

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

MINUTES

August 27, 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:

Mary Higgins, Interim Retirement Plan Manager
Jeremy Wolfson, Chief Investment Officer
Monette Carranceja, Assistant Retirement Plan Manager
Scott Vargas, Sr. Investment Officer
Carlo Manjikian, Sr. Investment Officer
Will Feng, Sr. Utility Accountant
Bradley Moe, Utility Administrator
Mary E. Alvarez, Utility Executive Secretary

Others Present:

Alan Manning, Assistant City Attorney
Marie McTeague, Deputy City Attorney

Mr. Romero called the meeting to order at 9:01 a.m.

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

Public Comments

Ms. Alvarez stated no requests for public comment were received.

1. Approval of Minutes of the August 13, 2014, Regular Meeting

The Item was continued to the next meeting.

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

Mr. Rozanski moved that the Board approve Item 2; seconded by Ms. Bogin.

Ayes: Bogin, Poole, Romero, Rozanski

Nays: None

Absent: Edwards, Ignacio, Levine

THE MOTION CARRIED.

3. Report of Payment Authorizations for July 2014

4. Notice of Deaths for July 2014

5. **Investment Reports for July 2014**
 - a) **Summary of Investment Returns as of July 31, 2014**
 - b) **Market Value of Investments by Fund and Month as of July 31, 2014**
 - c) **Market Value of the Retirement, Death, and Disability Funds and Retiree Health Care Fund as of July 31, 2014**
 - d) **Summary of Contract Expirations**
6. **Report on Status of Insurance as of August 18, 2014**
7. **Retirement System Status**

Mr. Rozanski moved that the Board accept Items 3 through 7; seconded by Mr. Bogin.

Ayes: Bogin, Poole, Romero, Rozanski

Nays: None

Absent: Edwards, Ignacio, Levine

THE MOTION CARRIED.

8. Discussion of Nominations and Appointment of Officers of the Retirement Board of Administration Water and Power Employees' Retirement Plan

Mr. Romero called for nomination of the Officers for the Retirement Board.

a) Nominations and Election of President and Vice-President

Mr. Poole nominated Mr. Romero as Board President; seconded by Ms. Bogin and carried unanimously after the following vote:

Ayes: Bogin, Poole, Romero, Rozanski

Nays: None

Absent: Edwards, Ignacio, Levine

Ms. Bogin nominated Mr. Poole as Board Vice-President; seconded by Mr. Rozanski and carried unanimously after the following vote:

Ayes: Bogin, Poole, Romero, Rozanski

Nays: None

Absent: Edwards, Ignacio, Levine

Mr. Romero motioned that the representatives on the following Committees remain the same; there being no objection the motion carried.

b) Appointment of Chair and Members of Audit Committee

Mr. Poole was appointed as Chair of the Audit Committee and Mr. Ignacio and Mr. Rozanski as Committee Members.

c) Appointment of Chair and Members of Benefits Committee

Ms. Bogin was appointed as Chair of the Benefits Committee and Mr. Poole and Mr. Romero as Committee Members.

d) Appointment of Chair and Members of Governance Committee

The Governance Committee is a Committee-of-the Whole. Mr. Poole was appointed as Chair of this Committee.

e) Appointment of Chair and Members of Legislative Committee

Mr. Rozanski was appointed as Chair of the Legislative Committee and Mr. Poole and Ms. Bogin as Committee Members.

9. Report on Discussion of Audit Program for Fiscal Year-End June 30, 2014, Presented to the Audit Committee on August 27, 2014

Ms. Higgins provided a brief report on the discussion of the Audit Program for Fiscal Year (FY) ending June 30, 2014, presented to the Audit Committee on August 27, 2014. Ms. Higgins stated that Simpson & Simpson, the Plan's auditors, made a presentation to the Audit Committee and outlined their timeline for the audit and their responsibilities in the audit and what they are expecting to be different, which is related to the implementation of the Governmental Accounting Standards Board (GASB).

10. Presentation by Simpson & Simpson, Certified Public Accountants – Requirements and Impact of Governmental Accounting Standards Board (GASB) Statement Number 67: Financial Reporting for Pension Plans

Mr. Romero acknowledged Melba Simpson, Senior Partner, and Grace Yuen, Engagement Partner, of Simpson & Simpson, Certified Public Accounts. Ms. Simpson and Ms. Yuen presented the report on the requirements and impact of GASB 67 regarding financial reporting for Pension Plans.

