

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

MINUTES

SEPTEMBER 28, 2011

Board Members Present:

Cindy Coffin, Vice President
Ronald O. Nichols, General Manager
Barry Poole, Regular Member
Robert Rozanski, Retiree Member

Board Members Absent:

Javier Romero, President
Mario Ignacio, Chief Accounting Employee
DWP Commissioner - Vacant

Staff Present:

Sangeeta Bhatia, Retirement Plan Manager
Monette Carranceja, Assistant Retirement Plan Manager
Mary Higgins, Assistant Retirement Plan Manager
Scott Vargas, Senior Investment Officer
Julie Escudero, Utility Executive Secretary

Others Present:

Marie McTeague, Deputy City Attorney

Vice President Coffin called the meeting to order at 9:04 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 for August 31, 2011, Regular Meeting
2. Termination from Rolls
 - a) Termination of Monthly Allowance from the September 2011 Retirement Roll
 - b) Termination of Augustine Hernandez from the September 2011 Permanent Total Disability Roll
 - c) Termination of Tom D. Hooper from the September 2011 Permanent Total Disability Roll

Mr. Rozanski moved for approval of Items 1 and 2; seconded by Mr. Nichols.

Ayes: Coffin, Nichols, Poole, and Rozanski

Nays: None

Absent: Ignacio and Romero

THE MOTION CARRIED.

Received and Filed Items

3. Report of Payment Authorizations for August 2011
4. Notice of Deaths for August 2011

5. **Investment Reports for August 2011**
 - a) **Summary of Investment Returns as of August 31, 2011**
 - b) **Market Value of Investments by Fund and Month as of August 31, 2011**
 - c) **Market Value of the Retirement, Death, and Disability Funds and Retiree Health Care Fund as of August 31, 2011**
 - d) **Summary of Contract Expirations**
6. **Report on Status of Insurance as of September 13, 2011**
7. **Report on Changes in Connection with Oaktree Principal Fund V, L.P.**
8. **Report on Clarification-Related Changes to the Plan's Investment Policy**

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

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

THE MOTION CARRIED.

Regular

9. **Presentation by Courtland Partners - PCCP Real Estate Opportunity; AND**
10. **Presentation by Courtland Partners - Cornerstone Real Estate Opportunity**

The Board recognized Michael Humphrey and Bill Foster from Courtland Partners.

Mr. Humphrey reported Courtland was presenting two Core investment opportunities (*Cornerstone Enhanced Mortgage Fund I L.P.* and *PCCP First Mortgage II, L.P.*) for the Board's consideration. He stated Courtland's investment plan, previously approved by the Board, calls for \$50 million of Core commitments this year, and Courtland is recommending a \$25 million commitment in either of the two firms being presented at this time. Prior to introducing the representatives from the two firms, Mr. Humphrey described the strategies of the two firms.

He explained both Cornerstone and PCCP employ a real estate debt strategy; however, the Cornerstone strategy entails leverage at the fund level which the PCCP strategy does not. He stated PCCP invests in senior floating rate loans up to 70% loan to value with an expected going in return on a gross IRR basis of 7.5% to 9% with no leverage at the fund level. He stated the loan sizes would be between \$10 million to \$50 million, they would be U.S. only, and would not involve construction loans. He stated Cornerstone invests in transitional properties, with senior floating rate loans secured by first mortgages on average of \$20 million to \$50 million in size, with potentially 40% leverage at the fund level.

Ms. Coffin asked about the selection process for real estate opportunities and if Requests for Proposals (RFPs) were advertised. Mr. Humphrey explained managers come before Courtland on a constant basis, and Courtland maintains ongoing discussion with Staff regarding the various opportunities they encounter. In response to Ms. Coffin's question regarding minimum qualifications, Mr. Vargas explained Courtland reviews each opportunity and conducts due diligence; however, no specific qualifications are stipulated, although Staff seeks stable

organizations with long histories, and Courtland's due diligence looks for all of those qualities. Ms. Bhatia added Staff does not have an RFP process for the alternative asset classes which include real estate, private equity, and hedge funds.

In response to Mr. Nichols' question regarding whether Cornerstone invests in residential properties, Mr. Humphrey stated Cornerstone limits their investment portfolio to not more than 20% in "for sale" residential properties.

10. Cornerstone Real Estate Opportunity (*Out of Order*)

The Board recognized Pamela McKoin, Vice President of Business Development; Rob Little, Chief Investment Officer; and Dean Dulchinis, Vice President of Cornerstone's High Yield Group.

Ms. McKoin provided a brief overview of the firm.

