

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

MINUTES

MAY 25, 2011

Board Members Present:

Javier Romero, President
Cindy Coffin, Vice President
Mario C. Ignacio, Chief Accounting Employee
Michael Moore, Retiree Member

Board Members Absent:

Ronald O. Nichols, General Manager
Christina E. Noonan, DWP Commissioner
Barry Poole, Regular 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
Neil Rue, Pension Consulting Alliance
Mike Moy, Pension Consulting Alliance

President Romero called the meeting to order at 10:05 a.m. following the Pledge of Allegiance.

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

Public Comments

The Public Comments item was tabled pending arrival of the speaker.

Mr. Romero called for a motion to approve Consent Items 1 and 2

1. Request for Approval of Minutes – April 13, 2011, Regular Meeting

Ms. Bhatia stated approval of the April 13 minutes would be tabled until the next meeting to allow for a quorum of the April 13 Board Member attendees.

2. Termination from Rolls

**Termination of Monthly Allowance from the May 2011 Retirement Roll
Termination of Danny J. Willis from May 2011, Permanent Total Disability Roll**

Mr. Moore moved for approval of Item 2; seconded by Ms. Coffin.

Ayes: Coffin, Ignacio, Moore, and Romero

Nays: None

Absent: Nichols, Noonan, Poole

THE MOTION CARRIED

RECEIVED AND FILED

3. Report of Payment Authorizations for April 2011

4. Notice of Deaths for April 2011

5. **Investment Reports for April 2011**
 - a) **Summary of Investment Returns as of April 30, 2011**
 - b) **Market Value of Investments by Fund and Month as of April 30, 2011**
 - c) **Market Value of the Retirement, Death, and Disability Funds and Retiree Health Care Fund as of April 30, 2011**
 - d) **Summary of Contract Expirations**
6. **Report on Status of Insurance as of May 16, 2011**
7. **Report on Organizational Changes at MFS Investment Management**
8. **Report on Organizational Changes at Bank of New York Mellon Asset Servicing**

Mr. Romero called for a motion to approve Received and Filed Items 3 through 8.

Mr. Moore moved for approval of Items 3 through 8; seconded by Ms. Coffin.

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

THE MOTION CARRIED

Public Comments (Out of Order)

Dolores Foley, President of the Water and Power Retired Employees' Association, on behalf of the Retired Employees' Association and the 8,500 retirees and surviving spouses, thanked Mike Moore for his outstanding service and dedication to the Retirement Board.

9. Presentation by Pension Consulting Alliance, Inc. – First Quarter Performance Review as of March 31, 2011

The Board recognized Neil Rue, Managing Director of Pension Consulting Alliance, Inc. (PCA).

Mr. Rue provided a summary of the performance and reported that for the quarter the portfolio was up 3.8% outperforming the benchmark by 30 basis points, and for the trailing 12 months it was up 12% slightly underperforming the benchmark by 50 basis points. He reported the portfolio had very strong gains and was up over \$700 million in value for the trailing 12 months and up over \$250 million in value for the quarter. He noted the portfolio modestly underperformed the median fund for the quarter and lagged slightly for the trailing 12 months.

He reviewed the strategic allocation and noted the total Retirement Plan was worth approximately \$7.3 billion as of March 31, 2011.

He reviewed the portfolio allocations versus the targets and explained why the portfolio's performance differed from the benchmark and the median public fund. He noted the managers in the portfolio tended to emphasize protection during a crisis versus outperforming during the recovery.

Mr. Rue pointed out the quality of the portfolio's performance depended on the period being reviewed. As an example, he noted the total portfolio underperformed the policy benchmark by 0.5% for the one-year period, but outperformed the benchmark by 1% per year for the three-year period, and modestly outperformed the benchmark over five years.

Mr. Rue reviewed the underperformance of the international equity portfolio and said it would be worthwhile to more extensively study the international equity class once the asset liability study is completed.

Mr. Rue reviewed the risk metrics. He also briefly discussed inflation and pointed out inflation is quickly trending upward.

