

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

MINUTES

NOVEMBER 10, 2010

Board Members Present:

Javier Romero, President
Cindy Coffin, Vice President
Barry Poole, Board Member
Michael Moore, Retiree Member
Mario Ignacio, Chief Accounting Employee

Staff Present:

Sangeeta Bhatia, Retirement Plan Mgr.
Monette Carranceja, Asst. Retirement Plan Mgr.
Mary Higgins, Asst. Retirement Plan Mgr.
Jeremy Wolfson, Chief Investment Officer
Julie Escudero, Utility Executive Secretary

Board Members Absent:

Austin Beutner, Interim General Manager
Christina Noonan, DWP Commissioner

Others Present:

Marie McTeague, Deputy City Attorney
Andrea Bollyky, Aetos Alternative Mgmt
Anne Casscells, Aetos Alternative Mgmt
Bill Foster, Courtland Partners
Garrett Zdolshek, Courtland Partners
Jason DeLorenzo, Encap Energy Capital Fund
Martin Phillips, Encap Energy Capital Fund
Tad Fergusson, Pension Consulting Alliance
Mike Moy, Pension Consulting Alliance

President Romero called the meeting to order at 10:15 a.m. following the Pledge of Allegiance. Ms. Bhatia indicated a quorum of the Board was present.

Public Comments

No public Comments

1. Request for Approval of October 13, Regular Meeting Minutes

Mr. Moore requested the word "workflow" on page 1.7 be changed to "workload" and the word "undoubtedly" to be deleted.

Mr. Moore moved for approval of Item 1 with said changes; seconded by Ms. Coffin, and carried after the following vote:

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

Nays: None

2. Report on Organizational Changes at Capital Dynamics

Mr. Moore moved for approval of Item 2 as Received and Filed, seconded by Ms. Coffin, and carried after the following vote:

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

Nays: None

3. Presentation by Pension Consulting Alliance – Asset Liability Study Options

Neil Rue from Pension Consulting Alliance (PCA) reviewed the background for this item and noted that at the previous Retirement Board meeting PCA suggested a strategic plan to pursue over approximately the next nine months. He described that depending on the direction from

the Board on what type of asset/liability study, if any, to undertake, PCA would examine the structures of several of the major classes and propose changes to the strategic allocation.

He suggested one of the first asset classes to be discussed would be the Real Return asset class. He noted that asset class was growing in importance and pointed out that, within that asset class, the Plan had two mandates (inflation-linked bonds and absolute return). He stated that, based on discussions with Staff, PCA considered it would be beneficial to take an additional two to three weeks to study how best to provide strategic options to the Board.

He continued by explaining PCA was preparing to conduct an asset/liability study and this item was to review the various options available and obtain the Board's direction on how to proceed.

He explained that asset/allocation studies are generally conducted every three to five years but, because of the investment market environment and the Board's concerns, PCA proposed addressing the strategy sooner.

He reviewed three asset liability modeling options namely: 1) a more robust, multi-dimensional study similar to the study performed in 2007 which would cost the Board an additional fee; 2) a standard mean-variance-based study which would emphasize investment return volatility as a substitute for risk and would not capture dramatic market outcomes which is a service included in the current PCA contract; and 3) a mean-variance-based asset allocation review which would focus solely on investment return/risk tradeoff and examine only the asset side of the Plan's balance sheet.

Following discussion regarding the Board's assessment of the three options, a consensus was reached as follows:

Mr. Moore moved that the Board select Option 2; seconded by Ms. Coffin, and carried after the following vote:

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

Nays: None

4. Presentation by Courtland Partners, Ltd. – Second Quarter 2010 Real Estate Portfolio Performance

Mr. Romero acknowledged Garrett Zdolshek and Bill Foster from Courtland Partners.

Mr. Zdolshek stated the real estate market was showing signs of stabilization. He reported the real estate portfolio had a target allocation of \$360 million and currently had \$125 million allocated. He noted PRISA I and PRISA II were the most volatile funds in the portfolio and were driven by the economy. He stated Courtland was watching PRISA carefully but recommended taking no action on these funds at this time.

In reviewing the sector allocations, he pointed out that because the portfolio was heavily weighted in its office properties, Courtland would like to reduce the office exposure and increase the exposure in more stable properties such as apartments or industrial.