Mr. Little described the fund and the opportunity. He explained the type of real estate in which they are investing is high quality Core property that has experienced some sort of financial concern. He stated Cornerstone has an employee co-investment program. He also reviewed Cornerstone's track record and noted they have invested approximately \$2.6 billion in first mortgage transitional property investments with an 11.7% gross IRR with net returns in the high single digits/low double digits.

Mr. Dulchinis reviewed Cornerstone's strategy and transactions in more detail. He added the goal of this strategy is to create a portfolio of short-term debt instruments of two to three years so opportunities to trade out will be limited. He stated they have the ability to use up to 40% term leverage with floating rates, and they will require an equity co-investment from the borrower.

Mr. Little added the leverage will be capped at 40% rather than the 50% suggested in the presentation material. The fee levels have been dropped to 70 basis points and will be the only fees charged (with no origination fees, disposition fees, servicing fees, or escrow fees).

9. PCCP Real Estate Opportunity (*Out of Order*)

The Board recognized Don Kuemmel, Bill Lindsay, and Norma Cabrera from PCCP.

Mr. Kuemmel explained PCCP's sole focus is debt strategy, with floating loans of two to four years on value added real estate. He stated they handle everything in-house, and their philosophy is risk avoidance, safety, and soundness.

Mr. Lindsay provided background on PCCP (which was originally known as Pacific Coast Capital Partners). He stated a large part of their product is debt or debt related, the firm is employee owned, and their single largest sector of investors is public pension plans. He emphasized the fund they are currently raising has a significant co-investment from PCCP, and every loan they make is with their personal funds along with those of their investors.

Mr. Kuemmel reviewed their strategy and provided a few examples of completed transactions where they sought value added activities and good risk adjusted opportunities. He described their philosophy of less risk for moderate returns rather than high risk for higher returns.

Ms. Cabrera explained she oversees the PCCP servicing group. She reviewed PCCP's investment process and stated they conduct all originations, asset management, and servicing in-house.

In answer to Mr. Rozanski's question regarding their funding status, Mr. Lindsay said they plan their first closing in the fourth quarter at which time they expect to have approximately \$250 million of committed capital with five or six separate investors.

Mr. Rozanski asked if PCCP considered using leverage. Mr. Lindsay stated matching the leverage to the underlying assets is a challenge and they did not believe the leverage added enough extra return for the risk. Mr. Kuemmeler added the majority of the investors in this fund had asked that it be structured unleveraged.

Mr. Rozanski asked if this fund would involve construction. Mr. Kuemmeler stated the focus will be more on tenant improvements rather than construction. He said it can involve modest value added or some rehabilitation, deferred maintenance, or some conversion aspects, but they are not undertaking unfinished, ground-up construction.

Mr. Vargas asked about PCCP's deal overlap process. Mr. Lindsay said PCCP has a standard detailed rotation policy and rotates through investors as an opportunity hits a specific strategy.

In response to questions from the Board Members, Messrs. Lindsay and Kuemmeler stated PCCP's geographic focus is nationwide, with slightly more investments expected in the west than in the east; their portfolios are fairly diverse with no more than 30% invested in any one type; and they expect the fund to be fully invested in approximately 24 months.

The PCCP representatives concluded their presentation and left the meeting.

Following a brief summary of the pros and cons of the two organizations, Courtland recommended the Board choose PCCP.

The Board Members shared their opinions of the two firms and discussion ensued with respect to leverage. In response to Ms. Bhatia's question of what would happen if the Board chose PCCP and PCCP then decided to change their strategy to utilize leverage, Mr. Foster stated PCCP would need to stipulate in a side letter that they would not change their strategy to use leverage.

Mr. Nichols moved that the Board select PCCP; seconded by Mr. Rozanski.

Ayes: Coffin, Nichols, Poole, and Rozanski

Nays: None

Absent: Ignacio and Romero

THE MOTION CARRIED.

The Board recessed at 11:08 a.m. and reconvened at 11:15 a.m.

With regard to Item 9 and the real estate investment opportunity with PCCP; the Board took the following action:

Mr. Nichols moved to approve the selection of PCCP per Resolution No. 12-24; seconded by Mr. Rozanski.

Ayes: Coffin, Nichols, Poole, and Rozanski

Nays: None

Absent: Ignacio and Romero

THE MOTION CARRIED.

With regard to Item 10 and the real estate investment opportunity with Cornerstone, the Board took the following action:

Mr. Nichols moved to disapprove the selection of Cornerstone per Resolution No. 12-25; seconded by Mr. Rozanski.

Ayes: Coffin, Nichols, Poole, and Rozanski

Nays: None

Absent: Ignacio and Romero

THE MOTION CARRIED.

11. Discussion of International Equity Portfolio Structure

Mr. Vargas stated that at the August 31 Retirement Board meeting, Pension Consulting Alliance (PCA) presented the Board with six options for restructuring the International Equity Asset Class. He stated no official memo from PCA was presented at that meeting, so the Board could take no action; therefore, it was now before the Board for further discussion and action.