Mr. Moore asked how PCA calculated the expected risk for fixed income, and Mr. Rue replied they combined the long-term historical volatility as well as the duration of the policy benchmark. Mr. Moore also asked how PCA dealt with the risks of maintaining a large portion of the portfolio in fixed income. Mr. Rue said they encourage clients to maintain a steady dialogue with the investment managers. Mr. Rue also said, as far as broader strategic issues, the risk in fixed income was also a reason to consider having a real return asset class in place. He added fixed income might not produce a steady income flow over an extended cycle, and the real return class would provide some protection.

Mr. Moore suggested revisiting active managers versus passive managers during the structural review.

10. Asset Liability Study – Presentation by Pension Consulting Alliance

This item was deferred to the next meeting to allow for participation by the Board Members who were unable to attend this meeting.

11. Discussion of Revised Placement Agent Policy

Mr. Romero said he asked for this item to be placed on the agenda because the Plan's consultants (Pension Consulting Alliance [PCA] and Courtland Partners [Courtland]) had indicated the current policy's restrictions made it difficult for them to attract top tier investment managers. Mr. Romero noted the City Attorney was currently reviewing the proposed revisions to the policy; however, he had asked for Staff to provide an update in the meantime.

Mr. Wolfson reported that at the time the Board requested a policy be developed, they asked that it resemble the policy adopted by the California Public Employees' Retirement System (CalPERS). He noted the penalties imposed by CalPERS were severe, but CalPERS was able to enforce them, although, they proved to be more difficult for the Plan to enforce. Mr. Wolfson stated Staff coordinated with PCA, Courtland, and the Plan's City Attorney to develop a draft which was currently under review by the City Attorney. He noted Staff provided the Board with an initial draft and will provide the final draft upon feedback from the City Attorney.

Mr. Romero stated when he had asked to revise the policy based on the policy currently used by one of the City's other pension plans, he did not realize it would require review by the City Attorney. He noted his concern about possible delays with the policy being held up in the City Attorney's Office. Deputy City Attorney Marie McTeague noted Assistant City Attorney Alan Manning was currently reviewing the policy, and that she would convey to him the Board's concern.

Ms. Bhatia said she received a message from Mr. Manning that he should be finished with his review in approximately three weeks. She said Staff will follow up and see if it can be completed before Mr. Moore's term was over at the end of June.

Mr. Moore asked who typically falls into the placement agent category. Cynthia Kao from PCA replied that because the current definition of placement agent is very broad, it would cover internal marketers from any of the general partners. She gave an example of a senior staff member of a general partner involved in fundraising who spends at least one-third of the time on investment management as being someone exempt from the placement agent category. Mike Moy from PCA expounded on Ms. Kao's response and stated that when the policies were originally being drafted, they attempted to expand beyond just a pure placement agent and included internal full-time marketers who would still be required to conform to the placement agent policy and register as a lobbyist.

12. Discussion of Document Imaging Project

This item was tabled.

13. Discussion of Retiree Health Care Changes

This item was placed on the agenda at the request of Mike Moore.

Vincent Foley, current Member of the Board of Directors of the Water and Power Retired Employees Association, Health Care and Benefits Committee Chair, and former elected employee representative of the Retirement Board and past Retirement Board President, addressed the Board with his Public Comments. Mr. Foley explained that historically the Health Care and Benefits Committee each year has been part of the negotiations for new rates/benefits on behalf of the retirees; however, this year they were excluded from all of the negotiations and conversations and had not been kept informed until one week before the new contracts were to be presented to the Board of Water and Power Commissioners for approval. He explained the change in providers was very traumatic for the retirees, even though it would save the Department a considerable amount of money. He said it has been devastating to the retirees from the date this started, and what little information that was received was not in a timely manner. He added it has been very difficult getting through to the Health Plans Office.

Mr. Foley said he has been talking for a few years about changing Health Plans administration for retirees from Human Resources to the Retirement Office. He asked the Retirement Board to seriously consider having the administration of retiree health care transferred to the Retirement Office.

