

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

MINUTES

SEPTEMBER 26, 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:

Ronald O. Nichols, General Manager
DWP Commissioner - Vacant

Staff Present:

Sangeeta Bhatia, Retirement Plan Manager
Monette Carranceja, Asst. Retirement Plan Manager
Mary Higgins, Asst. 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 9:03 a.m.

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

Public Comments

Ms. Escudero stated no public comments were received.

1. Request for Approval of Minutes

- a) **July 25, 2012, Regular Meeting**
- b) **August 8, 2012, Regular Meeting**

2. Termination from Rolls

- a) **Termination of Monthly Allowance from the August 2012 Retirement Roll**
- b) **Termination of Monthly Allowance from the September 2012 Retirement Roll**
- c) **Termination of Ryan G. Osborne from the September 2012 Family Death Benefit Roll**
- d) **Termination of Richard Allen Pedersen from the September 2012 Permanent Total Disability Roll**

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

Ayes: Coffin, Ignacio, Poole, Romero, Rozanski

Nays: None

Absent: Nichols

THE MOTION CARRIED.

3. Report of Payment Authorizations

- a) **July 2012**
- b) **August 2012**

4. Notice of Deaths for July 2012 and August 2012

5. **Investment Reports for July 2012**
 - a) **Summary of Investment Returns as of July 31, 2012**
 - b) **Market Value of Investments by Fund and Month as of July 31, 2012**
 - c) **Market Value of the Retirement, Death, and Disability Funds and Retiree Health Care Fund as of July 31, 2012**
 - d) **Summary of Contract Expirations**
6. **Investment Reports for August 2012**
 - a) **Summary of Investment Returns as of August 31, 2012**
 - b) **Market Value of Investments by Fund and Month as of August 31, 2012**
 - c) **Market Value of the Retirement, Death, and Disability Funds and Retiree Health Care Fund as of August 31, 2012**
 - d) **Summary of Contract Expirations**
7. **Report on Status of Insurance as of September 10, 2012**
8. **Report on Due Diligence On-Site Visit to Earnest Partners**
9. **Correspondence from Mayor's Office Regarding Potential Investments**
17. **(OUT OF ORDER) Discussion of Request from Board Member to Attend Conference**

Ms. Bhatia stated Item 17 was incorrectly submitted as an action item and should have been included in the Received and Filed category.

With respect to Item 3b (*August 2012 Payment Authorizations*), Ms. Coffin asked why the invoice for the safety recognition blankets was paid from the Retirement Fund. Ms. Bhatia explained all expenses are paid either from the Retirement, Death, Disability, or Health Funds. She stated the blanket purchase was budgeted and categorized as an administrative expense, and all administrative expenses are paid from the Retirement Fund.

With respect to Item 8 (*Report on Due Diligence On-Site Visit to Earnest Partners*), Mr. Rozanski asked if Staff should have noticed that the Retirement Fund and the Retiree Health Benefits Fund portfolios were not being linked to trade together and if Staff knew the amount of the discrepancy. Mr. Vargas stated Staff is working on determining the amount and will report back to the Board, but he added the amount is not likely to be significant. He stated the compliance monitor would not have been able to pick up whether the portfolios were linked; however, Staff noticed it via the reports they generated. He added Ernest Partners has rectified the situation and will reimburse the Plan the full amount.

With respect to Item 9 (*Correspondence from Mayor's Office Regarding Potential Investments*), Mr. Romero asked a representative from Pension Consulting Alliance (PCA) to opine on the potential investment referred to in the Mayor's correspondence. Mike Moy from PCA stated the Plan's policy for the private equity asset class was designed to optimize the quality of the managers brought before the Board for consideration, and the policy criteria precludes the ability for economically targeted investing.

Mr. Rozanski moved that the Board accept Items 3 through 9 and Item 17; seconded by Mr. Ignacio.

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

THE MOTION CARRIED

10. Presentation by The Segal Company - Annual Actuarial Valuation of the Retirement Fund as of July 1, 2012

The Board acknowledged Paul Angelo and John Monroe from The Segal Company, the Plan's actuarial firm. Messrs. Angelo and Monroe presented the annual Actuarial Valuation of the Water and Power Employees' Retirement Plan as of July 1, 2012.

Mr. Angelo stated the purpose of the valuation was to determine the contribution requirements and to assess the assets and liabilities of the fund. He reported the market value of assets was less than assumed which resulted in an actuarial loss and that, in combination with the deferred losses from previous years, led to a contribution rate increase (from 41.82% of pay in 2011 to 46.08% of pay in 2012) and to a decrease in the funded status (from 80.29% in 2011 to 78.14% in 2012 on an actuarial basis, and from 79.79% to 76.23% on a market basis).