The Board recognized Neil Rue and Colin Bebee from PCA. Mr. Rue reported the consensus at the August 31 meeting leaned toward selecting Option 3b. He explained the rationale behind Option 3b which would 1) bring the Emerging Markets exposure in line with the market weight, 2) replace the Core manager (INVESCO) with a passive style manager, and 3) replace the Developed and Emerging Markets manager (The Boston Company) with a Relative Value manager.

Mr. Rue stated once the Board officially selects an option, PCA will work with Staff to come up with an optimal transition plan by the end of the year.

Mr. Rozanski asked about the transition costs, and Mr. Rue responded that under normal market conditions they would range from 25 to 40 basis points, with the goal to be as close to 25 as possible; however, because the market is more volatile at this time, the costs will likely be somewhat higher.

Mr. Rozanski moved for approval of Resolution No. 12-26 and Option 3b; seconded by Mr. Nichols;

Ayes: Coffin, Nichols, Poole, and Rozanski

Nays: None

Absent: Ignacio and Romero

THE MOTION CARRIED.

12. Report from Pension Consulting Alliance on the Covered Calls Manager Request for Proposal Responses

Mr. Nichols moved this item be tabled to allow the Board more time to review the RFP process and criteria considerations; seconded by Rozanski.

Ayes: Coffin, Nichols, Poole, and Rozanski

Nays: None

Absent: Ignacio and Romero

THE MOTION CARRIED.

13. Ratification of Board Action Regarding the Private Equity Portfolio Benchmark

Mr. Vargas provided the background for the recommendation to use the Russell 3000 + 300 basis points as the exclusive benchmark for the Private Equity Asset Class. He reported the Board approved the recommendation at the Regular Retirement Board meeting held on September 14, 2011, and this item was to ratify the Board's action.

Mr. Rozanski moved for approval of Resolution No. 12-27 to use the Russell 3000 + 300 basis points as the exclusive benchmark for the Private Equity Asset Class; seconded by Nichols.

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

THE MOTION CARRIED.

14. Discussion of Approval of the Investment Opportunity with DRA Advisors, LLC

Ms. Bhatia reported that the Board approved an investment of \$16.1 million with DRA Advisors at the September 14, 2011, Board meeting, and the purpose of Resolution No. 12-28 was to ratify that action taken by the Board.

Mr. Rozanski moved for approval of Resolution No. 12-28 to approve the investment opportunity with DRA Advisors, LLC; seconded by Mr. Poole.

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

THE MOTION CARRIED.

15. Retirement Plan Manager's Comments

Ms. Bhatia reported Staff is close to finalizing the contract with the newly hired investment manager Vontobel. She stated Vontobel representatives requested some exceptions to the Investment Guidelines, and Staff will bring those requests to the Board at the next meeting.

Ms. Bhatia reported Staff has begun parallel testing of the retiree payroll system, and the goal is to implement the new module after two or three parallel runs (approximately two to three months). She stated the legacy system will likely be kept running temporarily after the implementation, mainly as a precaution.

She reported Staff met yesterday with ITS staff to discuss resource and budget needs for fiscal year 2012-2013, and they also discussed the implementation plans with respect to the new system.

She reported Staff has not yet been able to set a meeting with Labor Relations and IBEW representatives with respect to the document imaging contract, although she hopes to have one scheduled in the near future.

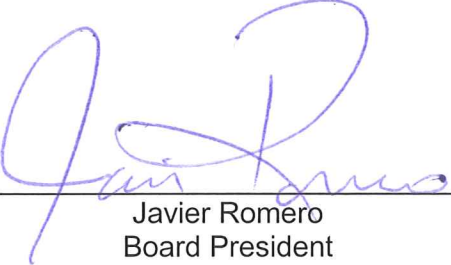
Ms. Bhatia stated Staff is busy assisting with the annual audit being conducted by Simpson and Simpson and with follow-up questions presented by KPMG, the Department's auditors. She reported she will be speaking to the Retirees Association this Saturday, October 1.

She also reported a special Board meeting is scheduled for October 19 to review the annual actuarial report and the reciprocity study report.

16. Future Agenda Items

None at this time.

With no further business, the meeting adjourned at 11:29 a.m.



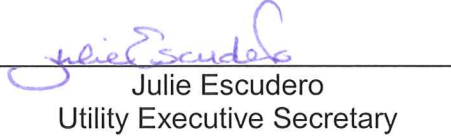
Javier Romero
Board President

12/14/11
Date



Sangeeta Bhatia
Retirement Plan Manager

12/19/11
Date



Julie Escudero
Utility Executive Secretary

12.14.11
Date