

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

**MINUTES**

**NOVEMBER 9, 2011**

**Board Members Present:**

Javier Romero, President  
Cindy Coffin, Vice President  
Mario Ignacio, Chief Accounting Employee  
Ronald O. Nichols, General Manager  
Barry Poole, Regular Member  
Robert Rozanski, Retiree Member

**Board Members Absent:**

DWP Commissioner - Vacant

**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

President Romero called the meeting to order at 9:06 a.m.

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

**Public Comments**

Ms. Escudero reported no Public Comments were received.

1. **Request for Approval of Minutes for September 14, 2011, Regular Meeting**
2. **Termination from Rolls**
  - a) **Termination of Monthly Allowance from the October 2011 Retirement Roll**
  - b) **Termination of Steven S. Salas from the August 2011 Permanent Total Disability Roll**

Mr. Rozanski corrected the spelling of his name on page 1.5 of the September 14, 2011, Minutes.

*Mr. Rozanski moved that the Board approve Items 1 and 2: seconded by Ms. Coffin.*

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

*Nays: None*

*THE MOTION CARRIED.*

3. **Report of Payment Authorizations for September 2011**
4. **Notice of Deaths for September 2011**
5. **Investment Reports for September 2011**
  - a) **Summary of Investment Returns as of September 30, 2011**
  - b) **Market Value of Investments by Fund and Month as of September 30, 2011**
  - c) **Market Value of the Retirement, Death, and Disability Funds and Retiree Health Care Fund as of September 30, 2011**
  - d) **Summary of Contract Expirations**

6. **Report on Status of Insurance as of October 13, 2011**
7. **Report on Bill H.R. 2827 to Amend the Securities Exchange Act of 1934**
8. **Report on Investment Staff Due Diligence Site Visit to Wells Capital Management**
9. **Report by Pension Consulting Alliance on Due Diligence Site Visit to Aetos Alternative Management, LLC**
10. **Report on Organizational Change at The Boston Company**
11. **Report on Organizational Change at Prudential Real Estate Investments**

With respect to Item 7, Assistant City Attorney Alan Manning briefly spoke about the bill introduced by the House of Representatives to amend the Securities Exchange Act of 1934 to clarify provisions relating to the regulation of municipal advisors. He stated the Securities Exchange Commission (SEC) had taken a position that appointed members of a governing body of a municipal entity who are elected and not ex-officio members might be considered municipal advisors and thus required to register as such. He explained the HR bill specifies that the term "municipal advisors" does not include elected or appointed members of a governing body of a municipal entity; therefore, this was a non-issue.

*Mr. Rozanski moved that the Board accept Items 3 through 11; seconded by Mr. Nichols.*

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

*THE MOTION CARRIED.*

**12. Ratification of Board's Action with Respect to the Annual Actuarial Valuation of the Retirement Fund**

Ms. Bhatia explained this item was presented to the Board at its October 19, 2011, special meeting, and it was now brought back to the Board for official action.

*Mr. Rozanski moved that the Board approve Resolution No. 12-31 to adopt the July 1, 2011, Actuarial Valuation Report of the Retirement Fund and the recommendations of the Plan's actuary; seconded by Mr. Ignacio.*

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

*THE MOTION CARRIED.*

**13. Discussion of Alignment of the Retirement Plan's Actuarial Assumptions with the Actuarial Valuation**

Ms. Bhatia explained this item was presented to the Board at its October 19, 2011, special meeting, and it was now brought back to the Board for official action.

Mr. Romero stated he agreed with aligning the assumptions but suggested the Board take no action until Labor Relations staff could discuss this with the unions due to possible changes to employee benefits.

*Mr. Rozanski moved that the Board approve the recommended alignment of the Retirement Plan's Actuarial Assumptions with the Actuarial Valuation, subject to the Meet and Confer process with the affected unions; seconded by Mr. Ignacio.*

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

*THE MOTION CARRIED.*

#### **14. Discussion of Reciprocity Study Performed by The Segal Company**

Ms. Bhatia stated this item was presented to the Board at its October 19, 2011, special meeting, and brought back to the Board at this meeting for official action. She reviewed the background for the Reciprocity Design Study that illustrated three different program designs (*the current program, a CalPERS style program, and a Money Follows Member program*) and how each would impact the Department as well as the Los Angeles Employees Retirement System (LACERS).

She stated when the process of sanctioning this study first began, the Board had suggested the CalPERS style be studied, but no definite decision was made as to the specific plan design.

