. Moore moved for approval of the City Attorney Performance Evaluation Policy; seconded by Ms. Coffin.

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

THE MOTION CARRIED.

22. "Banks' Profits Could Take Hit in Fight Over Forex Fees" – Pensions & Investments

No discussion.

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

Ms. Bhatia reported Staff experienced considerable delays in receiving approval for the due diligence site visit discussed earlier in the meeting, and this resulted in higher costs over what was originally estimated.

She reported on the vacancies in the Retirement Office. She indicated the Senior Clerk Typist position in the Administration Section remains vacant, and Staff has experienced several issues in trying to fill this position. She stated the Principal Clerk Utility position in the Membership Section is still vacant. For a quick fix, she noted the Senior Clerk Typists in Membership had been temporarily promoted on a rotating basis to oversee the section, and now a Benefits Specialist has been borrowed from the Retirement Section to supervise Membership. She reported a Senior Utility Accountant recently retired and another Senior Utility Accountant is scheduled to retire soon. She stated there are some resources that could have been deployed, but that is prevented due to constraints in the Duties Description Record.

Ms. Bhatia reported on the impact of not being able to fill vacancies. She stated Staff is very behind in responding to requests for retirement estimates and several members have complained about the delay. The lack of staffing has resulted in delays in data cleanup which have impacted the implementation of the new computer system, delayed the transmittal of files to the Plan's actuary (which are needed to determine the Department's retirement contributions), and delayed calculations of retirement benefits. She stated the implementation of new tax rules and regulations might also be affected.

25. Future Agenda Items (OUT OF ORDER)

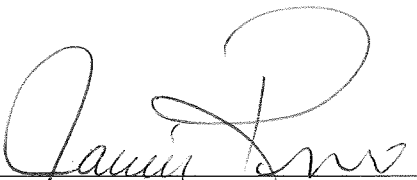

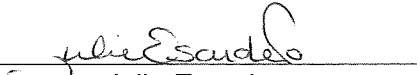
Mr. Romero asked to discuss possible modification of the Plan's Placement Agent Policy to be more consistent with that of the City's other pension plans.

The Board met in closed session at 1:03 p.m. on the following item:

23. CLOSED SESSION pursuant to Government Code Section 54956.9(b) to confer with legal counsel regarding significant exposure to litigation

The Board met back in open session at 1:26 p.m. with no action taken on Item 23.

With no further business to discuss at this time, the meeting adjourned at 1:26 p.m.

 _____ Javier Romero Board President	<u>6/8/11</u> Date	 _____ Sangeeta Bhatia Retirement Plan Manager	<u>6.9.11</u> Date
 _____ Julie Escudero Utility Executive Secretary	<u>6.9.11</u> Date		