

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

MINUTES

FEBRUARY 9, 2011

Board Members Present:

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

Board Members Absent:

Ronald O. Nichols, General Manager

Staff Present:

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

Others Present:

Marie McTeague, Deputy City Attorney
Neil Rue, Pension Consulting Alliance

President Romero called the meeting to order at 10:01 a.m. following the Pledge of Allegiance.

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

Public Comments

Mr. Romero welcomed Loryn Lam to the Retirement Office staff. Mr. Lam previously worked for the Department in the Retirement Office and returned in January as a Benefits Specialist.

1. Report on Extension of Fundraising Period for Lexington Capital Partners VII, L.P.

In response to a question from Ms. Coffin, Mr. Wolfson explained how one becomes a participant of a firm's advisory board.

Mr. Romero asked for a schedule of due diligence site visits, and Ms. Bhatia responded that Staff will provide one at the next meeting. Neil Rue from Pension Consulting Alliance (PCA) indicated PCA will create a schedule of their site visits and provide it to the Board as well.

Mr. Moore moved for approval of Item 1; seconded by Ms. Coffin.

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

Nays: None

THE MOTION CARRIED.

2. Presentation by Loomis, Sayles & Company, High Yield Investment Manager - Annual Performance Review as of December 31, 2010

Mr. Romero acknowledged Stephanie Lord from Loomis, Sayles & Company (Loomis).

Ms. Lord began with an overview of the company. She then reviewed the performance and noted the results were strong with a 17.26% return net of fees which was above the benchmark. She also indicated the annualized return since inception was 8.49%.

At the request of Mr. Moore, she spoke about the large holdings in convertibles. She explained convertibles have changed dramatically and have gone back more into high yield, and Loomis wanted to expand more to equity sensitive convertibles as the economy improves.

She reviewed the outlook for 2011 and explained why high yield continues to perform well.

In connection with her review of the currency summary, Ms. Lord responded to Mr. Moore's inquiry and stated the currency selection was driven by currency as opposed to credits within the foreign country.

She ended her presentation by thanking the Board for renewing their contract.

3. Presentation by Wells Capital Management, High Yield Investment Manager - Annual Performance Review as of December 31, 2010

Mr. Romero acknowledged Niklas Nordenfelt and Stephen Scharre from Wells Capital Management (Wells Cap).

Mr. Scharre opened with an update on the firm and explained that the Sutter management team is a division of Wells Cap that offers high yield fixed income strategies. He explained the portfolio was structured toward higher quality and was more conservative than the index.

Mr. Nordenfelt provided a market overview and reviewed its performance. He described their philosophy and noted the three drivers for 2010 were interest sensitive bonds, cyclical issuers, and low quality issues.

He reviewed the performance in various markets, and he noted the portfolio experienced very strong absolute returns in 2010 but still underperformed the index.

Ms. Coffin referred to Wells Cap's current watch status and asked Staff how it is determined whether to place a manager on watch. Mr. Wolfson explained that Staff and PCA look at how well a manager fits into the overall portfolio as well as the overall risk. He stated Wells Cap was placed on watch status for performance reasons and, although they underperformed their benchmark during this cycle, it did not make sense to terminate them at this time because their style complemented Loomis. He added that Staff continues to monitor them closely.

4. Discussion of Plan Amendment to Change the Regular Interest Rate and Establish Link Between Regular Interest Rate and Assumed Investment Return

Ms. Bhatia gave the background on this item. She stated, based on the recommendation of the experience study conducted by The Segal Company, the investment return assumption was reduced from 8% to 7.75%. She explained a change in the interest rate required a Plan amendment. She further explained the proposed Plan amendment would change the Regular Interest rate to 7.75% and would also link the Regular Interest rate to the assumed investment return rate such that it would never exceed it.

She reported the Department's Labor Relations staff met with all of the affected bargaining units and, at the time of this report, all but IBEW had provided written confirmation agreeing with the change.

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Mr. Poole and Ms. Coffin stated they were uncomfortable with moving forward without written confirmation from all of the bargaining units.

Mr. Romero suggested this item be tabled until the next meeting in order to obtain the written confirmation from IBEW or until a representative from Labor Relations could join the meeting to clarify what took place during the meeting with the bargaining units.

Ms. Higgins suggested the Board proceed with approving the Resolution to amend the Plan but instruct the Plan Manager to postpone forwarding it to the DWP Board of Commissioners until written confirmation from IBEW is received. This would allow Staff to move forward quickly upon receipt of the written confirmation from IBEW since the Plan was still crediting accounts at 8%.

Further discussion ensued.

Mr. Ignacio noted Staff's memo reads the new Plan language would allow for the automatic adjustment of the Regular Interest rate to match the investment return assumption; however, the Resolution reads the interest rate assumption can never exceed the Regular Interest rate.

