

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

**MINUTES**

**JULY 27, 2011**

**Board Members Present:**

Cindy Coffin, Vice President  
Mario Ignacio, Chief Accounting Employee  
Christina Noonan, DWP Commissioner  
Ronald O. Nichols, General Manager\*  
Barry Poole, Regular Member  
Robert Rozanski, Retiree Member

**Board Members Absent:**

Javier Romero, President

**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:**

Marie McTeague, Deputy City Attorney

Vice-President Coffin called the meeting to order at 10:00 a.m. following the Pledge of Allegiance.

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

**Public Comments**

Ms. Coffin read a note from William Valko thanking the Retirement Board for 30 years of thoughtfulness.

**Consent Items**

**1. Request for Approval of Minutes – June 8, 2011, Regular Meeting**

**2. Termination from Rolls**

**Termination of Monthly Allowance from the June 2011 Retirement Roll**

**Termination of Mark Wilbur Miller from the June 2011 Permanent Total Disability (PTD) Roll**

**Termination of George Kwong from the July 2011 PTD Roll**

**Termination of Ronald O. Vazquez from the July 2011 PTD Roll**

**Termination of John A. Gaylord from the July 2011 PTD Roll**

**Termination of Randi L. Johnson-Osborne from the July 2011 PTD Roll**

*Mr. Rozanski moved for approval of Items 1 and 2; seconded by Ms. Noonan.*

*Ayes: Coffin, Ignacio, Noonan, Poole, and Rozanski*

*Nays: None*

*Absent: Nichols and Romero*

*THE MOTION CARRIED.*

**Received and Filed Items**

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

**4. Notice of Deaths for June 2011**

5. **Investment Reports for June 2011**
  - a) **Summary of Investment Returns as of June 30, 2011**
  - b) **Market Value of Investments by Fund and Month as of June 30, 2011**
  - c) **Market Value of the Retirement, Death, and Disability Funds and Retiree Health Care Fund as of June 30, 2011**
  - d) **Summary of Contract Expirations**
6. **Report on Status of Insurance as of July 19, 2011**
7. **Staff Reports on Due Diligence Visits**
  - a) **Frontier Capital Management Company, LLC- Small Cap Growth**
  - b) **MFS Institutional Advisors, Inc.-Large Cap Value**
  - c) **Loomis Sayles High Yield**
8. **Report from Pension Consulting Alliance Recap of Asset Allocation Report**

With respect to Item 5, Mr. Rozanski asked when the preliminary reports become final. Mr. Wolfson said they become final when the market values are finalized at the end of the fiscal year, although the final numbers are not readily available after the fiscal year ends because the numbers for alternative investments are lagged, so Staff is working on a new format to extract the alternatives.

With respect to Item 6, Mr. Rozanski asked why insurance for real estate, private equity, and hedge funds is recommended but not mandatory. Mr. Wolfson said insurance has been an obstacle when negotiating contracts for alternatives such as private equity and real estate. Staff provides the Plan's insurance requirements in order to obtain the investment managers' existing coverage. The Department's Risk Management does not approve their insurance based on the criteria for public market contracts. Ms. Bhatia stated the method of asking alternative managers for the actual amount of their insurance coverage, but not requiring it, was suggested by Pension Consulting Alliance (PCA); PCA does not recommend the insurance itself, and the Board had adopted this suggestion.

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

Ms. Bhatia noted the Request for Proposals for alternative managers asks each company to provide their umbrella insurance coverage, and that information is provided to the Risk Manager to determine if the agreed upon criteria is met. She added the insurance requirements for alternative investments are different from the requirements for public market investments.

With respect to Item 3, Ms. Coffin said she is still uncomfortable with the disability payments being made to Raman Raj, and she still has questions. Deputy City Attorney Marie McTeague said it would be appropriate to address Ms. Coffin's concerns under Item 17 later in this meeting.

*Mr. Poole moved to accept Received and Filed Items 3 through 8; seconded by Ms. Noonan.*

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

*THE MOTION CARRIED.*

## **Regular Items**

### **9. Discussion of Possible Change in Meeting Time for the Retirement Board Meetings**

*Mr. Nichols moved to change the start time for the Retirement Board Meetings to 9:00 a.m.; seconded by Mr. Ignacio.*

*Ayes: Coffin, Ignacio, Nichols, Noonan, Poole, and Rozanski*

*Nays: None*

*Absent: Romero*

*THE MOTION CARRIED.*

### **10. Discussion of Covered Calls Policy Draft**

Mr. Wolfson introduced the item and provided the background on the inclusion of the new Covered Calls asset class for the Plan's investment portfolio. He explained the Board approved the Request for Proposals (RFP) for a Covered Calls investment manager and stated the policy needs to be attached to the RFP. He introduced Neil Rue, from Pension Consulting Alliance (PCA), to review the draft policy.