Mr. Moore stated he was very sympathetic to the point Mr. Foley had made. He said he wanted to address the past enrollment deadline and whether it was flexible. He thanked Caroline McKnight for providing the Board with statistics.

Caroline McKnight, Manager of Employee Health and Benefits, which includes the Health and Dental Office, said she concurred with much of what Mr. Foley communicated. She said she agreed that communication should be improved as well as retiree outreach, and stated she is committed to working with Mr. Foley, the Retirement Board, and the retirees to do better going forward.

She provided the Board Members with statistics on the volume of assistance the Health Plans Office provided to retirees during the 2011 Open Enrollment period. She also addressed the fact that information sent by one of the providers to the retirees was labeled as an advertisement. She said the Health Plans Office is concerned that someone may have completed that "opt out" letter and may not have realized they will lose their plan benefits by doing so. She said the provider has agreed to provide the Department with a list of anyone who has filed the opt-out form so Health Plans Staff can contact the retirees on the list to verify if they, in fact, intended to opt out.

She addressed the extended Open Enrollment deadline. She explained the delay in mailing the options guide, and she said Health Plans is committed to earlier mailings in the future. She added Health Plans will not turn anyone away and will continue to help anyone enroll who has not yet done so. To meet the July 1 effective date, Health Plans has until June 15 to enter data, and Ms. McKnight stated it is likely they will be able to make further entries beyond June 15 if necessary. She said they are flexible to help anyone who contacts them. She also added all of the health care carriers and Health Plans Staff will be at the Retiree Picnic on June 4 to answer any questions.

Mr. Ignacio asked why the Retirees' Association was excluded from the discussions this time. Ms. McKnight said the decision to make the change was made very late.

Board Members stressed that the Retirees' Association should be consulted before changes are brought to the General Manager and to the Board of Water and Power Commissioners for approval. It was agreed that lessons were learned and that communication with the retirees and the Retirees' Association could be improved and maintained thereafter.

Ms. McKnight closed by adding Health Plans had received many complimentary calls regarding the reduced premiums that resulted from the change.

14. Retirement Plan Manager's Comments

Ms. Bhatia reported Staff is working on processing requests to fill the various vacancies in the Retirement Office.

She reported new system testing continues, specifically with respect to the retiree and ad hoc payments, as well as implementing the Cost of Living Adjustment. Staff continues to follow up with the vendor.

She reported The Segal Company is working on the information they received from the Los Angeles City Employees Retirement System regarding the reciprocity plan design. They are also reconciling the Plan's information. Ms. Higgins said Staff is waiting for feedback from Segal before scheduling additional meetings.

Ms. Bhatia reported the new distribution options with respect to the additional annuity program have been implemented. Staff has received advice from tax counsel with respect to certain implications regarding certain types of distributions. Staff is planning to provide an educational item to the Board to better understand the types of issues that might be experienced depending on the option chosen.

She distributed to the Board Members a summary of the major cuts the Department's Chief Administrative Officer is implementing for the Joint System. In response to a request from Mr. Moore, Ms. Bhatia said she would contact the Public Affairs Office to see if the Retirement Office can provide a link to the INTAKE Magazine in the event the information is posted electronically.

In response to a question from Mr. Romero, Ms. Bhatia stated the Retirement Office has not yet experienced difficulty in obtaining approvals to backfill positions due to the hiring freeze. Staff is following the process to fill the positions and is also aware of alternatives while the requests are being processed, such as whether someone can be temporarily placed on Article 33. She said Staff is working on filling seven positions and each vacancy takes an average of five to six weeks to fill.

15. Future Agenda Items

None

With no further business, the meeting adjourned at 11:10 a.m.



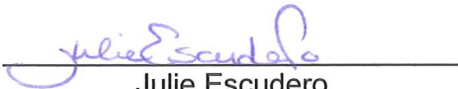
Javier Romero
Board President

7/13/11
Date



Sangeeta Bhatia
Retirement Plan Manager

7/13/11
Date



Julie Escudero
Utility Executive Secretary

7.13.11
Date