

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

MINUTES

JANUARY 22, 2014

Board Members Present:

Javier Romero, President
Barry Poole, Vice President
LaTanya Bogin, Regular Member
Mario Ignacio, Chief Accounting Employee
Robert Rozanski, Retiree Member

Board Members Absent:

DWP Commissioner – Vacant
Ronald O. Nichols, General Manager

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 9:08 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

Cindy Coffin thanked the Retirement Board and Mike Moore for their efforts in the lawsuit filed against the City of Los Angeles regarding reciprocity. Mr. Romero stated that it was a team effort and also thanked Staff for their hard work.

Mr. Romero introduced Retirement Office employee Ravi Sharma. Mr. Sharma was hired to the classification of Investment Officer I, as an emergency appointment.

- 1. Request for Approval of Minutes**
 - a) November 27, 2013, Special Meetings**
 - b) December 11, 2013, Regular Meeting**

- 2. Termination from Rolls**
 - a) Termination of Monthly Allowance from the December 2013 Retirement Roll**
 - b) Termination of Monthly Allowance from the January 2014 Retirement Roll**

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

Ayes: Bogin, Ignacio, Poole, Romero, Rozanski

Nays: None

Absent: Nichols

THE MOTION CARRIED.

3. **Report of Payment Authorizations**
 - a) **November 2013**
 - b) **December 2013**
4. **Notice of Deaths**
 - a) **November 2013**
 - b) **December 2013**
5. **Investment Reports for November 2013**
 - a) **Summary of Investment Returns as of November 30, 2013**
 - b) **Market Value of Investments by Fund and Month as of November 30, 2013**
 - c) **Market Value of the Retirement, Death, and Disability Funds and Retiree Health Care Fund as of November 30, 2013**
 - d) **Summary of Contract Expirations**
6. **Report on Status of Insurance as of January 10, 2014**
7. **2014 Proposed Manager/Service Provider Presenttions Schedule – Report from Pension Consulting Alliance, Inc.**

Mr. Rozanski moved that the Board approve Items 3 through 7; seconded by Mr. Ignacio.

Ayes: Bogin, Ignacio, Poole, Romero, Rozanski

Nays: None

Absent: Nichols

THE MOTION CARRIED.

8. Discussion of Special Actuarial Work for the Implementation of Plan Amendments and Other Services

Ms. Higgins stated that approval of the Memo would authorize special actuarial work for the implementation of Plan amendments and the associated costs.

In response to an inquiry from Mr. Romero regarding the various estimates, Ms. Higgins stated that the rates were provided as not-to-exceed amounts as all charges were on a time and materials basis, as shown in the fee quote letters. She also stated staff is not recommending approval for Item No. 6 since the information would be provided after the next valuation was completed.

In response to an inquiry from Mr. Ignacio regarding the lack of cost estimates for Item No. 4, Ms. Higgins stated staff believed Board action on this item could be taken later because there are currently no Tier 2 members; therefore, the functionality would not be required until later. Mr. Ignacio expressed a concern that the Plan would be double charged by the actuary for validation of computer changes if Item No. 4 is handled separately. Ms. Bhatia acknowledged Mr. Ignacio's concern and advised that staff would contact the actuary to see if the costs could be folded into the contract. Ms. Higgins also responded to Mr. Ignacio's inquiry regarding the cost estimate for Item No. 5, stating that staff would be unable to determine the cost breakdown until the first meeting to develop the scope-of-work was held.

Mr. Rozanski moved that the Board approve Resolution No. 14-56; seconded by Mr. Poole.

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

THE MOTION CARRIED.

9. Discussion of Retirement Plan Office Budget for Fiscal Year 2014-2015

Ms. Carranceja presented the proposed Retirement Office budget and Annual Personnel Resolution (APR) for Fiscal Year 2014-2015. She reviewed the Department's contributions, the Retirement Office Administrative Expense Budget, and the number of positions included in the APR. She also summarized the major components that increased in the budget such as investment fees, salaries expense, legal services, custodian bank fees, and the retirement system cost.

In response to an inquiry from Mr. Rozanski regarding the possibility of reducing the investment fees, Mr. Wolfson stated that compared to our peers we have some of the lowest investment fees across the portfolio, and there is not much room to reduce them further. He also stated that since investment fees are based on total assets, as the portfolio grows the fees represented in dollars would increase; however, in basis points they are still very low.

Ms. Carranceja also stated the remaining work to be completed on the Integrated Pension System (IPS), Tier 2 enhancements, included web self-service and Adhoc, totaling approximately \$240 thousand, and the work was estimated to be completed before the end of the next fiscal year.