He reported the unfunded liability increased from \$1.8 billion last year to \$2.1 billion this year, largely due to investment losses (\$433 million less than what was assumed on a smoothed value basis which created a net experience loss for 2012 of \$340 million).

In response to Mr. Rozanski's question as to why the \$40 million contribution loss was not included in the unfunded liability computation, Mr. Angelo explained the new contribution rates are not implemented until midway through the year due to the administrative delay of preparing and presenting the report.

Ms. Higgins asked Mr. Angelo to explain why this year's report included the market value in addition to the actuarial value while previous reports only included the actuarial value. Mr. Angelo explained the additional information was included to be consistent with the model disclosure elements issued by the California Actuarial Advisory Panel of which he is a member.

In response to Mr. Poole's question concerning the new reporting requirements of the Government Accounting Standards Board (GASB), discussion segued to Item 11.

11. Discussion of New Government Accounting Standards Board Employer Reporting Requirements

Mr. Angelo explained a misconception surrounds the new Government Accounting Standards Board (GASB) rules. He stated the new GASB rules primarily affect the employer and refer to accounting and financial reporting by the Plan and the employer; they do not address funding.

He explained the new accounting rules sever the previous link between the actual funding requirements and the accounting expense. He said that under the new Statement 68 requirements, the expense the employer will recognize will bear no relationship to the amount of funding, meaning the funding cost determined by the Board based on the valuation, and the

accounting cost determined under the new rules will be different. He explained the accounting expense will still be based on the same method and the same discount rate (currently 7.75%); however, the unfunded liability will now be amortized over much shorter periods of two to three years instead of the current 15 year smoothing period, which means the accounting expense will be much more volatile.

Mr. Poole asked if: 1) a point occurs where funding at a higher level is required; and 2) the Plan will be required to lower the 7.75% interest rate. Mr. Angelo responded the new standards will never change the funding requirements.

As for the interest rate, he explained it is based on whether the projected assets will cover the benefits, and the Plan's projections will cover benefits because they are determined on an actuarially sound basis. He stressed the GASB rules is not about the funding ratio and it is never about contributions.

Continued Discussion of Item 10 (Annual Actuarial Valuation of the Retirement Fund as of July 1, 2012).

In response to Mr. Rozanski's question of whether Segal expected the investment return assumption to decrease, Mr. Angelo said it would be reasonable to anticipate a lower earnings assumption based on current trends but any recommendation would be based on analysis specific to this Plan. In response to Mr. Rozanski's question of whether the Plan was considered to be well funded, Mr. Segal said it was very comparable to other systems and added he knew of no well defined term for "well-funded."

Mr. Rozanski moved that the Board approve Resolution No. 13-21 to adopt the July 1, 2012, Actuarial Valuation Report and the recommendations of the Plan's actuary; seconded by Mr. Ignacio.

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

THE MOTION CARRIED

12. Discussion of the Annual Transfer of Funds from the Reserve for Investment Gains and Losses Account to the General Reserve Account

Ms. Carranceja reported this item recommended the transfer of \$27.3 million from the Reserve for Investment Gains and Losses Account to the General Reserve Account as part of the annual transfer of funds to complete the financial statements.

Mr. Rozanski moved that the Board approve Resolution No. 13-22 to transfer funds from the Reserve for Investment Gains and Losses to the General Reserve Account; seconded by Mr. Ignacio.

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

THE MOTION CARRIED

13. Discussion of Absolute Return Investment Guidelines

Ms. Bhatia stated Pension Consulting Alliance (PCA), with the assistance of Investment Staff, created new guidelines following the restructuring of the Real Return Asset Class to increase exposure to the hedge funds allocation. She stated the approved guidelines will be included in the Request for Proposal (RFP) for the hedge fund managers.

Neil Rue from PCA stated the goal of the RFP is to seek managers to execute two different hedge fund programs for the Plan, namely a convergent program and a divergent program. He stated guidelines for each program are the same with the exception of the strategies since the strategies for convergent and divergent are very different. He explained the difference between the two styles.

Mr. Rozanski asked if using the same benchmark for each program was firm even though the correlations and volatility were different for each style. Mr. Rue said the managers are expected to produce returns independent of market moves so their benchmark is cash plus a premium because cash is also independent of market moves.

Ms. Bhatia asked why registration with the Securities and Exchange Commission (SEC) is not listed as a requirement for the divergent program but it is for convergent. Mr. Rue explained some of the divergent strategies might not be registered with the SEC and they want to allow for those underlying managers. He added the overall manager will be SEC registered.

Mr. Rozanski moved that the Board approve Resolution No. 13-23 to adopt the Hedge Fund of Funds Investment Guidelines and incorporate them into the Retirement Plan's Investment Policy; seconded by Mr. Ignacio.

Ayes: Coffin, Ignacio, Poole, Romero, Rozanski

Nays: None

Absent: Nichols

THE MOTION CARRIED.

