

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

MINUTES

JUNE 8, 2011

Board Members Present:

Javier Romero, President
Cindy Coffin, Vice President
Mario C. Ignacio, Chief Accounting Employee
Michael Moore, Retiree Member
Ronald O. Nichols, General Manager
Christina E. Noonan, DWP Commissioner
Barry Poole, Regular Member

Board Members Absent:

None

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

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

There were no Public Comments.

1. Request for Approval of Minutes:

- a) **April 13, 2011, Regular Meeting (deferred from May 25, 2011, meeting)**
- b) **April 27, 2011, Regular Meeting**

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

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

Nays: None

Absent: Noonan

THE MOTION CARRIED

2. Report on Due Diligence Site Visit to T. Rowe Price Associates, Inc

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

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

Nays: None

Absent: Noonan

THE MOTION CARRIED

Ms. Noonan entered the meeting at 10:03 a.m.

3. Asset Liability Study - Presentation by Pension Consulting Alliance

Neil Rue, Managing Director at Pension Consulting Alliance (PCA), presented the Board with a series of strategic allocation options for the asset allocation project. He reviewed the background for the project, and he explained the "efficient frontier" where the Plan could utilize a mix of assets to enhance the rate of return with the least amount of risk. He explained investment strategy considerations and provided an analysis of 20 portfolio options while reviewing various constraints and scenarios.

(Ms. Noonan left the meeting and returned momentarily.)

Of the 20 portfolio options analyzed, Mr. Rue identified Portfolios 11, 13, and 16 as the three portfolios PCA considered to be the best options to reflect an approach relative to the Plan's current policy. He identified Portfolio 11 as the more conservative option of the three with less risk and lower expected returns; Portfolio 13 as the option most similar to the current policy with the same return and minimum risk; and Portfolio 16 as the option with higher returns and the same level of risk. He described the best distinction among them being the allocation to covered calls, with all three having a varying allocation from 4% to 9%, and the current policy having no covered calls allocation.

Discussion ensued regarding Portfolios 11, 13, and 16, and Mr. Rue stated PCA recommended Portfolio 13. He added the allocations in Portfolio 13 could be slightly tweaked (1%) if the Board so desired. He also suggested the selected allocations be revisited in two years.

Upon input from the Board Members, Mr. Rue suggested the allocations in Portfolio 13 be adjusted as follows:

- 5% in Private Equity (as allocated in the currently policy)
- 21% in International Equity
- 33% in Domestic Equity
- 5% in Covered Calls
- 6% in Real Returns
- 5% in Real Estate
- 24% in Fixed Income (as allocated in the currently policy), and
- 1% in Cash

Mr. Nichols moved to accept Portfolio 13 with the adjusted allocations as suggested by Mr. Rue; seconded by Mr. Moore.

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

Nays: None

THE MOTION CARRIED.

(The meeting recessed at 11:39 a.m., at which time Mr. Nichols left the meeting. The meeting reconvened at 11:46 a.m.)

4. Real Estate Educational Session – Presentation by Courtland Partners

The Board recognized Michael Humphrey and Bill Foster from Courtland Partners.

Mr. Humphrey provided the background for their presentation. He began by describing that risk in real estate investing is defined by three risk return categories: Core, Value, and Opportunistic.

He explained that Core is the least risky of the three, and he reviewed the Core investment characteristics noting that leverage in Core is more limited than in Value and Opportunistic. He described Value as a step up from Core, as far as risk return, and it still primarily consists of traditional property types, but they include assets with lease-up risk (typically greater than the market vacancy level). And he described Opportunistic as the most risky; being broader and typically involving development and distressed investments.

He stated the original strategy the Board approved was considered Core-Plus, with 70% of investments allocated to Core, 20% allocated to Value, and 10% allocated to Opportunistic.

He discussed the market conditions and indicated they help determine the appropriate strategy mix for the portfolio.

(Mr. Ignacio left the meeting at 12:14 p.m.)

Mr. Humphrey covered the relationship between return and risk and said he believed now was the time to be selective with Core investments to be comfortable with the income return going forward.

He estimated the expected return for the Plan's portfolio was approximately 8.8% to 9%, based on projected returns of 7% for Core, 12% for Value, and 15% for Opportunistic.

Mr. Humphrey turned the presentation over to Mr. Foster who reflected that leverage has affected the portfolio on the downside. He indicated Courtland's continuing goal is to reduce the over-levered portfolio to a more reasonable level.

