

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

**MINUTES**

**MAY 23, 2012**

**Board Members Present:**

Javier Romero, President  
Cindy Coffin, Vice President  
Ronald O. Nichols, General Manager  
Barry Poole, Regular Member

**Board Members Absent:**

Mario Ignacio, Chief Accounting Employee  
Robert Rozanski, Retiree Member  
DWP Commissioner - Vacant

**Staff Present:**

Sangeeta Bhatia, Retirement Plan Manager  
Monette Carranceja, 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 9:04 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. Termination from Rolls**

**a) Termination of Monthly Allowance from the May 2012 Retirement Roll**

*Mr. Nichols moved that the Board approve Item 1 and Resolution No. 12-81; seconded by Ms. Coffin.*

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

*Nays: None*

*Absent: Ignacio and Rozanski*

*THE MOTION CARRIED.*

**2. Report of Payment Authorizations for April 2012**

**3. Notice of Deaths for April 2012**

**4. Investment Reports for April 2012**

**a.i) Summary of Investment Returns as of April 30, 2012 (new format)**

**a.ii) Summary of Investment Returns as of April 30, 2012 (old format)**

**b) Market Value of Investments by Fund and Month as of April 30, 2012**

**c) Market Value of the Retirement, Death, and Disability Funds and Retiree Health Care Fund as of April 30, 2012**

**d) Summary of Contract Expirations**

**5. Report on Status of Insurance as of May 14, 2012**

**6. Report from Pension Consulting Alliance Regarding Pending Litigation**

*Ms. Coffin moved that the Board approve Items 2 through 6; seconded by Mr. Nichols.*

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

*Nays: None*

*Absent: Ignacio and Rozanski*

*THE MOTION CARRIED.*

#### **7. Discussion of Amendment of Investment Policy to Include Watch Criteria for New Investment Mandates**

Ms. Bhatia reported the current Investment Policy does not include watch criteria for the Active and Passive Covered Calls and Passive International Equity mandates.

David Sancewich from Pension Consulting Alliance (PCA) reviewed the proposed language to be added to the policy.

*Ms. Coffin moved that the Board approve Resolution No. 12-82 to add watch criteria for the Covered Calls and Passive International Equity managers; seconded by Mr. Nichols.*

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

*Nays: None*

*Absent: Ignacio and Rozanski*

*THE MOTION CARRIED.*

#### **8. Discussion of the Account Structure for the Emerging Markets Mandate**

Mr. Wolfson indicated this item was to provide an update on recent events and seek Board direction regarding the structure of the emerging markets mandate.

He reviewed the history of the Vontobel and LA Capital contracts to manage this mandate under separate account structures, and he retraced the restrictions and challenges Staff has encountered in trying to open accounts in some of the countries. He reported a new condition wherein members of any decision making authority must provide the Indian government with notarized copies of their passports in order to open accounts and trade on local exchanges in India.

To overcome this obstacle, Mr. Wolfson indicated Staff from the Retirement Office and Pension Consulting Alliance (PCA) formulated three options. He reviewed each option and stated Staff and PCA recommended Option 3.

He stated Option 3 features a hybrid approach wherein Vontobel has created a commingled fund for India that would provide exposure to India without the passport and country registration requirements; investments in the remaining countries would still be in a separate account structure where the Board would maintain its governance control. He stated the India Fund has no investment management fees but includes small administrative fees, and this option would reduce the fees to Deloitte for tax advisory services in India.

He reported Option 3 also includes a commingled account for LA Capital. Although a commingled account for LA Capital would mean the Board would forfeit its governance control, Mr. Wolfson stated it was the only way to avoid India's local registration and passport requirements. He added the fees for LA Capital's commingled account and separate account were the same. He noted LA Capital's commingled account was formed as a limited partnership and not as a Trust, as typically used for the Plan's other Public Market commingled accounts. As a result, he indicated the Plan would incur

additional legal fees to negotiate a side letter and evaluate the structure. He added the fund is not registered with the Securities and Exchange Commission because of its limited partnership structure; however, the firm's parent company is registered.

*Mr. Poole moved that the Board approve Resolution No. 12-83 and select Option 3 to invest in Vontobel's commingled India Fund plus the overall separate account structure, invest in a commingled fund with LA Capital, and revise the agreement with Deloitte to exclude India coverage; seconded by Mr. Nichols.*

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

*Nays: None*

*Absent: Ignacio and Rozanski*

*THE MOTION CARRIED.*

#### **9. Discussion of Signature Authority for the Retirement Plan Manager**

Ms. Bhatia explained contracts for alternative investments are increasingly requesting formal documentation to identify the Retirement Plan Manager and to certify that the Retirement Plan Manager is authorized to execute and sign documents on behalf of the Retirement Plan and the Retirement Board. She stated the attached resolution was prepared after consulting with the City Attorney and, if approved, will satisfy this requirement. In response to questions, she stated it memorializes current practice and neither deletes any authority from the Retirement Board nor provides additional authority to the Retirement Plan Manager. She added it will be updated for each successive Retirement Plan Manager.

