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

MINUTES

December 10, 2014

Board Members Present:
Javier Romero, President
Barry Poole, Vice President
LaTanya Bogin, Regular Member
Robert Rozanski, Retiree Member

Board Members Absent:
Marcie L. Edwards, General Manager
Mario Ignacio, Ch. Accounting Employee
Mel Levine, DWP Commissioner

Staff Present:
Monette Carranceja, Asst. Retirement Plan Manager
Scott Vargas, Sr. Investment Officer
Carlo Manjikian, Sr. Investment Officer
Will Feng, Sr. Utility Accountant
Mary E. Alvarez, Utility Executive Secretary

Others Present:
Marie McTeague, Deputy City Attorney

Via Teleconference
Mary C. Higgins, Interim Retirement Plan Manager

Mr. Romero called the meeting to order at 9:00 a.m.

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

Public Comments

Angela Franklin thanked the Retirement Board for their recent decision regarding her retirement appeal. Ms. Franklin also read into the record her letter to Mr. Romero discussing the events of her case; she then submitted her letter for the file.

Ms. Higgins telephonically entered the meeting.

1. Approval of Minutes
   a) April 9, 2014, Regular Meeting
   b) May 14, 2014, Regular Meeting

2. Termination of Monthly Allowance from the December 2014 Retirement Roll

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

Ayes: Bogin, Poole, Romero, Rozanski
Nays: None
Absent: Edwards, Ignacio, Levine

THE MOTION CARRIED.

3. Report of Payment Authorizations for October 2014

4. Notice of Deaths

- **a) October 2014**
- **b) November 2014**

5. Investment Reports for September 2014

- **a) Summary of Investment Returns as of July 31, 2014 - Revised**

6. Investment Reports for October 2014

- **a) Summary of Investment Returns as of October 31, 2014**
- **b) Market Value of Investments by Fund and Month as of October 31, 2014**
- **c) Market Value of the Retirement, Death, and Disability Funds and Retiree Health Care Fund as of October 31, 2014**
- **d) Summary of Contract Expirations**

7. Report on Status of Insurance as of November 18, 2014

8. Report on Gateway Investment Advisers, LLC, On-Site Due Diligence Visit

9. Annual Presentation by Glass Lewis & Co. LLC – Proxy Service Provider

Mr. Rozanski moved that the Board receive and file Items 3 through 9; seconded by Mr. Poole.

Ayes: Bogin, Poole, Romero, Rozanski
Nays: None
Absent: Edwards, Ignacio, Levine

THE MOTION CARRIED.

10. Annual Actuarial Valuations – Presentation by Segal Consulting

- **a) Disability Fund as of July 1, 2014**
- **b) Death Benefit Fund as of July 1, 2014**

Ms. Carranceja provided a brief overview of the report to accept the Annual Actuarial Valuation of the Disability Fund as of July 1, 2014, and approve the contribution rates recommended by Segal Consulting, the Plan's actuary. Ms. Carranceja introduced John Monroe of Segal Consulting.

Mr. Monroe presented Segal Consulting's review of the Disability Fund and the established funding requirements for Fiscal Year 2014-2015. He discussed the funding differences in Disability and Death benefits in comparison to the Retirement Plan and their recommendations for the Disability Fund benefits.

Mr. Rozanski moved that the Board approve Resolution No. 15-38; seconded by Mr. Poole.

Ayes: Bogin, Poole, Romero, Rozanski
Nays: None
Absent: Edwards, Ignacio, Levine

THE MOTION CARRIED.

Ms. Carranceja presented the report to accept the Annual Actuarial Valuation of the Death Benefit Fund as of July 1, 2014, and approve the contribution rates as recommended by the Plan's actuary. She proceeded to review the individual recommendations of Segal Consulting.
Mr. Monroe concurred with Segal Consulting's review and recommendations of the Death Benefit Fund as of July 1, 2014, as presented by Ms. Carranceja.

Mr. Rozanski moved that the Board approve Resolution No. 15-39; seconded by Mr. Poole.

Ayes: Bogin, Poole, Romero, Rozanski
Nays: None
Absent: Edwards, Ignacio, Levine

THE MOTION CARRIED.

11. Discussion of the Plan's Annual Audit Report and Related Financial Statements as of June 30, 2014, Presented at the Audit Committee Meeting

Mr. Feng presented the report of the Plan's Annual Audit Report and Related Financial statements as of June 30, 2014. He stated that Simpson and Simpson, CPAs, the Plan's external auditors, conducted an audit of the Plan and the Retiree Health Benefit Fund and such audit was presented at the Audit Committee held just prior to the Retirement Board meeting. Mr. Feng stated there were no significant deficiencies in the internal controls, and also advised that Simpson and Simpson agreed with the Plan's financial statement disclosures and the estimates that were used.

12. Annual Presentation by Gateway Investment Advisors, LLC – Covered Calls Manager

Mr. Manjikian introduced Gateway Investment Advisors, LLC (Gateway) to present their annual report on the Plan's Covered Calls Mandate.

Michael Buckius, Chief Investment Officer, provided an overview of the organization and reported on the covered call investment programs. He then provided details of the performance summary as of October 31, 2014. He reviewed the characteristics of the portfolio and provided a brief market outlook. He also reviewed the risk statistics and portfolio characteristics for both funds.

13. Annual Presentation by Western Asset Management Company – Global Inflation Linked Securities Manager

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

Frances Coombes and Paul Wynn of WAMCO presented the annual global performance review. Ms. Coombes provided an overview of the firm's global footprint and explained WAMCO currently manages two Global Inflation Linked portfolios for the Plan. She also acknowledged the Board for placing WAMCO on watch performance and explained they have made positive strides and they are on the right path toward working hard to ensure that they stay the course as they move forward into the year.

