

CITY OF LOS ANGELES
DEPARTMENT OF WATER AND POWER
INTERDEPARTMENTAL CORRESPONDENCE

Date: December 3, 2014

To: Retirement Board Members

From:  Mary C. Higgins, Interim Retirement Plan Manager

Subject: Board Agenda Item No. 20: Discussion of Fixed Income U.S. Bank Loans Mandate; and Possible Action (December 10, 2014, Regular Retirement Board Meeting)

Recommendation

That the Board of Administration (Retirement Board) of the Water and Power Employees' Retirement Plan (Plan) interview and select one of the following three candidates for the Plan's Fixed Income U.S. Bank Loans mandate:

- Pacific Asset Management
- Voya Investment Management
- Western Asset Management Company

Summary

At the Special Retirement Board meeting held on June 26, 2013, the Retirement Board approved a fundamental change to the investment policy for the fixed income portfolio (Resolution No. 13-91) which introduced a specific Global Credit component. The new structure was presented by the Plan's general consultant, Pension Consulting Alliance, Inc., (PCA) as a mechanism to mitigate risk and enhance returns in a financial market that has become dramatically different since the financial crisis in 2008.

The current target allocation to the Global Credit mandate is 50% of the Plan's fixed income portfolio, or approximately \$1.4 billion. Within the Global Credit mandate, the global credit/high yield strategy will have a target of 90%. The U.S. bank loans strategy will make up the remaining 10% target allocation.

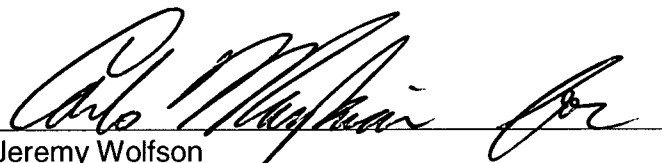
The Plan released two Requests for Proposal (RFPs) in January 2014: one RFP for global credit/global high yield; and a separate, dedicated RFP for U.S. bank loans (Resolution No. 13-92). In response to the RFP process for the U.S. bank loans manager, staff and PCA received 26 submissions for the mandate. Staff and PCA reviewed the responses and scored each RFP according to the following criteria: quantitative characteristics, fee structure, organizational issues, investment strategy, and client base and services.

At the Retirement Board meeting held on November 12, 2014, the Retirement Board decided to invite the top three scoring firms (listed above) to present to the Retirement Board. Staff and PCA recommend selecting one manager to fill the new mandate.

The attached memo from PCA summarizes the results of its evaluation of the RFP responses. Staff's independent evaluation of the responses is consistent with PCA's results.

The following documents are attached:

- Resolution No. 15-43

A handwritten signature in black ink, appearing to read 'Jeremy Wolfson', is written over a horizontal line.

Jeremy Wolfson
Chief Investment Officer

MCH/JW/CM/FH:mea

RESOLUTION NO. 15-43

RESOLUTION TO SELECT THE PLAN'S FIXED INCOME U.S. BANK LOANS MANAGER

WHEREAS, the Board of Administration (Retirement Board) of the Water and Power Employees' Retirement Plan (Plan) issued Requests for Proposal (RFP) for new fixed income U.S. bank loans manager; and

WHEREAS, staff and Pension Consulting Alliance, Inc., (PCA) found that 15 of the 26 U.S. bank loans strategy providers met the required minimum qualifications and preferred criteria; and


WHEREAS, the Retirement Board invited the following top three respondents as ranked by staff and PCA to present to the Retirement Board: Pacific Asset Management, Voya Investment Management, and Western Asset Management Company; and

WHEREAS, at the regular Retirement Board meeting held on December 10, 2014, the Retirement Board interviewed the three respondents; and

WHEREAS, after interviewing the candidates for the Plan's fixed income U.S. bank loans mandate, the Retirement Board selected Pacific Asset Management.

NOW, THEREFORE, BE IT RESOLVED that the Board President and Interim Retirement Plan Manager are hereby authorized to enter into a contract with Pacific Asset Management, pending negotiation of contract terms.

I HEREBY CERTIFY, the foregoing is a full, true, and correct copy of a Resolution adopted by the Retirement Board of Administration [created by Section 1102(b) of the Los Angeles City Charter] at its regular meeting held on December 10, 2014.



Mary C. Higgins
Interim Retirement Plan Manager