

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

MINUTES – May 16, 2007

Present:

Javier Romero	President
Eugene Canzano	Board Member
Michael Moore	Retiree Member
Cindy Coffin	Board Member

Absent:

Ronald Deaton	General Manager
Forescee Hogan-Rowles	Commissioner
Ron Vazquez	Chief Financial Officer

Others Present:

Sangeeta Bhatia	Retirement Plan Manager
Monette Carranceja	Assistant Retirement Plan Manager
Mark Blunk	Assistant Retirement Plan Manager
Irene Colón Gonzalez	Recording Secretary
Sarah Bernstein	Pension Consulting Alliance
Mike Wilkinson	Deputy City Attorney

President Romero called the meeting to order at 10.12 a.m. after the Pledge of Allegiance.

[Pledge of Allegiance]

Ms. Bhatia indicated a quorum of the Board was present.

PUBLIC COMMENTS

President Romero recognized Jennifer Hwang, a new Clerk Typist in the Retirement Plan Office.

President Romero inquired if there were any public comments. There were no public comments.

- 1. Approval of Board Minutes of March 7, 2007 (Regular Board Meeting)**
- 2. Termination from the monthly rolls as of May 2007**
 - Retirement Resolution for May 2007**
 - Resolution terminating Stephen M. Sporman and Jessica R. Sporman from the May 2007 Family Death Benefit Roll (attained 18 years of age)**
 - Resolution terminating J. Jankowski from the May 2007 Survivorship Roll as a result of her death**
 - Resolution appointing Arthur Grandado as trustee for Mariana Villegas,**

eligible spouse of Luis Villegas, deceased

Mr. Canzano moved adoption of the above items 1 and 2 on consent. Seconded by Mr. Moore and carried unanimously after the following vote:

Ayes: Romero, Coffin, Moore, and Canzano
Nays: None

- 3. Report of Payment Authorizations as of April 2007**
- 4. Notice of Deaths for April 2007**
- 5. Report on Status of Insurance as of May 9, 2007**
- 6. Summary Investment Returns as of March/April 2007**
 - a) Market Value of Investment by Fund and Month as of April 30, 2007**
 - b) Market Value of the Retirement, Death & Disability Funds and Retiree Health Care Fund as of April 30, 2007**
 - c) Investment Returns as of April 30, 2007 and March 31, 2007 (Final)**

Mr. Moore noted there were two different summary of investment returns, one being the most current and the other dated March 31. He then inquired if the one dated March 31 was a corrected copy. Ms. Bhatia responded that the March 31 summary had not yet been presented due to certain reconciliation issues staff was resolving. She indicated she previously reported that staff had changed their methodology of tracking assets under the Healthcare Plan as opposed to the Retirement.

President Romero inquired, with regards to the alternative investments insurance status, was there a timeframe in which the professional liability/crime insurance needed to be submitted by Lexington, Landmark, AETOS, and PAAMCO. Ms. Carranceja responded that normally the Risk Management Section gives managers a timeframe to respond. Ms. Bhatia stated, as far as the alternative investments and real estate, the Retirement Board adopted a policy of recommending, as opposed to requiring the insurance. Although the firms have been requested to provide the insurance papers, there has been no success in obtaining them. Ms. Bhatia explained that the goal is to have documentation to indicate what type of insurance the firms have because there are invested funds at stake.

Mr. Canzano moved the above items 3 through 6 be received and filed. Seconded by Mr. Moore and carried unanimously after the following vote:

Ayes: Romero, Coffin, Canzano, and Moore
Nays: None

- 7. Presentation of the Quarterly Performance Review as of March 31, 2007, by PCA**

Ms. Sarah Bernstein (PCA) approached the Board table. President Romero recognized Ms. Bernstein.

Ms. Bernstein reported that the total portfolio returns for the quarter were right in line with the benchmark, but slightly lagging for the one year and three year. She noted that an 8-year return was added, and over time these will be regular reporting of 5 and 10 years' returns.

Mr. Canzano inquired, when talking about \$49 million less in net contributions, what is the major contributor to why this is less. Ms. Bernstein responded that net contributions mean net outflows. Ms. Bhatia explained, with regards to outflows, cash is withdrawn to pay the disbursement benefits. Ms. Bernstein stated PCA could add another sentence reflecting the aggregate flows as far as contributions.

