

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

**MINUTES**

**May 11, 2011**

**Board Members Present:**

Javier Romero, President  
Cindy Coffin, Vice President  
Mario C. Ignacio, Chief Accounting Employee  
Michael Moore, Retiree Member  
Christina E. Noonan, DWP Commissioner

**Board Members Absent:**

Ronald O. Nichols, General Manager  
Barry Poole, Board Member

**Staff Present:**

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

**Others Present:**

Marie McTeague, Deputy City Attorney  
Mike Moy, Pension Consulting Alliance  
David Sancewich, Pension Consulting Alliance

President Romero called the meeting to order at 10:02 a.m. following the Pledge of Allegiance.

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

**Public Comments**

None

**1. Request for Approval of Minutes – April 6, 2011, Special Meeting**

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

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

*Nays: None*

*Absent: Nichols, Noonan, and Poole*

THE MOTION CARRIED

*(Ms. Noonan entered the meeting at 10:04 a.m.)*

Mr. Romero called for a Motion for Received and Filed Items 2 and 3.

**2. Staff Report on Due Diligence Site Visit to INVESCO Advisors, Inc.**

**3. Pension Consulting Alliance Report on Due Diligence Site Visit to Wells Sutter High Yield**

Ms. Coffin asked if the organizational watch for INVESCO and the performance watch for Wells were addressed on the site visits.

Mr. Wolfson replied to INVESCO's watch and explained the standard agenda used for due diligence site visits is very detailed. He stated INVESCO's watch status was discussed, and Staff continues to monitor them.

David Sancewich from Pension Consulting Alliance (PCA) addressed the performance watch for Wells High Yield and explained that was one reason PCA pushed for the on-site visit. He indicated PCA is reviewing them and will conduct a full review when their watch period is up.

In response to a question from Mr. Moore regarding the percentage of Wells' portfolio held in investment grade bonds and cash, Mr. Sancewich stated the portfolio in question is an active portfolio, and PCA is not concerned. He added PCA can follow up with more detail at the next meeting if the Board so chooses.

*Mr. Moore moved for approval of Items 2 and 3; seconded by Ms. Coffin.*

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

*Nays: None*

*Absent: Nichols and Poole*

THE MOTION CARRIED

#### **4. Annual Presentation by Fred Alger Management, Inc. – Large Cap Growth**

Mr. Romero acknowledged Peter Latara, Senior Vice President and Head of Client Relations; and Dan Chung, Chief Executive Officer, Chief Investment Officer, and Portfolio Manager for the Large Cap Growth Strategy from Fred Alger Management, Inc. (Alger).

Mr. Latara introduced Mr. Chung to whom he handed over the presentation. Mr. Chung began with a brief update of the firm.

Mr. Chung stated the Retirement Plan portfolio has outperformed on an annualized basis since 2004 by 261 basis points (gross) and 226 basis points (net) through the end of the last quarter.

Mr. Chung reviewed the portfolio performance and attribution. He noted they have outperformed by 513 basis points gross for the trailing 12 months through March 2011. He reviewed the key contributors and key detractors to the portfolio's performance. He also reviewed the top ten holdings by sector and the sector outlooks.

Mr. Romero asked about Alger's rationale for holding companies such as million-dollar high-end home builders considering the drop in the housing market. Mr. Chung stated the most competition from foreclosures is occurring in the lower-end, first-time home buyer market, and the lower-end home companies have more challenges competing against foreclosures.

#### **5. Annual Presentation by T. Rowe Price – Large Cap Growth**

Mr. Romero recognized the representatives from T. Rowe Price (TRP). John Plowright, Client Service Professional, introduced Ron Taylor, Portfolio Specialist. Mr. Plowright provided a brief organizational update and noted the Plan's portfolio team remained unchanged. He turned the presentation over to Mr. Taylor.

Mr. Taylor reported the portfolio was up 5.48% for the recent quarter trailing the benchmark at 6.03%, and since inception it was up 10.58% versus the benchmark at 14.78%.

