

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

MINUTES

DECEMBER 11, 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
Scott Vargas, Investment Officer II
Carlo Manjikian, Investment Officer II
Maria Kay, Senior Clerk Typist

Others Present:

Marie McTeague, Deputy City Attorney

President Romero called the meeting to order at 9:34 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. Kay stated there were no requests for public comments.

1. Investment Reports for October 2013

- a) **Summary of Investment Returns as of October 31, 2013**
- b) **Market Value of Investments by Fund and Month as of October 31, 2013**
- c) **Market Value of the Retirement, Death, and Disability Funds and Retiree Health Care Fund as of October 31, 2013**
- d) **Summary of Contract Expirations**

2. Report on Status of Insurance as of November 13, 2013

Mr. Nichols moved that the Board accept Items 1 and 2; seconded by Mr. Poole.

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

Nays: None

Absent: None

THE MOTION CARRIED.

3. Discussion of Recommendation to Adopt the Amendment to the Water and Power Employees' Retirement Plan to Create a New Tier, to Suspend Reciprocity, and to Make Other Technical Changes

Mr. Romero stated he had a public comment to make; he stated that although Mr. Poole and himself were advised by their counsel that they do not have financial interest in the outcome of the vote of the Tier 2 Plan amendment, on the City Attorney's recommendation, and since a quorum would be present without their vote, they would remove themselves from the room in order to avoid the appearance of impropriety.

Mr. Romero and Mr. Poole exited the Board meeting room.

Ms. Bhatia reported that Resolution 14-47 amends the Water and Power Employees' Retirement Plan in the following ways: suspends the current reciprocity program as it currently exists between the Plan and Los Angeles City Employees Retirement System (LACERS), and creates a separate tier of benefits for new employees effective January 1, 2014, in order to ensure the fiscal sustainability of retirement benefits in the future. The proposed Plan amendment maintains Tier 1 benefits for all existing members and retirees, and creates a new tier, Tier 2 for employees hired after January 1, 2014. Pursuant to Charter Section 1186, plan amendments require approval of the Water and Power Board of Commissioners and adoption by the Retirement Board; this action will be the adoption of the Retirement Board. At the Special meeting on December 3, 2013, the Board of Commissioners approved the Plan amendment and City Council waived consideration of that action at their Council meeting on December 10, 2013.

Mr. Rozanski asked if the new tier would have an impact on retirees. Ms. Bhatia replied that the new tier would not have an impact on current retirees. Mr. Rozanski requested an amendment to the Resolution be made to the last "Whereas" to insert "and retirees." Ms. Bhatia stated it would be amended as requested.

Mr. Ignacio asked if further action is required after the Board acts on this motion. Ms. Bhatia stated that no further action would be required and confirmed with the City Attorney, to which Ms. McTeague stated no further action would be required.

Mr. Nichols moved that the Board adopt Resolution No. 14-47 to the Plan amendment as amended, effective January 1, 2014; seconded by Ms. Bogin.

Ayes: Bogin, Ignacio, Nichols, Rozanski

Nays: None

Absent (removed upon Counsel direction): Poole, Romero

THE MOTION CARRIED.

Mr. Romero and Mr. Poole returned to the Board room to continue with the Agenda items.

Mr. Romero introduced Retirement Office employees Peggy Wu and Darlene Gills. Ms. Wu and Ms. Gills are both new Benefits Specialists in the Retirement Section.

4. Annual Actuarial Valuations – Presentations by Segal Consulting

Ms. Higgins introduced the item, stating the three reports being presented will require adoption of resolutions.

Paul Angelo from Segal Consulting (Segal), the Plan's actuarial firm, presented a summary of their review of the Disability Fund, Death Benefit Fund and the Governmental Accounting Standards Board (GASB).

Mr. Angelo noted that in the funding method used for the Disability Fund and the Death Benefit Fund, generally reserves are accumulated to cover costs associated with claims that have already occurred and minimal or no reserves are accumulated to cover future claims.

a) Disability Fund as of July 1, 2013

Mr. Angelo briefly discussed the two Disability Funds, the Temporary and Extended Temporary Disability Benefits Fund and Permanent Total Disability Benefits Fund. He reported the assets associated with the Disability Benefits totaled \$46.5 million. Mr. Angelo also reported that Segal is recommending the Department contribution rate for the Temporary and Extended Temporary Disability Fund be decreased from \$1.52 per \$100 of covered payroll, to \$1.51 per \$100; an adjustment based on recent experience. He noted that this recommendation was based on maintaining 20% of the reserve.