Mr. Rue stated PCA and Staff are seeking approval to include the draft guidelines in the RFP. He explained the draft guidelines contain three major sections: a description of the Covered Calls class, a benchmark replication which is a passive strategy, and an active strategy, and he said the intent is to have an RFP with a variety of strategies that can be both replication oriented and/or include some form of active management. Mr. Rue stated he would like to have a broad review of the strategies available and be as inclusive as possible at the beginning of the process because this asset class is fairly new and they are not sure how some of the managers will respond. Mr. Rue said they can be more specific when the finalists are determined.

He explained the Replication Guidelines are very conservative in terms of the type of portfolio, and they contain no leverage. He said they expect prospective managers will request more latitude with regard to the active guidelines.

Mr. Ignacio asked if separate managers will be sought for the active and passive management or if they will be combined. Mr. Rue said he expects a variety of managers will respond which is why these options should be considered in the initial phase.

Mr. Nichols asked if there will be different ranges of compensation depending on their functions. Mr. Rue said they will probably have three different fee bid formats, one for replication only, one for active only, and one for a combination of the two.

Mr. Nichols suggested the bidders be provided information on the option to bid on an active versus passive style, and how they should seek compensation for those different roles. Mr. Rue said he believes it will be bid in such a way that the Board will be able to decide on the different approaches and the fee differentials for each approach.

Mr. Rozanski said previous material on Covered Calls mentioned a passive strategy as a recommendation but the draft policy mentions 20% allocation to an active manager. Mr. Rue said the RFP notes no more than 20% in an active strategy so as not to limit the number of vendors responding to the RFP, but that is not necessary and the decision is up to the Board.

*Mr. Nichols moved to adopt Resolution No. 12-07 to adopt the Covered Calls Investment Policy; seconded by Mr. Rozanski.*

*Ayes: Coffin, Ignacio, Nichols, Noonan, Poole, and Rozanski*

*Nays: None*

*Absent: Romero*

*THE MOTION CARRIED.*

#### **11. Presentation by Pension Consulting Alliance – Fourth Quarter Private Equity Performance Report for Period Ending December 31, 2010**

The Board recognized Mike Moy from Pension Consulting Alliance (PCA).

Mr. Moy reported that since inception, the portfolio's net return was 6% and he noted the performance objective over the long term is a 15% since inception net of fees internal rate of return.

He reviewed the investment structure exposures, the diversification by industry (with the largest exposures to consumer) and geography (with the largest exposure to North America), and the vintage year diversification.

Mr. Moy briefly discussed the Private Equity market and reported the data for the second quarter of 2011 was better than it was in 2010 but it was not as good as expected. He stated transactions increased in the first and second quarters of 2011. He noted distressed debt activity was lower than expected and venture capital has been struggling.

Mr. Ignacio asked why two benchmarks are used for Private Equity. Mr. Moy explained the official benchmark, for portfolio management purposes, is the Russell 3000 plus 300 basis points, and he was not sure why the Cambridge Custom Benchmark was added, although many of PCA's clients have multiple benchmarks. Ms. Bhatia stated when the investment policy was created, the thought was that an asset class such as Private Equity should at least exceed the Russell 3000 index plus the 300 basis points considering the higher fees paid out. As time went on, PCA recommended the Cambridge benchmark be used to more appropriately measure what was really happening in the industry. Mr. Ignacio asked that Staff come back with additional information explaining the difference between the two benchmarks and why the two benchmarks are necessary.

#### **12. Presentation by Courtland Partners – First Quarter 2011 Real Estate Portfolio Performance**

The Board recognized Michael Humphrey and Bill Foster from Courtland Partners (Courtland). Lourdes Canlas from Courtland was in the audience.

Mr. Foster explained the data contained an approximate three-month lag due to the nature of the class. He reported the portfolio has rebounded nicely and in March 2011 was valued at \$121 million. He said it showed strong returns through June, and as of March 31 was 1.4% of the Plan's total assets, although they would like to get additional capital committed throughout the remainder of 2011.