Ms. Higgins explained the proposed Plan amendment intended to automatically decrease the Regular Interest rate whenever the interest rate assumption was decreased; it would not automatically match but it would decrease with it. Any increase in the Regular Interest rate or any decreases below the investment return assumption would still require a Plan amendment.

Ms. Bhatia added the current situation where the investment return is lower than the Regular Interest rate is what was being addressed with this resolution, and anything not linked to the investment return assumption or changes proposed to the interest rate would still follow the Plan amendment process.

Ms. McTeague clarified the proposed Plan amendment set an internal cap so the current situation would not recur. If the Board desired to match the Regular Interest rate to increase it to the assumed rate of return, then the Board could do so with another Plan amendment, but it would not happen automatically.

Following further discussion, Mr. Poole directed Staff to confirm that IBEW had no objections to the proposed amendment as presented and to make sure IBEW had provided written confirmation of discussions held.

The Board Members asked for a breakdown on the number of participants in the voluntary additional contribution program.

5. Discussion of Extension of Contract with James Evans and Associates

Ms. Carranceja provided the background for this item to extend the contract with James Evans and Associates (JEA) for an integrated pension system. Mr. Ignacio asked if any additional costs were associated with the extension, and Ms. Carranceja responded there were none.

Mr. Moore moved for approval of Resolution No. 11-65 to extend the contract with JEA for an additional three years; seconded by Ms. Coffin.

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

THE MOTION CARRIED.

6. Discussion of Report on July 1, 2011, Annual Cost of Living Adjustment for Eligible Recipients of Monthly Benefits from the Water and Power Employees' Retirement Plan

Mr. Moore moved for approval of Resolution No. 11-66 to implement a tiered cost of living adjustment of up to 3.0% for all eligible monthly allowances, effective July 1, 2011; seconded by Ms. Coffin.

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

THE MOTION CARRIED

7. Investment Reports for November 2010

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

Ms. Coffin asked if the Plan's portfolio would be affected as a result of JP Morgan being named as a defendant in the Bernie Madoff scheme. Mr. Wolfson stated the litigation referred to the larger global financial institution and did not directly involve the fixed income asset management group; however, Staff continues to monitor the situation and will update the Board as necessary.

8. Investment Reports for December 2010

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- b) **Market Value of Investments by Fund and Month as of December 31, 2010**
- c) **Market Value of the Retirement, Death, and Disability Funds and Retiree Health Care Fund as of December 31, 2010**

No discussion.

9. Retirement Plan Manager's Comments

Ms. Bhatia thanked the Members of the Board for their support throughout the year, and she acknowledged the contributions of the entire Retirement Office and reported the following highlights of 2010:

- The Retirement Board experienced turnover in the ex-officio seats of the General Manager, Chief Financial Officer/Chief Accounting Employee, and the DWP Commissioner. Retirement staff kept up with the changes, provided orientation materials, and attempted to make these transitions as smooth as possible for the new Board Members.
- Staff made several appearances before the City Council with respect to matters such as the health of the pension plan; the reciprocity program, which continues to be an ongoing issue; and attempts to place Plan governance-related matters on the ballot. Staff received several media inquiries related to these matters.
- Board packages were delivered without any glitches, and Staff continued with the discipline of preparing the minutes within a month of each Board meeting. She credited the organization and coordination of Julie Escudero and her staff in the Administration Office.

- The complete Board agenda packages were posted on-line and became available to the public on the Retirement Office website. With this came unofficial references by the media based on information they read on-line.
- Staff continued to receive high quality technical support provided by Reggie Brewer, especially with respect to the compact discs of entire Board meetings which are distributed to the Board Members, and also with the retirement seminars.
- The Retirement Office made benefits payments this past year for retirement benefits, death benefits for active and retired employees, as well as disability benefits to active employees in the amount of approximately \$400 million.
- Staff stayed abreast of increasingly complex pension laws and compliance requirements. In this regard, Staff completed an audit of Internal Revenue Code 40(1a)(17) which specifies the maximum compensation that can be used to compute retirement benefits. As a result, six cases were identified where retirement refunds had to be issued due to excess contributions collected. To prevent future occurrences of this type, Staff ensured the limits were programmed into the new system.
- Last year saw the implementation of two Plan amendments. One of them was regarding Additional Annuity Options, which became available for members in February 2011; the new system was programmed to process the benefits as adopted. In connection with this, Staff became aware of certain tax related issues with respect to the adopted additional annuity options, and will bring a separate report on this.
- The annual member statements were distributed again using the new system.
- Staff continued conducting regular monthly retirement seminars, and over 700 employees were trained this past year. Staff also recently launched the mid/career retirement classes. Nine sessions have been scheduled beginning in March 2011 through December 2011, and all classes were immediately filled. Staff is exploring ways to meet this high demand, including possible on-line classes. Staff has also provided retirement seminars to employees in outlying areas.
- The Joint Labor Management Committee met regularly last year, and the minutes of these meetings are posted on the Retirement website.
- Staff has made attempts to improve communication, not only to this Board by means of the quality and content of the reports, but also among employees in the Retirement Office. Staff meetings continue to be held regularly, and the frequency of the entire office-wide meetings has been increased.
- Following a presentation by The Segal Company, the Board decided to keep its existing five-year asset smoothing period, despite several pension plans across the country having changed theirs.
- The Segal Company also presented its three-year experience study and recommended a reduction in the assumed investment rate of return from 8% to 7.75% which was adopted.
- Last year was the first time a negative retiree Cost of Living Adjustment was adopted and implemented. Considerable research was required by Plan staff and City Attorney staff. Retirement and ITS staff worked together to implement the new adjustments and communicate this to the Plan members.