Mr. Angelo stated the employee contribution to the Permanent Total Disability Fund is \$1.00 per bi-weekly pay period. He explained that assets accumulated in this fund were about \$28 million, but the target reserve of 20% is only at \$2 million, with a substantially overfunded plan. The recommendation continues to be at \$0 contribution from the employer.

Mr. Angelo suggested that the Disability Funds be combined as a single plan, funded by the same assets.

Ms. Higgins stated that Staff would look into this suggestion.

b) Death Benefit Fund as of July 1, 2013

Mr. Angelo discussed the Death Benefits Fund, which includes three benefits: Family Death, Supplemental Family Death, and Insured Lives, which contains two benefits – the Contributing Members, and Post Retirement Death Benefits.

Mr. Angelo stated Supplemental Family Death Benefits is an additional benefit paid for entirely by the members, if elected. This benefit is unchanged from the previous years at \$2.25 bi-weekly for active members and \$4.90 monthly for retired and disabled members.

Mr. Angelo stated that if necessary, the employer will make a contribution to the Supplemental Family Death Benefits, but due to the maintenance of member contributions the Department has not had to do so since 1984.

Mr. Angelo stated that Supplemental Family Death Benefits is a periodic payment which is based on number of years of service.

Mr. Angelo stated the recommendation for Departmental contribution for Insured Lives Death Benefits for active members remain at \$0.25 per \$100, and the active member continue to pay \$1.00 biweekly for a lump sum benefit that equals 14 times active pay. He stated the recommendation for non-contributing members (retired) decrease from \$1.35 to \$1.27 for a lump sum benefits equaling 14 times allowance.

Ms. Bhatia clarified the death benefit allowance is 14 times the salary, limited to \$20,000.

Mr. Angelo continued discussion of the Insured Lives Death Benefits. He stated that the Insured Lives for Contributing Members reserve is approximately \$3 million (with a \$1.9 million target), allowing for the current contribution rate to remain the same. He noted that for the Insured Lives for Non-Contributing Members, the contribution decrease was due to recent experience of the plan and overfunding.

Mr. Angelo stated that as the current Death Benefit Fund's general reserve is approximately \$1.4 million (with the target being \$770,000), Segal is recommending the Department contribution for the Family Death Benefit continue to be suspended, due to the level of funding compared to the reserve.

Ms. Higgins advised the Board that two valuations are used for billing the Department; with the third valuation being a financial disclosure only.

c) Governmental Accounting Standards Board Statement as of July 1, 2013

Mr. Angelo reminded the Board that the GASB statement is an accounting requirement for the employer's (Department) financial statement.

Mr. Angelo reported that from an accounting standpoint, the Plan is funding less than it is expensing. The new GASB rules will require the Plan to be valued on a stand-alone basis because it is a separate plan and not funding on an actuarial basis. If a projection is done on the continuance funding, the Plan would run out of assets before running out of benefits; as a result a lower discount rate would have to be used. Segal's suggestion to take the noncontributing Death Benefit portion of the Plan and build it into the retirement benefits fund would simplify the GASB compliance.

Ms. Higgins noted that since the Charter requires a separate fund for this type benefit, staff will be working with the auditors and actuary to work to look at these GASB related issues.

Mr. Rozanski moved that the Board adopt Resolutions No. 14-48, 14-49, and 14-50; seconded by Mr. Nichols.

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

Nays: None

Absent: None

THE MOTION CARRIED.

5. Discussion of Private Equity Investment Opportunity (Landmark)

Mr. Vargas introduced this item regarding an investment opportunity in Landmark Equity Partners XV, L.P. (LEP XV). He stated that the Plan is currently invested in Landmark XIII and XIV.

Tad Fergusson, representative from Pension Consulting Alliance, Inc. (PCA), provided an overview of Landmark Partners' (Landmark) portfolio, overall rates of return, and background of staff. He stated that the diverse vintage of the underlying assets results in quicker cash flow back to the Plan, reducing the risk of the investment. He stated that this would be the Board's third commitment and would be an attractive addition to the Plan's portfolio.

