

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

MINUTES

OCTOBER 9, 2013

Board Members Present:

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

Board Members Absent:

DWP Commissioner – Vacant

Staff Present:

Sangeeta Bhatia, Retirement Plan Manager
Jeremy Wolfson, Chief Investment Officer
Monette Carranceja, Assistant Retirement Plan Manager
Mary Higgins, Assistant Retirement Plan Manager
Mary E. Alvarez, Utility Executive Secretary

Others Present:

Marie McTeague, Deputy City Attorney

President Romero called the meeting to order at 9:03 a.m.

Ms. Bhatia stated a quorum of the Board of Administration of the Water and Power Employees' Retirement Plan (Retirement Board) was present.

Public Comments

Ms. Alvarez stated no public comments were received.

Mr. Romero introduced Retirement Office employees Bradley Moe and Veronica Salumbides. Mr. Moe is the new Utility Administrator in the Membership/Disability Section, and Ms. Salumbides is the new Utility Administrator II in the Retirement Section.

Mr. Romero also acknowledged the 75th Anniversary of the Water and Power Employees Retirement Plan (Plan). He stated the Plan was established on October 1, 1938. The City Charter was amended to allow the Los Angeles Department of Water and Power (LADWP) and its employees to establish its own retirement plan. He stated the original Plan anticipated and provided for the means to honor the service of employees and allow them to enjoy a comfortable retirement. Today, the Plan still embodies these same goals which the Retirement Board is duty bound to ensure.

Mr. Romero stated that pension benefits throughout the country have been struggling and subject to intense scrutiny as a result of the financial meltdown of 2007. He stated the Retirement Board has shown great foresight in maintaining the integrity and strength of the Retirement, Disability, and Death Funds, but even the strongest systems were not immune to the issues that transpired in 2007. He stated that in order to maintain the existing level of benefits, it was appropriate to provide employees with measures to sustain their future and benefits in the Plan.

Mr. Romero further stated, as reported in several news articles and via information made public by elected officials and IBEW, a new tier of benefits was being developed for LADWP employees. He stated that both the LADWP Board of Commissioners and the Retirement Board must take action on the amendment before it can become effective. It is anticipated that the new tier will become effective January 1, 2014, and include new retirement formulas and modifications to the Reciprocity Agreement

with the City. Mr. Romero stated that all existing LADWP employees and retirees will maintain their current benefits.

Mr. Romero advised that the issue of the litigation language of the proposed amendment is still being discussed and revised and will be presented to the Retirement Board for approval. He reiterated that such amendment requires the approval of both the LADWP Board of Commissioners and the Retirement Board.

- 1. Request for Approval of Minutes**
 - a) July 10, 2013, Regular Meeting**
 - b) August 14, 2013, Regular Meeting**
- 2. Termination from Rolls**
 - a) Termination of Monthly Allowance from the August 2013 Retirement Roll**
 - b) Termination of Monthly Allowance from the September 2013 Retirement Roll**
 - c) Termination of Carlo Joseph Diciolla from the August 2013 Permanent Total Disability Roll**

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

Ayes: Bogin, Ignacio, Nichols, Poole, Romero, Rozanski

Nays: None

Absent: None

THE MOTION CARRIED.

- 3. Report of Payment Authorizations**
 - a) July 2013**
 - b) August 2013**
- 4. Notice of Deaths for July 2013 and August 2013**
- 5. Investment Reports for July 2013**
 - a) Summary of Investment Returns as of July 31, 2013**
 - b) Market Value of Investments by Fund and Month as of July 31, 2013**
 - c) Market Value of the Retirement, Death, and Disability Funds and Retiree Health Care Fund as of July 31, 2013**
 - d) Summary of Contract Expirations**
- 6. Investment Reports for August 2013**
 - a) Summary of Investment Returns as of August 31, 2013**
 - b) Market Value of Investments by Fund and Month as of August 31, 2013**
 - c) Market Value of the Retirement, Death, and Disability Funds and Retiree Health Care Fund as of August 31, 2013**
 - d) Summary of Contract Expirations**
- 7. Report on Status of Insurance as of August 12, 2013**
- 8. Report on Hancock Timber Resource Group, Inc. On-Site Due Diligence Visit**
- 9. Report on Pension Consulting Alliance, Inc. On-Site Due Diligence Visit**
- 10. Morgan Stanley AIP Hedge Funds On-Site Visit – Report from Pension Consulting Alliance, Inc.**

11. **Global Asset Management On-Site Visit – Report from Pension Consulting Alliance, Inc.**
12. **Report on Glass Lewis Ownership Structure**
13. **Report on Organizational Change at Heitman Real Estate Securities, LLC**
14. **Presentation by Pension Consulting Alliance, Inc. – 2013 Second Quarter Performance Review**

Mr. Rue presented the quarterly performance report for the period ending June 30, 2013. Mr. Rue provided a brief market summary and stated the second quarter was the end of the fiscal year and the fund had a stellar performance. He reported the fund was up 13.1%, substantially in excess of the assumed rate of return for the fiscal year. The portfolio outperformed the policy benchmark by approximately 150 basis points and outperformed the median fund for a strong second quartile performance over the course of the fiscal year.