Ms. Bernstein provided the Board with a market economy overview, reporting that the U.S. equities had a dismal performance during the quarter. She stated with non-U.S. equities outperforming, a lot of concerns about the mortgage market has also showed up in the real estate and increased the debt markets due to those anxieties.

Ms. Bernstein reported, as far as the three year numbers, one can see the strength in the emerging markets internationally, value is still reigning for this period, and private and public real estate is doing quite well. She stated in the five-year period there is a dramatic outperformance of the emerging markets and that valued dominated growth domestically. She added that real estate markets did excellent for those periods and high yield markets outperformed.

Ms. Bernstein noted a correction to the three and five year numbers on page 9 of PCA's booklet, stating the red diamond should reflect the 5-year median and should be placed on the following page. She also noted that the red diamond on the five year at 6% standard deviation and close to a 12% return is where the universe 3-year median should be. Ms. Bernstein directed the Board's attention to page 5 of the 5-year return, and indicated the red diamond should be shifted downward to a little bit below 10% return and the risk standard deviation number should be just below 8%.

Ms. Bernstein reported that LADWP's portfolio was in line with the benchmark for the quarter, lagging the median universe for the one year, slightly below the universe for the three year, and 0.4% under the benchmark and a little wider dispersion over the 5 year numbers. She congratulated the Board on all of the work completed in terms of revamping the portfolio over the last few years despite various managers on and off of watch status. She stated that compared to the median universe numbers, LADWP's portfolio is underweight in real estate and alternatives. She pointed out that, during the asset liability study, these kind of asset allocation issues will be coming up and even though the portfolio will be funding it is still underfunded. Ms. Bernstein informed the Board that even though the asset allocations have been changed to real estate and private equity, the median is very likely moving up in terms of their allocations to real estate and private equity. Therefore, a lot of public funds and over the broad universe and domestic U.S. are moving beyond 5% to real estate and 5% to alternative investments. Ms. Bernstein stated this may continue and it will depend on what is seen and what the Board's risk preferences and decisions are when going through the asset liability steps for the next three to five year period.

Ms. Bernstein reported, with regards to the actual versus target allocations, an overweight still exist in domestic and international equities and there is an underweight in alternatives and real estate. She pointed out that the real estate and private equity numbers are all lagged one quarter and will start showing up as we get closer to target by the second quarter return numbers. Ms. Bernstein indicated the Death and Disability Funds are at 60/40, according to the Board's decision when the Other Post Employment Benefits was brought in. She noted an error under the target column for the Disability Fund, stating it should be 0% instead of 7% for that particular period. Ms. Bernstein added that, since that time, those targets have been changed to 5% and 4% targets. She informed the Board there were no December numbers for the Health portfolio, but in going forward it will be monitored.

Ms. Bernstein reported that for the quarter, international equity underperformed, while domestic equity outperformed. She stated private equity underperformed for the quarter, but is not fully funded. Fixed income investments is in line and the alternative numbers is a blended benchmark of the private equity and hedge fund number. She indicated, in going forward, the hedge fund number will be shown separately.

Ms. Bernstein noted the three domestic equity managers that underperformed were T. Rowe Price, Earnest Partners, and Northpointe. She expressed that Earnest Partners was performing dismally and did not seem to be recovering and would be brought before the Board for replacement in the next three to four months. She suggested waiting to do this until going through the asset liability study so that if there are any other changes to be made in domestic equity it could be done all together. Ms. Bernstein stated that Fred Alger, who is also on watch for performance issues, bounced back dramatically with over five percentage points in one quarter of outperformance. Ms. Bhatia noted that Earnest Partners was placed on watch in June 2006 because of performance issues and Ms. Bernstein is suggesting bringing them back in 3 to 4 months which would take them over the 1 year mark. She stated it was her understanding that a manager was to be placed on watch for only 9 to 12 months. Ms. Bernstein recommended the watch status of managers be a period of 9 to 15 months and that PCA monitors them quarterly. She stated, in this particular case, PCA is ready to take a closer look and recommends replacing Earnest Partners. She explained that the timing for this particular case is because the asset liability study is under review and it makes sense to do it as an overall restructuring of the domestic equity portfolio.

