

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

MINUTES

MARCH 14, 2012

Board Members Present:

Javier Romero, President
Cindy Coffin, Vice President
Mario Ignacio, Chief Accounting Employee
Barry Poole, Regular Member
Robert Rozanski, Retiree Member

Board Members Absent:

DWP Commissioner - Vacant
Ronald O. Nichols, General Manager

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

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 stated no public comments were requested at this time.

1. Request for Approval of Minutes for January 25, 2012, Regular Meeting

Mr. Rozanski moved that the Board approve Item 1; seconded by Ms. Coffin.

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

Nays: None

Absent: Nichols

THE MOTION CARRIED.

2. Report on Organizational Change at Pyramis Global Advisors Company

3. Report by Pension Consulting Alliance of On-Site Due Diligence Visit to Aetos Alternatives Management

Mr. Rozanski moved that the Board accept Items 2 and 3 seconded by Ms. Coffin.

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

Nays: None

Absent: Nichols

THE MOTION CARRIED.

4. Discussion of Securities Lending Program

Mr. Wolfson stated the Plan has participated in securities lending for many years, and representatives from BNY Mellon were in attendance to explain the program. The Board acknowledged Mike Ferguson, relationship manager, and Mike McDermott, Managing Director of

Securities Lending, from BNY Mellon. Mr. McDermott provided an overview of the securities lending program. He focused on the reinvestment of the cash collateral and reviewed the structural and policy changes they implemented to reduce risk. He stated they created a liquidation trust for the term assets of the securities in the collateral pool that were under pricing pressure due to the illiquidity. He also stated they changed the collateral pool guidelines to be more conservative. Other changes they made included cash investment strategies to better leverage asset management capabilities, full daily reporting on all reinvestment components of the cash collateral, and increased non-cash collateral. He added that the non-cash collateral is predominantly U.S. government securities.

Mr. McDermott stated the handful of securities in the liquidation trust still exist because pre-payments have slowed and the maturities have extended. He added from a credit perspective, they are performing fine, although the pay-downs are slower than originally anticipated when they were purchased. Overall, he stated the program is healthy and is currently running fine.

Mr. Romero asked if the Plan's losses were incurred before or after modification of Rule 2a-7 of the Investment Company Act of 1940, and Mr. McDermott replied they occurred prior to the modification.

Mr. Wolfson asked if any changes were anticipated in the ASL Pool structure and if any risks would result from the changes. Mr. McDermott stated some regulatory changes may preclude BNY from offering bank-collected pools as collateral reinvestment vehicles. If so, he noted BNY would then propose that the Plan transition the assets into a customized separate account.

In response to a question from Mr. Rozanski, Mr. McDermott said making the program more conservative should result in no major change in the Plan's earnings.

Public Comments OUT OF ORDER

Mr. Romero introduced Randyn Calvo, the new Management Assistant assigned to the Retirement Section of the Retirement Office.

5. Discussion of Covered Call Investment Guidelines

For the purpose of background, Mr. Wolfson reported the Board selected Gateway Investment Advisers (Gateway) on January 11, 2012, to manage the Plan's Covered Calls mandate. He noted that during the contract negotiations, Gateway requested the investment guidelines previously approved by the Board be made more manager-specific.

David Sancewich from Pension Consulting Alliance (PCA), the Plan's general investment consultant, explained the details of the recommended guideline changes. He stated the guidelines have a target of 80% replication and 20% active management, and PCA was recommending an active/passive range to allow for flexibility to correspond with changing market conditions. He stated the changes also clarify the definition of replication and explain the cash position.

Several Board Members asked if these modifications changed what was included in the advertised Request for Proposals (RFP). Retirement Staff explained the revisions did not actively change the guidelines and were made to provide more clarity for managing purposes.

Following discussion on whether the changes were considered material enough to change the terms of the RFP, the Board deferred taking action pending a review of the RFP by PCA, Retirement Office Staff, and the City Attorney, to ensure the Board is still in compliance with the premise of the RFP.