Chad Alfeld, Partner, and Julie Gionfriddo, Vice President, of Landmark presented the report. Mr. Alfeld stated Landmark currently manages assets for both the Retirement Plan and Health Plan with commitments in both Landmark XIII and XIV. Mr. Alfeld then provided a

comprehensive review of this opportunity, which included an overview of the firm and details of the LEP XV opportunity.

Mr. Alfeld stated the terms for LEP XV including a target fund size of \$2.5 billion.

Mr. Nichols moved that the Board adopt Resolution No. 14-51 to invest in Landmark Equity Partners XV, L.P., seconded by Mr. Rozanski.

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

Nays: None

Absent: None

THE MOTION CARRIED.

6. Discussion of Private Equity Investment Opportunity (CDR)

Mr. Vargas introduced this item regarding an investment opportunity in Clayton, Dubilier & Rice Fund IX, L.P. (CDR IX). He stated that the Plan has a private equity target allocation of 5%, and PCA is recommending approval of an investment up to \$47 million.

Michael Moore, representative from PCA, provided an overview of Clayton, Dubilier & Rice, LLC (CDR), and described them as one of the originators of the private equity space, and in their second generation of leadership. CDR is a classic buyout shop and the firm is owned by the employees, having no third party investors. They will concentrate on up to 20 companies with a high concentration on operational efficiency.

James Ahn, Managing Director, CDR, stated their firm is one of the pioneers in the private equity space, and are unique in that they are a 100% control-oriented buyout firm. He stated half of the partners come from operating roles from some of the largest and most respected companies in the world. As a team, the operating partner is required to run the buyout business until a qualified CEO can be found.

Mr. Ahn stated they buy market leading companies not performing to potential, usually due to an ownership issue, with the potential for improvement. Over 50 % are carve-outs or divestitures from large conglomerates.

Mr. Nichols asked why is it that at least 1/3 or 1/2 of purchased companies requires CDR management to step in as CEO if these companies are not broken.

Mr. Ahn clarified that there are two cases in which this would be required – one case would be where the company does not have a CEO in place, thus requiring the leadership; in other cases it would be necessary to replace the CEO due to lack of experience to lead to the type of growth required, allowing for higher margins and improved profitability.

Mr. Poole asked for IRR numbers in net rather than gross; Mr. Ahn stated the current net IRR for the two latest funds are 24% for fund VIII and 11% for fund VII.

Mr. Poole moved that the Board adopt Resolution No. 14-52 to invest in Clayton, Dubilier & Rice Fund IX, L.P.; seconded by Mr. Nichols.

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

Nays: None

Absent: None

THE MOTION CARRIED.

7. Discussion of Extension of Contract for Custodian Services

Mr. Wolfson recommended the Board extend the current Plan's custodian service contract with Bank of New York Mellon (BNY Mellon). He stated BNY Mellon was hired in 2005, with extensions in 2008 and 2011. Staff felt it prudent to conduct a Request for Proposal (RFP) process prior to the current expiration of the contract. The recommended extension will be for a period up to six months under the same terms and conditions in order to cover the completion of the RFP process.

Mr. Rozanski moved that the Board approve Resolution No. 14-53 to extend the contract with BNY Mellon, for Custodian Services; seconded by Mr. Nichols.

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

Nays: None

Absent: None

THE MOTION CARRIED.

8. Discussion of Report of the Plan's Proxy Voting for 2013 – Presentation by Glass Lewis

Mr. Manjikian introduced Glass Lewis & Co., to present their report on the Plan's Proxy Voting.

Robert McCormick, Chief Policy Officer, Glass Lewis & Co., provided background and further explained the 2013 proxy season, regulatory developments, compensation, proxy access, shareholder initiatives, voting statistics and policy updates. Mr. McCormick stated the Plan's approach is in line with industry best practices and the Board's Proxy Policy.

9. Discussion of Post-Trade Transition Report by Russell Implementation Services, Inc., and Pension Consulting Alliance, Inc.

Mr. Vargas introduced Russell Investments, to present their report on the Post-Trade Transition.

Steve Cauble, Regional Director, and Wayne Hollister, Sr. Portfolio Manager, Russell Investments, presented their report. Mr. Cauble provided a background on the firm. Mr. Hollister provided details on the portfolio as it pertains to the transition and policy reallocation. He reported on the overall cost of the transition, detailing estimated explicit commission, taxes, fees, costs associated with trading, and spread impact costs. He also commented on the overall performance of the transition.