Mr. Foster reviewed the approved 2011 Strategic Plan for Real Estate, and indicated the portfolio needs to fund approximately \$360 million by the end of 2014 to reach the target goal. With respect to the ratio of committed to funded, he stated the real estate portfolio should over-commit in the Value and Opportunistic spaces. He added approximately \$380 million should be committed to achieve the Real Estate target level of 5% of the Plan's overall investment portfolio.

He said they would like to come back to the Board throughout the remainder of the year to propose investing another approximately \$50 million in Core, \$20 million to \$25 million in Value, and another \$20 million to \$25 million in Opportunistic.

Following the presentation, Mr. Moore expressed his frustration with the presentation made at a previous meeting by the Madison Sullivan Debt Fund. He said not enough information was presented to make a decision. Mr. Humphrey responded that Courtland will make sure adequate information is provided for prospective investments.

5. Discussion of Plan Amendment to Align Benefit Calculations with Changes in Valuation Assumptions

This item was tabled.

6. Presentation by Pension Consulting Alliance, Inc. – First Quarter Hedge Fund Performance Review for 2011

Neil Rue, from Pension Consulting Alliance (PCA), reviewed the first quarter performance for the portfolio's hedge fund and reported the portfolio was up 2.2% and outperformed the benchmark by 1.5% net of fees.

Ms. Coffin asked if another hedge fund would be brought into the portfolio to replace PAAMCO. Mr. Rue replied he was not sure yet whether PCA will ask Aetos to restructure its program or if PCA will bring in another firm with a complementary strategy.

7. Presentation by Earnest Partners - Annual Performance Review for Small Cap Mandate as of April 30, 2011

The Board recognized Katie Driver and Jessie Magee from Earnest Partners. Ms. Driver provided an overview of the company as well as the current equity market. She reported the Plan's portfolio was up approximately 13% net of fees year to date versus the benchmark at 8%.

Mr. Magee reviewed the performance attribution and sector allocations and weightings.

8. Presentation by Frontier Capital Management - Annual Performance Review for Small Cap Mandate as of April 30, 2011

The Board recognized Leigh Anne Yoo (Institutional Marketing and Client Services) and Jim Colgan (portfolio manager for small cap growth) from Frontier Capital.

Ms. Yoo provided background on their firm and the investment team.

Mr. Colgan further reviewed the investment team and explained how employees become employee-owners and he provided more detail on the firm's philosophy and process. He explained their pattern of performance is better in a down market.

He reviewed the portfolio's performance since inception and reported the year to date return was 27.6% net of fees versus the index at 28.3%.

9. REPORTS FOR REFERENCE

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**

These reports were provided for reference and no discussion took place.

10. Retirement Plan Manager's Comments

Ms. Bhatia reported Staff has performed due diligence site visits to Fred Alger, Aetos, Invesco, and T. Rowe Price; and is currently in the process of scheduling a few more. To minimize costs, Ms. Bhatia stated Staff combines visits to managers in the same area. She reported challenges with the Extensity computer program used to process travel. She stated Staff has been receiving approvals very quickly from the General Manager; however, the Extensity

program delays the process and often results in higher costs than what Staff originally estimated. She added that travelers frequently use their personal funds up front and have not been receiving timely reimbursements.

With respect to the Reciprocity study, Ms. Bhatia reported The Segal Company has completed the reconciliation between the figures provided by the Plan and by the Los Angeles City Employees Retirement System (LACERS). Mr. Poole asked about the difference in the numbers provided, and Ms. Higgins answered it was a data error on the part of LACERS, and everyone was comfortable using the data originally provided.

Ms. Bhatia reported testing continues on the new system, particularly with respect to data validation.


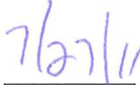

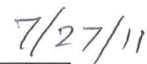
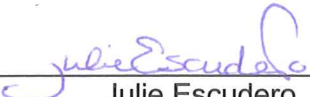
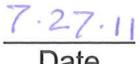
She announced the selection process for the Retiree representative on the Retirement Board was scheduled for that afternoon at the Board of Water and Power Commissioners meeting.

In response to a question from Mr. Romero regarding the status of the contract with Pension Consulting Alliance, Ms. Bhatia said it will expire at the end of June, and Staff has prepared the necessary documents which are pending City Attorney approval. Deputy City Attorney Marie McTeague said she will follow up with Assistant City Attorney Alan Manning.

11. Future Agenda Items

None requested at this time.

With no further business, the meeting adjourned at 1:10 p.m.

 _____ Javier Romero Board President	 _____ Date	 _____ Sangeeta Bhatia Retirement Plan Manager	 _____ Date
 _____ Julie Escudero Utility Executive Secretary	 _____ Date		