Ms. Simpson stated the primary changes that were made by GASB involved the accounting and financial reporting of pension plans' liabilities and cost from a funding methodology to an accounting methodology. She stated that in the past, GASB 25 and GASB 27 dealt with actuarial studies and its recommendation for the required contributions. Most of the financial reporting was related to the same methodology as the funding. However, under GASB 67, the financial report is the snap shot of the current financial net position. The GASB continued to not specify the funding methodology. Employers still have the option to fund under the various methodologies they choose.

Ms. Simpson reported that the Plan must implement GASB 67 and all changes, effective June 30, 2014. She stated that the changes cover single employer and multi-employer plans; however, the focus of discussion would be on single employer which was relevant to the Plan. She reviewed some key aspects of GASB 67 stating that many of the financial items were not changing; however, the basic changes would be in expanded disclosures for the notes, new required supplementary information (RSI), measurement of net pension liability, and the discount rate used to measure the pension liability. She stated that the Required Financial Statements and Statement of Changes in Fiduciary Net Position, would remain the same; however, the Notes to Financial Statements now requires that the Plan description include the composition of the Plan's board, as well as various investment-related information such as: policies; how fair value of investments is determined; concentrations of investments; and the annual money-weighted rate of return.

Ms. Simpson reviewed additional information under the requirements of GASB 67, to disclose the components of the employers liability (including the total pension liability [TPL], net pension liability [NPL], and the percentage of TPL), and the date of the actuarial valuation on which the total pension liability is based, as well as various other required disclosures. She discussed the required supplementary information (RSI), measurement of net pension liability for note disclosures and RSI, and the discount rate used for calculating TPL.

Ms. Simpson reviewed changes to GASB 68, effective June 30, 2015. She discussed the key aspects of GASB 68 including, the measurement and recording of net pension liability, pension expense, deferred inflows and outflows of resources related to pensions, discount rate used in measurement of total pension liability, and expanded note disclosures and RSI.

Mr. Rozanski inquired if the changes would affect the Disability and Death benefit and/or healthcare liabilities. Ms. Yuen stated that the changes would not affect the healthcare liability; however, they are still working with management to determine whether the Disability and Death benefit would be affected.

11. Proposed Changes to Insurance Requirements for Contracts Issued by the Retirement Board

Ms. Higgins presented a brief background on the history of the contract insurance requirements, and introduced Michael Salazar, Risk Manager, to present the proposed changes to the insurance requirements for contracts issued by the Retirement Board.

Mr. Salazar reviewed the Retirement Board's current insurance requirements and provided an overview of his concepts for future insurance requirements that would identify the various types of categories specific to retirement investment contracts and identify the appropriate mechanisms. He stated that they would establish the categories and the criteria within the categories then return to the Retirement Board with a presentation and a request for approval to move forward with their recommendations.

Mr. Romero expressed his support of the review of the current insurance requirements.

Mr. Poole stated that he was in agreement with the approach; however, he requested a comprehensive report that includes the current requirements, proposed new categories with rationale, and examples to ensure they meet the requirements.

Mr. Rozanski also expressed his support in tailoring the current insurance requirements.

12. Presentation by Pension Consulting Alliance, Inc. – 2014 Second Quarter Performance Report

Neil Rue of Pension Consulting Alliance, Inc. (PCA) presented the quarterly performance report for the period ending June 30, 2014. Mr. Rue highlighted a need for reconciliation. He referred to the performance generated by BNY Mellon, the Plan's custodian, showing a fiscal year (FY) return of 17.3%, which was a solid return above the median and double the assumed rate of return. He then called attention to PCA's FY rate of return at 16.8%, which was 50 basis points difference for the year. Mr. Rue stated staff will gather the most current information possible, while PCA is relatively consistent across all the managers so they are all reporting at the same particular point in time. In the real return class there was a huge volatility in performance from one quarter to the next quarter. Over the last three months the overall real return category jumped significantly in one quarter of the rolling year return. He advised that staff was able to generate the information in their report; however, PCA would present their numbers in the next quarterly report. He stated that although it is not in the current quarterly report, the Portfolio produced above median returns.