10. Annual Presentation by Western Asset Management Company - Global Inflation Linked Securities Manager

Mr. Wolfson introduced Western Asset Management Company (WAMCO) to present their annual report on the Plan's Global Inflation Linked Mandate.

Doug Hulsey, Head of Client Service Sales and Marketing, USA, and Paul Wynn, Portfolio Manager of WAMCO, presented the annual global performance review. Mr. Hulsey provided an overview of the firm's global footprint and acknowledged the Board for placing WAMCO on watch performance. He stated the hope is that WAMCO can provide confidence that their

performance can be turned around in the coming months and achieve the performance expected by the Board.

Mr. Wynn described the global interest rate environment and inflation as they relate to inflation linked bonds and the Plan's portfolio. He concluded his presentation by indicating WAMCO is optimistic that they will be able to meet the expected performance.

11. Annual Presentation by Gateway Investment Advisers, LLC - Covered Calls Manager

Mr. Wolfson introduced Gateway Investment Advisers, LLC (Gateway) to present their annual report on the Plan's Covered Calls Mandate. Mr. Wolfson reminded the Board of the newly adopted allocation and that the Board had placed Gateway on organizational watch.

Christopher Segalini, Vice President, Institutional Service Team, NATIXIS Global Asset Management, (a parent company for Gateway) and Michael Buckius, Chief Investment Officer, Gateway, presented their report. Mr. Buckius provided a background of the organization.

Mr. Buckius reported on the covered call rationale, and highlighted the minimal costs to execute the strategy. He then provided details of the performance summary as of October 31, 2013, the portfolio review, characteristics of the portfolios, and a brief market outlook. He reviewed the risk statistics and portfolio characteristics for both funds, and the consolidated value of all the mandates for both accounts.

12. Presentation by Pension Consulting Alliance, Inc. – 2013 Third Quarter Performance Review

Neil Rue, representative from PCA, presented the quarterly performance report for the period ending September 30, 2013. Mr. Rue provided a brief summary noting the outperformance with a combined ending market value for both plans now at \$10.2 billion.

Mr. Rue provided a brief market summary of the quarter, stating that at the end of the fiscal year the fund had a stellar performance. He reported the fund was up 13.3%, 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.

13. Presentation by Pension Consulting Alliance, Inc. – 2013 First Quarter Private Equity Performance Report

Tad Fergusson, representative from PCA, presented the quarterly private equity performance report for the period ending June 30, 2013. Mr. Fergusson provided a brief detail of the program and review of investment performance. The private equity program is improving and progress is being made towards the Board's long-term goal.

14. Report on Plan's Annual Audit Report and Related Financial Statements, as of June 30, 2013, Presented at the Audit Committee Meeting

Mr. Romero opened the item for questions; he stated there was no need for further discussion since there were none.

15. Retirement Plan Manager's Comments

Ms. Bhatia reported on the following items:

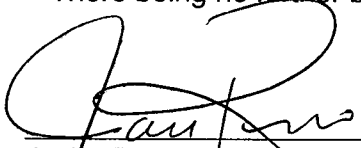
- Staff continues to work on developing system functionality for Tier 2 in order to have it up and running prior to January 1, 2014. Information regarding the specific provisions of Tier 1 and Tier 2 benefits will be posted on the website along with Frequently Asked Questions and Answers.
- The schedule for the 2014 Retirement Board meetings was provided to all Board members.

Ms. Bhatia also advised the next Retirement Board meeting will be held January 8, 2014, provided a quorum is available.

16. Future Agenda Items

There were no requests for future agenda items.

There being no further business, the meeting adjourned at 12:00 p.m.



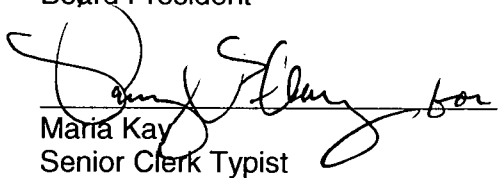
 Javier Romero
 Board President

1/22/14
 Date



 Sangeeta Bhatia
 Retirement Plan Manager

1/22/14
 Date



 Maria Kay
 Senior Clerk Typist

1/22/14
 Date