

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

MINUTES

JULY 25, 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
Mary Higgins, Assistant Retirement Plan Manager
Scott Vargas, Senior Investment Officer
Julie Escudero, Utility Executive Secretary

Others Present:

Marie McTeague, Deputy City Attorney

President Romero called the meeting to order at 9:02 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 July 2012 Retirement Roll

b) Termination of Ray L. Salinas from the July 2012 Permanent Total Disability Roll

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

Ayes: Coffin, Nichols, Poole, Romero

Nays: None

Absent: Ignacio, Rozanski

THE MOTION CARRIED.

2. Report of Payment Authorizations for June 2012

3. Notice of Deaths for June 2012

4. Investment Reports for June 2012

a) Summary of Investment Returns as of June 30, 2012

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

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

d) Summary of Contract Expirations

5. Report on Status of Insurance as of July 10, 2012

6. Report on BlackRock Due Diligence On-Site Visit

7. Report on Annual Sudan Update

Ms. Coffin moved that the Board accept Items 2 through 7; seconded by Mr. Nichols.

Ayes: Coffin, Nichols, Poole, Romero

Nays: None

Absent: Ignacio, Rozanski

THE MOTION CARRIED.

8. Discussion of Suspension of Reciprocity Program

Ms. Bhatia reported this item was brought back to the Board at the request of Board President Javier Romero. She reviewed the background and emphasized that 1,600 employees transferred from the Los Angeles City Employees' Retirement System (LACERS) to the Plan during 2005 through 2010, which resulted in an increase of \$183 million in the Plan's unfunded accrued liability. She stated 280 employees transferred from LACERS to the Plan since 2010 up to May 2012, compared to 60 employees who transferred from the Plan to LACERS. She stated the attached resolution was to amend the Plan to suspend the reciprocal arrangement between the Plan and LACERS; following approval by the Retirement Board, it will go to the Board of Water and Power Commissioners for approval, then come back to the Retirement Board for final adoption.

Mr. Romero reiterated it was his request to bring this item back to the Retirement Board. He stated the Retirement Board has a fiduciary obligation to the Plan and by moving forward with this item, it will hopefully prevent further unnecessary liability for the Plan and will protect the ratepayers and the Plan members.

Ms. Coffin moved that the Board approve Resolution No. 13-10; seconded by Mr. Nichols.

Ayes: Coffin, Nichols, Poole, Romero

Nays: None

Absent: Ignacio, Rozanski

THE MOTION CARRIED.

9. Discussion of Request for Proposal Responses for the Real Estate Investment Trust Mandate

Ms. Bhatia provided the background for the Request for Proposals (RFP) conducted by Courtland Partners, the Plan's real estate consultant, for the Real Estate Investment Trust (REIT) mandate.

Michael Humphrey and Bill Foster from Courtland summarized the process and criteria used to evaluate and rank the 23 responses received and how they narrowed down the recommended list of prospective candidates to five firms.

Mr. Foster provided a summary of the top five respondents as well as their proposed fees. He noted all of the fees were negotiable and would be for separate accounts.

In response to questions from the Board Members, Mr. Foster stated the performance period used for assessing the top five candidates was three years. He also stated Courtland will provide an informational sheet for the Board in advance of the interviews which will summarize the RFP

responses from those candidates the Board chooses to interview, and which will also include a longer statistical period. He said they will also provide the percentages used to rank each candidate for all of the criteria.

After requesting an option to split the mandate and select two managers for more diversification, the Board Members decided to interview six candidates.

Mr. Nichols moved that the Board interview the top six candidates; seconded by Ms. Coffin.

Ayes: Coffin, Nichols, Poole, Romero

Nays: None

Absent: Ignacio, Rozanski

THE MOTION CARRIED.