Mr. Zdolshek explained the portfolio underperformed its benchmark during the downturn of 2008 and 2009 but was outperforming during the recovery period. In response to Mr. Moore's comment about the portfolio's volatility, Mr. Zdolshek explained the portfolio was new and needed time before relative volatility measures were more meaningful. He added that once Mesa West and CB Richard Ellis were fully invested and mature, volatility should diminish.

He also spoke about various real estate valuation methods.

5. Presentation by Aetos Alternative Management, LLC - Hedge Fund of Funds Annual Performance Review

Mr. Romero acknowledged Andrea Bollyky and Anne Casscells from Aetos Alternative Management, LLC.

Ms. Bollyky gave a brief overview of the firm and the Plan's investment with Aetos. She reported the portfolio's return exceeded its benchmark. She reviewed the portfolio's allocations and exposure and noted it continued to meet its targets.

Ms. Casscells discussed the firm's strategies and the investment outlook for next year.

In answer to Mr. Moore's question as to what extent are the long/short managers hedged in the Plan's portfolio and how well were they performing, Ms. Casscells stated the Plan's long/short portfolio was less than 40% net long overall. In addition, the long/short managers were not performing well due to the challenging environment.

6. Discussion of Proxy Vote Notification from Aetos Alternatives Management, LLC

Mr. Wolfson provided an overview of Aetos Alternatives Management, LLC proxy vote and explained that this item was brought before the Board for informational and record-keeping purposes only.

As to Mr. Moore's question whether the long/short fund would be affected by the merger with the opportunities fund, which was the proxy item, Ms. Bollyky indicated the merger would not affect the portfolio weights or performance.

Ms. Coffin moved for approval of Item 6 and Resolution No. 11-36 to vote in favor of the Aetos proxy; seconded by Mr. Moore, and carried after the following vote:

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

Nays: None

7. Discussion of Investment Opportunity in EnCap Energy Capital Fund VIII, L.P.

Tad Fergusson of Pension Consulting Alliance (PCA) provided a brief overview of EnCap Energy Capital Fund VIII, LP (Encap Fund VIII,) a private equity energy upstream fund in which PCA was recommending the Board invest \$25 million from the Retirement Fund and \$5 million from the Retiree Health Benefits Fund (RHBF).

In response to queries from Ms. Coffin and Mr. Moore, Mr. Fergusson stated PCA came across EnCap Investments, LP (EnCap) while reviewing opportunities and found them attractive. He indicated that because private equity opportunities have separate fund raising schedules, the standard Request for Proposal (RF) process for private equity was difficult to use. He also verified that EnCap uses Park Hill as its placement agent and Park Hill introduced EnCap to PCA. Mr. Fergusson added that EnCap has a placement agent policy in place and the general partner would be paying fees to Park Hill directly and not from the fund.

Mr. Wolfson indicated that PCA had provided Staff with proper documentation concerning EnCap's use of Park Hill. Ms. Bhatia stated that the Plan's placement agent policy required full disclosure.

Martin Phillips and Jason DeLorenzo of EnCap provided an overview of their firm and investment strategy. Mr. Phillips emphasized that EnCap is the oldest energy focused private equity firm in the country, and its investment strategy carries moderate risk with no leverage.

In response to Mr. Moore's question of whether EnCap's investment returns were correlated to energy prices, Mr. Phillips confirmed that Encap's investments were affected by oil prices, but added that cost structuring played a larger role.

Concerning Mr. Moore's question regarding the firm's succession plans, Mr. Phillips replied that a succession plan had been in place for the past two years, and current junior partners had equity participation in the firm.

With regard to Ms. Coffin's query regarding the likelihood of the Plan being affected by any potential litigation, Mr. DeLorenzo replied their investment structure was comprised of Limited Liability Companies which insulated the Plan from potential litigation. Mr. Phillips stated EnCap has had no litigation issues to date.

With respect to fees and diversification, Mr. DeLorenzo stated EnCap's fees were paid on commitment and were not negotiable, and Mr. Phillips stated they currently had only eight women employed full time, largely due to the predominately male demographic.

Mr. Moore moved for approval of Item 7 and Resolution No. 11-37 to commit \$25 million from the Retirement Fund and \$5 million from the RHBF to EnCap Fund VIII; seconded by Ms. Coffin, and carried after the following vote:

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

(The Board recessed at 12:28 p.m. and reconvened at 12:35 p.m. with Ms. Coffin and Messrs. Ignacio, Moore, and Romero present.)