Mr. Foster noted the presentation material provided to the Board did not include the investment data from Lone Star Fund II and Fund VII which were valued at \$10 million each. The income returns for the overall portfolio were 7% for the one-year period which exceeded the benchmark income return by approximately 40 basis points. In reviewing the portfolio summaries for the individual managers, Mr. Foster noted INVESCO Core Real Estate has committed funds toward the Core portfolio. He reported

JP Morgan was up 3.3% for the first quarter and was up 9% year-to-date; PRISA was up 5.3% for the first quarter and was up 10.7% year-to-date; and PRISA II was up 11.3% year-to-date. Mr. Humphrey added the historical long-term benchmark NCREIF return is 9%.

In reviewing the risk/returns, Mr. Foster reported that with Lone Star factored in, the portfolio has a market value of \$121 million with \$241 million of commitments to date. He explained the portfolio is not designed to have significant appreciation but rather stable income (70% to Core, 20% to Value, and 10% to Opportunistic).

He reported the portfolio's property type diversification closely matched the benchmark. He reviewed the portfolio's leverage and reported the total Core portfolio leverage was 30%. He said the leverage has decreased due to a combination of the net asset value and the fund increasing. He indicated the total portfolio leverage was approximately 36%.

With respect to the portfolio's strategic plan for 2011, Mr. Foster indicated Courtland had considered committing approximately \$50 million to Core for the remainder of 2011, \$20 to \$25 million to Value, and an additional \$20 to \$25 million Opportunistic.

### **13. Discussion of MFS Investment Management Performance for Large Cap Value**

Mr. Wolfson provided background for this item which recommended MFS Investment Management be removed from performance watch status. He reported MFS still trailed its benchmark since being placed on watch, but they no longer met the threshold.

Ms. Coffin asked if MFS' watch status was discussed during Staff's recent on-site due diligence visit, and Mr. Wolfson responded it was.

*Mr. Poole moved to approve Resolution No. 12-08 to remove MFS from watch status; seconded by Mr. Ignacio.*

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

*THE MOTION CARRIED.*

### **14. Discussion of INVESCO International Developed Equity Performance**

Mr. Wolfson reported this item recommended INVESCO Global Asset Management (INVESCO) be transferred from organizational watch status to performance watch status. He explained that since being placed on organizational watch due to the departure of their chief investment officer, INVESCO has lagged its benchmark and continued its since-inception underperformance, which could not be tied to the departure of the chief investment officer.

*Mr. Poole moved to approve Resolution No. 12-09 to remove INVESCO from organizational watch and place them on performance watch status; seconded by Mr. Ignacio.*

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

*THE MOTION CARRIED.*

## 15. Discussion of Performance of Wells Capital High Yield Fixed Income Manager

Mr. Wolfson presented the background for this recommendation to begin the Request for Proposal (RFP) process to potentially replace Wells Capital High Yield (Wells Cap HY) as the Plan's High Yield Fixed Income manager, and allow Wells Cap HY to participate in the RFP process. He explained Wells Cap HY has trailed its benchmark over the short, medium, and long-term periods over multiple quarter-ending periods and failed to add value to the Plan since inception. He stated the Board originally placed them on watch status in January 2010, and extended their watch status in January 2011.

Mr. Rozanski asked for the rationale to allow Wells Cap HY to participate in the RFP process. Mr. Wolfson explained the Board historically has chosen to terminate a firm if they experience significant deterioration in a short period of time, but in the case of Wells Cap HY, they complement the Plan's other High Yield Fixed Income manager (Loomis, Sayles & Company), and they have performed in the first quartile against their peers in down markets at a much lower standard deviation than the benchmark. He stated that after discussing all of the risk factors as well as the performance and the trajectory, Staff and Pension Consulting Alliance (PCA) decided to recommend Wells Cap HY be allowed to rebid.

Neil Rue from PCA added that instead of continuing to extend a manager's watch status in perpetuity, PCA and Staff suggested a manager's watch could be extended once and at the end of the extended watch period a decision whether to terminate them would have to be made.

*Mr. Nichols moved to approve Resolution No. 12-10 to begin the RFP process for a High Yield Fixed Income Manager; seconded by Mr. Poole.*

*Ayes: Coffin, Ignacio, Nichols, Noonan, Poole, and Rozanski*

*Nays: None*

*Absent: Romero*

*THE MOTION CARRIED.*

## 16. Discussion of Investment Policy Exception for Wells Capital Regarding Equity Exposures

Mr. Wolfson gave a brief overview of this item which recommended another extension of the holding period of equity exposure in the Wells Capital High Yield portfolio. Mr. Wolfson reviewed the history of the three previous extensions.

