

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

MINUTES

May 26, 2010

Board Members Present:

Javier Romero, President
Cindy Coffin, Vice President
Barry Poole, Board Member
Michael Moore, Retiree Member
Jeff Peltola, Chief Financial Officer

Board Members Absent:

Austin Beutner, Interim General Manager
Lee Kanon Alpert, Commissioner

Staff Present:

Sangeeta Bhatia, Retirement Plan Manager
Monette Carranceja, Asst. Retirement Plan Manager
Jeremy Wolfson, Chief Investment Officer
Erlinda Pabon, Acting Utility Executive Secretary

Others Present:

Neil Rue, Pension Consulting Alliance
Michael Wilkinson, Deputy City Attorney
Mary Jo Curwen, Deputy City Attorney

President Romero called the meeting to order at 10:06 a.m. following the Pledge of Allegiance.

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

Public Comments

Mr. Conney Williams, a DWP Retirement staff member, addressed the Board with his concern that all members of the Retirement Plan might not be aware of the seriousness of the items being presented for the Board's consideration. Mr. Williams requested the Board Members make a proper decision prior to approving Resolution Nos. 10-95, 10-96, and 10-97. He also commented about the availability of the board reports to the public and the manner they could be accessed prior to the meetings.

Mr. Wilkinson responded a 72-hour rule (Brown Act) was in effect, and the agenda is considered a public record once it was delivered to a quorum of the Board Members. Ms. Bhatia stated that agenda materials were sent out on the Friday prior to the week of the meeting.

(Jeff Peltola joined the meeting at 10:12 a.m.)

The Board and staff agreed to discuss when the agenda becomes available to the public at the next meeting.

Mr. Romero stated Deputy City Attorneys Mike Wilkinson and Mary Jo Curwen were retiring and this would be their last meeting as City Attorney Counsels for the Retirement Board. Mr. Romero presented Mr. Wilkinson and Ms. Curwen each with a resolution in recognition of their services to the Retirement Board.

1. **Termination from Rolls**
Termination from May 2010 Retirement Roll
Termination of Devoria M. Crawford from the May 2010 Survivorship Roll
Termination of Gordon H. Shearer from the May 2010 Family Death Benefit Roll

Mr. Moore moved for approval of Consent Item No. 1; seconded by Ms. Coffin and carried after the following vote:

Ayes: Romero, Coffin, Poole, Moore, and Peltola
Nays: None

2. **Report of Payment Authorizations for April 2010**
3. **Notice of Deaths for April 2010**
4.
 - a) **Summary of Investment Returns as of April 30, 2010**
 - b) **Market Value of Investments by Fund and Month as of April 30, 2010**
 - c) **Market Value of the Retirement, Death, and Disability Funds and Retiree Health Care Fund as of April 30, 2010**
5. **Report on Status of Insurance as of May 13, 2010**
6. **Report on Organizational Changes at Bank of New York Mellon and Pyramis Global Advisors**

Ms. Coffin moved for approval of Items 2 through 6 as received and filed; seconded by Mr. Moore and carried after the following vote:

Ayes: Romero, Coffin, Poole, Moore, and Peltola
Nays: None

7. Annual Presentation by Fred Alger Management, Inc. – Large Cap Growth

Mr. Romero acknowledged Peter Latara, Senior Vice President, and Daniel Chung, Chief Investment Officer and Chief Executive Officer, of Fred Alger Management Company.

Mr. Latara stated Alger was hired in February 2004 to manage a large cap growth mandate and he was in charge of the client-management group. He introduced Mr. Chung, as the portfolio manager for Alger's large cap growth strategy.

Mr. Chung provided an overview of the firm and reviewed the company's management style and investment philosophy and process. He reviewed the portfolio performance and indicated the portfolio has outperformed its benchmark since inception in 2004 and for the trailing 12-months through April 30, 2010. Mr. Chung noted that the Plan also committed an additional investment for the Health Benefits Fund on September 11, 2009, which also outperformed its benchmark as of April 30, 2010. He reviewed the sector weightings, sector attribution, and the top ten contributors and detractors as of April 30, 2010.

8. Presentation by Pension Consulting Alliance, Inc. – First Quarter Performance Review as of March 31, 2010

Mr. Romero acknowledged Neil Rue from Pension Consulting Alliance.

Mr. Rue provided a summary of the portfolio performance of both the Retirement Fund (RF) and the Retiree Health Benefits Fund (RHBF) for the first quarter of 2010. He indicated the portfolio earned over 3.5 % gross of fees.

(Mr. Peltola left the meeting at 10:52 a.m.)