He noted restructuring activity is still in progress in the International Equity asset class, and the portfolio has produced positive results over the last fiscal year and has outperformed its policy benchmark by 450 basis points.

He reported the Real Return program has also outperformed its policy benchmark by 380 basis points for the fiscal year.

15. **Presentation by Pension Consulting Alliance, Inc. – 2013 Second Quarter Real Return Performance Review**
16. **Presentation by Pension Consulting Alliance, Inc. – 2013 First Quarter Private Equity Performance Report**
17. **Annual Presentation by Wells Capital Management, Inc. – Fixed-Income Core Manager**
18. **Annual Presentation by J.P. Morgan Investment Management, Inc. – Fixed-Income Core Manager**
19. **Annual Presentation by Blackrock Investment Management, LLC – Passive International Developed Manager**
20. **Annual Presentation by Pyramis Global Advisors – Active International Developed Equity Manager**
21. **Annual Presentation by MFS Institutional Advisors, Inc. – Active International Developed Value Equity Manager**

Mr. Rozanski moved that the Board accept Items 3 through 21; seconded by Mr. Nichols.

Ayes: Bogin, Ignacio, Nichols, Poole, Romero, Rozanski

Nays: None

Absent: None

THE MOTION CARRIED.

22. Presentation by the Segal Company of the Annual Actuarial Valuation of the Retirement Fund as of July 1, 2013

Mr. Paul Angelo, Sr. Vice President and Actuary, and Mr. John Monroe, Vice President and Associate Actuary, both of the Segal Consulting Company, presented the Valuation of the Water and Power Employees Retirement Plan (Plan) as of July 1, 2013. Mr. Angelo reported due to strong returns, for the first time since the 2008/09 market downturn, the market value of the fund was higher than the smoothed value; therefore, instead of deferring losses the Plan was deferring gains. He also stated there were relatively small changes in funding status and contribution rates. Mr. Angelo stated that the results of this valuation do not reflect changes in the actuarial assumptions as recommended by the Segal Company and documented in the Actuarial Experience Study for the period July, 2009 through June 30, 2012, as these assumptions were still under consideration by the Retirement Board.

Mr. Angelo stated the funding level was at 78.84% and the Department contribution would be 47.30% up from 46.08%.

Mr. Rozanski moved that the Board approve Resolution No. 14-14 to adopt the July 1, 2013, Actuarial Valuation Report of the Retirement Fund and recommendations of the Plan's Actuary; seconded by Mr. Nichols.

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

THE MOTION CARRIED.

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

Ms. Monette Carranceja summarized the report and requested approval for the Annual Transfer of Funds of \$261.5 million from the Reserve for Investment Gains and Losses to the General Reserve Account.

Mr. Rozanski moved that the Board approve Resolution No. 14-15 to authorize the annual transfer of funds from the Reserve for Investment Gains and Losses Account to the General Reserve Account; seconded by Mr. Nichols.

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

THE MOTION CARRIED.

24. Discussion of Contract with Nossaman LLP and Foster Pepper PLLC

Ms. Marie McTeague summarized the request of the City Attorney's Office to authorize an increase in the maximum expenditure under the current contract with Nossaman LLP and approve new three-year contracts with Nossaman and Foster Pepper PLLC, effective on or about December 1, 2013.

Mr. Rozanski moved that the Board approve Resolution No. 14-16 and Resolution No. 14-17; seconded by Mr. Nichols.

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

THE MOTION CARRIED.

25. Discussion of Guidelines for Real Estate Manager Evaluation

Mr. Wolfson summarized the request to adopt guidelines for performance evaluations of Real Estate Managers for open-end commingled funds and public real estate securities (REIT). Mr. Wolfson stated that such evaluations would be new watch criteria that had not existed previously in the real estate portfolio. The guidelines provide a defined set of qualitative and quantitative criteria that Staff and Courtland Partners, Ltd. (Courtland) will use to evaluate the investment managers on an on-going basis.

Mr. Bill Foster of Courtland concurred with the recommendation to adopt the revisions.

Mr. Rozanski moved that the Board approve Resolution No. 14-18 to adopt guidelines for ongoing Real Estate Manager evaluation; seconded by Mr. Ignacio.

Ayes: Bogin, Ignacio, Nichols, Poole, Romero, Rozanski

Nays: None

Absent: None

THE MOTION CARRIED.

26. Discussion of Organizational Changes at JP Morgan Strategic Property Fund

Mr. Wolfson briefed the Board on the request to place JP Morgan Strategic Property Fund on organizational watch, in accordance with investment policy, due to the announced retirement of the Senior Portfolio Manager, who was a key member of the senior investment team for the Strategic Property Fund since 1998.

In response to an inquiry from Mr. Nichols regarding the lack of a succession plan, Mr. Wolfson advised that the concern would be noted and Staff would continue to watch JP Morgan.

Mr. Rozanski moved that the Board approve Resolution No. 14-19 to place JP Morgan Strategic Property Fund on organizational watch status; seconded by Mr. Poole.