6. Discussion of Timber Investment Guidelines

Mr. Wolfson provided the background for this item, and David Sancewich from PCA reviewed the investment guidelines developed for the Timberland asset class that was adopted by the Board on January 25, 2012.

Mr. Rozanski moved that the Board approve Resolution 12-64 to adopt the proposed guidelines for the Timberland mandate; seconded by Mr. Ignacio.

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

Nays: None

Absent: Nichols

THE MOTION CARRIED.

7. Discussion of Contracting Services with MSCI Index Provider

Mr. Wolfson explained that due to changes to the Morgan Stanley Capital International (MSCI) business model, MSCI would no longer allow the Plan's custodian bank, BNY Mellon, to provide index data to its clients. In order to continue to review the Plan's benchmark data, Staff was recommending the Board directly enter into a contract, as requested, with MSCI for the index data.

Mr. Rozanski moved that the Board approve Resolution No. 12-65 to enter into a contract with MSCI; seconded by Mr. Ignacio.

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

Nays: None

Absent: Nichols

THE MOTION CARRIED.

8. Presentation by Frontier Capital Management Company, LLC, Small Cap Manager - Annual Performance Review as of January 31, 2012

The Board acknowledged Leigh Anne Yoo and James Colgan from Frontier Capital Management. Ms. Yoo and Mr. Colgan provided an overview of Frontier and reviewed their strategy, philosophy, and investment process.

Mr. Colgan discussed performance through January 31, 2012. He reported the portfolio was behind the indices for 2011, but was up approximately 1% over the benchmark so far this year and over 14% year-to-date. He noted Frontier's investment style results in better returns over the cycle, and they perform best during recessionary periods.

In response to Mr. Romero's question of why the portfolio underperformed for the one-year and fourth quarter periods, Mr. Colgan stated sector selection had a large impact and Frontier never exceeds double the benchmark weightings. He concluded the presentation by stating all of Frontier's products underperformed last year due to Frontier's investment style, but so far this year all are outperforming.

9. Presentation by Ernest Partners Small Cap Manager - Annual Performance Review as of January 31, 2012

The Board acknowledged Katie Driver and Jessie Magee from Earnest Partners. Ms. Driver provided a brief update of Earnest Partners and the 2011 market conditions.

She reviewed the portfolio's performance beginning with the fourth quarter of 2011 and noted the gross of fees return was over 17% versus the benchmark at just under 16%, and the one-year return was up 3.75% versus 0.73% for the benchmark. She said currently the portfolio was up just over 10% versus 11% for the benchmark.

Mr. Magee reviewed the portfolio's sector attribution, the performance contributors and detractors, and noted the portfolio's performance is driven by the stock selection. He also reviewed the portfolio characteristics compared to the index.

10. Presentation by Pension Consulting Alliance, Inc. – Fourth Quarter Performance Report as of December 31, 2011

David Sancewich of Pension Consulting Alliance (PCA) reported the portfolio for the Retirement Plan was up 5.1% for the quarter, 10.4% for the three-year period, 2.0% for the five-year period, and 4.6% for the 10-year period; and compared to its peers, outperformed the California State Teachers' Retirement System (CalSTRS) and the California Public Employees' Retirement System (CalPERS) for the five-year period. He added it was slightly less volatile than the median fund.

He reported the Health Plan was up 5.1% for the quarter, 10.7% for the three-year period, and 2.8% for the five-year period; the Disability Plan outperformed the benchmark over all time periods and was up 7.4% versus 6.3% for the benchmark; and the Death Plan outperformed the benchmark over all time periods and was up 7.1% versus 6.3% for the benchmark.