Mr. Rozanski moved that the Board approve Resolution No. 14-57; seconded by Mr. Ignacio.

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

THE MOTION CARRIED.

10. Discussion of Contract Extension for Loomis, Sayles & Company, L.P., High Yield Fixed-Income

Mr. Wolfson presented the report to extend the contract with Loomis Sayles & Company, L.P. (Loomis), Active High Yield Fixed-Income Investment Manager, for three years beginning March 1, 2014, through February 28, 2017.

Mr. Rozanski moved that the Board approve Resolution No. 14-58; seconded by Mr. Ignacio.

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

THE MOTION CARRIED.

11. Discussion of New Real Estate Investment Opportunity (Prologis Targeted U.S. Logistics Fund, L.P.)

Scott Vargas, Investment Officer, presented the report to approve an investment of up to \$25 million (\$20 million from the Retirement Fund and \$5 million from the Retiree Health Benefits Fund) in Prologis Targeted U.S. Logistics Fund, L.P. (Prologis).

Bill Foster and Stanley Kim, representatives from Courtland Partners, Ltd., presented an overview of Prologis, as an organization, as well as the investment merits. Mr. Foster explained the Fund is a sector-specific vehicle focused on warehouse/industrial facilities in target markets in the United States with a high degree of population density and diverse labor pools. He also summarized the advantages and risks/concerns of the Fund stating they are a strong fund and are getting stronger. He discussed the industrial fundamentals, established platform executing identical strategy, strong target markets, E-Commerce, and strong organization with low operational risk.

Timothy Brosnan and Bob Bransfield, representatives from Prologis, presented an overview of the firm discussing the fund and strategy stating Prologis is the largest owner and operator of industrial real estate in the world. He stated they own about 560 million square feet of properties, of which about 375 million square feet is located in the United States. They also discussed global and regional markets, local leasing relationships, competitive advantages, rationale for U.S. logistics real estate investment, benefits of infill properties, and targeted logistics fund. They discussed the key markets for U.S. logistics fund and current weightings with emphasis on west coast markets. They further presented the experienced fund team and summarized the 2013 third quarter performance.

In response to Retirement Board inquiries, Mr. Brosnan and Mr. Bransfield explained that the properties that are acquired are focused on stabilized assets which are 90% occupied high-quality assets which are stabilized operating properties. Property managers are utilized to maintain and manage the properties. Regarding roll-over risk, Mr. Bransfield advised that the properties were generally held for 8 to 12 years and the average duration of a loan was 4 to 5 years.

Mr. Rozanski moved that the Board approve Resolution No. 14-59; seconded by Mr. Ignacio.

Ayes: Bogin, Ignacio, Poole, Romero, Rozanski

Nays: None

Absent: Nichols

THE MOTION CARRIED.

12. Discussion of Amendment of Investment Policy to Include Performance Watch Criteria for the Commodities Asset Class

Mr. Vargas presented the report to adopt the proposed performance watch criteria for the Commodities asset class and incorporate them into the Plan's Investment Policy.

Mr. Poole moved that the Board approve Resolution No. 14-60; seconded by Ms. Ignacio.

Ayes: Bogin, Ignacio, Poole, Romero, Rozanski

Nays: None

Absent: Nichols

THE MOTION CARRIED.

13. Discussion of Gateway Investment Advisers, LLC – Covered Calls

Carlo Manjikian, Investment Officer, presented the report to remove Gateway Investment Advisers, LLC, from organizational watch status.

Mr. Rozanski moved that the Board approve Resolution No. 14-61; seconded by Mr. Poole.

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

THE MOTION CARRIED.

14. Presentation by Pension Consulting Alliance, Inc. – 2013 Third Quarter Real Return Performance Report

David Sancewich from Pension Consulting Alliance (PCA) presented the quarterly report for the Real Return Portfolio. He reported the portfolio underperformed its benchmark for the year-to-date and one-year periods, but outperformed for the three-year periods and has improved significantly since inception.

He reviewed the commodities portfolio allocation. He noted positive returns for the hedge fund of funds performance, the annualized returns, real return, and hedge fund of fund performance charts.

15. Presentation by Courtland Partners – 2013 Third Quarter Real Estate Performance Report

Mr. Humphrey presented the report discussing the return of the real estate portfolio and the direction and strategy. He also presented a review of portfolio returns and summarized the core, value and opportunistic net returns.