10. Discussion of Contract Renewal for MFS Institutional Advisors, Inc. - Large Cap Mandate

Ms. Bhatia reported this item to extend the contract with MFS Investment Management (MFS) was being presented earlier than usual because the Board Members had requested they now be notified six months prior to the expiration of a contract to have an opportunity to discuss whether to renew a contract or search for a new manager. She stated this report was on the extension aspect of the MFS contract; however, it may be necessary to come back to the Board before the contract expires if circumstances warrant they be placed on watch for performance related issues.

Mr. Vargas reviewed MFS' performance and reported they have added value since inception with less risk relative to their benchmark. He reported their one-year and three-year performances lagged the benchmark, and their three-year performance might qualify them to be placed on watch. He stated if they qualified, Staff would bring that recommendation to the Board. He noted MFS outperformed the benchmark during the five-year and since-inception periods, and the one-year and three-year performances were in the second and fourth quartiles, respectively, compared to their peers. He reported Staff and representatives from Pension Consulting Alliance (PCA) recommend the Board extend the contract with MFS beginning December 1, 2012, through November 30, 2015, and he added the contract will include the standard clause that allows the Board to terminate the contract with 30 days' notification.

(Mr. Nichols left the meeting at 9:48 a.m., and absent the quorum, the meeting continued with discussion only.)

David Sancewich from PCA reviewed MFS' performance versus their peers and stated MFS has performed as requested on a risk adjusted basis versus their peers and has been a top quartile manager. He stated several variables can affect their performance, and PCA and Staff will continue to review MFS' June 30 performance numbers as more data becomes available. He said that despite the variables, PCA is comfortable with MFS, and they recommend the Board renew the contract. He added MFS' fees are very competitive, and he reiterated the contract will contain the standard termination clause.

(The Board deferred taking action on this item pending reestablishment of the quorum and moved on to Item 11.)

11. Discussion of Covered Calls Transition Post-Trade Report

Ms. Bhatia provided the background on the transition recently conducted by Russell Implementation Services (Russell) to fund Gateway Investment Advisers, the Plan's new covered calls manager. She explained Russell transferred approximately \$400 million from fixed income accounts with JP Morgan Asset Management and Wells Capital Management to fund the covered calls portfolio.

(Mr. Nichols returned at 9:53 a.m.)

Neil Rue, from Pension Consulting Alliance, provided a summary of the transition and reported the transition went well and the Plan experienced approximately \$14 million in net gains.

(President Romero reopened Item 10.)

10. Discussion of Contract Renewal for MFS Institutional Advisors, Inc. - Large Cap Mandate

Ms. Coffin moved that the Board approve Resolution No. 13-11 to extend the contract with MFS Investment Management, Inc., for three years; seconded by Mr. Nichols.

Ayes: Coffin, Nichols, Poole, Romero

Nays: None

Absent: Ignacio, Rozanski

THE MOTION CARRIED.

12. Presentation by Pension Consulting Alliance – Fourth Quarter Private Equity Performance Report

Tad Fergusson from Pension Consulting Alliance (PCA) began with a reminder that private equity performance reporting is always lagged and is exaggerated at the year end. He continued with a summary of the fourth quarter performance of the Plan's Private Equity program. He reported the program had ten partnerships with \$230 million in committed capital and approximately \$124 million had been drawn down and distributed to underlying investments. He stated the program has generated approximately \$36 million in distributions, with a remaining market value of approximately \$108 million, which resulted in a net since-inception internal rate of return of 6.7%.

He reviewed the allocation level and reported the program continues to progress toward the long-term goal of 5%. He stated it remains highly diversified across investment managers, investment strategy, vintage year, and geography.

He reviewed the evolution of the program and reported the underlying assets appreciated by \$1.5 million during the quarter.

He reported the portfolio compared to the policy index outperformed over the latest year but underperformed during the latest three-year, five-year, and since-inception periods. He added the portfolio did outperform the public equity markets during these periods but has not quite captured the long term goal of 300 basis points.

He reviewed the investment multiple and noted approximately \$.29 was returned in the form of distributions for every dollar put into the program.