8. Ratification of the Board's Action with Respect to the Temporary Investment of Funds

Mr. Wolfson explained the purpose of this item was to ratify the Board's action of October 27, 2010, to terminate its contract with Pacific Alternative Asset Management Company, LLC, and temporarily place the redemption proceeds with Western Asset Management Company pending the selection of a new hedge fund manager.

Mr. Moore moved for approval of Item 8 and Resolution No. 11-38 to ratify the Board's action; seconded by Ms. Coffin, and carried after the following vote:

*Ayes: Moore, Coffin, Ignacio, and Romero
Nays: None*

9. Discussion of Proposed Change to the Plan's Investment Policy with Respect to Fixed Income Investments; and Possible Action

Mr. Wolfson reported that PCA had recommended new language for the Plan's investment policy regarding fixed income, and Mario Ignacio had, subsequently, informed Staff that the Department's tax counsel advised that negative tax consequences or loss of federal subsidies could result if the Plan purchased bonds issued by the City, the Department, and their affiliates.

(Mr. Poole rejoined the meeting at 12:38 p.m.)

Mr. Moore moved for approval of Item 9 and Resolution No. 11-39 to modify the Investment Policy as appropriate; seconded by Ms. Coffin, and carried after the following vote:

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

(The regular meeting recessed at 12:40 p.m. and convened at 12:50 p.m. in Closed Session.)

**10. CLOSED SESSION PURSUANT TO GOVERNMENT SECTION CODE SECTION 54956.9(c),
to Consider Initiating Civil Litigation**

(With the Closed Session having adjourned at 1:37 p.m., the regular meeting met back in Open Session at 1:40 p.m.)

Mr. Romero reported the Board met with Counsel and received advice regarding initiating litigation.

- 11. a) Summary of Investment Returns as of September 30, 2010**
- b) Market Value of Investments by Fund and Month as of September 30, 2010**
- c) Market Value of the Retirement, Death, and Disability Funds and Retiree Health Care Fund as of September 30, 2010**

These items were presented for reference, and no action was required.

12. Retirement Plan Manager's Comments

Ms. Bhatia reported that due to quorum issues and limited staffing for the second meeting of November, it was requested that the November 24 meeting be cancelled and the regular meetings for December be rescheduled to December 1 and December 15. The Board agreed to reschedule the meetings as requested.

Ms. Bhatia reported Mary Higgins recently met with LACERS staff to discuss the reciprocity arrangement, after scheduling conflicts prevented an initial meeting with representatives from all offices involved. She stated that she and Ms. Higgins then met with the Department's Labor Relations Staff to discuss the potential redesign of the arrangement. She noted the two methods they discussed were the CalPERS approach and the approach used by LACERS for the Port Police. She explained the Retirement Board's recommendation was the CalPERS style, but both styles discussed had issues. She added follow-up meetings will take place, one of which will be with the Assistant General Manager of Employee Services Michele Nagin, who will soon be retiring.

Ms. Bhatia reported the Plan amendment with respect to the enhancement of the additional annuity distribution options was scheduled for the November 16, 2010, DWP Commission meeting. Upon approval by the DWP Commission, the amendment will be brought back to the Retirement Board for adoption.

She reported that in connection with the additional annuity plan amendment, the system's contractor, JEA, was reprogramming the system to enable the implementation of the additional annuity options.

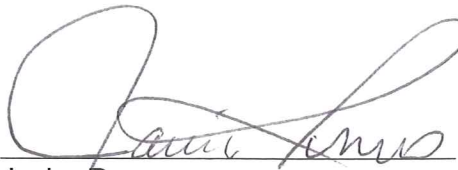
Ms. Bhatia noted testing for one of the remaining system modules continued, however, major data cleanup issues remained. She stated not enough resources and time were available to undergo a mass data cleanup and, as a result, there were certain risks with the quality of the information provided to the actuary. She added Staff was working on it to the best of their current ability.

She reported the mid-career retirement classes were expected to be implemented in January 2011. She noted pilot presentations had been developed and test classes were conducted to fine tune the production. She added schedules will be provided as soon as they become available, and interested employees can sign up through their training coordinator.

13. Future Agenda Items

No items were requested at this time.

With no further business to come before the Board, the meeting adjourned at 1:50 p.m.



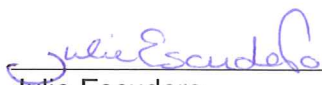
Javier Romero
Board President

1/26/11
Date



Sangeeta Bhatia
Retirement Plan Manager

2-1-11
Date



Julie Escudero
Utility Executive Secretary

1-26-11
Date