- No delays involving the Post Office delivery of hard copy checks were experienced in 2010 which might have been due to communication and coordination efforts Staff has established with the local Post Office.
- Vigorous investment activity occurred during 2010. The first of two massive investment transitions took place in April 2010. This transition moved assets in the Small Cap and Large Cap mandates, as well as to the newly hired Fixed Income manager JP Morgan. The second asset allocation transition occurred in October 2010 when Staff reduced the Portfolio's exposure from fixed income to equity. These transitions occurred in accordance with the Board's decision to move to a phased-in previously adopted asset allocation structure. These transitions were major undertakings and required significant staff work and due diligence, as well as coordination with various parties such as the investment consultant, the transition manager, the custodian bank, and the investment managers. This was credited to the efforts of Jeremy Wolfson, Scott Vargas, and the capable investment team.
- Also included in the investment-related activities, the Board hired new managers in the Private Equity and Real Estate sectors (Lone Star Fund II and Fund VII, Invesco Core Real Estate, EnCap Energy Capital, and Audax Mezzanine). Staff has been working with legal counsel to complete the legal agreements for these funds. Staff also completed new contracts with Frontier Capital, JP Morgan, T. Rowe Price, and Western Asset Management Company, as well as completed eight contract extensions for existing managers. Related to these extensions, Staff renegotiated some of the investment fees which saved the Plan approximately \$400 thousand.
- The Board also terminated two investment manager contracts, Paradigm and Pacific Alternative Asset Management Company. The termination of Paradigm occurred in late 2009, but the transition occurred in 2010.
- The Investment Policy received several revisions; the major one involved a complete revamping of the real estate investment policy which was presented by Courtland Partners.

Some challenges faced during 2010 were noted as follows:

- Filling vacancies continued to be a concern. It currently takes approximately three to four months to fill any vacant position, even if the employee has moved from one position to another within the office. Requests to fill positions are not easily approved.
- Regarding governance related issues, the Retirement Office received conflicting attorney opinions on the authority of the Retirement Board.
- The Retirement Office also faced interruptions and delays with respect to the document imaging project. Limited term personnel have been working on this project because full-time employees have not been approved. When their employment terms expired, usually within six to eight months, Staff was often unable to hire the same individuals so retraining caused delays.
- Testing with respect to the new system was, and continues to be, conducted, and data clean-up continues to be a very big issue, largely due to limited staffing resources. Considerable rework is required to properly audit each employee's account at the time they retire to ensure the accuracy of the benefits they receive.

Mr. Romero asked that Ms. Bhatia provide the Board Members with an electronic copy of the 2010 Highlights.

On behalf of the Board, Mr. Romero thanked Staff for all of the goals they accomplished.

He thanked Staff for inaugurating the additional retirement classes and thanked Reggie Brewer for the tremendous service he continues to provide to the Board.


Mr. Romero suggested the retirement training be made available to larger audiences possibly via on-line videos, use of a larger venue such as the auditorium, etc. Ms. Bhatia stated Staff was exploring holding at least one class in the JFB auditorium. Ms. Noonan added she believed the Convention Center would willingly provide space for these classes.

Mr. Moore conveyed his thanks and appreciation to Staff and noted he has been very pleased with all of their help. He asked if the actuarial report on the health plan was available yet, and Ms. Bhatia said she would find out.

10. Future Agenda Items

No items were noted.

There being no further business, the meeting adjourned at 11:53 a.m.



Javier Romero
Board President

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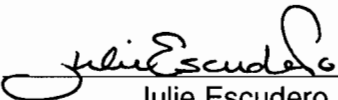
Date



Sangeeta Bhatia
Retirement Plan Manager

3.9.11

Date



Julie Escudero
Utility Executive Secretary

3.9.11

Date