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.

14. Presentation by Pension Consulting Alliance, Inc. – 2014 Second Quarter Private Equity Performance Report

Mike Moy, representative from Pension Consulting Alliance, Inc. (PCA), presented the quarterly performance report for the period ending June 30, 2014. Mr. Moy provided a brief summary noting the portfolio had underperformed the policy benchmark over the one, three, five-year, and since inception due to strong rebound of the public equity markets after the financial crisis. He also noted that the portfolio had performed in-line with long-term return expectations for the asset class, as PCA's 10-year geometric return expectation for private equity was 8.7%.

15. Presentation by Pension Consulting Alliance, Inc. – 2014 Third Quarter Performance Report

Neil Rue, representative from PCA, presented the quarterly performance report for the period ending September 30, 2014. Mr. Rue provided a brief summary noting the outperformance with a combined ending market value exceeding $12 billion.

Mr. Rue provided a brief market summary of the quarter, stating that at the end of the fiscal year the fund had a very good performance. Over the past ten years the portfolio matched the policy benchmark. The portfolio outperformed the median funds for the three-year, one-year, and top quartile results in the most recent quarter.

16. Discussion of Extension of Contract for Wells Capital Management, Inc. – High Yield Fixed-Income Manager

Mr. Vargas provided a brief overview and recommended the Board extend the contract with Wells Capital Management, Inc., High Yield Fixed-Income Manager for a period up to six months ending June 30, 2015.

Mr. Rozanski moved that the Board approve Resolution No. 15-40; seconded by Mr. Poole.

Ayes: Bogin, Poole, Romero, Rozanski
Nays: None
Absent: Edwards, Ignacio, Levine

THE MOTION CARRIED.

17. Discussion of Delaware Investments – Fixed Income Global Credit Manager

Mr. Manjikian presented the report on PCA's and staff's recommendation to continue moving forward with funding Delaware Investments to manage the Extended Global Credit component of the Plan's fixed income mandate.

18. Discussion of Fixed Income Investment Guidelines

Mr. Manjikian presented the report to adopt the Fixed Income Investment Guidelines and incorporate them into the Plan's Statement of Investment Objectives, Goals and Guidelines (Investment Policy), as recommended by PCA and concurred by staff.

Mr. Rozanski moved that the Board approve Resolution No. 15-41; seconded by Mr. Poole.

Ayes: Bogin, Poole, Romero, Rozanski
Nays: None
Absent: Edwards, Ignacio, Levine

THE MOTION CARRIED.

PUBLIC COMMENT

Mr. Romero acknowledged PCA for their contributions to the success of the Plan. Mr. Rue stated it was a privilege and an honor to serve the Plan for the past 12 years.

The Retirement Board recessed at 10:17 a.m. and reconvened at 10:33 a.m.

The Retirement Board met in Closed Session at 10:33 a.m. to discuss the following:

19. CLOSED SESSION PURSUANT TO GOVERNMENT SECTION CODE SECTION 54956.81 TO CONSIDER THE PURCHASE OF ONE PARTICULAR, SPECIFIC PENSION FUND INVESTMENT

The Retirement Board reconvened in Open Session at 11:01 a.m.

20. Discussion of Fixed Income U.S. Bank Loans Mandate

Mr. Manjikian introduced the item to interview three candidates for the Plan's Fixed Income U.S. Bank Loans Mandate. He stated staff's independent evaluation of the responses is consistent with PCA's results. Colin Bebee of Pension Consulting Alliance, Inc. (PCA), stated that staff and PCA objectively scored all responses from the RFP and presented the detailed results of the evaluation of the RFP.

The Board then interviewed the following candidates:

a) Pacific Asset Management
b) Voya Investment Management (previously known as ING Investment Management)
c) Western Asset Management Company

Upon conclusion of the interviews, discussion ensued among the Board Members, staff, and PCA regarding the interviews and the individual Board Member's choices.

Mr. Rozanski moved that the Board approve Resolution No. 15-43 and select Pacific Asset Management as the Plan's Fixed Income U.S. Bank Loans Manager, contingent that staff negotiate the fees at a competitive level; seconded by Ms. Bogin.

Ayes: Bogin, Poole, Romero, Rozanski
Nays: None
Absent: Edwards, Ignacio, Levine

THE MOTION CARRIED.

21. Retirement Plan Manager's Comments

Ms. Carranceja reported on the following:

- Almanac Investment Contract – At the November 12, 2014, meeting, the Retirement Board met in closed session to discuss investment in Almanac Realty Securities, a real estate mandate. The Retirement Board voted unanimously to approve the investment. The contract was executed on November 25, 2014, with $24 million invested from the Retirement Fund, and $6 million invested from the Retiree Health Benefit Fund.
- Fire Damage Update – Only one window was broken in the office.

22. Future Agenda Items

Mr. Romero requested a discussion on travel authorities, reimbursement to Retirement Board members, and a streamlined approach for processing. He also requested staff to contact Mr. Virzi to inquire on employee reimbursement timeframe. Ms. Bogin requested Mr. Virzi's response be provided to the Retirement Board as soon as possible.

There being no further business, the meeting adjourned at 12:14 p.m.

Javier Romero Board President	3/25/15 Date	Mary C. Higgins Assistant Retirement Plan Manager	3/25/15 Date
Mary E. Alvarez Utility Executive Secretary	3/25/15 Date		