Ms. Bernstein reported, with regards to the international equity portfolios, there is not a three-year history for any of the managers. She indicated there was a lot of underperformance and the only out performance is for T. Rowe Price, wherein they outperformed by 10 basis points for the one-year number. Ms. Bernstein explained that when there are markets that are surging and the benchmarks are really high, it is much harder for individual active managers to outperform their benchmarks. Mr. Canzano noted that none of the managers are meeting their benchmark and inquired if there was a problem with the benchmark that was selected. Ms. Bernstein responded that there were other funds in emerging and developed markets and it is not the benchmark, but actually the time period we are in and it is appropriate. She expressed that PCA is very comfortable with the current benchmarks.

Ms. Bernstein reported, with regards to fixed income, Wells is on watch for the core and

high yield portfolio due to significant departures on their management team. She stated there were no dramatic failures in the fixed income portfolios. She also mentioned ING experienced underperformance for the year but their term numbers are not long enough to be meaningful in PCA's opinion.

Ms. Bernstein reported that hedge fund of funds had just funded in February. In private equity, Lexington funded prior to December and has outperformed the newly adopted Cambridge U.S. private equity index. She added that Landmark had not been funded yet.

Ms. Bernstein reported the total portfolio return for the Health Plan portfolio for the first quarter was 2.7%. She noted the return includes the transition return and cash account returns for that particular period. She then informed the Board not to expect huge outperformance like this in going forward.

Ms. Bernstein pointed out that since Pyramis has been placed on watch they have done a decent job and the Board may want to consider removing them from the watch list in the next few months.

Ms. Bernstein stated the LADWP fund is moving up in its performance for the quarter and she expressed this reflects all of the work on the part of the Retirement Board and staff over the last few years.

8. Resolution to confirm the appointment of Macias, Gini & Company LLP as the Water and Power Employees' Retirement, Disability, and Death Benefit Plan's (Plan) external auditors beginning with Fiscal Year ending June 30, 2006 through and including Fiscal Year ending June 30, 2008

Mr. Canzano moved that Macias, Gini & Company LLP be appointed as the Water and Power Employees' Retirement, Disability, and Death Benefit Plan's (Plan) external auditors beginning with Fiscal Year ending June 30, 2006 through and including Fiscal Year ending June 30, 2008. Seconded by Ms. Coffin and carried unanimously after the following vote:

Ayes: Romero, Coffin, Canzano, and Moore
Nays: None

9. Retirement Plan Manager's Comments
a) General Items

Ms. Bhatia reported the DWP active newsletter was sent for printing and would be mailed. She stated staff welcomes the Board's feedback as to any improvements that could be incorporated in the next newsletter.

Ms. Bhatia informed the Board that JEA has already complied with the insurance provisions, staff has provided them with all the necessary information, and things are progressing.

President Romero recognized Fidelity for divesting 91% of their assets in Petro China as a result of the issues in Sudan.

10. Future agenda items

Mr. Canzano inquired if the subject of additional contributions was going to be agendaized for a future meeting. Ms. Bhatia responded that staff was planning to bring back the information that was previously presented along with any other additional information in terms of how the DWP Pension Plan compares with the other pension plans.

Mr. Canzano requested the Board be provided with the retiree newsletter before they are mailed out. Ms. Bhatia informed Mr. Canzano that the newsletters are posted on the website as soon as it is ready to go to print and before it is mailed out to the retirees. She then suggested emailing a copy of the newsletter to the Board members ahead of time.

Ms. Coffin inquired if a letter was sent to the different bargaining units regarding the meet and confer issue. President Romero responded that the Board is supposed to meet beforehand.

Attorney Wilkinson reminded the Board that, with regards to Mr. Canzano's comment, any increase to the benefit will be a meet and confer issue. Ms. Bhatia stated, at this point, it is only being presented as a discussion item.

The Board meeting was adjourned at 11.03 a.m.

JAVIER ROMERO
President

SANGEETA BHATIA
Secretary

IRENE COLON GONZALEZ
Recording Secretary