14. Discussion of Draft Request for Proposal for Absolute Return Manager(s)

Ms. Bhatia reported the Board asked to review all Requests for Proposals (RFPs) before they are finalized, and the attached RFP for hedge fund managers was presented to the Board for review and comment.

Mr. Romero asked that language be included that the performance numbers be reported on a net basis. Mr. Rue said they will make that explicit in the RFP.

Mr. Rozanski moved that the Board approve the Request for Proposal for Hedge Fund managers as amended to include the language requiring net performance numbers; seconded by Mr. Ignacio.

Ayes: Coffin, Ignacio, Poole, Romero, Rozanski

Nays: None

Absent: Nichols

THE MOTION CARRIED

15. Discussion of Solicitation of Consent from Mesa West Capital, LLC

Mr. Vargas provided the background on the solicitation of consent to buyout 50% of the Mesa West Real Estate Income Fund which is owned by Capital Partners; the remaining 50% is owned by the principals. He explained the buyout will create a 75% ownership for the Mesa West partners and 25% ownership for Columbia Pacific Advisors, which is a group partially funding the buyout. He stated Columbia Pacific Advisors is basically an economic interest and will make no investment decisions.

Mr. Rozanski moved that the Board approve Resolution No. 13-24 to approve the Solicitation of Consent to Mesa West for the management buyout; seconded by Mr. Ignacio.

Ayes: Coffin, Ignacio, Poole, Romero, Rozanski

Nays: None

Absent: Nichols

THE MOTION CARRIED

16. Ratification of Board's Action to Extend the Contract with Ice Miller, LLP, for Tax Advice Services

Ms. Bhatia explained this item was to ratify the action of the Board to extend the contract with Ice Miller, LLP, for the period of June 16, 2011, through June 15, 2012. She stated ratification by resolution is necessary for the Controller's Office to approve payments to Ice Miller.

Mr. Rozanski moved that the Board approve Resolution No. 13-25 to ratify the extension of the contract with Ice Miller, LLP, for tax advice services; seconded by Mr. Ignacio.

Ayes: Coffin, Ignacio, Poole, Romero, Rozanski

Nays: None

Absent: Nichols

THE MOTION CARRIED

18. Presentation by Pension Consulting Alliance – First Quarter Private Equity Performance Review

The Board acknowledged Tad Fergusson, from Pension Consulting Alliance (PCA), who presented the Private Equity performance report as of March 31, 2012. Mr. Fergusson reported the program had \$230 million in ten partnerships with approximately \$136 million in contributed capital. He noted the program received approximately \$40 million in distributions to date and had a remaining market value of \$19.5 million. He reported the net internal rate of return since inception was 7.1%, up from 6.7% at year end 2011; however, that was below the benchmark. He reported the program is slightly below the target allocation, but additional commitments will achieve the funding over the long term.

He reviewed the program's evolution, growth, benchmark comparison, and investment multiples. He also reviewed the private equity market performance and noted the program has performed well over the past three-year and five-year periods.

He reviewed the program's various exposures and reported the program remains highly diversified.

19. Presentation by Pension Consulting Alliance – Second Quarter Performance Review

The Board acknowledged Neil Rue from Pension Consulting Alliance (PCA). Mr. Rue presented the quarterly performance report for the period ending June 30, 2012. Mr. Rue provided a brief market summary and reported the second quarter was extremely challenging with the domestic and non-domestic equity markets down. He reported the portfolio for the fiscal year was up 30 basis points versus the policy expectation of 2.5% and the median fund of 1.1%. He reported the two major causes were poor results of the domestic equity portfolio and the underperformance of the private equity policy benchmarks due to the recovery and the Plans underweight in the private markets.

He stated based on the numbers, where the policy relates relative to its peers, and expectations, etc., the portfolio is solid. He reviewed the risk/return charts and noted the fixed income component performed well, while it was challenging for equities.

He reviewed the allocations and noted that even though real estate and private equity were still behind the target allocations, they have increased dramatically with real estate rising from 2% to 3% and private equity rising from 1% to 2%. He attributed the portfolio's underperformance to the misweighting in real estate and private equity; and the underperformance of domestic equity managers.

He noted restructuring activity is still in progress in international equity, and some managers have yet to be funded. He also noted fixed income continues to be well run and stable with consistent added value.

He reported the covered calls program was funded during the second quarter and even though a full report is not yet available, covered calls are performing well as predicted. He reported the real return program has also performed well and matched expectations.

20. Presentation by Pension Consulting Alliance – Second Quarter Real Return Performance Review

Neil Rue from Pension Consulting Alliance (PCA) reported on the second quarter performance of the Real Return Asset Class and indicated the information was net of fees.