Ayes: Bogin, Ignacio, Nichols, Poole, Romero, Rozanski

Nays: None

Absent: None

THE MOTION CARRIED.

27. Discussion of Global Real Estate Investment Trust Investment Guidelines

Mr. Wolfson briefed the Board on the request to adopt manage specific guidelines for the Global REIT mandate, highlighting the history of the Investment Policy.

Mr. Foster expanded on the goal to get market exposure while ensuring there are no undue levels of risk within the Portfolio.

In response to an inquiry from Mr. Nichols, Mr. Foster advised that the Investment Manager was very comfortable with the proposed guidelines.

Mr. Rozanski moved that the Board approve Resolution No. 14-20 to adopt Global Real Estate Investment Trust Investment Guidelines; seconded by Mr. Ignacio.

Ayes: Bogin, Ignacio, Nichols, Poole, Romero, Rozanski
Nays: None
Absent: None

THE MOTION CARRIED.

28. Discussion of International Equity Investment Guidelines

Mr. Wolfson briefed the Board on revisions to update the format of the International Equity Investment Guidelines (within the Investment Policy) to make them more consistent with the current portfolio structure.

Mr. Nichols moved that the Board approve Resolution No. 14-21 to adopt revised International Equity Investment Guidelines; seconded by Mr. Poole.

Ayes: Bogin, Ignacio, Nichols, Poole, Romero, Rozanski
Nays: None
Absent: None

THE MOTION CARRIED.

29. Discussion of Public Market Investment Guidelines

Mr. Wolfson briefed the Board on revisions to the Investment Guidelines for Public Market managers to provide clarification.

Mr. Rue added that the revisions provide additional flexibility in terms of investment manager monitoring.

Mr. Rozanski moved that the Board approve Resolution No. 14-22 to adopt Investment Policy changes for Public Market Mandates; seconded by Mr. Ignacio.

Ayes: Bogin, Ignacio, Nichols, Poole, Romero, Rozanski
Nays: None
Absent: None

THE MOTION CARRIED.

30. Ratification of the Board's Selection of Two Hedge Fund of Fund Managers

Mr. Wolfson reported on the resolutions to ratify the Retirement Board's selection of GAM USA, Inc. and Morgan Stanley Alternative Investment Partners as the Plan's Hedge Fund of Funds Investment Managers.

Mr. Nichols moved that the Board approve Resolution No. 14-23 and Resolution No. 14-24 to hire GAM USA, Inc. and Morgan Stanley Alternative Investment Partners, respectively; seconded by Mr. Ignacio.

Ayes: Bogin, Ignacio, Nichols, Poole, Romero, Rozanski
Nays: None
Absent: None

THE MOTION CARRIED.

31. Ratification of the Board's Selection of the High Yield Fixed Income Manager

Mr. Wolfson reported on the resolution to ratify the selection of Wells Capital High Yield as the Plan's High Yield Fixed Income Manager, subject to the successful negotiation of the contract terms, which were negotiated.

Mr. Rozanski moved that the Board approve Resolution No. 14-25 to ratify the Retirement Board's action to extend the contract with Wells Capital High Yield Fixed Income Manger; seconded by Mr. Nichols.

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

THE MOTION CARRIED.

32. Report on Discussion of Audit Program for Fiscal Year-End June 30, 2013, Presented to the Audit Committee on October 9, 2013

Ms. Bhatia reported that the Audit Committee meeting was held; marking the start of the audit and the meetings also provided Committee members the opportunity to speak directly with the auditors.

33. Retirement Plan Manager's Comments

Ms. Bhatia reported on the following items:

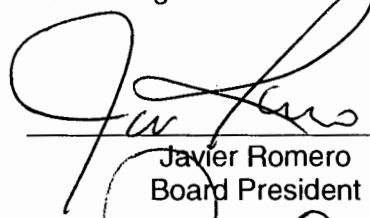
- The Tier II Structure was planned to go into place on January 1, 2014, and Staff continues to work closely with representatives of the City Attorney Office and City Administrative Office.
- The Power System is developing a human resources plan in an effort to prepare workforce requirements more accurately. The Retirement Plan Office has received requests for member data and Staff is evaluating the requests to determine what information may be released.

Ms. Bhatia also advised of the possibility of a lack of quorum for the Retirement Board meeting of October 23, 2013.

19. Future Agenda Items

There were no requests for future agenda items.

There being no further business, the meeting adjourned at 10:23 a.m.



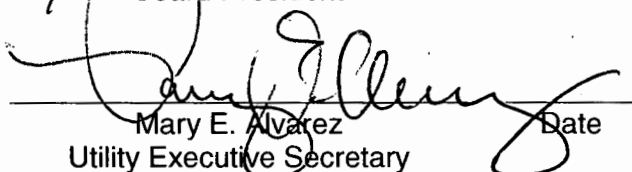
 Javier Romero
 Board President

11/27/13
Date



 Sangeeta Bhatia
 Retirement Plan Manager

11/27/13
Date



 Mary E. Alvarez
 Utility Executive Secretary

Date