*Mr. Nichols moved that the Board approve Resolution No. 12-84; seconded by Ms. Coffin.*

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

*Nays: None*

*Absent: Ignacio and Rozanski*

*THE MOTION CARRIED.*

#### **10. Discussion of Ratification of the Board's Action to Select a New Active International Emerging Markets Manager**

*Ms. Coffin moved that the Board approve Resolution No. 12-85 to ratify the Board's selection of LA Capital as the Plan's Active International Emerging Markets Investment Manager; seconded by Mr. Nichols.*

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

*Nays: None*

*Absent: Ignacio and Rozanski*

*THE MOTION CARRIED.*

#### **11. Discussion of Performance of Frontier Capital Management LLC**

Mr. Wolfson provided the background on this item to recommend the Board place Frontier Capital Management on performance watch for failing to meet the Plan's short-term watch criteria.

*Ms. Coffin moved that the Board approve Resolution No. 12-86 to place Frontier Capital Management, LLC, Small Cap Growth Manager, on performance watch for a period of up to nine months; seconded by Mr. Nichols.*

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

*Nays: None*

*Absent: Ignacio and Rozanski*

*THE MOTION CARRIED.*

## **12. Discussion of Performance of Loomis, Sayles & Co.**

Mr. Wolfson provided the background on this item to recommend the Board place Loomis, Sayles & Co. (Loomis Sayles) on performance watch for failing to meet the Plan's short-term watch criteria.

*Mr. Nichols moved that the Board approve Resolution No. 12-87 to place Loomis Sayles High Yield Fixed Income Manager on performance watch for a period of up to nine months; seconded by Ms. Coffin.*

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

*Nays: None*

*Absent: Ignacio and Rozanski*

*THE MOTION CARRIED.*

## **13. Discussion of Contract for Actuarial Services**

Ms. Bhatia explained this information was provided at the request of the Retirement Board after Board Members voiced concern about actuarial costs and potential conflicts of interest with the same actuarial firm providing services to the Retirement Board and the DWP Board of Commissioners. She stated Retirement Board Members requested information on which actuarial firms provide services to public pension plans; that information has been provided, and Staff is requesting direction on how to proceed. She added, per City Attorney advice, the Retirement Board has full discretion on how to select the Plan's actuary, whether by Request for Information (RFI), Request for Proposals (RFP), or separate actuaries for specific functions.

Mr. Romero stated that he recalled the management audit conducted a few years ago recommended separate actuaries for the Plan and the Department.

It was the consensus of the Board Members present to begin the search process six to eight months prior to the expiration of the current contract. Mr. Poole said he would like the search process to also include firms that service the private sector.

## **14. Presentation by Pension Consulting Alliance, Inc. – First Quarter Performance Review**

Neil Rue from Pension Consulting Alliance (PCA) reviewed the Plan's portfolio performance for the first quarter of 2012 and reported the returns were up 7.7%. He reported the portfolio modestly outperformed the policy. He reported the portfolio's risk/return was in line with the universe median and the policy. He noted the current structure works well with Fixed Income and Equity outperforming over the past five years, but International Equity experiencing some challenges with the restructuring.

He reviewed the market environment, economic growth, and inflation and noted uncertainty about inflation is high. He reviewed the long-term performance for the various indexes and noted there has been major disparity in the markets.

He noted that despite the challenges Staff has experienced with funding certain managers, the portfolio is well aligned. He reviewed the performance for the various asset classes and noted domestic equity, fixed income, real return, and real estate all outperformed the benchmarks in the first quarter, and non-U.S. and private equity underperformed for the quarter. He pointed out that over the longer term, private equity has outperformed the benchmark as the portfolio matures.

**15. Retirement Plan Manager’s Comments**

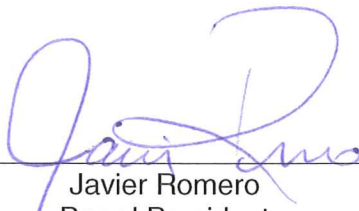
Ms. Bhatia advised the Board of a motion that was passed last week by the City Council asking the City’s three pension plans to inform the City Administrative Officer of the ramifications of the recent losses reported by J. P. Morgan. She reported Staff had already contacted the Plan’s investment managers and determined the Plan’s exposure to equities was approximately \$32 million through MFS and T. Rowe Price; however, MFS and T. Rowe Price stated they still consider J. P. Morgan to be a very strong company that should be able to weather the losses. She stated this event could likely impact the industry going forward with respect to implementing controls in trading activities.

She reported the payroll component of the new system experienced an issue with the June retiree payroll as a result of a lack of review by Health Plans; the Health Plans deductions substantially exceeded the deductions from the previous month. She noted the issue was promptly caught, Staff reentered information, and the problem has been resolved. She added Staff is working with Health Plans to implement sufficient safeguards to prevent this from recurring.

**16. Future Agenda Items**

Mr. Poole asked when the Board might expect the educational session on emerging markets managers and minority businesses, and Neil Rue said PCA could provide it before the end of the year.

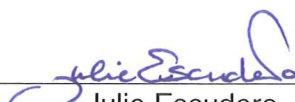
No new future items were requested at this time.

  
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Javier Romero  
Board President

6/13/12  
Date

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

6/13/12  
Date

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

6.13.12  
Date