He reviewed the investment risk/returns for the three-year and five-year-periods. He also noted that the Plan's portfolio performed very well relative to its peers over the last five to ten years. Mr. Rue reviewed the performance attribution for the first quarter of 2010 and the trailing 12-month period. He explained the portfolio underperformed its benchmark for the trailing 12-month period which could have been due to the attribution of weightings, selections, and the effect. He indicated the portfolio managers have added 50 basis points across all classes over the last twelve months which translates to \$25 million of added value net-of-fees.

(Mr. Peltola rejoined the meeting at 11:04 a.m.)

There were questions and concerns from Board Members relative to the real estate investments performance for 2009. Mr. Rue indicated the Plan's policy target was 3% and although the current 1% investment was negative, the Plan was still in a good position to invest in real estate.

He reported PCA was reviewing the portfolio managers on the watch list and PCA would discuss their recommendation at a future Board meeting. He noted the RHBF portfolio was valued at close to \$900 million. In response to Mr. Poole's inquiry about the current RHBF funding, Mr. Peltola responded the liability was close to \$1.4 billion.

9. Discussion of Core Fixed-Income Transition

Jeremy Wolfson provided the history on the recent Core Fixed-Income transition. He recounted that the Board hired JP Morgan Asset Management to replace ING and the contract was finalized on April 7, 2010, and Mellon Transition Management, the transition manager concluded the transition on April 14, 2010. He noted approximately \$1.1 billion from the Retirement fund and \$155 million from the Health fund were moved to JP Morgan.

Mr. Rue provided PCA's third-party review and stated PCA had no major comments. He reported the cost was 19 basis points related to \$180 million that was traded. The total transition was \$1.3 billion of which \$1.1 billion transferred in-kind at no cost.

10. Discussion of Large Cap and Small Cap Transitions

Mr. Wolfson reported that in February 2009, the Board terminated Norte Pointe Capital due to performance reasons, and in August 2009, terminated INTECH, and funds from the two accounts were moved to a temporary passive account. He reported the Board hired Frontier Capital to replace NorthPointe in November 2009 and hired T. Rowe Price to replace INTECH in December 2009.

Mr. Rue reported the cost of small cap transition was between 30 to 35 basis points, the cost of the large-cap transition was around 50 basis points. Mr. Peltola asked about the cost involved during the transition period from April 7 - April 16, 2010, and Mr. Rue noted the Retirement Plan pre-transition value of almost \$500 million increased to over \$504 million post-transition and incurred a cost of around \$500 thousand dollars.

11. Ratification of the Board's Action to Approve the Experience Study and the Associated Actuarial Assumptions

Ms. Bhatia reported this item was brought back to the Board for approval of all of the suggested actuarial recommendations and to change the 7.5 % assumed investment rate of return as previously adopted, back to 7.75% as originally recommended by actuary.

Mr. Moore moved to ratify the Board's action to approve the experience study and the associated actuarial assumptions; seconded by Mt. Peltola, and carried unanimously after the following vote:

*Ayes: Romero, Coffin, Poole, Moore, and Peltola
Nays: None*

12. Discussion of Plan Amendment to Suspend the Reciprocity Program Between WPERP and LACERS

Ms. Bhatia reported this item was brought back to the Board as a follow-up from the previous discussion held at the May 12, 2010, Board meeting. She stated the Board had requested the report because the current reciprocal arrangement between the Retirement Plan and LACERS was not working as intended. She added there were concerns regarding the fiscal impact on the Plan and after much discussion, the Board directed Staff to draft a Plan amendment to suspend the reciprocal arrangement, develop a proposal to amend the reciprocal arrangement, and expedite the actuarial cost study of the Reciprocity Program. She added that merely suspending the reciprocity program would not provide the result needed; therefore, it was necessary to also clarify in the other government service provision to indicate City service would not be eligible for purchase.

Mr. Romero commented that the goal of the Trustees is to protect the Plan. He noted that when the reciprocity program was first initiated back in the late 1980s, it was believed it would be cost neutral, but currently the program is costing the Plan hundreds of millions of dollars. He added the immediate goal was to suspend the program until the actual cost to the Plan has been determined.

Discussion ensued regarding various scenarios on how to prevent additional liability. It was suggested the following language be added to the proposed Resolution No.10-96:

“ . . . and new transfers to the Department of Water and Power (DWP) from the City shall ultimately be covered by an understanding to be negotiated within the City and ultimately approved as another Plan amendment”.

Mr. Moore moved for approval to suspend the reciprocity program between WPERP and LACERS with the additional language as noted; seconded by Ms. Coffin and carried after the following vote:

*Ayes: Romero, Coffin, Poole, Moore, and Peltola
Nays: None*

Mr. Moore recommended that the first portion of the approved amendment be changed from "...and new transfers" to "recognizing new transfers..."