She stated the actions suggested were that 1) the Board select one of the options studied and then the Board President send a letter to the General Manager and the President of the Board of Water and Power Commissioners suggesting a design change be pursued; and/or 2) the Board President send a letter to the Mayor and/or City Council suggesting a design change.

In response to Mr. Poole's question of whether any discussions with the unions had taken place, Ms. Higgins stated no discussions had yet transpired because the study had just been received. Mr. Poole responded that he would like to have discussions with the unions take place prior to making a determination.

*Due to his role on the Retirement Board and his position as the General Manager, Mr. Nichols recused himself and stepped out of the meeting at 9:23 a.m.*

*Mr. Rozanski moved that the Board select the CalPERS style option and have the Board President send a letter to the General Manager and the President of the Board of Water and Power Commissioners presenting this recommendation, and that the Meet and Confer process be initiated; seconded by Mr. Ignacio.*

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

*THE MOTION CARRIED.*

*Mr. Nichols rejoined the meeting at 9:25 a.m.*

## **15. Discussion of Transfer of Funds from the Reserve for Gains and Losses to the General Reserve**

*Mr. Rozanski moved that the Board approve Resolution No. 12-34 authorizing the annual transfer of funds from the Reserve for Investment Gains and Losses to the General Reserve Account; seconded by Ms. Coffin.*

Ayes: Coffin, Ignacio, Nichols, Poole, Romero, and Rozanski

Nays: None

*THE MOTION CARRIED.*

## **17. Presentation by Aetos Alternative Management, LLC – Hedge Fund of Funds Annual Review (OUT OF ORDER)**

*Prior to the presentation by the Aetos representatives, David Sancewich of Pension Consulting Alliance (PCA) announced that late the previous week Staff and PCA were informed of a minimal exposure from Aetos to MF Global.*

The Board acknowledged Andrea Bollyky and Anne Casscells of Aetos Capital Management (Aetos).

Ms. Bollyky gave a brief status update of the organization and reviewed the firm's history and philosophy.

Ms. Casscells spoke about Aetos' exposure to MF Global, as noted by Mr. Sancewich, by explaining that one of their underlying hedge funds had a very small exposure to MF Global. She stated this was a stock selection mistake made on the part of the manager, and it has been addressed.

She then reviewed the condition of the European market and explained how it was not a good environment for long-short managers.

She reviewed the portfolio's year-to-date performance through September 30, 2011, and reported the portfolio was down 2.75%; however, it was up 1.45% in October. She reported the portfolio outperformed the S&P on a year-to-date basis through September but underperformed Treasury Bills.

She reported the Value Relative Ratio since inception was 0.89 although they prefer it to be above one. She compared the performance against a variety of alternative indices (*noted on the additional hand-out they provided*), and indicated since inception in February 2007, the portfolio had outperformed each of those benchmarks.

Considerable discussion took place regarding the previously mentioned minimal exposure to MF Global and the extensive steps Aetos has in place to provide full transparency.

Considerable discussion also ensued regarding hedge funds and equity exposure trends.

## **16. Discussion of Performance of Aetos Alternative Management, LLC (OUT OF ORDER)**

David Sancewich of Pension Consulting Alliance (PCA) reported that based on the Plan's watch criteria and investment policy, Aetos Alternative Management (Aetos) qualifies for long-term watch. He noted the Board and PCA are in the process of restructuring the Real Return portfolio, and the hedge fund component will be the first phase once the Board selects the new structure for this asset

class. He noted PCA is looking to reduce the equity risk premium and this may involve trying to find a separate account, although several options are available.

He reviewed Aetos' performance history and noted the Board decided not to place them on watch against the recommendation by PCA and staff in November 2010.

He stated that Aetos' benchmark of Treasury Bills plus 3% is conservative, and he noted they did outperform their median peer manager but trailed their benchmark on an absolute basis. With respect to Aetos' performance relative to their peers, he said the target allocation for this portfolio was established by the Board and is unique for every client. He added that because each manager allocation is unique, a true peer comparison cannot be realized; however, they add median managers to compare Aetos on an absolute return basis relative to their peers

*Mr. Rozanski moved that the Board adopt Resolution No. 12-35 to place Aetos on watch for a period of nine months; seconded by Mr. Nichols.*

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

*THE MOTION CARRIED.*

#### **18. Discussion of Covered Calls Manager Request for Proposal Responses**

Mr. Wolfson reviewed the background for this item, and Neil Rue from Pension Consulting Alliance (PCA) identified the three interview candidates for this mandate.