He reported the performance for the individual mandates as follows:

- Domestic Equity - five of the seven managers have outperformed since funded
- International Equity - all but one of the current managers (Pyramis) will be replaced as a result of strategic changes
- Private Equity - up 26% versus 2.1% for the benchmark

He reviewed the risk metrics and pointed out fixed income has performed well despite the market which has been very volatile both for equities as well as fixed income. He added the targets have remained roughly as expected.

(Mr. Ignacio left the meeting at 10:41 a.m.)

Mr. Rozanski asked how well the portfolios have performed over the past 20 years, and Mr. Sancewich said he would provide that information. Mr. Rozanski also asked who recommends the assumed rate of return, to which Mr. Sancewich replied it is usually provided by the actuary.

Mr. Romero asked what triggers the actuary to recommend changing the assumed rate of return, and Ms. Higgins stated historically the Plan has had an experience study performed every three years, and the next study is due in approximately 1.5 years.

11. Presentation by Pension Consulting Alliance, Inc. – Fourth Quarter Hedge Fund of Funds Performance Report as of December 31, 2011

David Sancewich of Pension Consulting Alliance (PCA) began his presentation with the history of this performance report, which was originally requested by former Retirement Board Member Michael Moore. He stated PCA and Staff hope to evolve this report into more of a Real Return performance report with details on the Commodities and Timber classes, possibly beginning next quarter.

Mr. Sancewich reviewed the portfolio's performance and noted since inception it is up 1.7% net of fees versus the benchmark at 4.3%. He added it has outperformed an average of 58% of the time.

He noted PCA is in the process of restructuring the hedge fund allocation. He stated the current hedge fund manager, Aetos, has outperformed over all time periods versus the median fund and its peers and, as of the end of 2011, Aetos' allocation remains broadly diversified.

12. Retirement Plan Manager's Comments

Ms. Bhatia reported the Benefits Group is focused on the final stages of testing and validating the remaining module (retiree payroll) of the new system which is scheduled to go live with the April 1 payments payable May 1. Retirement Staff is coordinating extensively with Health Plans, the Employees Association Office, and the Los Angeles City Employees Association for the deductions aspect of the module.

She reported March 16 was the last date to file petitions to run for the elected employee representatives to the Retirement Board, and the roster will be submitted to the City Clerk's Office.

She reported a special meeting of the Retirement Board is scheduled for April 4 to interview the candidates for the Emerging Markets Investment Mandate.

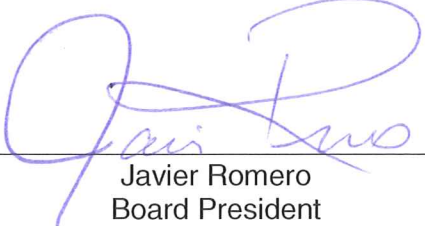
13. Future Agenda Items

Ms. Bhatia stated Staff will present a report at the next meeting regarding iPads for the Board Members. Ms. Coffin asked that Matt Lampe be invited to that meeting to address any possible questions from the Board Members.

Ms. Coffin asked for a report on possible effects on retirement benefits as a result of temporary Meter Readers transferring into the Department of Water and Power from the City.

Mr. Poole asked for the status of the Chief Investment Officer salary. Ms. Bhatia noted that item had been agendaized for a Closed Session discussion; however, it was later learned that Brown Act regulations do not permit Closed Session discussion of individual class salaries, so the item was removed at the request of the Board President. Deputy City Attorney Marie McTeague added the City Attorney originally advised the Closed Session discussion but has since revised its advice and pointed out a Closed Session cannot be held to discuss salary for specific classes but salaries can be discussed in open session in the abstract.

With no further business, the meeting adjourned at 11:00 a.m.



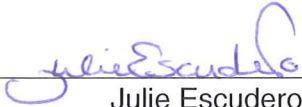
Javier Romero
Board President

5/9/12
Date



Sangeeta Bhatia
Retirement Plan Manager

5/9/12
Date



Julie Escudero
Utility Executive Secretary

5.9.12
Date