Mr. Rue provided a brief market summary stating the portfolio had a strong performance for the quarter, an increase of about 4% in one quarter, and a strong return for the year. He added that the return was more than double the assumed actuarial rate of return. Over the course of a year, approximately \$1.4 billion of investment gains were added to the Plan. The Portfolio modestly underperformed the policy and slightly underperformed the median fund.

He discussed underperformance versus policy stating the equity markets had reached historically high record levels through July and came back strongly in August and they continue to break new milestones in the equity markets. As that happens, it is tough for the private equity markets to keep up; therefore, in the private equity space you have a benchmark that is public market based so it is racing relatively quickly and the private equity portfolio is lagging because it is marked-to-market on a quarterly basis.

Mr. Rue stated the total Portfolio generated positive absolute performance results over all five trailing 12-month periods and outperformed the policy benchmark three times over the same 12-month periods, net of fees. He also discussed Invesco's lagging returns for the quarter and advised that they would continue to monitor throughout the following quarter.

13. Securities Lending Monitoring Process

Mr. Wolfson presented the process on Securities Lending Monitoring, noting that the most important aspect of the securities lending monitoring is processing claims. He stated the claim processing is prepared by the custodian; therefore, the reports staff rely on are custodial reports that staff will review to ensure the custodian is filing all claims on behalf of the Plan. In addition, over the years another process was set-up with external counsel allowing for various law firms to download data and review pending lawsuits in order to calculate potential pension exposure. Mr. Wolfson stated that Kaplan Fox law firm provides said service and staff receives their reports weekly, typically informational only. Discussion ensued regarding the details of preparing a class action lawsuit. He stated there exists a bench of securities litigation law firms ; however, he believed that the City Attorney was currently working on a new Request for Proposal (RFP) that the Plan could participate in to possibly replace some of the existing law firms. Mr. Wolfson advised that should the Retirement Board decide at some point that it makes sense to take the lead on a case then the process would be to bid-out the work to ensure the Retirement Board would have the opportunity to choose the most appropriate firm.

Mr. Romero inquired about a current contract for the services. Mr. Manning advised that although the contract had expired, the law firms provided the monitoring services at no cost as it would be to their benefit to obtain information on the Plan's holdings and losses to allow them to approach the Retirement Board should they observe that the Plan was the shareholder with the largest losses. Mr. Manning stated that under the private securities litigation reform of 1995, one of the principal means of a judge determining who will be the lead plaintiff is who has the largest loss.

Mr. Romero stated that although there is no contract it would be prudent for the Retirement Board to hear from a securities monitoring company who can provide a quarterly update on the Portfolio. Discussion ensued regarding the feasibility of securing a contract for the services.

Mr. Poole stated that he would like to see a presentation from securities monitoring law firms in the near future. Mr. Manning advised that he would try to set-up a presentation and cautioned that the firms typically provide marketing information. Mr. Romero requested Mr. Rue to inquire with his firm's other public plans as to how their securities monitoring programs work.

Mr. Rozanski requested that the Retirement Board be provided with the quarterly reports generated by the custodian. It was agreed that staff would work with the City Attorney's Office to provide a presentation to the Retirement Board by the two reporting law firms.

14. Discussion of Proposed Plan Amendments

Ms. Higgins stated the item presented three reports, all of which were proposed plan amendments. The recommendations request approval of the proposed amendments in concept only, they do not require that the Retirement Board initiate the Plan amendment process at this time, which is a three-step process. She said the recommendations would start the notification and the meet and confer

process with the Unions. In addition, staff would begin working on some of the more technical issues that would be required to accompany any Plan amendment that was initiated by the Retirement Board. Therefore, the recommendation was to give authority to the Interim Retirement Plan Manager to send the amendments to the Labor Relations Office to begin notification and meet and confer and to allow staff to continue with the technical aspects.