Mr. Taylor mentioned the Investment Guidelines were modified last month to now allow TRP to own up to 15% in a company (up from 10%) across all accounts. He pointed out that had the 10% restriction not been in place, the numbers for the recent quarter would have been 6.4% and 14.7% since inception. He noted the difference was approximately 4% which is roughly the amount of the Plan's underperformance. He noted the portfolio was converted to the higher firm-holding allowance in May, and over a rolling three to five year period they could expect to outperform the benchmark by a couple of hundred basis points.

He reviewed the portfolio attribution and remarked that 90% of TRP's underperformance came from stock selection, and the sector exposures were roughly appropriate and had no meaningful impact on the underlying performance.

## **6. Presentation by Courtland Partners, Ltd. - Fourth Quarter 2010 Real Estate Portfolio Performance**

Lourdes Canlas, Managing Director at Courtland Partners (Courtland); introduced Michael Humphrey, Managing Principal and Founder; and Bill Foster, also a Managing Director.

Mr. Humphrey reported the portfolio's performance for the one-year period has been strong, with a total net return of 17.9%, a gross return of 20.6%, and income return of 7% versus the benchmark at 6.8%. He also said the market has experienced a fair amount of volatility. He noted the appreciation return was 13%. He reviewed the PRISA and JP Morgan Core investments and noted they are performing reasonably well and are expected to continue as such. He reviewed the Value investments (CBRE V, Mesa West RE Income II, and PRISA II) and said they are looking at value opportunities with managers who will look for going-in income returns of 6% to 9% and buy at a discount to replacement cost. He noted Courtland is very focused on income returns in both the Value and Core spaces, and that is the discipline they believe will produce greater returns going forward.

Ms. Canlas noted their goal for the Plan's portfolio is a Core-Plus strategy with 70% invested in Core, 20% in Value, and 10% in Opportunistic. The current portfolio has 66% allocated to Core but has commitments yet to be called that will bring the portfolio closer to the Core Plus target. She added that Courtland continues to search for prospects to provide the Plan with Core Plus opportunities.

Mr. Foster reviewed the composition of the portfolio and talked about the overweight in Office property, which generated discussion on the timeliness of having Office holdings. Mr. Foster noted it is a challenge in that while prime office buildings are still in demand, many companies continue to cut back due to the struggling economy, and vacancy rates continue to be elevated.

Mr. Foster also reviewed the geographic diversification. With respect to a comment from a previous meeting concerning the portfolio's lack of a dedicated international component, he noted that at 0%, the portfolio is within the approved strategic guidelines of 0-20%, and added some current commitments are scheduled to be in Europe and Asia.

He discussed the portfolio's leverage and pointed out it was a factor in the downside performance. He explained the goal is to keep the portfolio's leverage between 30%-35% when combined with Value and Opportunistic.

In response to a question from Mr. Romero, Mr. Humphreys explained Courtland's role on various advisory boards. He noted the question of what constitutes Core opportunities had come up during advisory board meetings and, as a result, a new definition of Core was established and new guidelines were created with respect to leverage and other items, mainly with respect to non-Core.

Mr. Moore asked why the numbers for Mesa West, particularly the fees in the first quarter, were so different from the other funds. Mr. Humphreys explained the fees in question were for organizational costs incurred by the manager in creating the fund, which skew the remaining numbers. He added this is something not seen in the other funds because they are open-ended.

With respect to organizational changes in Courtland, Mr. Humphreys reported Garrett Zdolshek left Courtland to work for a fund-of-funds firm, and Mr. Humphreys stated he will now be more involved in the team going forward.

Ms. Noonan asked if Courtland's managers consider the fact that some firms purchase Class A properties and monopolize rates for office space. Mr. Humphreys said they do and the consolidation among the public companies is an issue but it does not always mean rents will increase. He pointed out it has had the opposite effect in some cases where companies had gone overboard with their purchases then had to sell some of their assets in distress. He stated despite some consolidation, high vacancy rates still exist, so until more movement and absorption occurs, Courtland is not as concerned about monopolization.

#### **7. Consideration of Request from City Attorney to Attend the National Association of Public Pension Attorneys Legal Education Conference**

Ms. Bhatia provided the background for the request from Deputy City Attorney Marie McTeague to attend this educational conference. Mr. Romero acknowledged how important he believes education is, including educational training for the Board Members, and he stated he supported Ms. McTeague's request. He also stressed his concern for the lack of training for Board Members in the past few years due to budget cuts despite travel being allotted for in the Plan's budget.