*Mr. Rozanski moved that the Board accept PCA's recommendation to interview the three named candidates; seconded by Mr. Ignacio.*

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

*THE MOTION CARRIED.*

#### **19. Discussion of High Yield Fixed Income Request for Proposal Responses**

Mr. Wolfson gave the background on this item with respect to selecting a new High Yield Fixed Income Manager.

Neil Rue from Pension Consulting Alliance (PCA) discussed the five candidates they recommended the Board interview, noting one of the five candidates was the incumbent manager, Wells Capital (Sutter). He reviewed how Wells Capital High Yield (Wells Cap) had been on extended watch for underperforming their benchmark yet still producing good positive returns, and how the Board had decided to rebid for a possible new manager instead of continuing to extend Wells Cap's watch status. He noted the Board had allowed Wells Cap to participate in the bid process and, because they proved competitive, the Board could choose to continue with Wells Cap's existing contract or proceed with the interview process. If the Board decided to retain Wells Cap, PCA would review the performance criteria and possibly develop customized criteria for the high yield managers.

*Mr. Rozanski moved that the Board retain the current manager, Wells Cap, subject to negotiating lower fees and that the Board consider simultaneously extending the contract; seconded by Mr. Nichols.*

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

*THE MOTION CARRIED.*

## **20. Discussion of Implementation of Restructuring Plan for the International Equity Asset Class**

Mr. Wolfson reported the recommendation to restructure the International Equity Asset Class was presented to the Board in September 2011 and, at that time, the Board approved the recommendation by Pension Consulting Alliance (PCA) to increase the emerging market equity asset allocation, replace the Plan's deep value manager with a relative value manager, and replace the Plan's core international developed manager with a passive manager. He stated PCA's recommendations on how to proceed are to: 1) increase the emerging market exposure by placing an additional 5% in a liquid short-term Exchange Traded Fund (ETF) at the discretion of the transition manager, while the current two managers continue to manage their respective portfolios to reduce the transition costs until the RFP process is complete and the assets are transferred to the new manager; and to 2) transition the core international developed portfolio into an optimized passive separate account, at the discretion of the transition manager, so when the RFP process for that new manager is complete, it will already be set up as an index fund.

*Mr. Rozanski moved that the Board approve Resolution No. 12-36 and adopt the above-referenced recommendations by PCA; seconded by Mr. Poole.*

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

*THE MOTION CARRIED.*

## **21. Discussion of Draft Requests for Proposals and Manager Specific Minimum Qualifications**

- a) International Developed Equity Passive**
- b) International Developed Equity Value**
- c) International Emerging Markets Equity Value**

Mr. Wolfson reported Pension Consulting Alliance (PCA) had proposed changes to the language for candidate minimum qualifications to provide more flexibility to attract top tier managers during the Request for Proposal (RFP) process. He stated PCA and the City Attorney revised the language which was before the Board for approval.

Mr. Wolfson stated the language is divided into a required section (including City and insurance requirements, etc.) and a preferred section (including performance history, assets under management, etc.).

*Mr. Rozanski moved that the Board approve the manager-specific minimum and preferred qualifications for the International Developed Equity Passive Manager, the International Developed Equity Value Manager, and the International Emerging Markets Equity Value Manager RFPs; seconded by Mr. Ignacio.*

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

*THE MOTION CARRIED.*

*The Board meeting recessed at 10:47 a.m. and reconvened at 10:52 a.m.*

## **22. Presentation by Pension Consulting Alliance – Second Quarter Private Equity Performance Report as of June 30, 2011**

The Board acknowledged Tad Fergusson and Mike Moy from Pension Consulting Alliance (PCA).

Mr. Fergusson reported as of mid-year 2011, approximately \$104 million of the \$205 million in committed capital had been drawn down and invested (approximately 51%) , and the program had a market value of \$95.2 million and had returned \$28.3 million in distributions to date for a net since-inception IRR of 7.2%. He reported the program has continued to improve since the lows experienced in the fourth quarter of 2008. The program's reported value plus unfunded commitments currently represent approximately 2.7% of total assets as of mid-year. He stated the recently approved and closed \$25 million investment increased the commitment to approximately 3% with current commitments of approximately \$230 million.

He reported the program's long-term performance has been below the benchmark but, now that the program is maturing, it is expected to improve.

Ms. Bhatia clarified that when this program was first established, the benchmark was the Russell 3000 Index plus 300 basis points. She stated at the recommendation of PCA, the Cambridge Custom benchmark was later added based on the nature of this investment class, but it had recently been removed.

Mr. Fergusson reviewed the valuation change of the program, its structure, sector exposures, and geographic exposures.