Ms. Curwen advised members that because the Board had just ratified the changes to Resolution No. 10 – 96, an additional motion was necessary to make the further changes.

Mr. Moore moved to amend the newly ratified amendment to read "...recognizing new transfers to the Department of Water and Power (DWP) from the city shall ultimately be covered by an understanding to be negotiated within the City and ultimately approved as another Plan amendment"; seconded by Ms. Coffin and carried after the following vote:

Ayes: Romero, Coffin, Poole, Moore, and Peltola

Nays: None

With respect to the approved resolution, Mr. Moore commented on informing members of the City Council and other individuals as necessary. Ms. Bhatia indicated she had spoken with Sally Choi, LACERS General Manager, and acknowledged LACERS staff in the audience. She also indicated she had informed Mr. Raj and Ms. Nagin.

13. Discussion of Plan Amendment to Revise the Regular Interest Rate on Members' Regular and Additional Contribution Accounts

Under Public Comments, John Hill, DWP Utility Accountant, expressed his concern that if the interest rate for the members' additional contributions changes from 8% to 7.75%, participants would no longer receive the dividends they originally anticipated. He suggested if the Board adopted the Plan amendment to lower the rate, the participants be informed of the effect of the new interest rate on their additional contribution accounts.

Ms. Bhatia reported this item was brought back for further discussion regarding the impact of the change in the investment return assumptions on the mandatory member accounts and the voluntary additional contribution accounts. She stated that because the interest rate is defined in the Plan, any change to the interest rate would require a Plan amendment. She explained historically the regular interest rate has been set at the same rate as the investment return assumption, and the current Plan provision specifies an actual percentage rate. She stated in order to avoid having to amend the Plan each time the investment return assumption is changed, the resolution concerning the proposed Plan amendment includes language reflecting the regular interest rate as being the same as the current investment return assumption adopted by the Board.

Mr. Poole suggested Labor Relations or the City Attorney's office be consulted to determine if a change to the additional contributions interest rate would be considered a meet and confer item.

Ms. Bhatia noted that when a member enrolls in the additional contribution program, staff makes it very clear that the rate of return is not guaranteed and that it is subject to change.

It was suggested that the proposed Plan amendment resolution be revised to address the regular contribution account and omit the additional contribution account at this time. Mary Jo Curwen, advised that since the Plan currently referred to regular interest for both of these accounts, then revisions would need to be made throughout the Plan to set separate interest rates. With regard to the meet and confer aspect, she added this could be explored prior to submitting the proposed Plan amendment to the Board of Water and Power Commissioners. She further added that if the

Board wanted to expedite this item to coincide with the July 1 effective date of the investment return assumption, the Board could submit the Plan amendment resolution now; however, the City Attorney's Office would not be able to approve the proposed resolution as to form and legality until the meet and confer issue is resolved.

Upon further discussion, it was decided that this item would be deferred to a future meeting.

(Mr. Peltola left the meeting at 12:21 p.m.)

14. Retirement Plan Manager's Comments

Ms. Bhatia provided System implementation updates and reported parallel testing was being performed on the death and disability module. She added that after conducting payroll testing for one pay period, no significant functional defect was detected. She also noted that the module replacing the retiree payroll system will be received by May 31, 2010. Ms. Bhatia indicated that module has the capability to compute retiree Cost of Living Adjustment for next year, compute tax withholdings, and some other functions; and the vendor is scheduled to provide training on June 7, 2010.

She reported Retirement Plan positions still need to be included in the Department's Annual Personnel Resolution. Ms. Bhatia reported that at the request of Mr. Peltola, staff was scheduled to make a presentation on June 3 to Mr. Beutner on the investment strategy and investment cost for the retirement fund. She also stated the reciprocity Plan amendment is scheduled for the June 15 Board of Water and Power Commissioners Meeting. She indicated that new information regarding interest crediting would be brought back to the Board for discussion in the near future.


With respect to the issue of meet and confer that was raised at the meeting, Ms. Bhatia indicated she would contact Michele Nagin for information.

The next meeting for the Retirement Board is scheduled for June 9.

15. Future Agenda Items

The Governance Report from the City Attorney will be scheduled for discussion at the next meeting.

There being no further business, the meeting adjourned at 12:30 p.m.



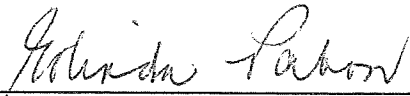
Javier Romero
Board President

6/23/10
Date



Sangeeta Bhatia
Retirement Plan Manager

6/23/10
Date



Erlinda Pabon
Acting Utility Executive Secretary

6/23/10
Date