Ms. Higgins explained the proposed amendments, as follows:

- 1) Approve in concept a Plan Amendment to eliminate the Reserve for Investment Gains and Losses.
- 2) Approve in concept a Plan amendment to enable additional medical professionals to provide medical certification of Temporary and Extended Temporary Disability, subject to the member meeting all other eligibility requirements;
- 3) Approve in concept a Plan amendment to align the Regular Rate of Interest to the Assumed Investment Rate of Return used in the annual actuarial valuation of the Plan;
- 4) Approve in concept a Plan amendment to align the actuarial factors used to calculate Benefit Options with the factors used in the annual actuarial valuation of the Plan;

Mr. Romero requested that Ms. Higgins work with the actuary to provide more accurate fee quotes for cost studies related to the proposed amendments. Ms. Higgins concurred and stated she would discuss with the actuary.

Mr. Romero stated for the record that he did not receive his package as regularly delivered due to a FedEx oversight; therefore, he requested that the item be tabled to allow for additional time to review the material.

Mr. Poole agreed with Mr. Romero and also requested additional time to review and consider the ramifications of the revisions.

Ms. Higgins suggested that the matter be re-agendized for the Retirement Board's September 24, 2015, meeting, and Ms. Higgins would arrange to have the actuary present for any inquiries.

The item was held.

15. Discussion of Retirement Plan Manager Selection Process

Ms. Carranceja provided the update on the Retirement Plan Manager Selection process stating that the Director of Human Relations recommended a four member panel to conduct the interviews consisting of two active members of the Retirement Board from Labor, one retired member of the Retirement Board, and one "ex officio" member of the Retirement Board from Management. The role of the panel would be to make a recommendation to the General Manager who is the appointing authority for the Retirement Plan Manager. Since that time, Human Resources staff and the Retirement Office staff have consulted the City Attorney's Office who opined that four members of the Retirement Board would constitute a quorum of the Retirement Board under the Brown Act.

Ms. Carranceja stated it was recommended that the composition of the interview panel be changed to include less than a quorum of the Retirement Board, consisting of two elected active members from Labor, one retired member, and one active member from the Department's Management who is not a member of the Retirement Board.

Mr. Romero stated for the record that he did not accept the City Attorney's position on the appointing authority or the hiring of the Retirement Plan Manager; however, for the sake of getting a Plan Manager, his hope was that the General Manager accepts the recommendation.

Mr. Poole concurred with Mr. Romero's comments, and stated he understood the City Attorney has concerns; however, he felt a compromise could be reached to allow for staff's recommendation to allow the panel to conduct the interviews.

Ms. Higgins was requested to return to the meeting.

REPORTS FOR REFERENCE

16. Investment Reports for June 2014

- a) **Summary of Investment Returns as of June 30, 2014**
- b) **Market Value of Investments by Fund and Month as of June 30, 2014**
- c) **Market Value of the Retirement, Death, and Disability Funds and Retiree Health Care Fund as of June 30, 2014**

17. Retirement Plan Manager's Comments

Ms. Higgins reported on the following:

- Presenting quarterly reports – next report after September 30, 2015, incorporating additional information
- Custodian Bank contract and transition with Northern Trust due to be executed within the next two weeks
- Department is under expedited budget process as imposed by the City; therefore, a budget report will be presented at the September 10, 2014 meeting

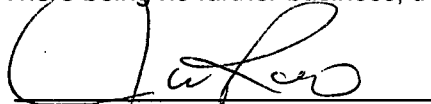
18. Future Agenda Items

Mr. Romero requested information on outside education for Retirement Board members. Ms. Higgins advised of tentative planning for a date in January 2015; however, she would provide detailed content to Mr. Romero in the near future.

Mr. Romero requested and update on enhancements to the computer system at a future meeting.

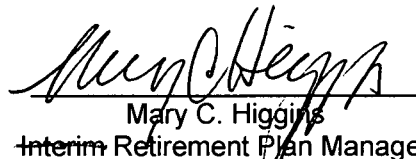
Ms. Bogin reported on CALAPRS training advising that the majority of members received their packages on their iPads. Mr. Romero requested that the same process be used for the Retirement Board.

There being no further business, the meeting adjourned at 10:58 a.m.



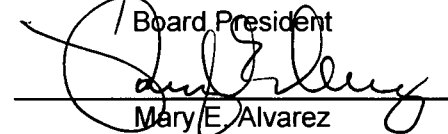
Javier Romero
Board President

2/11/15
Date



Mary C. Higgins
Interim Retirement Plan Manager

2/11/15
Date



Mary E. Alvarez
Utility Executive Secretary

2/11/15
Date

Assistant