Brief discussion ensued with respect to exposure in Italy. Mr. Moy commented the program has a domestic orientation by policy with the exception of allocations that managers may make on a secondary basis. He stated a number of managers have emerged who claim to have expertise in investing in distressed debt in Europe, and if PCA ever decided to recommend one of them, they would bring a policy revision to the Board.

## **24. Discussion of Authority to Provide Exceptions to Investment Manager Guidelines Under Specific Conditions (OUT OF ORDER)**

Ms. Bhatia provided the history of the suggestion to provide exceptions to the Investment Manager Guidelines under specific circumstances. She reported the suggestions made by Board Members at the previous meeting have been incorporated and were now before the Board for approval.

*Mr. Nichols moved that the Board approve Resolution No. 12-37 to provide exceptions to the Plan's Investment Guidelines under specific circumstances; seconded by Mr. Ignacio.*

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

*THE MOTION CARRIED.*

### **23. Presentation by Courtland Partners, Ltd. – Second Quarter Real Estate Portfolio Performance Report as of June 30, 2011 (OUT OF ORDER)**

The Board acknowledged Bill Foster and Lou Canlas from Courtland Partners (Courtland).

Mr. Foster reported the Plan's Real Estate portfolio as of June 30, 2011, had a market value of \$134 million (approximately 1.6% of the Plan assets), with unfunded investment commitments of approximately \$90.4 million. He stated two investments totaling approximately \$41 million in additional unfunded commitments recently transpired (the \$25 million Core investment in the PCCP First Mortgage Fund, and the \$16 million allocation to the DRA Fund VII) and bring the total to approximately \$265 million.

He reported the one-year income return was a strong 7.2% and the total portfolio net return for the one year period was just under 23%. He reviewed the returns segregated by Core, Value, and Opportunistic as described in their summary.

Ms. Canlas noted that since the third quarter of 2008, the portfolio experienced eight consecutive quarters of value decline, which turned around in the third quarter of 2010, and now the portfolio shows a 17% appreciation for one year. She noted the consistent income of the returns demonstrates an average of 6% to 7% per year on the investments.

Mr. Foster stated the portfolio's one year return outperformed the National Council of Real Estate Investment Fiduciaries (NCREIF) benchmark 25.7% compared to 16.7%, and outperformed over a two-year period by 190 basis points.

He reviewed the risk/return and noted Courtland still maintains this is a good time to commit new capital within the Value Add and Opportunistic classes.

Ms. Canlas reviewed the property and geographic diversifications. She also stated the leverage remains within the policy guidelines.

Mr. Foster pointed out the original 2011 strategic plan was to commit \$50 million to Core, \$20 million to \$25 million to Value, and \$20 million to \$25 million to Opportunistic, but the portfolio is currently underfunded in Core. He stated Courtland suggests the Plan slow down its investment into Core until pricing improves. He added Courtland will present a new strategic plan to the Board in January 2012.

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

Ms. Bhatia reported Staff met with Labor representatives again with regard to the Document Imaging contract and, at their request, arranged for a demonstration by the vendor this past week. She stated Staff received the Union's position that they will not support going out to contract because it is bargaining unit work and does not require expertise which is the basis upon which Staff had initially received the Notice of Compliance.

She reported Retirement Seminars will be conducted in the Owens Valley and in Bishop during the last week in November. At the request of IBEW, a Clerk Typist will be accompanying the Management Analyst conducting the presentations.

The Retirement Office has received media interest from the *Los Angeles Times*, specifically related to the change in the investment return assumption from 8% to 7.75%.



She reported Staff is still working on establishing brokerage accounts with various countries in connection with the Vontobel contract due to complexities involved.

Staff continues to conduct parallel testing on the new computer system, and the goal is to implement with the first retiree check in January 2012 provided everything goes as planned. She mentioned several issues have surfaced with respect to Health Plans deductions on retiree checks.

She reported the next Board meeting will be held on December 14. She reported a Benefits Committee meeting and an Audit Committee meeting are also scheduled for that date.

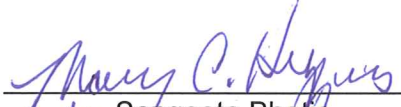
## 26. Future Agenda Items

None requested at this time.

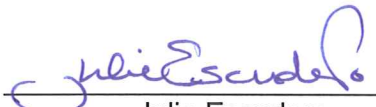
With no further business, the meeting adjourned at 11:24 a.m.

  
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Javier Romero  
Board President

1/25/12  
Date

  
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Sangeeta Bhatia  
Retirement Plan Manager

1/26/12  
Date

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

1.25.12  
Date