16. Retirement Plan Manager's Comments

Ms. Bhatia acknowledged and expressed her appreciation to the Retirement Board and Staff for their work on the following accomplishments in 2013, stating:

- **Benefits** – Although most of the Board meetings were usually regarding actions related to Investment matters, they are also judged by how well the benefits are managed and administered. Approximately \$465 million in benefits was paid last year. Ms. Bhatia stated the major milestone and achievement the past year was the Plan amendment to suspend Reciprocity with the LACERS and create a new tier for new hires. This was the culmination of work and efforts that began in 2010 by several Board Members and staff. As a result of this change, the Los Angeles Department of Water and Power and the Plan is expected to see significant cost savings in coming years.
- **Systems** – Related to this change in benefits, staff also implemented system functionality to enable us to accept new hires under the new tier which required work with the vendor that was involved. Medicare Part B functionality was implemented, and as a result staff was able to completely close down the old system, saving on costs and resources in maintaining two systems.
- **Communication** – Improved communications. Staff revamped the newsletter for active and retired members. Streamlined and formalized the training program by training employees to conduct the Mid-Career and Retirement seminars, to ensure reliability and continuity. Training was provided to approximately 1,000 employees between the Mid-Career and Pre-Retirement seminars. A retirement allowance calculator is now available on the web-site
- **Investments** – As of December 31, 2013, the value of the Retirement and Retiree Health Fund was approximately \$10 billion. Investment return for the Fiscal Year ending June 30, 2013, was 12.6% net of fees and for the Calendar Year ending December 31, 2013, was 17.3%. She stated in keeping with the Evolving Allocation Policy adopted by the Retirement Board two years ago, the public market asset class was restructured; the real return class commodities

and Hedge Funds with divergent and convergent strategies were added to the Real Return asset class.

- Managers hired in 2013 – Private Markets – The focus was to ramp up on the Real Estate and Private equity allocations; therefore, seven investment managers were hired in 2013 in the private market sector; four in Real Estate; two in Private Equity; and one in Real Return. The work required thorough legal and staff due diligence reviews, interviews and completion of contracts and funding in a timely manner.
- Managers hired in 2013 – Public Markets – Although there were no new hires, eight Investment Manager contracts were extended. Staff was able to renegotiate fees for a savings of approximately \$115 thousand annually on one contract. Ms. Bhatia also stated that the work involved to extend a contract still requires a due diligence exercise to ensure the manager capabilities and fundamentals are the same as when the manager was hired.
- Investment Policy Revisions – Successfully managed manager specific guidelines, clarification of existing language, and incorporate/clarify watch criteria.
- Administration and Board Meetings – Several quorum issues were faced, but the Retirement Board held 22 meetings, including 4 Benefits Committee meetings and 1 Audit Committee meeting. She also acknowledged the excellent reliable technical support from Reggie Brewer. She said as part of quicker communication, the Retirement Board agendas and packages are also available on the Office web-site. Regarding the Retirement Board composition, there continues to be one vacancy in the Commissioner seat and Ms. Bogin joined the Retirement Board last year. The Department had 361 retirements, including four from the Retirement Plan Office. Although it takes an average of three months to fill a position, the Retirement Plan Office was successful in hiring 12 employees.
- Scanning – A small scanning group continues with the day forward scanning which includes documents and reports. Approximately 21,698 pieces of paper were scanned, indexed, and uploaded to the Filenet program.
- California Public Records Requests – Staff processed 15 resource-intensive requests, including: 1) Information on members on Disability; 2) Information on Retiree pension amount(s); 3) Information on Investment purchases and sales; and 4) Information on salaries, contribution and membership dates of active members. Although the process has been streamlined it still requires detailed coordination with various groups.

Remaining Projects to Accomplish:

- Scanning of all back files for members – this will require a contract to get done quickly and completely. As a reminder, she stated this was a project that was ready to proceed about two years ago, however, at some point support was pulled. She also stated there were tremendous risks and consequences of not getting the project complete. Recommendation is to give staff direction to explore with a contract to get the project completed soon.
- Web piece for the new system – Pushed aside and all effort was concentrated on completing the work for the new Tier.
- Required Ethics and Fiduciary training for all Board Members – Working with the City Attorney's Office to begin training in components at upcoming Board meetings.

17. Future Agenda Items


Mr. Romero requested that a resolution be prepared and sent to Mr. Nichols for his contributions and service to the Retirement Board. He also requested that the employee newsletter include the Retirement Board and Plan Manager accomplishments.

There being no further business, the meeting adjourned at 10:35 a.m.



Javier Romero
Board President

3/26/14
Date



Sangeeta Bhatia
Retirement Plan Manager

3/26/14
Date



Mary E. Alvarez
Utility Executive Secretary

3/26/14
Date