Ms. Bhatia explained that funds are set aside in the budget for Board and Staff training, and she affirmed that aside from the recent due diligence trips approved by the Board, Staff has not processed any training requests for quite some time. She added the Retirement Office is obligated to follow the Department's policies with respect to reducing costs and non-essential travel. She further added that even if the Board approves this request, Staff must follow the regular approval process, so she could not state whether requests would be approved by the Department.

*Mr. Moore moved for approval of this request by the City Attorney; seconded by Ms. Coffin.*

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

*Nays: None*

*Absent: Nichols and Poole*

#### **THE MOTION CARRIED**

Ms. McTeague noted that, upon her return, she would provide the Board with details of the conference.

#### **8. Investment Reports for March 2011**

**a) Summary of Investment Returns as of March 31, 2011**

**b) Market Value of Investments by Fund and Month as of March 31, 2011**

**c) Market Value of the Retirement, Death, and Disability Funds and Retiree Health Care Fund as of March 31, 2011**

These reports were presented at the previous meeting and were included for reference only. Mr. Romero asked Staff to include a spreadsheet of contract expiration dates to the Investment Reports.

## **9. Retirement Plan Manager's Comments**

Ms. Bhatia reported the new Summary Plan Description (SPD) document has been printed and copies were distributed to the Board Members at the beginning of the meeting. She commended Mary Higgins, who oversaw the project, and the many people in the office who contributed to the task. She explained this project is performed every five years, and the new document contains all of the adopted Plan changes and clarification of issues raised since the SPD was last updated. She added Staff is in the process of uploading it to the Retirement website.

She reported testing of the new system concerning the process for making payments for monthly benefits, withdrawals, ad hoc payments, etc., continues. Staff is also testing the Cost of Living Adjustment process.

With respect to the Reciprocity plan design, Ms. Bhatia reported The Segal Company is working on selecting samples for testing in order to get the best results representative of the data provided by the Los Angeles City Employees' Retirement System. Staff will continue to provide updates.

She reported that retirees continue to contact the Retirement Office with questions concerning the changes to the Health Plans coverage. Retirement Office Staff continues to receive calls that retirees are unable to get through to anyone in the Health Plans Office. Retirement Staff has posted a link on the Retirement website where the documents concerning the changes in coverage can be accessed. She noted the Health Plans Office extended the deadline for changes to May 20 and that was noted on the Retirement website and by Health Plans. Ms. Bhatia added that Caroline McKnight from the Health Plans Office was in the audience.

Ms. Bhatia reported Staff is in the process of completing the Notice of Compliance requirements for the Document Imaging contract. She stated Staff has contacted vendors in the meantime to see if they would hold their fees at the rates quoted in their Request for Proposal responses. The vendors provided specific dates for how long they would hold their quoted rates.

She reported Staff will be processing requests to fill the current personnel vacancies in the Retirement Office and those will go directly to the General Manager's office for approval.

## **10. Future Agenda Items**

Mr. Moore requested the change in Retiree Health Coverage be scheduled for discussion at the next meeting. He said there has been a lack of communication and poor management by the Health Plans Office to the retirees. He stated retirees are very angry because they have not been informed of how the change will affect them, how the process works, etc. He added the open enrollment period for retirees has been extended to May 20, but retirees have not yet received the information packages, and many only learned of the extended deadline via information the Retirement Office posted on its website and through emails sent by the Retired Employees Association. Ms. Bhatia said someone from the Health Plans Office will attend the next meeting to address this matter.

Ms. Noonan said she was supportive of Board Members bettering their education for the good of the Plan, and asked whether the next step would be to meet with Mr. Nichols or discuss it as an agenda item for the Board to approve.

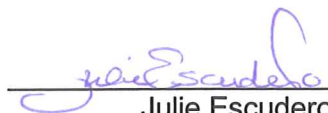
With no further business, the meeting adjourned at 11:32 a.m.

  
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Javier Romero  
Board President

6/22/11  
Date

  
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Sangeeta Bhatia  
Retirement Plan Manager

6/22/11  
Date

  
\_\_\_\_\_  
Julie Escudero  
Utility Executive Secretary

6-22-11  
Date