He reviewed the exposures and noted they have not changed dramatically over prior reports. He noted an increase in the amount of direct partnerships over the past year should position the portfolio well for outperformance since those have fewer fees than fund-of-funds.

He reviewed the program's sector, geographic, industry, and vintage year diversification. He ended with an overview of the private market with brief accounts of the fund raising, buyout, purchase price multiples, debt multiples, and venture capital trends.

13. Presentation by Courtland Partners – First Quarter Real Estate Performance Report

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

Mr. Humphrey reported Courtland's focus has been on income generation in Core and Value-Add and has begun to prosper, with the one-year income return at 6.6% versus the benchmark at 6%. He noted the five-year and three-year income return outperformed the benchmark but not by as much of a margin.

Mr. Foster reported the portfolio's one-year return was 17.9% versus the National Council of Real Estate Investment Fiduciaries (NCREIF) benchmark at 13.4%, and versus the Courtland Index at 11%.

He reviewed the market value of investments in the unfunded commitments and reported investment commitments of \$347 million were made, and \$147 million of unfunded commitments remain.

Mr. Foster explained the 2012 Strategic Plan proposed target allocations of 70% in Core, 20% in Value-Add, and 10% in Opportunistic (*the current allocation is 45% in Core, 41% in Value-Add, and 13% in Opportunistic*). He noted that Courtland suggested tactically overweighting the Value-Add component of the portfolio to 65% in Core, 25% in Value-Add, and 10% in Opportunistic, and the Board approved allocations of \$50 million to Core, \$30 million to Value-Add, and \$25 million to Opportunistic.

Mr. Foster reviewed the portfolio composition and geographic diversification and noted they will pursue more international exposure.

(Mr. Romero stepped out at 10:22 a.m.)

Mr. Humphrey reviewed the leverage for the portfolio's Core, Value-Add, and Opportunistic investments and noted the portfolio's total leverage is approximately 32%.

Mr. Humphrey reviewed the investment activity statement and noted over the past four quarters the Plan has contributed approximately \$60 million to the real estate portfolio with capital returns of approximately \$8 million and approximately \$3 million in distributions.

14. Retirement Plan Manager's Comments

(Mr. Romero returned at 10:24 a.m.)

Ms. Bhatia reported staff is working on the pending items with respect to the new system. She stated staff is obtaining fixes on the 1099 functionality. She reported Staff contacted the vendor who agreed to assign the equivalent of one full-time additional person for a trial period of approximately six weeks to see if some of the pending items can be expedited. She noted the funds being used were previously approved and are in the budget.

Ms. Bhatia reported she, Mr. Wolfson, and Mr. Sancewich (from PCA), along with representatives from the City's three pension plans, recently attended an informational presentation at the City Attorney's Office regarding LIBOR issues recently in the news. (*LIBOR is a lending rate and stands for London Inter-Bank Offered Rate.*) The meeting involved background information on the issue and potential discussion regarding pursuing legal action if the various plans choose to do so. She noted this was a preliminary meeting, and no action was taken nor were any commitments made.

She reported that Assistant Retirement Plan Manager Mary Higgins was temporarily assigned to City Hall to work on a special project at the request from the Mayor's Office. She had no specifics on the assignment but stated she was assured that no Department pension-related issues were involved. Ms. Bhatia explained how she and Ms. Carranceja would handle the operations under Ms. Higgins oversight in her absence. Mr. Nichols said he would ask the Mayor's Office and go through appropriate channels to provide the Board with information regarding the project and how the Department might be compensated for Ms. Higgins assistance.

15. Future Agenda Items

None requested at this time.

With no further business, the meeting adjourned at 10:37 a.m.



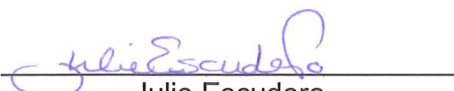
Javier Romero
Board President

9/26/12
Date



Sangeeta Bhatia
Retirement Plan Manager

9/26/12
Date



Julie Escudero
Utility Executive Secretary

9.26.12
Date