Stephen Scharre from Wells Capital Management explained how they had received an equity holding on a credit that had gone through bankruptcy. He said the amount is very small and currently illiquid, and the operator is waiting for a better market in which to go public with the funds. He stated Wells Capital Management does not think it is prudent to force a sale, the amount has no material impact in terms of the portfolio's overall performance, and they would like to get the best value they can when the liquidity returns. He added, for that reason, they expect they will return to the Board with additional extension requests until the equity can be sold.

*Mr. Rozanski moved to approve Resolution No. 12-11 to grant an additional extension of the holding period of equity exposure; seconded by Mr. Nichols.*

*Ayes: Coffin, Ignacio, Nichols, Noonan, Poole, and Rozanski*

*Nays: None*

*Absent: Romero*

*THE MOTION CARRIED.*

## **17. Discussion of Eligibility for Disability Benefits**

Ms. Bhatia explained this item was brought back with additional information at the request of the Board Members.

Ms. Coffin thanked Staff for the information and said she is still uncomfortable with the situation and does not agree with the decision. Mr. Poole echoed Ms. Coffin's statement.

Mr. Rozanski acknowledged his understanding of the Plan's requirements for disability benefits as being documentation must be provided and certain qualifications must be met, and if the Board has a concern, the Board has the discretion to request additional information or even additional medical examinations by an independent third-party.

Ms. Bhatia clarified the Board's Benefits Committee generally deals with appeals, etc., and the determination for requesting third-party medical examination is usually made by the Medical Director. She added the Plan has a very strict, defined process which must be followed for anyone to receive disability benefits, and that process is being followed.

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

Ms. Bhatia reported the Board will hold a Special Meeting in August to conduct the interviews for the Emerging Markets Equity Manager.

She reported the annual membership statements generated by the new system will go out in late August, and testing and data clean-up continues on the remaining modules for the new system. Staff continues to proceed toward the goal of implementing the module to print the December 1, 2011, retirement checks to be payable January 1, 2012.

The preliminary field work for the annual audit will begin on August 15, and the first Audit Committee meeting to review the audit plan is expected to be scheduled for August 24; the Audit Committee members will be notified upon confirmation.

Ms. Bhatia stated the draft Reciprocity report by The Segal Company is expected to be ready in the upcoming weeks, and communications with LACERS will resume after the draft is received.

She reported the Early Mid-Career Retirement seminar originally scheduled for August 3 will need to be rescheduled due to the unavailability of a key speaker from the Credit Union. She stated notifications will be sent to the Department's training coordinators and affected employees, and Staff will work with the Credit Union to ensure an alternate speaker is available in the future.

Ms. Bhatia reported two meetings have been held with representatives from IBEW and Labor Relations regarding the Document Imaging project and the proposed contract. She noted Matt Lampe, the head of Information Technology, attended the last meeting and discussed the advice that had been provided to the Retirement Plan Office with respect to this contract and also the need for the contract; however, Staff still has not received permission from IBEW to proceed. She stated if this project cannot proceed timely and be implemented concurrently with the new module, the new system which cost approximately \$1.5 million will be ineffective. She stated the consequences will be delays in processing requests because the data will not be electronically retrievable, which was the intent of the new system, and it will impact Staff's ability to provide efficient service to Plan members. She cited the cost of the contract was for approximately \$200,000.

In response to a question from the Board with respect to how the debt ceiling could impact the Plan's investments if implemented in Washington D.C., Mr. Wolfson said the true impact would not be known until the coming weekend and it was best not to venture a guess at this time but to continue to monitor the situation closely.

**19. Future Agenda Items**

None requested at this time.

With no further business, the meeting adjourned at 11:33 a.m.

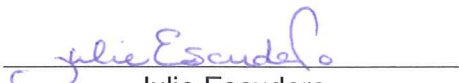
The next meeting is scheduled at the new time of 9:00 a.m. on August 10, 2011.

  
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Javier Romero  
Board President

8/31/11  
Date

  
\_\_\_\_\_  
Sangeeta Bhatia  
Retirement Plan Manager

8/31/11  
Date

  
\_\_\_\_\_  
Julie Escudero  
Utility Executive Secretary

8-31-11  
Date