He reported the program has produced solid absolute returns per expectations. He stated the bulk of the assets are in the Global Inflation Linked Securities (GILS) program, and the portfolio's GILS manager (Western Asset Management Company) has underperformed the benchmark by approximately 100 basis points, with a more conservative approach than their peers, but he added the program has produced very solid absolute returns.

He reported the hedge fund of funds program has produced mixed results but has been improving both on a year-to-date basis and since inception. He added it has produced good results versus the median fund.

He stated commodities and timber managers will be added to the program soon and will help consistently produce more positive returns and better match the benchmark.

(The Committee recessed at 10:30 a.m. and reconvened at 10:39 a.m.)

21. Annual Presentation by J.P. Morgan Asset Management Company – Core Fixed Income Manager

The Board recognized Joel Damon and Brett Cambern from J. P. Morgan Asset Management Company (J. P. Morgan). Mr. Damon briefly explained the Columbus Core Bond strategy they use to manage the Plan's portfolio.

Mr. Cambern reviewed their investment philosophy and process and explained their emphasis is on security selection. He reviewed the one-year returns for the fixed income market and provided an economic update. He also reviewed the outlook and strategy for the fixed income market.

Mr. Cambern reported the portfolio was up 8.4% net of fees for the one-year period versus the benchmark at 7.25%, and produced 119 basis points of excess return since inception.

He ended with a review of the portfolio characteristics and the sector breakdown.

22. Annual Presentation by Wells Capital Management Company – Core Fixed Income Manager

The Board acknowledged Sandy Willen and Maulik Bhansali from Wells Capital Management Company (Wells Cap). Ms. Willen thanked the Board for the opportunity to manage the Plan's portfolio. She provided a brief history of Wells Cap and explained they manage four portfolios for the Plan (Retirement, Health, Death, and Disability) and use the same team, investment philosophy, and investment process for each.

Ms. Willen reviewed the characteristics of the Retirement portfolio. She reported the net contribution was \$327.3 million, and the return over the eight years since inception was \$586.4 million, which represents a 6.9% annualized return net of fees since inception and exceeds the benchmark by 108 basis points. She reported the portfolio's ending marking value as of July 31, 2012, was \$913.7 million.

She highlighted the performance of the Retirement portfolio and reported the one year return net of fees was 8.86% versus the benchmark at 7.25%. She reported the net return for the Retiree Health portfolio was 156 basis points over the benchmark.

Mr. Bhansali reviewed the drivers for the portfolio's performance and provided a market environment overview. He reviewed the quarterly performance compared to the benchmark and noted the returns have consistently exceeded the benchmark. He reported the 12-month performance for the period ending July 2012 was 161 basis points with the majority of that due to security selection. He commented that should volatility in the marketplace increase, they believe Wells Cap is in a position to take advantage of that through their security selection process. He stated their current positioning is neutral versus the benchmark in terms of interest rate risk, and they have neutral positions over most of the sectors.

23. Retirement Plan Manager's Comments

Ms. Bhatia reported the cost of living adjustments for retirees were recently processed through the new system with no issues.

She reported Staff continues with data clean-up efforts with the priority focus being on requests from employees approaching retirement.

She reported the Retirement Plan Office (RPO) continues to address several vacancies, and she indicated it takes a considerable amount of time to fill the positions.

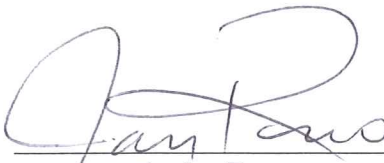
She stated Staff is currently testing the functionality of the 1099 process and continues to work closely with the vendor to expedite some of the pending work.

She reported Staff received a California Public Record Act request from the *Los Angeles Times* for considerable data on employees who retired in 2006 and later, who still receive retirement checks. The information requested includes payroll data for the four years preceding each employee's retirement, the retiree's name, retirement date, class title, base salary, and any add-ons. She stated discussions have taken place with RPO staff, the Communications Division, and the Information Technology Division in an effort to determine how best to provide the information. She stated she sent Mr. Romero the initial request and also informed Mr. Rozanski. She stated Staff will coordinate with Mr. Rozanski on a message that will be included on the data mailers to be sent with the pension checks. She added that Staff has asked the *Los Angeles Times* for a four week extension.

24. Future Agenda Items

Mr. Poole asked for a report with an exact accounting of the time Ms. Higgins spent on her special assignment to the City and how her time will be paid. Ms. Bhatia said she will follow up with Mr. Nichols.

With no further business, the meeting adjourned at 11:10 a.m.



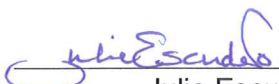
Javier Romero
Board President

10/24/12
Date



Sangeeta Bhatia
Retirement Plan Manager

10/24/12
Date



Julie Escudero
Utility Executive Secretary

10.29.12
Date